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Report No: PAD3311

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT PAPER

ON A

PROPOSED ADDITIONAL LOAN

IN THE AMOUNT OF EUR 500 MILLION
(US\$560.6 MILLION EQUIVALENT)

TO

ILLER BANKASI ANONIM SIRKETI

WITH A GUARANTEE FROM TURKEY

FOR A

SUSTAINABLE CITIES PROJECT 2 - ADDITIONAL FINANCING (P170612)

MAY 2, 2019

Social, Urban, Rural And Resilience Global Practice
Europe And Central Asia Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective April 30, 2019)

Currency Unit = Turkish Lira (TL)

TL 5.958 = US\$1

US\$0.168 = TL 1

US\$1.121 = EUR 1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

| | |
|--------|---|
| AF | Additional Financing |
| BCR | Benefit-Cost Ratio |
| CBA | Cost-Benefit Analysis |
| CPF | Country Partnership Framework |
| EIA | Environmental Impact Assessment |
| EIB | European Investment Bank |
| ERR | Economic Rate of Return |
| ESIA | Environmental and Social Impact Assessment |
| ESMF | Environmental and Social Management Framework |
| ESMS | Environmental and Social Management System |
| EU | European Union |
| FI | Financial Intermediary |
| FIF | Financial Intermediary Financing |
| FM | Financial Management |
| GFDRR | Global Facility for Disaster Reduction and Recovery |
| GHG | Greenhouse Gas |
| GRS | Grievance Redress Service |
| IFC | International Finance Cooperation |
| IFI | International Financing Institution |
| IL_BIS | Iller Bank's Web-based Information System |
| ILO | International Labour Organization |
| Ilbank | Iller Bank |
| IRR | Internal Rate of Return |
| ISR | Implementation Status and Results Report |
| JICA | Japan International Cooperation Agency |
| LARPF | Land Acquisition and Resettlement Policy Framework |
| M&E | Monitoring and Evaluation |
| MSP | Municipal Services Project |
| MSP-AF | Municipal Services Project Additional Financing |

| | |
|-------|--|
| MUSKI | Muğla Municipality Water and Wastewater Utility |
| NEP | New Economic Program |
| NPV | Net Present Value |
| OHS | Occupational Health and Safety |
| PDO | Project Development Objective |
| PIU | Project Implementation Unit |
| PMU | Project Management Unit |
| PPSD | Project Procurement Strategy for Development |
| SEF | Stakeholder Engagement Framework |
| SEP | Stakeholder Engagement Plans |
| SCD | Systematic Country Diagnostic |
| SCP | Sustainable Cities Project |
| SOP | Series of Projects |
| STEP | Systematic Tracking and Exchanges in Procurement |
| SUTP | Syrians Under Temporary Protection |
| TCA | Turkish Court of Accounts |
| WWTP | Wastewater Treatment Plant |

Regional Vice President: Cyril E Muller

Acting Country Director: Mariam J. Sherman

Senior Global Practice Director: Ede Jorge Ijjasz-Vasquez

Practice Manager: David N. Sisen

Task Team Leaders: Joanna Masic, Ahmet Kindap, Canan Yildiz

TURKEY
SUSTAINABLE CITIES PROJECT 2 - ADDITIONAL FINANCING

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BASIC INFORMATION – PARENT (Sustainable Cities Project 2 - P161915)

| | | | | |
|-----------------------|--|---------------------------------------|-----------------------|---|
| Country Turkey | Product Line IBRD/IDA | Team Leader(s) Joanna Mclean Masic | | |
| Project ID P161915 | Financing Instrument Investment Project Financing | Resp CC GSU09 (9350) | Req CC ECCTR (382) | Practice Area (Lead) Social, Urban, Rural and Resilience Global Practice |

Implementing Agency: Ibank

| | |
|--------------------------------------|--|
| Is this a regionally tagged project? | |
|--------------------------------------|--|

Bank/IFC Collaboration

No

| | | | |
|------------------------------|-----------------------------|---|--|
| Approval Date 12-Apr-2018 | Closing Date 31-Aug-2025 | Original Environmental Assessment Category Financial Intermediary Assessment (F) | Current EA Category Financial Intermediary Assessment (F) |
|------------------------------|-----------------------------|---|--|

Financing & Implementation Modalities

| | |
|---|---|
| <input type="checkbox"/> Multiphase Programmatic Approach (MPA) | <input type="checkbox"/> Contingent Emergency Response Component (CERC) |
| <input checked="" type="checkbox"/> Series of Projects (SOP) | <input type="checkbox"/> Fragile State(s) |
| <input type="checkbox"/> Disbursement-Linked Indicators (DLIs) | <input type="checkbox"/> Small State(s) |
| <input checked="" type="checkbox"/> Financial Intermediaries (FI) | <input type="checkbox"/> Fragile within a Non-fragile Country |
| <input type="checkbox"/> Project-Based Guarantee | <input type="checkbox"/> Conflict |
| <input type="checkbox"/> Deferred Drawdown | <input type="checkbox"/> Responding to Natural or Man-made disaster |
| <input type="checkbox"/> Alternate Procurement Arrangements (APA) | |

**Development Objective(s)**

The Project Development Objective is to improve the access to targeted municipal services in participating municipalities and utilities.

Ratings (from Parent ISR)

| | Implementation | | Latest ISR |
|--------------------------------------|----------------|-------------|-------------|
| | 11-Jul-2018 | 15-Jan-2019 | 01-May-2019 |
| Progress towards achievement of PDO | S | S | S |
| Overall Implementation Progress (IP) | S | S | S |
| Overall Safeguards Rating | S | S | S |
| Overall Risk | M | M | M |

BASIC INFORMATION – ADDITIONAL FINANCING (Sustainable Cities Project 2 - Additional Financing - P170612)

| | | | |
|--|---|---------------------------------------|---|
| Project ID P170612 | Project Name Sustainable Cities Project 2 - Additional Financing | Additional Financing Type Scale Up | Urgent Need or Capacity Constraints No |
| Financing instrument Investment Project Financing | Product line IBRD/IDA | Approval Date 23-May-2019 | |
| Projected Date of Full Disbursement 30-Sep-2026 | Bank/IFC Collaboration No | | |
| Is this a regionally tagged project? No | | | |

Financing & Implementation Modalities



| | |
|---|---|
| <input checked="" type="checkbox"/> Series of Projects (SOP) | <input type="checkbox"/> Fragile State(s) |
| <input type="checkbox"/> Disbursement-Linked Indicators (DLIs) | <input type="checkbox"/> Small State(s) |
| <input checked="" type="checkbox"/> Financial Intermediaries (FI) | <input type="checkbox"/> Fragile within a Non-fragile Country |
| <input type="checkbox"/> Project-Based Guarantee | <input type="checkbox"/> Conflict |
| <input type="checkbox"/> Deferred Drawdown | <input type="checkbox"/> Responding to Natural or Man-made disaster |
| <input type="checkbox"/> Alternate Procurement Arrangements (APA) | |
| <input type="checkbox"/> Contingent Emergency Response Component (CERC) | |

Disbursement Summary (from Parent ISR)

| Source of Funds | Net Commitments | Total Disbursed | Remaining Balance | Disbursed | |
|-----------------|-----------------|-----------------|-------------------|-----------|------|
| IBRD | 91.54 | 22.67 | 66.40 | | 25 % |
| IDA | | | | | % |
| Grants | | | | | % |

PROJECT FINANCING DATA – ADDITIONAL FINANCING (Sustainable Cities Project 2 - Additional Financing - P170612)**FINANCING DATA (US\$, Millions)****SUMMARY (Total Financing)**

| | Current Financing | Proposed Additional Financing | Total Proposed Financing |
|---------------------------|-------------------|-------------------------------|--------------------------|
| Total Project Cost | 92.54 | 561.72 | 654.26 |
| Total Financing | 92.54 | 561.72 | 654.26 |
| of which IBRD/IDA | 91.54 | 560.60 | 652.14 |
| Financing Gap | 0.00 | 0.00 | 0.00 |

DETAILS - Additional Financing**World Bank Group Financing**



| | |
|--|--------|
| International Bank for Reconstruction and Development (IBRD) | 560.60 |
| Non-World Bank Group Financing | |
| Counterpart Funding | 1.12 |
| Borrower/Recipient | 1.12 |

COMPLIANCE

Policy

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

Yes No

Does the project require any other Policy waiver(s)?

Yes No

INSTITUTIONAL DATA

Practice Area (Lead)

Social, Urban, Rural and Resilience Global Practice

Contributing Practice Areas

Energy & Extractives

Environment & Natural Resources

Transport

Water

Climate Change and Disaster Screening

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

Gender Tag

Does the project plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

Yes



b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

Yes

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

Yes

PROJECT TEAM

Bank Staff

| Name | Role | Specialization | Unit |
|---------------------------|---|--------------------------------|-------|
| Joanna Mclean Masic | Team Leader (ADM Responsible) | Urban | GSU09 |
| Salih Bugra Erdurmus | Procurement Specialist (ADM Responsible) | Procurement | GGOPC |
| Ayse Seda Aroymak | Financial Management Specialist (ADM Responsible) | Financial Management | GGOEW |
| Arzu Uraz Yavas | Social Specialist (ADM Responsible) | Social | GSU03 |
| Esra Arikan | Environmental Specialist (ADM Responsible) | Environment | GENEC |
| Ahmet Kindap | Team Member | Urban | GSU09 |
| Alanna Leigh Simpson | Team Member | DRM | GSU09 |
| Alice Mary Mortlock | Team Member | DRM | GFDRR |
| Alper Ahmet Oguz | Team Member | Finance | GFCEW |
| Ayse Yasemin Orucu | Team Member | Energy | GEE03 |
| Canan Yildiz | Team Member | Infrastructure | GSU09 |
| Delphine Alberta Hamilton | Team Member | Program | GSU09 |
| Jasna Mestnik | Team Member | Finance | WFACS |
| Lisa Fonick Haworth | Team Member | Program | GSU09 |
| Lisa Lui | Counsel | Legal | LEGLE |
| Murad Gurmeric | Team Member | Transport | GTR03 |
| Sameer Akbar | Team Member | Environment and Climate Change | GENEC |
| Sanjay Agarwal | Social Specialist | Citizen Engagement | GSU03 |



| | | | |
|------------------------------|------------------------------|-------------------------|-----------------|
| Sanyu Sarah Senkatuka Lutalo | Team Member | Water | GWA03 |
| Tamar Sulukhia | Team Member | Sustainable Developmnet | ECCTR |
| Ulker Karamullaoglu | Team Member | Program | ECCTR |
| Wei Wang | Team Member | Transport | GTR03 |
| Extended Team | | | |
| Name | Title | Organization | Location |
| Burcu Ergin | Social Safeguards Specialist | | |
| Emre Tokcaer | Consultant | | |
| Merve Yurtkuran | Environment Consultant | | |
| Saim Yildirim | Consultant | | |
| Sasa Eichberger | Senior Consultant | | |
| Turda Ozmen | Municipal Finance Consultant | World Bank | |



I. BACKGROUND AND RATIONALE FOR ADDITIONAL FINANCING

Background

- 1. Turkish cities have contributed to sustained economic growth, but progress is slowing down, and new development challenges are emerging.** In Turkey, cities have made major contributions to the country's substantial economic growth and development over the past few decades. They have helped boost economic productivity and today contribute over 92 percent of the country's value added. With the rapid urbanization after 1980, cities in Turkey host over 90 percent of the country's population today, compared to only 25 percent in 1950. This urbanization, together with macroeconomic and fiscal stability, were at the heart of the country's strong performance, leading to increased employment and incomes. However, the economy is entering a challenging period with output contracting, rising unemployment, and inflation at close to 20 percent. Tight monetary policy and the release of a new economic program (NEP) in September 2018 provided some confidence to investors after a period of intense market volatility. But the economy remains vulnerable to market sentiments and the focus now is on implementation of critical reforms to sustain Turkey's development achievements.
- 2. Turkey's growing cities are large consumers of natural resources.** Besides a growing urban population, Turkey also has a growing number of cities with a population of over 300,000—27 by 2018. This number is expected to increase to 33 by 2050. The manner in which Turkish cities grow will have implications on how they consume natural resources and how susceptible they will be to future resource constraints. A city without a strong planning framework can sprawl and consume large areas of land with infrastructure needs that can be costly and inefficient to deliver. Moreover, cities with inadequate public transit systems force citizens to use private vehicles that cause congestion, air pollution, and carbon emissions, with negative impacts on the environment and human health. Water supply systems with high losses can represent a serious cost to the country's dwindling water sources, and untreated wastewater can contaminate land and water sources, making them a risk to environmental health. Cities are also a major consumer of electricity, which presents a critical challenge given Turkey's energy dependence and reliance on energy imports.
- 3. Turkey's municipalities are at the forefront of managing Syrians under Temporary Protection (SUTP),** which numbers 3.6 million. More than 95 percent of Syrians in Turkey reside in urban centers. For example, Kilis Province, which lies on the border with Syria, now hosts more SUTPs than Turkish residents. In Istanbul, there are at least 560,000 registered SUTPs and Zeytinburnu, a single district of the city, is reported to host more than 50,000 SUTPs. Turkey has become one of the world's largest refugee-hosting countries, with a rapidly changing population distribution in areas already at high disaster risk.
- 4. Turkey is increasingly vulnerable to a wide variety of natural hazards, especially earthquakes.** Among these natural hazards, earthquakes have claimed the highest number of lives and caused the greatest economic loss, with approximately 90,000 fatalities in 76 earthquakes since 1900, a total affected population of 7 million, and direct losses of US\$25 billion.¹ About half the casualties were due to two earthquakes on the North Anatolian Fault in 1939 and 1999. In the 1999 Marmara Earthquake, which affected 10 cities² in the Marmara region where almost 35 percent of Turkey's gross national product was

¹ Erdik, M. 2013. "Earthquake Risk in Turkey." *ScienceMag* 341 (6147): 724–725. DOI:10.1126/science.1238945.

² Kocaeli, Sakarya, Yalova, Istanbul, Bursa, Bolu, Eskişehir, Duzce, Karabuk, and Zonguldak.



produced, the death toll was over 18,000 with a direct economic impact estimated at US\$5 billion (2.5 percent of the gross national product).

5. **Although less catastrophic than earthquakes, floods, landslides, droughts, and wildfires are increasingly frequent events that cause localized losses.** Recent extreme weather events have led to flash urban floods that create infrastructure damage, threaten lives and livelihoods, affect transport and supply systems, and disrupt energy supply. Observed and anticipated climate change impacts, such as more intense localized precipitation and rising sea level, are expected to lead to increasing risks to natural disasters, including more frequent and intense flooding in cities, low-lying areas of river deltas, and coastal cities, and other extreme weather events.³ Turkey has historically suffered droughts, with severe droughts experienced in the Southeastern Anatolian region in 1998 and 1999. The most vulnerable region is the Central Anatolian region but other regions, such as the Aegean region also face difficulties due to overuse of scarce water resources. Extreme heat combined with drought conditions will also favor increased risk of wildfires.

6. **Turkey's Climate Change Action Plan (2011–2023) identified actions aimed at increasing national preparedness and capacity to avoid the adverse impacts of climate change and to adapt to its impacts.** In 2015, Turkey submitted its Nationally Determined Contribution to the United Nations Framework Convention on Climate Change, committing to reduce its greenhouse gas (GHG) emissions by 21 percent by 2030 compared to the business-as-usual scenario, to be achieved through several new policies and measures, including those related to energy efficiency improvements. The financing to implement such policies and measures is recognized as a key constraint, particularly at subnational levels.

7. **Turkey has substantially narrowed gender gaps in access to productive endowments and thus to economic opportunities in recent years, with female participation in the labor force increasing by 18 percent.**⁴ Yet, three central challenges remain: (a) an overall lack of women's participation in economic activity, (b) aggregate analysis that masks substantial socioeconomic and regional disparities with women from vulnerable backgrounds having the greatest gaps in access to endowments and opportunities, and (c) a comparatively weak agency of Turkish women. Under the Sustainable Cities Program (the Program), there are opportunities to increase female labor force participation, currently at 32 percent, through enhanced access to childcare facilities and work opportunities—for example, through safer, more efficient, and expanded public transport.

8. **Despite having a well-developed financial sector, Turkey's commercial market for municipal debt remains limited.** A high proportion of municipal debt stock is locked into short-term maturities, which are not amenable to financing infrastructure investments. This underscores the importance of the World Bank's (hereafter referred to as the Bank) long-term financing, particularly relevant for sustainable investments that may incur longer payback periods. In addition, only a few cities can attract commercial bank financing and experience with issuing municipal bonds is extremely limited. The project therefore targets (a) infrastructure projects with limited commercial viability and are therefore unable to attract commercial financing, (b) public good infrastructure, and/or (c) metropolitan municipalities or utilities

³ IFC (International Finance Corporation) and EBRD (European Bank for Reconstruction and Development) .2013. *Pilot Climate Change Adaptation Market Study: Turkey*.

⁴ Annex 7, Summary note of Country Gender Assessment in the Turkey Country Partnership Framework: <http://documents.worldbank.org/curated/en/585411504231252220/pdf/Turkey-CPF-08072017.pdf>.



that have not yet established a sustained credit history among commercial banks and are not yet able to attract long-term infrastructure investment finance.

9. **The Sustainable Cities Program.** The Program builds on a Municipal Services Project (MSP) and its Additional Financing (MSP-AF), which was implemented between 2005 and 2016, together with İller Bankası A.S. (İlbank). İlbank is an incorporated, non-deposit-taking development and investment bank established in June 1933. It is a municipalities' bank that provides financial resources to municipalities and is considered a financial intermediary (FI). İlbank has two core functions: (a) support of infrastructure development at the subnational level through technical assistance, grants, and loans and (b) transfer of central tax revenues to the local authorities. Further details about İlbank and the summary of an FI assessment of İlbank are provided in annex 1.

10. **Overall, the Program aims to support improvements to the environmental, economic, financial, and social sustainability of Turkish cities by improving access to priority municipal services.** The Program was designed as a series of projects (SOP). The SOP instrument is suitable as it allows for the provision of financing to a single borrower (İlbank) for subnational lending to a gradually increasing number of municipalities or utilities that are interested in a sustainable cities approach to municipal development. The SOP finances demand-driven municipal and utility infrastructure investments, with eligible sectors including, but not limited to, public transport, water and wastewater, solid waste management, and energy. Figure 1 shows how the SOP has evolved. Until now, the SOP includes the following:

- (a) **Sustainable Cities Project 1 (SCP1) (EUR 121.20 million IBRD loan and EUR 23.13 million European Union [EU] grant or equivalent to US\$132.77 million and US\$ 25.20 million, respectively⁵)** provides investment lending for two municipalities, which was approved by the Bank's Board of Directors on December 20, 2016. SCP1 is cofinanced with an instrument for Pre-Accession Assistance Grant from the EU for technical assistance to improve urban planning, infrastructure and capital investment planning, and to strengthen municipal financial capacity (including creditworthiness) and is currently supporting 10 participating municipalities in these activities (Component A).
- (b) **Sustainable Cities Project (SCP2) (EUR 73.5 million IBRD loan, equivalent to US\$91.54 million)**, which was approved by the Bank's Board of Directors on April 12, 2018, finances municipal investments in two municipalities. Municipalities under SCP2 also benefit from technical assistance under SCP1, which includes capacity building for the planning and management of sustainable cities.

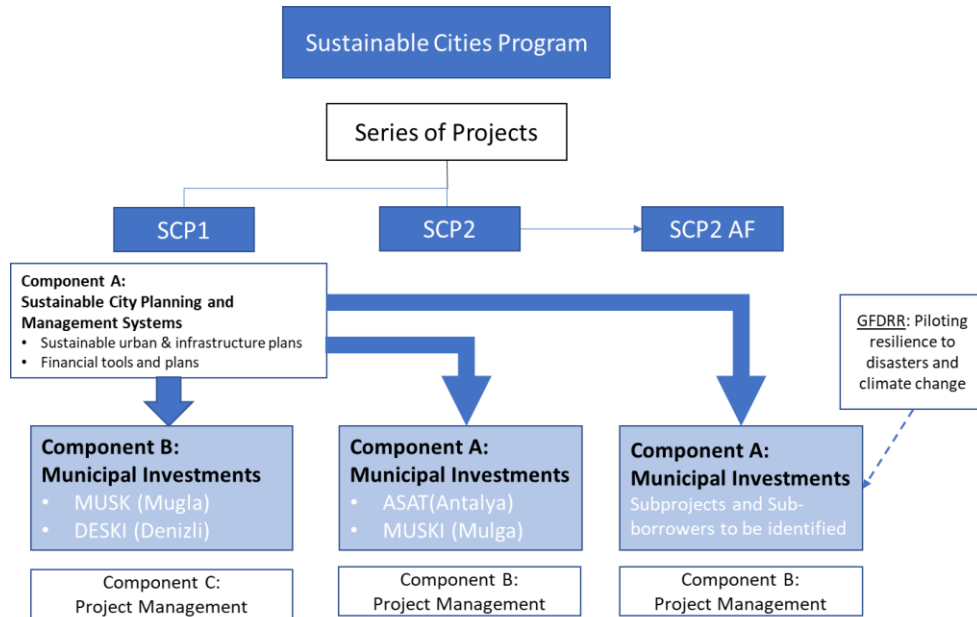
11. **This AF to SCP2 (SCP2-AF) will facilitate the scale-up of municipal subprojects in a broader number of municipalities and sectors.** The SCP2-AF will build on the knowledge that is being developed under SCP1 Component A across 10 municipalities. The aim is to increasingly support multisectoral, system, and resilient thinking toward urban development, for example, by considering energy efficiency, minimizing water losses in urban water systems, and alternative energy sources for water and wastewater facilities or ensuring that stormwater systems can support greater volumes during intense localized rainfall events, which are expected to increase as the climate warms. The SCP, with inclusion of the SCP2-

⁵ Note: all EUR-US\$ currency conversions in this Project Paper for previously approved MSP, MSP AF, SCP 1 and SCP 2 reflect exchange rates from the respective Project Appraisal Documents or Project Paper.



AF, enables Ilbank to expand this Program of support to cities with the goal of enabling them to secure IBRD financing as well as building their capacity in the medium term for enhanced financial and fiscal performance and creditworthiness so that they can more easily access commercial financing in future.

Figure 1. Evolution of the Sustainable Cities Program (SOP)



12. The **Project Development Objective (PDO)** of SCP1 and SCP2 is to improve access to targeted municipal services in participating municipalities and utilities. Progress toward achievement of the PDO, implementation progress, and progress under Components A and B of SCP2 are rated Satisfactory. Financial management (FM), procurement, monitoring and evaluation (M&E), and all safeguards are rated Satisfactory. The project complies with all its loan covenants.

13. **The Loan Agreement for SCP2 (the parent project of the SCP2-AF), which is the second in the SOP, was signed between Ilbank and IBRD on May 16, 2018.** A Guarantee Agreement was signed on the same date between the Republic of Turkey (the Guarantor) and IBRD, along with a Supplemental Letter. The loan became effective on September 4, 2018. SCP2 consists of two components: Component A: Municipal Investments (EUR 73.5 million, equivalent to US\$92.54 million⁶) and Component B: Project Management (financed by Ilbank). Subprojects under SCP2 include design and construction of water, sewerage and stormwater networks, water transmission lines, sewerage collectors and wastewater treatment plants (WWTPs) in several districts of Antalya and Muğla Metropolitan Municipalities. After signing the SCP2 Loan Agreement, Ilbank signed sub-loan agreements with Muğla Metropolitan Municipality Water and Waste Water Utility (MUSKI) and Antalya Metropolitan Municipality Water and Wastewater Utility on May 17, 2018. All loan resources from SCP2 have been allocated to these subprojects, with project disbursement standing at 25 percent. Disbursement is expected to increase through 2019 and 2020 as construction starts for key subprojects (following a period of detailed design).

⁶ Note: currency conversion reflects EUR to US\$ at time of board submission.



14. A Project Management Unit (PMU) was established under the International Relations Department of Ilbank for the implementation of the MSP, which began preparation in 2003 and was implemented, together with an MSP-AF through 2016.⁷ This PMU has continued to implement SCP1 and SCP2 and will be responsible for the SCP2-AF. The PMU is led by a department head and unit managers and has staff capacity in procurement, FM, safeguards, and technical sectors, particularly water, wastewater, and transport. In terms of technical sectors, other departments of Ilbank support the PMU in project preparation and implementation. Ilbank and the PMU are familiar with and experienced in applying the Bank guidelines and procedures for both fiduciary (procurement and FM) and safeguards (environmental and social) management. Under SCP1 and SCP2, participating municipalities are responsible for undertaking procurement and contracting activities for their specific subprojects with the technical support and oversight of Ilbank.

Rationale for Additional Financing

15. **The AF is needed because 100 percent of SCP1 and SCP2 funds are committed to subprojects, with sub-loans signed for the whole financing envelope.** The primary objective of the SCP2-AF therefore is to provide resources to Ilbank to meet a significant increase in demand from municipalities for participation in the SOP, including a wider range of sustainable and resilient urban infrastructure investments. In part, this reflects, and is a response to, ongoing technical assistance for sustainable urban development under the EU-financed Component A of SCP1. This exceptional demand includes possible subprojects aimed at improving public transport, water and wastewater, solid waste management, access to renewable energy, energy efficiency of buildings and infrastructure, environmental protection, disaster and climate resilience, and enhanced social infrastructure. Expressions of interest have been received from the municipalities of Trabzon, Manisa, Bolu, Muğla, Balıkesir, Mardin, Kahramanmaraş, Kirikkale, Konya, Nevşehir, Antalya, Çankırı, Bursa, Yenimahalle (Ankara), Kars, İzmir, Kayseri, Rize, Kastamonu, and Yalova and utility companies based in Trabzon, Eskişehir, Balıkesir, Şanlıurfa, Bursa, Konya, and Muğla. Municipal elections have been completed in April 2019 and new mayors will have 100 days to prepare their strategy and investment plan for their five-year mandate. This presents an important opportunity for the SOP to be ready to scale up activities for the coming five-year period.

16. **Ilbank has identified over EUR 625 million (equivalent to approximately US\$700.75 million) of potentially eligible projects for possible financing under the SCP2-AF, subject to further screening, due diligence, and review.** The proposed AF will allow Ilbank to finance priority projects in the immediate term and build capacity as an FI for investing in a broader range of sustainable and resilient city infrastructure in the medium term. It will also support Ilbank, the Government of Turkey, and the Bank to expand the sustainable cities approach both in terms of sector and the number of participating municipalities, which will increase the Program's overall impact and development effectiveness.

17. **The SCP2-AF will specifically aim to enhance project approaches on city resilience to disasters and climate change mitigation and risks.** Currently, municipalities have limited financial capacity to design and implement climate- and resilience-related investments, which is recognized as one of the key constraints for climate action in Turkey. The Program provides the opportunity to build capacity for

⁷ The MSP was implemented from 2005 to 2016 and included a loan in the amount of EUR 212.9 million (US\$275.0 million) and an additional loan of EUR 178.2 million (US\$ 240.0 million) for financing water, wastewater, and solid waste subprojects in 14 municipalities.



screening, preparing, and implementing projects which consider climate and disaster resilience, particularly in terms of addressing increasing risks of extreme weather events and more frequent and intense flooding in low-lying areas of river deltas and coastal cities, and increasing difficulties in managing urban water resources during more intense and lengthy drought periods. The AF provides the means to invest in mitigation and strengthening a range of such climate adaptation measures in cities, which are increasingly susceptible to climate change risks.⁸

II. DESCRIPTION OF ADDITIONAL FINANCING

PDO and PDO Indicators

18. The PDO to improve access to targeted municipal services in participating municipalities and utilities will remain unchanged.

19. The SCP2 PDO and intermediate indicators have been revised to incorporate additional sectors covered under the AF and also adjusted and extended in line with additional investments and the revised project completion date of the AF.

20. The original PDO indicators are the following:

- (a) People provided with access to improved sanitation services (with sub-indicators for women and rural and urban environments)
- (b) Additional water capacity provided (m³ per day)

Additional PDO indicators include the following:

- (a) Number of people provided with safer, cleaner and more accessible urban transport systems (with sub-indicators for women)
- (b) Percent reduction in energy consumption in water and wastewater utilities

21. **Financial strength.** Two intermediate results indicators are added to monitor Ilbank's portfolio quality and profitability. The indicators are: (a) the ratio of the total stock of rolled over loans against gross loans outstanding (rollover ratio); and (b) the operating profit before tax on average equity, respectively.

22. **Gender-specific indicators.** The FI nature of the loan means that subprojects are not yet selected; therefore, specific gender indicators cannot be identified in advance. However, for municipal services where a lack of these services are known to be barriers to women's participation in the workforce in Turkey—such as access to public transport and daycare services—the project will work with sub-borrowers on a pilot basis to carry out a gap analysis for the baseline, identify specific actions aimed at addressing this gap, and define an indicator to measure the reduction in the gap which can be monitored

⁸ Parallel support from the Global Facility for Disaster Reduction and Recovery (GFDRR) in US\$500,000 (equivalent to EUR 445,950) will allow the piloting of approaches to the screening and preparation of subprojects that are more resilient to climate and disaster risk, which can be scaled up to municipalities within and beyond the project.



during implementation. This approach will be defined in the Project Operations Manual.

Project Cost, Financing, and Implementation Period

23. The revised total project cost estimate for SCP2 and its AF combined is EUR 575.3 million (equivalent to US\$ 654.26⁹), including the AF of EUR 500 million (equivalent to US\$ 560.6 million) required through an IBRD loan. The breakdown of the original project and AF by component and category is provided in table 1.

Table 1. Total Project Cost and Financing by Component (SCP2 and SCP2-AF) in EUR, millions

| Project Component | Original Project Cost SCP2 | Additional Project Cost SCP2-AF | Total Project Cost |
|------------------------------------|----------------------------|---------------------------------|--------------------|
| IBRD Financing | 73.50 | 500.00 | 573.50 |
| Component A: Municipal Investments | 73.32 | 498.75 | 572.07 |
| <i>Front-End Fees</i> | 0.18 | 1.25 | 1.43 |
| Counterpart funding | | | |
| Component B: Project Management | 0.80 | 1.00 | 1.80 |
| Total Cost | 74.3^a | 501.00 | 575.3 |

Note: a. This number is rounded.

24. To enable full delivery of the expected subprojects, the closing date will be extended to May 29, 2026. With this revised closing date, the overall time frame for SCP2 and the SCP2-AF will be 8 years. Given the experience in SCP1 and SCP2 and the aim of delegating more responsibility to Ilbank to screen, review, and appraise subprojects, it is expected that 8 years will be sufficient for project implementation.

Project Components

25. The AF will support the same components as SCP2: Municipal Investments (Component A) and Project Management (Component B), as described below.

26. **Component A: Municipal Investments (EUR 498.75 million or equivalent to US\$ 559.20 million).** This component will be scaled up to finance demand-driven municipal infrastructure investments to improve access to quality, sustainable and resilient public transport, water and wastewater, solid waste management, disaster risk management, energy efficiency and renewable energy, and improve the urban environment, municipal firefighting services, and social infrastructure and services. Component A would finance goods, works, and non-consulting and consultant services, including the hiring of local technical consultants for engineering design and construction supervision. Based on initial expressions of interest from municipalities and proposed budgets, the following areas will be the focus of the AF:

- (a) **Improved water and wastewater** will be promoted through integrated and sustainable management of water resources, to improve the quality of water and wastewater service delivery, increase access to safe drinking water, and protect water services as well as

⁹ The US\$ total financing cost considers the original SCP total cost of US\$92.54 million (EUR to US\$ conversion from the time of Board Paper) and the Additional Financing Cost US\$ 560.6 million, which uses a currency conversion at April 30, 2019.



improve stormwater services. This will be supported through municipal and utility investments in upgrades and rehabilitation of critical infrastructure, water leak detection and management systems, energy management systems, and procurement of goods critical for quality management of water and wastewater services.

- (b) **Affordable and accessible public transport** with reduced air pollution and improved road safety will be achieved through investments aimed at improving the quality and performance of urban transport infrastructure. Subprojects are expected to focus on promotion of public transport services and alternative transport such as cycling, efficiency in municipal and city buses, smart transport system solutions, and traffic flow optimization and incorporate principles of transit-oriented development and electric mobility.
- (c) **Promoting sustainable, safe, and environmental management of solid waste** through investment in integrated waste management systems, including recovery of waste through recycling, reuse, compost, waste-to-energy solutions or other treatment methods; modern waste transfer stations; environmentally sound solid waste disposal technologies including sanitary landfills or incineration plants; and procurement of equipment and goods for quality and sustainable management of solid waste.
- (d) **Reduction in GHG emissions** through development of renewable and environmentally sustainable energy sources for meeting municipal internal energy needs, and improved energy efficiency of municipal service infrastructure and models. This will include subprojects in renewable energy applications (for example, rooftop solar photovoltaic, biomass heating, solar water heating, and geothermal heat pumps) provided they are primarily used to offset the building's electricity/fuel use (rather than to generate power to sell to the grid); harnessing biogas for energy from WWTPs and solid waste facilities and energy efficiency projects across municipal buildings and infrastructure.
- (e) **Expansion into new sectors is anticipated to include the following:**
 - (i) **Improving social inclusion, resilience and quality of life of residents through investments in social infrastructure and services.** This may include development of community centers including those providing specialized social services for youth, elderly, women, and disabled; shelters and homes for elderly and women; and care for the very young through crèches and kindergartens. It may also include reconstruction or retrofitting of municipal buildings to increase disaster and climate resilience.
 - (ii) **Improving municipal firefighting services.** Municipal firefighting services are critical for managing emergencies (traffic accidents, building fires, and so on) and then reducing the impacts of natural disasters through rapid and professional response. These subprojects in municipal delivery of firefighting services include modernization and resilience of fire station buildings which are critical, especially given that these buildings may themselves be damaged or collapse in a disaster, especially earthquakes. Finally, municipal firefighting services do not have access to modern equipment commensurate with their changing and expanding response area and functions. The aim is to provide support to municipal firefighting services to ensure that they have



adequate response capabilities for fires and accidents, floods, storms, wildfires, and earthquakes.

- (iii) **Improving municipal environments and reducing pollution.** This will be achieved through improved waste collection and management, marine litter management, reduction in plastic waste and investments need for implementing clean air compliance action plans. Efforts to reduce marine litter will be strongly linked to improvements in sustainable and effective solid waste management.

27. Subprojects in each of these sectors can be supported by improved institutional capacity and efficiency at municipal and utility levels. To ensure long-term investment planning and sustained management of urban infrastructure and services, there is a need to support enhanced technical and planning capacity at municipal levels in Turkey. Consultancy services under Component A can also finance Sub-borrowers' subproject design and supervision activities including capacity development of authorities; planning, feasibility, and technical designs; environmental and social assessments; and IT and data management systems including city data, management systems, geospatial information systems, municipal studies, and analysis. These activities help inform investment planning, assessment of disaster and climate risks and gender gaps for subprojects, feasibility studies, technical designs, and construction supervision. This component can support capacity development of municipalities for the above functions and toward preparation and implementation of safeguard policies including occupational health and safety (OHS).

28. **Component B: Project Management (EUR 1 million, Ilbank financed equivalent to US\$1.12 million).** This component will finance goods, consulting services related to day-to-day project management, M&E, reporting, and project communications.

29. **Cross-cutting areas.** The detailed design of key subprojects will be informed by the following cross-cutting areas:

- (a) **Climate change and Disaster Resilience.** Subprojects will aim to minimize GHG emissions and maximize adaptation and disaster resilience benefits. There are many opportunities to reduce GHG emissions in the provision of municipal services through improvements in energy efficiency and harnessing alternative renewable energy sources such as solar and biogas sources that are planned to be supported with the use of the AF funds. All these opportunities will be considered in greater detail and employed as the particular subprojects under Component A are designed. Moreover, improvements in water, wastewater, sewage, solid waste management and stormwater systems as well as techniques such as water harvesting/recycling, passive and climate-friendly designs, and cool/green roofs will reduce energy consumption, urban flooding, and potential cascading disasters caused by transfer of sewage into water supplies. The solid waste management treatment and disposal technologies will incorporate methane management and electricity generation as per national regulations, drastically reducing the GHG emissions for the sector. Furthermore, improved collection of solid waste is proven to reduce flooding, while access to modern fire response services will improve the resilience of communities faced with increased wildfire, extreme heat, and storm/flashflood events that cities are vulnerable to and strengthening of municipal buildings will improve climate and disaster resilience. Finally, identification of



efficiencies and reduction in water losses in the delivery of water services will increase the resilience of Turkish cities to drought. Complementary trust fund financing from the GFDRR has been secured to support pilot municipalities to assess their vulnerability to climate change and disaster risks and to identify priority subprojects aimed at increasing resilience and help the municipalities pilot approaches to the screening and preparation of subprojects that are more resilient to climate and disaster risk, with the lessons being shared more broadly with other participating municipalities.

- (b) **Gender analysis, actions, and M&E.** Given the range of subproject investment types proposed for this AF, there will be opportunities for the project to support analysis of the gaps and differentiated needs between men and women for various municipal services. Female labor force participation in Turkey is low compared to men, with survey data from the Bank's 2016 Systematic Country Diagnostic (SCD) for the Republic of Turkey (Report No. 112785-TR) showing that 22 percent of women cannot join the labor force because of housewife responsibilities, with 19 percent reported caring for children as the main reason. The project will invest in the provision of basic services such as water and wastewater, public transport, solid waste management, access to renewable energy, energy efficiency, environmental protection, disaster and climate resilience, and enhanced social infrastructure, including community centers, kindergartens, and crèches, many of which have the potential to reduce housewife and childcare responsibilities for women and provide more convenient access to jobs, thus allowing women greater potential for economic participation. Because the subprojects will be identified, prepared, and appraised on an ongoing basis during implementation, it is not possible at this stage to prepare a detailed analysis or provide specific actions or indicators to monitor the number of women who feel that their needs in these various areas are being addressed through the project. For several types of subprojects, there is potential to conduct further analysis and on a pilot basis, introduce specific actions during implementation to narrow the gap, and additional indicators (with baselines and targets) to monitor whether such gap has been narrowed. The Project Operations Manual will include guidance on how these activities can be carried out as part of subproject screening, preparation, appraisal, implementation, and monitoring. For example, global analysis and in cities in Turkey has pointed to a need to invest in additional lighting and security cameras to improve travel security which will improve uptake of public transport for women, which subsequently enhances access to more and a greater range of job opportunities. This AF will also support subprojects improving social services and infrastructure for women. Throughout the project lifetime, opportunities to better identify and meet the unique mobility needs of women will be considered through a targeted survey to female travelers to better understand their mobility needs and concerns. The opportunities for gender actions will be confirmed with each sub-borrower as subprojects are identified during implementation.
- (c) **SUTP and host communities.** Associated with the rapid increases in SUTP population has been a rising insufficiency in municipal services, from water supply to public transport to meeting regulatory requirements for fire services and serviced population. Investments under the project will alleviate excessive strain on municipal services which will provide benefits to SUTPs and host communities alike.



Implementation Arrangements

30. Ilbank, a development and investment bank that onlends international financial institution (IFI) loans for municipal investments, was selected as the implementing FI for SCP1 and SCP2 based on its demonstrated capacity to design and implement MSPs. Ilbank provides direct credit to municipalities and utilities from financial intermediation loans funded by IFIs. Additional criteria for selecting Ilbank include the bank's financial soundness, quality of credit portfolio, and its strong performance as the borrower in the ongoing SCPs (P128605 and P169915) and in the completed the Bank MSP (P081880) which was rated as Moderately Satisfactory by the Bank's Independent Evaluation Group. Annex 1 provides background information on Ilbank and a summary evaluation of Ilbank against the Bank's standard criteria for financial intermediary financing (FIF) listed in OP 10.00 (Investment Project Financing).

31. Institutional and implementation arrangements for the AF build on the existing arrangement under the ongoing SCP1 and SCP2. Ilbank is committed to rapid development and implementation of the SCP2-AF, as well as supporting municipalities to develop feasibility studies and undertake efficient procurement. Moreover, Ilbank PMU has a strong track record and experience with the Bank safeguards, procurement, and FM policies—all of which support efficient implementation. Responding to this enhanced demand for municipal investments through AF provides efficiencies in using established processes and mechanisms. The process of securing the AF also provides an opportunity to make small adjustments in the procedures for operational implementation. This will be undertaken through revisions to the Project Operations Manual to facilitate implementation based on lessons learned to date with the implementation of both SCP1 and SCP2.

32. **Project management.** A PMU was established under the International Relations Department of Ilbank for the implementation of MSP, MSP-AF, and SCP1 and SCP2. The PMU has recently been reorganized according to functions and specializations. The PMU staff has regrouped under three functional units: a Technical Management Unit, a Contract Management Unit, and a Finance Management Unit. Ilbank management also appointed new staff in the International Relations Department to expand staff capacity. These functional units are led by unit managers and have sufficient technical and staff capacity in procurement, FM, and technical sectors particularly for water, wastewater, solid waste management and transport. When needed, Ilbank will hire consultants from project resources to obtain technical support in areas or sectors Ilbank has limited capacity and experience.

33. The International Relations Department is supported by several specialized departments within Ilbank. These include a Project Department responsible for control and approval of technical studies under the project, an Investment Appraisal Department responsible for evaluating the financial capacity of a municipality, an Infrastructure Implementation Department that can also provide support to review technical specifications as needed, and several other administrative departments such as Investment Coordination, Accounting and Financial Affairs, Information and Technology (IT), and Banking Services. The institution also has 18 regional directorates that can monitor subproject implementation.

34. **Legal relationships, fund flow, and the control of funds.** Legal arrangements for Component A will include the following: (a) a Loan Agreement between the Bank and Ilbank, (b) a Guarantee Agreement between the Ministry of Treasury and Finance and the Bank, (c) a Guarantee Protocol between the Ministry of Treasury and Finance and Ilbank, and (d) sub-loan agreements between Ilbank and sub-borrowers (municipalities, municipal companies or their affiliated utilities/bodies).



35. Fund flow under the project will be overseen by the International Relations Department. Within the scope of the project, the International Relations Department is also responsible for ensuring the Bank compliance of procurement for goods, works, and services. The Project Operations Manual guides Ilbank on the use of loan funds and reporting arrangements.

36. **Escrow account.** For Component A, to secure debt service, Ilbank follows the same procedures stated in the Law on Regulating Public Finance and Debt Management (Law No. 4749). Ilbank requires municipalities and utilities to deposit the interest and principal repayments into an escrow account. Ilbank will monitor the funds in the escrow account to service the Bank loan. According to the law, Ilbank is also authorized to use the tax intercept as collateral for a sub-loan.

37. **Role of sub-borrowers (municipalities, municipal companies or their affiliated utilities and bodies).** Sub-borrowers in the project will have to meet the sub-borrower eligibility criteria and be mutually agreed by Ilbank and the Bank. Ilbank will monitor and ensure that subproject eligibility criteria are met. The sub-borrowers will be responsible for subproject investment implementation and will set up municipal Project Implementation Units (PIUs) to ensure adequate subproject implementation. Individual sub-loans are subject to the mutual agreement of Ilbank and the Bank, based on subproject eligibility criteria.

38. **Project preparation and appraisal (technical and financial reports and designs).** Ilbank will be responsible for identifying eligible sub-borrowers and ensuring that the subproject eligibility criteria are met. Subprojects should meet a set of eligibility criteria to ensure that all subprojects supported under the project are financially, economically, and technically viable and meet all safeguards requirements. Ilbank will work with sub-borrowers to appraise subprojects. The reports and studies of the proposed subprojects will be reviewed and approved by Ilbank and the Strategy and Budget Office of the Presidency in terms of technical, environmental, social, financial, and economic perspective and in accordance with the Bank's environmental and social safeguard policies. When sub-borrowers do not have full-fledged projects meeting eligibility criteria, Ilbank will support the municipalities by hiring consultants or consultancy firms to carry out necessary project preparation studies. The arrangements for prior review of certain subprojects, particularly subprojects that are new to the SCP series will be set out in the Project Operations Manual.

39. **Safeguards compliance.** As an affiliate to the Turkish Ministry of Environment and Urbanization, Ilbank is subject to Turkish national laws and regulations and also holds TS-EN-ISO: 9001-2015 quality certification. The credit evaluation process of Ilbank includes technical, economic, and financial assessment of subject loans. However, no specific environmental and social assessment criteria are defined in the scope of the technical assessment. As all financing is contingent upon the Bank's review of safeguards documents consistent with the provisions of the Environmental and Social Management Framework (ESMF) and Land Acquisition and Resettlement Policy Framework (LARPF), Ilbank will submit viable subprojects for the Bank's review. The Bank will prior review and approve all 'Category A' and 'Category B' subprojects and then provide no-objection to the relevant environmental and social assessment documents. During implementation of the project, the Bank can mutually agree with Ilbank that, Ilbank conducts the review of environmental and social assessment documents for low-risk Category B projects (rehabilitation of water or sewer network systems, renovation of existing municipal structures—except those subprojects having any degree of protection, cultural importance, or are located in natural habitats, and so on) and the Bank conducts post review. Ilbank has gained increasing experience in



following Bank safeguards requirements and the AF loan will provide for more delegation of safeguards screening and review responsibilities to Ilbank based on experience to date, as set out in the safeguards section. An assessment of Ilbank's experience with Bank safeguards is provided in annex 2.

40. Ilbank's International Relations Department has experienced staff in technical, procurement, environmental, social, and FM-related procedures of the Bank. Ilbank staff received numerous trainings related to Bank safeguard operational policies, including the recent Environmental and Social Framework, as a part of the Borrower Training Rollout Program. Ilbank's safeguards team consists of two technical experts—one acting as the environmental focal point and the other as the social development/land acquisition focal point. For each subproject's environmental and social risk identification and monitoring, Ilbank and Bank safeguards teams conduct regular meetings, informal discussions and joint meetings with the sub-borrowers as necessary. Ilbank and Bank team also conduct and attend site visits during subproject risk identification and implementation. The Ilbank team gained significant experience during the implementation of previous MSP, MSP-AF, and SCP1 and SCP2 projects financed by the Bank.

41. **Project design and construction supervision.** To avoid conflict of interest, Ilbank will not carry out construction supervision. Rather, construction supervision will be performed by independent consultancy firms and/or independent consultants as needed. Ilbank's regional offices will monitor the subproject progress quarterly and will prepare monitoring reports. Consequently, regional directorates will support the PMU by providing relevant information on time and coordinating with the sub-borrowers.

42. **Project implementation.** Ilbank will provide project implementation support to municipalities and utilities and carry out supervision of the sub - loan agreements. Ilbank plans to conduct the selection of consultants with full representation by the sub-borrowers. Sub-borrowers will be responsible for the procurement of civil works and goods and these contracts will be signed by the sub-borrower and the firm or contractor. In accordance with the sub-loan agreement, the sub-borrowers will carry out the following:

- (a) Manage and implement the subproject in a sound technical and financial manner, including management of the procurement process, certification of payments from consultants and contractors, and construction supervision with the assistance of construction supervision consultants where required
- (b) Implement the ESMF in a satisfactory manner, including environmental activities during project preparation and implementation involving appropriate level of public consultation and information disclosure
- (c) Implement the LARPF in a satisfactory manner
- (d) Provide necessary technical and financial information, including collection and monitoring of results data, to Ilbank on time
- (e) Set up an escrow account in which amounts that correspond to six months of debt service will be deposited 15 days before their due date to repay Ilbank and the latter will have the right to intercept tax transfers to make the repayment of the sub-borrower if the escrow account balance is insufficient



43. To assist in undertaking these responsibilities, PIUs will be set up at the municipal or utility level to manage subproject implementation. The PIUs will be staffed by municipal employees. However, the PIUs may be supplemented by individual consultants, as necessary. In general, the municipalities/utilities are anticipated to have existing staff who can manage all aspects of subproject implementation.

Higher-Level Objectives

44. **The AF remains consistent with the Bank Group’s Country Partnership Framework (CPF) for Turkey for the period 2018 to 2021** (Report No. 11096-TR).¹⁰ Objective 8 of the proposed CPF proposes continued support to improve the sustainability and resilience of cities. The Program was proposed in the CPF as an SOP and the SCP2-AF aligns fully with that framework. The Program aligned well with the 10th National Development Plan (2014–2018), under the ‘Livable Spaces and Sustainable Environment’ pillar. The Program design is particularly relevant to supporting national initiatives and objectives and there is increasing evidence through country-level dialogue that the National Government is enhancing efforts toward these objectives.

45. **Building disaster and climate resilience contributes to the Bank’s twin goals of ending extreme poverty and promoting shared prosperity.** Disaster events can undermine hard-earned development gains, potentially trapping vulnerable groups into poverty. The impact of extreme natural disasters is equivalent to a global US\$520 billion loss in annual consumption and forces some 26 million people into poverty each year.¹¹ Therefore, activities contributing to resilience are directly linked to sustained development and allow the poorest—the most affected by such disasters—to escape cycles of poverty. Likewise, the efforts to improve climate resilience and support climate change mitigation measures contribute to the Bank Group’s commitments and the specific commitments for Europe and Central Asia to support and scale up climate action and increase the climate-related share of development financing.

46. **The AF will also contribute to climate change action in Turkey by addressing climate resilience and supporting climate change mitigation in cities.** Turkey’s climate change action directions are set in the National Climate Change Action Plan 2011–2023 and in the National Climate Change Adaptation Strategy and Action Plan. Mitigation priorities include increase of renewable energy production, energy efficiency measures, and management of methane from solid waste management. Adaptation action areas are set to reflect the anticipated risks (extreme temperatures, extreme precipitation, and drought). Priority areas for strengthening resilience of cities include protection of critical infrastructure, strengthening water and waste management, and strengthening response mechanisms for natural disasters caused by climate change. Project activities are aligned with national priorities and will contribute to climate action in Turkey.

47. **The project supports the implementation of the Bank Group Climate Action Plan (2016),** which covers the Bank’s efforts to support countries in delivering on their climate action plans submitted at the 2015 United Nations Climate Change Conference (COP21) in Paris. The project will contribute to the Bank’s

¹⁰ The CPF was discussed by the Board of Executive Directors of the Bank on August 29, 2017.

¹¹ Hallegatte, Stéphane, Adrien Vogt-Schilb, Mook Bangalore, and Julie Rozenberg. 2017. *Unbreakable: Building the Resilience of the Poor in the Face of Natural Disasters. Climate Change and Development*. Washington, DC: World Bank. <https://openknowledge.worldbank.org/handle/10986/25335> License: CC BY 3.0 IGO.



plan to increase the climate-related share of its lending from 21 percent (average of 2011–2015) to 28 percent by 2020. The climate co-benefits for this project are currently estimated at 55 percent.

Cross-Cutting Themes: Climate Change, Resilience, Gender, Citizen Engagement, and Maximizing Finance for Development

48. **The AF is expected to generate significant climate change mitigation co-benefits.** Based on the long list of potential projects for the AF, 85 percent of identified subprojects are expected to contribute to reduction in GHG emissions. For example, a proportion of investments are directly focused on achieving a reduction in GHG emissions by switching to renewable and alternative energy sources (such as solar, biogas, and geothermal) and by identifying and reducing energy usage in municipal infrastructure and buildings through energy efficiency measures. Any new buildings constructed or rehabilitated under the AF will also aim for a minimum 20 percent reduction in total energy consumption. Moreover, a focus on safe, sustainable, and international best practice solid waste management will reduce GHG emissions—with the additional potential to invest in waste to energy systems. The Turkish regulation that all landfills accepting biodegradable waste are required to collect the landfill gases and use it for energy generation if feasible, also is aligned with international best practice and low carbon principles. Improvements in water supply and wastewater treatment facilities will contribute to climate mitigation efforts. Finally, with at least 20 percent of the AF focused on improving access to public transportation, alternative mobility approaches (cycling and pedestrian services), and improvements in traffic flow systems and urban road networks, the AF will make significant contributions to national climate change mitigation efforts.

49. **Substantial climate change adaptation co-benefits are expected.** Cities in Turkey need to rapidly build resilience to climate change and this project has a high proportion of investments aimed at climate change adaptation. It is critical for municipalities to invest in both stormwater systems and implement other good planning and design practices (such as permeable paving surfaces to reduce runoff or green spaces which double up as retention ponds during storm events) that increase city resilience to intense rainfall events and ensure that citizens will have access to safe drinking water and water services in the future—especially in areas prone now (or in the future) to extended drought periods. Design of the water supply, water services, and stormwater systems, as well as climate-smart techniques such as water recycling/harvesting, green infrastructure, green urban designs and so on, will consider potential future climates and will aim for solutions that are viable and optimized for future climates. Moreover, by investing in disaster response services, such as fire services, the project will yield adaptation benefits through enhanced and more rapid response to wildfires which may increase as the climate warms, and improved response to urban and riverine floods through rescue and flood protective equipment. Finally, by reducing pollution and enhancing litter management, rivers and stormwater systems will have a greater ability to cope with excessive water flow following intense rainfall events.

50. **Given the extreme exposure to natural disasters and climate change in Turkey, investments under the SCP2-AF will be evaluated to determine if design modifications would result in greater disaster and climate resilience.** For each investment, the risks from natural hazards will be considered using data and information held by the Disaster and Emergency Management Presidency. Where risks are identified, such as high vulnerability of a municipal to severe damage in an earthquake (especially for buildings constructed before 1990 when the modern seismic code came into force), the project can support retrofitting or reconstruction of these buildings—as such investments in resilience in public buildings have high financial and social benefits. This screening and support to municipalities to consider



disaster and climate change in development planning will be supported through a trust fund (Building Institutional Capacity for Risk Informed Decision Making and Urban Resilience in Turkey [P170103]) secured from the GFDRR.

51. **As subprojects are designed, the differentiated challenges and needs of men and women will be a key focus during upstream analysis and design and construction.** Currently there is limited analysis on the specific challenges and needs faced by women in the sectors proposed under this project for Turkey; however, limited analysis in Turkey and globally indicates that this AF can provide significant benefit for women and girls. For example, easy access to safe (actual and perceived), affordable, and efficient public transport in urban environments can increase the ability of women to secure employment and access to childcare services.¹² Similarly, some municipal services may inadvertently exclude women from employment by failing to have adequate and appropriate sanitary facilities for women, an issue that is particularly prevalent in municipal services traditionally dominated by men.¹³ As subprojects are selected, Ilbank and the Bank will work to identify pilot projects for more detailed analysis, gender actions, and monitoring to strengthen the integration of gender considerations into Ilbank and municipal services throughout the life of the project.

52. **Citizen and stakeholder engagement.** The project will follow the grievance and feedback mechanism of the parent project, in which the existing 'white table' systems of the municipalities are used and tailored for SCP projects in an effective way. A Stakeholder Engagement Framework (SEF) has been prepared to help municipalities identify stakeholder engagement processes and prepare project-specific plans, as required. Further details on these aspects are provided in Section E (Social).

53. **Maximizing financing for development.** The overall Program has put in place a maximizing financing for development approach through the creation and maintenance of a public-private investment coordination approach to maximize financing at subnational levels. The coordination approach at a national level sustains constructive dialogue with the Central Government on policy and regulatory changes to modernize the existing municipal financing and investment framework and improve the enabling environment. The program also builds on strong collaboration of the International Finance Corporation (IFC) and IBRD in Turkey by supporting progress to overcome identified barriers around limited long-term financing to cities and pipeline of bankable projects for advancing sustainable cities. The Program considers three categories of municipal projects: (a) projects that can be financed using commercial sources of financing once the municipality has improved creditworthiness; (b) projects that could be part or wholly commercial financed but for which there needs to be clear demonstration of the value of commercial investment in municipalities in Turkey, such as switching to renewable energy sources and investing in energy efficiency; and (c) projects which provide a pure public good and are unlikely to secure commercial financing, such as municipal social services, fire services, and so forth. For the first two categories, the Program provides a mechanism to ultimately move toward commercial

¹² Deniz, D. 2016. "Perceived Safety of Women Mobility Habits for Sustainable Public Transportation." *American International Journal of Social Science* 5 (4).

International Transport Forum. 2018. *Women's Safety and Security: A Public Transport Priority*. OECD Publishing, Paris.

¹³ A Project in Romania (Strengthening Disaster Risk Management Project [P166302]) focused on modernized and resilient fire services identified the absence of dormitory, showers, and toilet facilities for women as a key barrier to professional employment of women in this sector. As a result, women are generally restricted to voluntary roles only.



financing over the medium to long term, and for the last category, the Program provides a vital mechanism for investment in crucial public services.

54. **Ilbank follows a pricing policy that is in line with its role in supporting the financing of public goods by municipalities.** The basic tenet of the product policy is in line with the mandate to offer investment loans with longer maturities and lower interest rates than the comparable domestic market. Ilbank does not account or factor the cost of own capital into the lending rates. Ilbank typically lends on 5-year to 10-year terms for various projects and facilities related municipal services that have been included in the national investment program. The longest maturity has gradually extended to 15 years, but the average maturity is still low. Equity-based lending makes the preferential interest rate possible, because the cost of own capital is not factored in pricing the lending products. Ilbank offers Turkish lira loans from its equity by using the interest rate to the Central Bank base rate as reference.

55. The onlending rates for IFI foreign currency loans (mainly euros) reflect the cost of funds with a small markup and with passing the foreign exchange risk to the borrower. The use of external funds (IFI onlending) has just reached 9 percent of the loan portfolio. Ilbank does not grant proforma subsidized loans, because its lending rates include margins sufficient to cover the cost of operation, loan losses, and even generate intentionally moderate profit. However, a more sophisticated risk-based pricing of the products would be justified in future because Ilbank's portfolio is expanding with a longer maturity creating higher risk exposure. Law No. 5779 allows Ilbank to extend short-term specialized loans given to municipalities in relation to their investment programs; nonetheless, Ilbank ceased to extend short-term credits in 2007 as a matter of principle, save for exceptional situations. In cases where letters of guarantee are issued for loans that municipalities obtain from financial institutions, which are in default, Ilbank, in its capacity as guarantor, is responsible for making the payments whenever the beneficiary of the letter so demands. Such payments are booked to the local governments' accounts as 'short-term loans'. In addition, a commission fee is charged once every three months on the outstanding balances of letters of guarantee issued by the bank. These amounts are then charged to local governments' accounts as 'short-term credit.'

Lessons Learned

56. Ilbank's cooperation with the Bank can be defined as walking along a path of institutional capacity improvement moving Ilbank toward being a more efficient and independent FI. The MSP was the first project implemented by Ilbank to be financed by an IFI. During MSP implementation, Ilbank developed basic project appraisal, implementation, and management capacity. The success achieved with the MSP and improvements in institutional capacity have subsequently enabled Ilbank to receive financing from other IFIs and bilateral donors such as European Investment Bank (EIB), Japan International Cooperation Agency (JICA), and Islamic Development Bank.

57. Building on the long and strong engagement in the municipal sector with Ilbank, the Program has developed and benefitted from the preparation and implementation experience of Ilbank gained through the MSP and MSP-AF. The Program expands the Bank engagement sectorally and spatially in that it will assist in building planning and financing capacity at the municipal level. Lessons from the MSP and MSP-AF show that institutional development should be embedded in a technical assistance program that supports the development of a comprehensive and integrated planning approach to spatial, social, environmental, and financial/capital investment planning and management. Component A of SCP1 has



been developed to provide technical support to municipalities and their affiliated utilities for urban sustainability planning and integrated management and for the preparation of feasibility studies, environmental assessments, and engineering designs for municipal subprojects and to Ilbank for management of the grant and capacity building.

58. This AF will enable Ilbank to expand investments under a sustainable cities approach both in terms of sector and the number of participating municipalities, which will increase the Program's overall impact and development effectiveness. Sectors such as waste management, social services, energy efficiency, urban transport, and DRM were envisaged under the Program from its inception and this AF will support the expansion of the engagement and help Ilbank and participating municipalities build capacity in these sectors through international experience brought by the Bank.

III. KEY RISKS

59. **The overall project risk is rated as Moderate.** This is the same overall risk rating as for SCP2. There is one change in the sub-categories of risk, which is an increase in the rating of macroeconomic risks from Moderate to Substantial.

60. **Macroeconomic risks are rated as Substantial.** The Turkish economy has entered a challenging period, with output contracting (quarter on quarter) for two consecutive quarters in 2018. Unemployment has risen (from 10.8 percent in January 2018 to 14.7 percent in January 2019) while inflation remains high at around 19 percent (year on year, February 2019). These developments follow a period of economic overheating in late 2017/early 2018 and intense market volatility in mid-2018. While market and external pressures have abated since mid-2018, currency pressures in March 2019 are illustrative of Turkey's vulnerability to market sentiments. A tight monetary stance and the release of the NEP boosted investor confidence in 2018, though the focus is now on implementation of key reforms with the recent cycle elections now over. Macro risks to the project are rated as High: (a) the authorities have set out a fiscal consolidation path that assumes a sharp decrease in capital expenditure, which may affect municipal investment plans; (b) high inflation and any further currency volatility pose challenges for investment planning, increasing the need for adjustments to budgets, and implementation plans; (c) currency volatility and pressure can enhance forex pressures and mismatches for municipalities, though this is partly hedged by the long-term nature of IBRD investment loans; and (d) 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 public investment. These risks should be mitigated through consistent and credible macro policies, clearly communicated to investors, and implementation of ongoing corporate debt restructuring.

61. **Environment and social risks are rated as Substantial.** Subproject investments in wastewater treatment, solid waste management, public transport, energy efficiency, and so forth are expected to have potential positive environmental impacts over time; however, negative impacts are possible if design and construction is not well managed. The subprojects may also have social impacts including involuntary land acquisition, impacts on potentially vulnerable communities such as waste pickers, ecosystem users (near forestry areas), gender-based issues, community health and safety related issues. For involuntary resettlement related impacts, the borrower will have an LARPF prepared, approved, and disclosed. Other social risks beyond OP 4.12 and indicated under OP 4.01 will be mitigated under Environmental and Social



Impact Assessments (ESIAs)/Environmental and Social Management Plans (ESMPs), as necessary, together with a Stakeholder Engagement Plan (SEP). Due to some potentially major civil works, there will also be gender-based violence issues covered in the related safeguards and procurement documents. Ilbank has also demonstrated established capacity for safeguards management with safeguards assessments remaining Satisfactory through SCP1 and SCP2. The AF will not trigger additional safeguards.

62. **Stakeholder risk is Moderate.** This reflects potential changes at municipal levels and therefore commitment to implementation of investments due to internal political and financial considerations. To mitigate this risk, municipalities/utilities are required under SCP2 to provide Municipal Executive Board/Utility Executive Board decisions in support of their participation in the project and are also required to prepare feasibility studies that include a financial assessment of the subproject and the municipality. The stakeholder risk also reflects possible community resistance to certain investments. To mitigate this risk, required ESIAs and ESMPs will be prepared for each subproject investment and a grievance redressal mechanism will be set up within the project. In addition, the SEF has been prepared and annexed to the ESMF to guide borrowing municipalities in the preparation of their subproject specific SEPs. The SEPs will be tailored according to the subproject impacts and will provide mechanisms and tools for increasing involvement of relevant stakeholders. The SEF describes the public consultation and stakeholder engagement requirements, the ways of announcement, timing of disclosure of draft safeguard documents, and recording details of these consultation meetings. The ESMF also states that the project-specific environmental and social assessment documents can only be finalized after the feedback received during the public consultation meetings was integrated into the safeguard documents.

63. **Technical design, institutional capacity for implementation and sustainability, fiduciary, and political and governance risks are all rated as Moderate.** Ilbank has demonstrated its capacity to implement municipal services projects through the MSP, SCP1 and SCP2 projects. Moreover, since the design of MSP, Ilbank has made considerable progress to strengthen institutional arrangements, project appraisal and management capacity and has shown a corporate commitment to improving its systems to meet Bank requirements through responsiveness to Bank recommendations. In addition, the Financial Intermediary Assessment for OP10 FIF requirements (Annex 1) highlights the strong performance of Ilbank. The additional financing is also strongly aligned with the Bank's CPF. Finally, the technical design of this project is aligned with the operational capabilities of Ilbank, with new areas of engagement, such as climate resilience and social services, supported through complementary technical advice from the Bank through Component A of SCP1 and a GFDRR Trust Fund.

64. **Sector Strategies and Policies risks are rated as Low.** This project strongly supports existing development priorities of both the central government and municipalities, is aligned with a commitment to sustainable and resilient urban development, and sits within an evidence-based and technically-sound development framework. There is also a clear demand from the municipalities with a pipeline of EUR 625 million (Equivalent to US\$700.75 million) in sustainable investments identified.

IV. APPRAISAL SUMMARY

A. Economic and Financial (if applicable) Analysis



65. The economic benefits detailed in the original design for SCP2 are amplified in the proposed AF. Depending on the range of investments, the SCP2-AF will provide improved access to municipal services, energy cost savings to municipalities or utilities from energy efficiency and renewable energy investments, percentage reduction in technical and managerial water losses, and reduced environmental degradation due to reduction in discharge of untreated wastewater effluent. The AF would also support investments with global public goods co-benefits, for instance through carbon emission reductions that in some cases may attract carbon financing as a direct benefit to municipalities. Moreover, by promoting investments in disaster and climate resilience, the development benefits in municipalities are secured, which is particularly important in Turkey where extreme seismic risk exists alongside growing flash, pluvial and riverine flood risk, extreme heat, and wildfires.

66. Economic and financial eligibility criteria developed during the preparation of SCP1 and SCP2 will be applied to this AF. This will be refined (as needed) and will be applied to each major investment during preparation of the feasibility studies and including the development of cost-benefit analysis (CBA). Methodologies for the evaluation of investments are detailed in the 'guidelines for the financial feasibility preparation' which is included as an annex to the Project Operations Manual. These guidelines outline the expected scope and methodology of the analysis by type and size of investments, including the quantifiable benefits to be assessed and the baseline monitoring indicators to be established. Ilbank and Strategy and Budget Office request discount rates of between 8 and 10 percent and this will be included in all feasibility studies. The social discount rate (opportunity cost of capital) of 6 percent can also be calculated, as recommended by the Bank based on a recent analysis. Economic sensitivity analysis under a wide range of different discount rates will be performed. Investments with a positive net present value (NPV), even for very high discount rates (say 15–20 percent), are expected to deliver high social benefits exceeding the social discount rate of 6 percent

67. An aggregate economic rate of return (ERR) will not be calculated for the project as a whole. However, for investments under SCP1 and SCP2, financial and economic analyses of subproject investments, including NPV and ERR have included the following results.

68. For SCP1, an analysis for the water and wastewater investments in Muğla and Denizli had discount rates of 10 percent. Under SCP2, in Antalya, for the proposed investments, the financial NPV is positive, with a discount rate of 10 percent. The internal rate of return (IRR) is 39.67 percent. In Muğla, for the proposed investment, the NPV is positive with a discount rate of 10 percent and the IRR is 24.4 percent.

69. **Economic evaluation for alternative energy production and energy efficiency subprojects.** Experience with energy efficiency investments in other countries showed that many financially viable energy efficiency projects were not implemented due to a lack of awareness about energy efficiency opportunities, limited knowledge of energy efficient technologies, and high perceived risks. Therefore, the project will emphasize demonstration impact and raise awareness and build capacity. Energy-related eligibility criteria for energy subprojects include ERR for hydro (17 percent), solar (8 percent), wind (10 percent), and energy efficiency (15 percent); rates that do not consider carbon benefits; and a financial rate of return that exceeds 8 percent. Subprojects targeted at the production of energy for meeting internal municipal energy use (both electricity and heat) are based on renewable resources, including hydro, wind, geothermal, biomass, waste to energy, and rooftop solar energy. Projects foreseeing selling electricity to the grid will not be eligible. Land-based solar projects will not be prioritized due to potential



social and environmental impacts. Energy efficiency subprojects should fulfill the condition that they would result in at least 20 percent reduction in total energy consumption.

70. **Economic evaluation for public transport subprojects.** A CBA would be conducted for any proposed public transport project. Project costs would include the cost of construction, operation, and maintenance over the assumed project lifetime, as well as financing costs. Economic benefits would be calculated based on the outputs from a traffic forecast model and by comparing the ‘with-project’ and ‘without-project’ scenarios. The project’s estimated economic internal rate of return and its estimated NPV could be calculated. Sensitivity analyses would be conducted to assess the assumed costs and benefits. The results of sensitivity analyses would help indicate if the project is economically robust.

71. **Economic analysis for disaster and climate resilience investments.** Under the AF, the opportunity for municipalities to invest in resilience through improved and modern firefighting response will be made available for the first time. The Bank’s Triple Dividend of Resilience Framework¹⁴ provides a robust and comprehensive approach to determining benefits from investing in climate and disaster resilience and will be used in the calculation of economic benefit for identified subprojects. This approach identifies three types of benefits from investing in resilience including (a) avoided losses; (b) unlocked development potential arising from stimulated innovation and bolstered economic activity in a context of reduced disaster-related background risk for investment; and (c) enhanced synergies of the social, environment, and economic co-benefits of disaster risk management investments, even if a disaster does not take place for many years. Moreover, a recent Bank Policy Paper¹⁵ identified the key variables in a CBA for risk reduction efforts (that is, retrofitting and reconstructing critical infrastructure) including (a) strengthening and retrofit costs; (b) building replacement costs; (c) the risk of a natural disaster (and of the scale of that disaster); (d) the risk of damage if a natural disaster occurs; (e) the cost of that damage in both financial and human terms (loss of life, casualties, amount of damage, service interruption for public facilities, and so on); and (f) the discount rate.

72. While no specific analysis has been undertaken for modernization of emergency fire services for this project, analyses from other countries with similar urban environments, hazard profiles, asset value, and income levels show that investments in resilient fire stations yield a positive benefit-cost ratio (BCR) and moderate to high IRR. For example, analysis from Romania¹⁶ determined that for an IRR of 9.1 percent and a payback period of 15 years for a scenario with a magnitude of 7.5 earthquake, the BCR was 1.3. For a magnitude 8 earthquake, the BCR rose to 1.73, with an IRR of 14.6 percent and a payback period of 11 years. The previous resilience building project in Istanbul, Turkey,¹⁷ retrofitted or reconstructed 800 public buildings, and at the Implementation Completion and Results Report stage, an estimated IRR of 10 percent, a BCR of 1.37, and a payback period of 10.68 years were calculated for investments made.

B. Technical

73. Under this AF, IIBank has identified more than EUR 625 million (equivalent to US\$700.75 million) of municipal investments to be prioritized and financed with expressions of interest received from the

¹⁴ Tanner, M., R. Reid, E. Wilkinson, S. Rajput, S. Surminski, and J. E. Rentschler. 2015. “The Triple Dividend of Resilience: Realizing Development Goals through the Multiple Benefits of Disaster Risk Management.” World Bank, Washington, DC.

¹⁵ Hallegatte, Stéphane. 2012. *A Cost-Effective Solution to Reduce Disaster Losses in Developing Countries*.

¹⁶ Strengthening Disaster Risk Management Project (P166302).

¹⁷ Seismic Risk Mitigation Project (P078359).



municipalities of Trabzon, Manisa, Bolu, Muğla, Balıkesir, Mardin, Kahramanmaraş, Kirikkale, Konya, Nevşehir, Antalya, Çankırı, Bursa, Yenimahalle (Ankara), Kars, İzmir, Kayseri, Rize, Kastamonu, and Yalova and utility companies based in Trabzon, Eskişehir, Balıkesir, Şanlıurfa, Bursa, Konya, and Muğla. These include improvements in public transport, water and wastewater, solid waste management, energy, environment, and disaster and climate resilience and social infrastructure. While the exact nature of investments is yet to be identified, eligibility criteria established under SCP1 and SCP2 have been enhanced and improved and will be applied for both subprojects and sub-borrowers.

74. **Municipal eligibility.** The Law on Regulating Public Finance and Debt Management (Law No. 4749) restricts borrowing by any institution if it has overdue payments to the Treasury. İlbank follows the same financial eligibility criteria for its onlending to each municipality. Furthermore, İlbank requires each municipality to prepare a report (in accordance with the Strategy and Budget Office of the Presidency and İlbank's requirements) which demonstrates the technical and financial viability of the investment so that it can be included in the public investment program managed by the Strategy and Budget Office. Municipalities/utilities are required to provide a Municipal Executive Board/Utility Board decision stating that SCP financing would be sought for the proposed subprojects. Where the sub-borrower is a utility, a guarantee from the metropolitan municipality is also required.

75. **Subproject investment eligibility.**¹⁸ Eligible investments should advance the environmental, economic/financial, and social dimensions of sustainable city development. Subprojects should be financially, economically, and technically viable and meet all safeguards requirements under the project. Subprojects included for financing under the project would be screened by İlbank to ensure that they meet the eligibility criteria before being presented to the Bank for review.

76. As part of the 'environmentally sustainable' eligibility criteria, climate change and resilience aspects would be considered as 'favorable' in evaluating subproject eligibility. Environmental sustainability would therefore encompass climate mitigation and adaptation issues as well as natural disaster resilience (especially earthquake and flood resilience). Finally, the design of the investments would also meet all Turkish requirements on earthquake and flood resilience. The project will bring in specific knowledge and innovations to municipalities in demonstrating urban investments that contribute to mitigating and adapting to climate change and disaster risks.

77. **Reporting and monitoring.** Every six months, İlbank will provide a status report to the Bank through a project progress report that will include (a) status of physical investments in each subproject; (b) status of improvements in service quality and institutional arrangements in each subproject; (c) reporting of the outcome and results indicators for each subproject; (d) procurement progress, including an updated Procurement Plan; (e) disbursements, including committed loan amounts and actual disbursements; (f) FM; (g) status of implementing the ESMF; and (h) status of implementing the LARPF.

78. **Supporting sustainable urbanization through SCP1 Component A.** An EU-funded technical assistance component of SCP1 supports improved environmental, economic, and social sustainability of Turkish cities and is improving the capacity of 10 participating municipalities and utilities (Antalya, Balıkesir, Denizli, Kahramanmaraş, Kayseri, Malatya, Mardin, Muğla, Ordu, and Van) in (a) planning for sustainable infrastructure service needs through more comprehensive and integrated municipal planning,

¹⁸ Climate change aspects would be considered as 'favorable' in evaluating subproject eligibility.



(b) developing FM and capital investment planning linked to urban development plans in an effort to provide the basis to more easily mobilize long-term financing essential to respond to investment priorities, and (c) project preparation facilities for municipal subprojects as well as to Ilbank to manage the grant and capacity building. Preparation of baseline diagnostic and needs assessment studies for the first four municipalities (Muğla, Denizli, Antalya, and Kayseri) started in October 2018. Tendering process for actual planning studies has started and is expected to be completed by June 2019. In addition, training and communication activities are ongoing in line with the training plan, and more than 600 people from Ilbank and municipalities have been trained so far in various topics relevant to both sustainable cities and Bank project management (including procurement, safeguards, and technical aspects).

79. Turkey is experiencing a need to establish a new urban agenda including developing effective and green urban transport and infrastructure systems in growing secondary cities and new metropolitan municipalities. SCP1 Component A, depending on grant savings and an extension being granted, may expand coverage to include pilot activities around sustainable urban mobility planning, which may also lead to investments financed under the SCP2-AF to improve quality, performance, and affordability of urban transport services and reduce private car use. This will also further support implementation of climate change mitigation and adaptation agenda in cities.

80. **Mainstreaming urban resilience.** Promoting resilience in municipal investment planning will be supported by a complementary and parallel trust fund (Building Institutional Capacity for Risk Informed Decision Making and Urban Resilience in Turkey [P170103]) secured from the GFDRR. This activity aims to build the capacity of authorities in high-risk cities and municipalities to assess multihazard and climate risk, to develop resilient city plans and develop prioritized investment plans for risk reduction and enhanced preparedness. This activity will focus on building institutional capacity in two high-risk cities or municipalities, with a view toward using land-use and urban development planning, investment planning, and enhanced preparedness capabilities to build resilience.

C. Financial Management

81. **Summary.** The FM arrangements for the project are satisfactory to the Bank. The PMU established under the International Relations Department of Ilbank will be responsible for the FM arrangements for the project. The PMU has satisfactory arrangements for SCP1 and SCP2 and the same arrangements will be adopted for the SCP2-AF.

82. **Implementation arrangements.** Ilbank has a PMU under its International Relations Department responsible for foreign-financed projects including SCP1 and SCP2. The PMU is organized according to functions and its FM Department is responsible for such arrangements under SCP1 and SCP2. They will continue with this responsibility under the SCP2-AF. Ilbank will onlend to qualifying municipalities and utilities and will provide technical support to them in identifying and appraising investments. Ilbank will provide project implementation support to municipalities and utilities and carry out project supervision of the Sub-Loan Agreements. Ilbank plans to conduct the selection of consultants with full representation by the sub-borrowers. Sub-borrowers will be responsible for the procurement of civil work investments and goods. The contracts will be signed by either Ilbank or the sub-borrower and the firm based on the specific case. Payments to the suppliers will be registered directly by Ilbank upon submission of acceptable approval documents. The PMU in Ilbank will be responsible for the management of the Designated Account and project accounting and reporting.



83. **Staffing.** The PMU at Ilbank has a dedicated FM Unit responsible for FM functions of all foreign-financed projects. There are currently 11 staff working in this department and Ilbank plans to assign more staff to the department with the expansion of work load. The qualifications and experience of these staff are satisfactory to the Bank. They have worked in the implementation of the MSP, its AF, and are currently working for SCP1 and SCP2. The experience they have gained in the implementation of these projects will be used in conducting the FM arrangements of the SCP2-AF.

84. **Accounting policies and procedures.** Ilbank's web-based information system (IL_BIS) links all departments of the institution, allowing them to execute, monitor, and report using the same data source. All the regional offices are also connected to the central IL_BIS. Project accounting for SCP1 and SCP2 are integrated into this system using sub-accounts that were created under the Bank's main chart of accounts. The PMU staff prepare the payment orders and the accounting entries into the Bank's main accounting system are made by the Accounting Department's staff. Interim unaudited financial reports are also generated automatically through the system. Because the SCP2-AF will also rely on the same systems as SCP1 and SCP2, the accounting and reporting for the project will also be fully integrated into the IL_BIS system. Ilbank will conduct the necessary modifications/additions to the IL_BIS system and these arrangements are expected to be in place before project effectiveness.

85. Ilbank has robust systems, manuals, and guidelines regulating the internal controls environment. The accounting and reporting systems at IB are geared toward producing statements and information as required by Turkish laws and regulations. However, Ilbank has also developed and executed specific internal control procedures for the implementation of the foreign-financed projects including SCP1 and SCP2 and these procedures are clearly defined in the project FM Manual which is available on the Ilbank website.

86. The SCP2-AF will be disbursed through sub-loan agreements that will be made between Ilbank and qualifying municipalities and utilities. The FM Department of the PMU will receive a copy of all tendering and agreement documents. The regional offices of Ilbank will provide technical support in ensuring that the municipalities have conducted necessary procedures to verify the works completed. The municipalities will submit the payment requests to the PMU and the PMU, after verifying completeness of all documentation, will prepare the payment order through its DFM Department. The payment will be made directly from the Designated Account to the constructor's bank account.

87. The PMU has been using detailed checklists that are completed and signed by the relevant staff before processing the payments. Those checklists include financial controls on advance payments made for works in progress, financial controls on payments to individual consultants and corporate consultants, financial controls on works progress payments, and financial controls on goods purchases. These checklists with a few modifications if required, will also be used for the SCP2-AF.

88. **Internal audit.** Ilbank has an Internal Controls Department, Risk Management Department, and an Inspection Department. All three departments report directly to the Board of Directors. The Internal Controls Department has identified 'standard control points' for foreign-financed loans. This is standard for all departments and control points are defined for each function of Ilbank. The International Relations Department, similar to other departments of Ilbank, is required to complete the form monthly and provide assurance through self-declaration that all control points have been complied with. The Internal Controls Department, as a part of its normal procedures, conducts quarterly on-site review of compliance with the



control points. No irregularities have been observed in foreign-financed loans as a part of the internal control review. The SCP2-AF will also be a part of regular review of the Internal Controls Department. The Risk Management Department reviews loans before they are granted and through their effectiveness. Ilbank, through its special status, is required to provide provisions for its loan portfolio. The Risk Management Department conducts continuous monitoring and reports to the Board on the status of Ilbanks loan portfolio. Loans that will be granted to municipalities /utilities under the SCP2-AF will be monitored by the Risk Management Department. The Inspection Department is responsible for investigating irregularities as well as conducting regular reviews of Ilbank systems.

89. **External audit.** Annual project financial statements for the project as well as Ilbank’s financial statements will be subject to independent audit by auditors that are acceptable to the Bank. Ilbank has been submitting audited entity and project financial statements to the Bank for MSP and SCP1 and SCP2. Ilbank’s entity 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. Ilbank additionally prepares financial statements for the project and these financial statements are audited by the Treasury Controllers who are government auditors who are responsible for the audit of Bank-financed projects implemented by government institutions. The project financial statements for MSP and its AF have been received on time and include unqualified (clean) audit opinions as well. (SCP1 audit report has not yet been submitted as Ilbank did not use any funds from the project in 2017 which is the year with the most recent audit reports available.) No material issues were identified in the Management Letter either.

90. Under SCP2-AF, Ilbank 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 Bank within 6 months following the end of year. The project financial statements are required to be made publicly available in accordance with the Bank Guidelines. Table 2 identifies the audit reports and their due dates.

Table 2. Audit Report and Due Dates

| Audit Report | Due Date |
|---|--|
| Entity financial statements (FI) prepared in accordance with Turkish Accounting Standards | Within six months after the end of each calendar year and also at the closing of the project |
| Project financial statements including Statement of Expenditures and the Designated Account | Within six months after the end of each calendar year and also at the closing of the project |

91. Currently, the financial statements prepared by the municipalities are not subject to independent external audit except the annual audit conducted by the Turkish Court of Accounts (TCA), the supreme audit institution in Turkey. Annual TCA audit reports will be reviewed by the project team as a part of project supervision.

92. **Reporting and monitoring.** Ilbank will prepare interim unaudited financial statements for the project following the same format used for SCP1 and SCP2. The final format of the reports are agreed with Ilbank. Ilbank will also ensure that the reports with financial content are automatically generated from IL_BIS system.



D. Procurement

93. **Applicable procurement regulations.** The project will be carried out in accordance with 'World Bank Procurement Regulations for IPF Borrowers' (dated July 2016, revised November 2017 and August 2018) ('Procurement Regulations'). In accordance with paragraph 5.9 of the Procurement Regulations, the Bank's Systematic Tracking and Exchanges in Procurement (STEP) system will be used to prepare, clear, and update the Procurement Plan and to conduct all procurement transactions for the project together with the provisions stipulated in the Loan Agreement. The Bank's 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants,' (revised as of July 01, 2016) ('Anticorruption Guidelines') will apply to the project. A General Procurement Notice will be published on the Bank's external website and United Nations Development Business online.

94. **Project Procurement Strategy for Development (PPSD).** A framework PPSD has been prepared and shared with the Bank according to paragraphs 4.1 and 4.2 of the Bank's Procurement Regulations together with the initial Procurement Plan for Ilbank-led activities according to paragraph 4.4 of the same regulations. The demand-driven nature of the project and participation of municipalities and utilities that will be selected according to the eligibility criteria preclude an estimation of the sub-borrowers and their procurement requirements at the appraisal stage, rendering it impossible for Ilbank to share individual Procurement Plans and PPSDs that will be developed by respective participating municipalities and utilities.

95. **Staffing and contract management capacity.** Ilbank is expected to take the key role in the implementation of the project with its three separate organizational groups. The Ilbank PMU, being responsible for the coordination and management of the project, has three separate units: Contract Management Unit, FM Unit, and Technical Management Unit. The Contract Management Unit will be mainly responsible for the coordination of the procurement activities in the scope of the project. This unit includes one contract management director and eight procurement-related staff. Ilbank PMU has vast experience on Bank procurement procedures having managed and coordinated the completed MSP1 and MSP-AF projects. The Ilbank PMU is still in charge of the ongoing SCP1 and SCP2 financed by the Bank. Also, the FM Unit and Technical Management Unit will support the Contract Management Unit for project-related procurement processes.

96. Ilbank's Investment Coordination Department, under the new institutional setup, plans to conduct the selection of consultants under the project. The department, being established in November 2012, has 80 staff where 64 are technical and 16 are administrative staff. The department has conducted bidding for more than 750 works contracts since 2013 on water and wastewater and solid waste management with vast experience on Turkish Public Procurement Law procedures. The overall amount of the works contracts goes beyond US\$1 billion in total. In the last five years, the same department has conducted bidding for more than 1,000 service contracts amounting to more than US\$40 million equivalent.

97. Ilbank currently has 18 regional directorates, from which 9 (Ankara, Istanbul, Izmir, Bursa, Eskişehir, Adana, Gaziantep, Antalya, and Kayseri) have been involved with Bank-financed projects. In addition to the PMU's functions being located centrally in Ankara, regional directorates of Ilbank were involved in several tasks (contract monitoring, preparation of independent construction monitoring reports, follow-up on behalf of Ilbank headquarters) for implementation support to the Bank-financed



MSP and MSP-AF projects. Regional directorates are expected to support the municipalities and utilities by monitoring the supervision of construction works.

98. As the participating municipalities/utilities are not yet identified, no assessment was done on their capability for staffing and contract management. However, recent experience from projects implemented by Ilbank show that strong sub-borrower staffing capacity is rare and staff are not dedicated to deal with project procurement activities. Hence, together with the identification of participating municipalities/utilities, Ilbank will be conducting an assessment on staffing and implementation capacity needs and identify the detailed risks and related mitigation measures for the sub-loans to be financed under the project.

99. **Procurement performance of Ilbank under the ongoing SCP1 and SCP2 are assessed as Moderately Satisfactory.** Regarding the recent Bank-financed projects (MSP and MSP-AF), sub-borrowers implemented a total of 190 contracts under guidance and coordination from Ilbank whereas the figure for Ilbank itself under institutional strengthening category is 33. Through these 223 contracts, only eight procurement complaints were received and resolved where seven of these were at early phases of the project. In all cases, the Bank upheld the borrower's decision. There were no misprocurement cases during the implementation of these projects. The AF will build on the experience gained during the implementation of the ongoing SCP1, SCP2, and completed MSP and MSP-AF, and it is expected to be implemented by the participating municipalities/utilities under the coordination and support of the Ilbank PMU. On the other hand, under the new institutional setup, Ilbank's Investment Coordination Department is expected to carry out the role of the sub-borrowers on the selection of the consultants.

100. **Market analysis and contracting strategy.** Participating municipalities/utilities and the scope of the sub-loans are not determined at this stage. During the preparation of the PPSD, Ilbank has conducted a preliminary assessment on the potential sectors to be financed under the project that are related to public transport and energy where Ilbank has limited experience. The assessment also covered the sectors related to water and wastewater, solid waste management, where Ilbank has experience and received Bank financing through ongoing SCP1 and SCP2 and completed MSP projects. Therefore, the current contracting strategy for SCP1 and SCP2 will continue to be in place to determine the procurement methods for the water and sanitation and solid waste management sectors that Ilbank is familiar with. For these sectors, recent experience in the Bank-financed SCP1, SCP2, MSP, and MSP-AF shows that there is a highly competitive local and international market with qualified contractors, suppliers, and service providers.

101. Ilbank's assessment on the overall national market in Turkey reveals that more than 1,000 contracts are advertised and signed each year since 2015 that are related to wastewater and water sectors through the use of the Public Procurement Law. For the other new sectors, Ilbank's preliminary assessment points out that there is a competitive market environment within the country regarding the contractors and suppliers especially for renewable energy and transportation sectors. The PPSDs of the subprojects will be providing a clearer market analysis on international and national competition and the procurement methods will be identified accordingly in the respective Procurement Plans of the subprojects. The methods to be defined in the Procurement Plans of Ilbank and the sub-borrowers will be followed for the procurement of goods, works, consulting and non-consulting services in accordance with the provisions of applicable Procurement Regulations.



102. Domestic preference, as specified under paragraph 5.51 of the Procurement Regulations, will not be applicable for contracts identified in the Procurement Plan.

103. **Standard bidding documents.** The Bank's Standard Procurement Documents shall be used for all contracts subject to international competitive bidding and those contracts as specified in the Procurement Plan tables under STEP. Templates for the request for bids for smaller works, request for quotation, Shopping, Selection Based on the Consultants' Qualifications (CQS), and individual consultant selection documents used under other projects in Turkey will be tailored for the works, goods, and consulting and non-consulting services contracts with a national market approach. National procurement arrangements, as a continuation of the practice under SCP1 and SCP2, may be used in accordance with paragraph 5.3 of the Procurement Regulations, when approaching the national market with the mandatory provisions on eligibility, fraud and corruption, and debarment as specified and detailed in the Procurement Plan tables under STEP. For the method on the selection of supervision consultants, Bank's Standard Request for Proposals (SRFP) will need to be used depending on the complexity and coverage of the services required.

104. **Sub-loan arrangements with the participating municipalities/utilities.** Sub-Loan Agreements will refer to the Bank's Anti-Corruption Guidelines as well as the Procurement Regulations and the use of the Bank's STEP system. Municipalities/utilities will be preparing PPSDs for their respective sub-loans under the coordination of, and support from Ilbank. Ilbank will conduct the procurement assessment of the participants, identifying the risks and mitigation measures for implementation and procurement arrangements of the sub-loans. Participating municipalities and utilities will, under the coordination of and support from Ilbank PMU, use the Bank's STEP system to prepare, clear, and update their respective Procurement Plans and to conduct all procurement transactions for the project in line with the provisions of the Loan Agreement. The Bank will review the PPSDs and agree to the Procurement Plan for each sub-loan before approval of a respective sub-loan. Any updated PPSD and procurement plan will be reviewed and approved by the Bank before their implementation. Ilbank will continue to bear the overall responsibility for project implementation.

105. **Potential risks.** Based on the preliminary assessment, procurement-related project risks are briefly as follows:

- (a) Limited familiarity of potential municipalities/utilities and Ilbank's departments other than its existing PMU with the Bank's Procurement Regulations for handling procurement procedures and contract administration
- (b) Limited staffing capacity of the participating municipalities/utilities for procurement processes and for coordination/management of contracts during implementation
- (c) No sub-loans at the start of project implementation that may cause delays at the overall planning, bidding, and contracting stages of project implementation
- (d) Potential delays in implementation of contracts with regard to deviation from their original work schedules and cost overruns that may or may not be directly connected to contractor/supplier/consultant's performance.

106. **Risk mitigation measures.** Initial mitigating measures are the following:



- (a) Ensuring Bank and Ilbank PMU’s regular support/advice to the participating municipalities/utilities
- (b) Maintaining and improving procurement staff capacity for Ilbank PMU and the Investment Coordination Department
- (c) Improving the procurement capacity for the participating municipalities/utilities to accommodate timely procurement based on the needs identified by Ilbank’s assessment
- (d) Preparing request for bids/request for proposals documents at early stages of the project for the high-value consulting services
- (e) Defining realistic durations and cost estimates for contracts considering site conditions, sub-loan scope, and phases of implementation
- (f) Ensuring the quality check of technical specifications, terms of references, designs, and bill of quantities before bidding
- (g) Ensuring that strong project management and supervision mechanisms are in place during implementation of works contracts
- (h) Ensuring effective use of contract management tools by Ilbank PMU and the participating municipalities/utilities to supplement the M&E function

107. Other risks and mitigation actions are summarized in table 3.

Table 3. Risks and Mitigation Actions

| | Risk | Mitigation Actions | Procurement Stage |
|----|---|---|-------------------------------------|
| 1. | Coordination of bidding and contract implementation among Ilbank and participating municipalities/utilities | Clear identification of roles and responsibilities between sub-borrowers and Ilbank, and Ilbank’s own departments | Bidding and contract implementation |
| 2. | Mismatch between contracts’ price adjustment clauses and changes in major cost components | Using index and/or currency indices reflecting market conditions | Preparation of bidding documents |

108. **Procurement supervision frequency.** The Bank will review the procurement arrangements performed by Ilbank/municipalities/utilities, including contract packaging, applicable procedures, and the scheduling of the procurement processes, for their conformity with the Bank’s Procurement Regulations, the proposed implementation program, and the disbursement schedule. Post reviews by the Bank will be done on a sampling basis in accordance with the procedures set forth in paragraph 4 of annex 2, Procurement Regulations. A post review of the procurement documents will normally be undertaken during the Bank’s supervision mission, or the Bank may request review of any contracts at any time. In such cases, the PIU shall provide the Bank, the relevant documentation for its review.



E. Social (including Safeguards)

109. **Social impacts.** The project is expected to have long-term positive social impacts resulted from improved access and coverage of municipal services to the citizens. Some unavoidable negative impacts anticipated include temporary and/or permanent involuntary land acquisition that may lead to economic displacement and livelihood impacts. Physical resettlement is not expected under the AF. Because subprojects are unknown subproject-specific impacts were not identified. However, according to the eligible investment list, a range of potential social impacts that are expected during the construction phase of subprojects, include noise, vibration, interruption of daily activities and services due to works limiting or blocking access of people to their houses, land plots, pastures or other private or communal properties, community health and safety issues, labor influx, gender-based issues, and possibly some disruption of traffic. Subject to the final detailed engineering designs and the preparation of ESIA/ESMPs and social safeguard documents (including Land Acquisition Resettlement Action Plans as may be required), municipalities/utilities would be required to address these issues before the start of any civil works and take measures to minimize potential negative impacts in compliance with the Bank's safeguards policies.

110. **Safeguard policies.** The ESMF has been updated and disclosed by Ilbank to provide details on environmental and social screening of individual investments, potential impacts and risks of the project along with mitigation measures. In addition, the project may involve involuntary land acquisition and related impacts which trigger OP/BP 4.12 (Involuntary Resettlement). Both the relevant Turkish legislation and Bank OP 4.12 will be followed. In cases where there are gaps between the legal regimes, measures will be taken to meet the standards set in OP 4.12. Ilbank has updated the earlier LARPF of the parent project SCP2. The LARPF outlines the expropriation procedures for land acquisition in Turkey, the Bank's OP 4.12, a gap analysis, and steps to bridge these gaps and institutional responsibilities. The LARPF stipulates that the requirements of OP 4.12 will be met and that the LARPF, acceptable to the Bank, will be followed in any involuntary land acquisition discussion. The final LARPF has been consulted with stakeholders on March 27, 2019, and disclosed on Ilbank's website on April 26 and sent to the Bank's external website on April 29, 2019. Subproject-affected stakeholders will be consulted for all site-specific environmental and social documents prepared for each subproject according to the process defined in the ESMF and LARPF.

111. **Citizen engagement and grievance redress mechanism.** The project will follow the grievance and feedback mechanism of the parent project, in which existing 'White Table' systems of the municipalities are used and tailored for SCP projects effectively. Under SCP1, MUSKI created a separate webpage and communications channel for its subprojects financed under the SCP. The utility was able to collect sub-project specific grievances through their existing beneficiary feedback mechanisms. The SCP2-AF aims to duplicate such examples and enhance the current application of the White Table mechanism through project-specific arrangements. Any grievance related to a subproject will be first logged at the municipality level and will be addressed by designated staff within a predefined period. If the complainant is not satisfied with the complaint resolution, then the case will be submitted to further levels. There will be also other means of logging grievances such as a toll-free number, online forms, social media channels of the municipalities that have been made available for citizens to submit grievances. An SEF has been prepared as part of the ESMF to help municipalities identify stakeholder engagement processes and prepare project specific plans, as required.



112. **Gender.** Women and men experience cities differently because of their gender-based roles and responsibilities, including the nature of their participation in the labor market and domestic tasks. Women tend to be the primary collectors, transporters, and managers of domestic water and fuel, as well as the promoters of home and community sanitation activities. Women also play a primary role in waste disposal and environmental management. Women in cities depend more heavily on public transport than men and use transport in different ways, such as off-peak travel and trip changing to multiple destinations. Thus, male and female priorities are often not the same for basic services such as urban housing, water and wastewater, solid waste management, and public transport.¹⁹ Consequently, gender-disaggregated data will be collected at all levels and as necessary, new analysis undertaken as subprojects are identified and prepared. Regarding land and compensation issues, it will be ensured that women landowners receive compensation in accordance with the national legislation. Construction activities will consider principles of universal design to ensure access to persons with disabilities. Finally, because there will be civil works involved in the project, the ESMF developed for SCP2 has been updated to cover stakeholder engagement along with the new regulations of the Bank's corporate requirement on identifying and addressing gender-based violence.

F. Environment (including Safeguards)

113. The same safeguard policies that apply to SCP2 will apply to the AF instead of the new ESMF. The rationale for this decision is that the structure of the AF is very similar to the ongoing SCP2, and although additional sectors are involved in the AF, the environmental and social risks are not broader than those in SCP2. Therefore, no major differences in environmental and social risks are expected in the AF.

114. In accordance with the Bank's environmental and social safeguards policies, Ilbank has updated the ESMF of SCP2 and consulted on that with stakeholders on March 27, 2019. The ESMF integrates the Turkish Environmental Impact Assessment Regulation and the Bank's operational policies. English and Turkish versions of the ESMF have been disclosed on the Ilbank website on April 25, 2019 and Bank's external website on April 29, 2019. Because the SCP2-AF is designed as an FI project and the subproject investments will only be identified during project implementation, the ESMF and LARPF are the key safeguards documents which will be appraised.

115. The ESMF outlines the scope of a comprehensive environmental and social management approach for acknowledging the potential environmental and social impacts of the project. It provides technical inputs and guidance for the project from an environmental and social management perspective. It also guides the sub-borrowers on the requirements for meeting the Bank's safeguards standards which were triggered during the appraisal stage. Consequently, the application and implementation of the ESMF will guide the integration of social and environmental aspects into the decision-making process of all stages related to planning, design, execution, and operation and maintenance of subprojects, by identifying, preventing, and/or minimizing adverse social and environmental impacts early in the project cycle. The ESMF also guides Ilbank and the sub-borrowing municipalities, municipal companies and utilities about preparing the environmental and social assessment documents for the subprojects

¹⁹ World Bank. 2010. *Making Urban Development Work for Men and Women Tools for Task Team.*



according to their risk categories. The ESMF also describes the corresponding public consultation and environmental and social assessment document disclosure principles to meet Bank safeguard policies.

116. The Bank operational policies triggered for the project include Environmental Assessment (OP 4.01), Physical Cultural Resources (OP 4.11), Involuntary Resettlement (OP 4.12), and Natural Habitats (OP 4.04). The latter is triggered to allow the Bank the opportunity to assess the biodiversity and proposed activities in proximity to or in natural habitats. The ESMF states that activities will be ineligible if they are assessed to have any significant impact on critical habitats. With regard to the policy Projects on International Waterways (OP 7.50), Ilbank is responsible for ensuring that the subprojects financed are located and dependent on national waterways only. The waterways identified as not international waterways (or those that do not trigger OP 7.50) in Turkey are Susurluk, North Aegean, Gediz, Kuçuk Menderes, Buyuk Menderes, Western Mediterranean, Antalya, Sakarya, Western Black Sea, Yesilirmak, Kizilirmak, Konya Kapali, Eastern Mediterranean, Seyhan, Ceyhan, Eastern Black Sea, Burdur, Afyon, Orta, Anadolu, and Van.

V. WORLD BANK GRIEVANCE REDRESS

117. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB'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 WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB 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 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 SUMMARY TABLE OF CHANGES

| | Changed | Not Changed |
|--|---------|-------------|
| Results Framework | ✓ | |
| Components and Cost | ✓ | |
| Loan Closing Date(s) | ✓ | |
| Implementing Agency | | ✓ |
| Project's Development Objectives | | ✓ |
| Cancellations Proposed | | ✓ |
| Reallocation between Disbursement Categories | | ✓ |
| Disbursements Arrangements | | ✓ |
| Safeguard Policies Triggered | | ✓ |
| EA category | | ✓ |
| Legal Covenants | | ✓ |
| Institutional Arrangements | | ✓ |
| Financial Management | | ✓ |
| Procurement | | ✓ |
| Implementation Schedule | | ✓ |
| Other Change(s) | | ✓ |

VII DETAILED CHANGE(S)

COMPONENTS

| Current Component Name | Current Cost (US\$, millions) | Action | Proposed Component Name | Proposed Cost (US\$, millions) |
|------------------------------------|-------------------------------|--------|------------------------------------|--------------------------------|
| Component A: Municipal Investments | 91.54 | | Component A: Municipal Investments | 91.54 |
| Component B: Project Management | 1.00 | | Component B: Project Management | 1.00 |



| | | | | |
|--------------|--------------|--|--|--------------|
| TOTAL | 92.54 | | | 92.54 |
|--------------|--------------|--|--|--------------|

LOAN CLOSING DATE(S)

| Ln/Cr/Tf | Status | Original Closing | Current Closing(s) | Proposed Closing | Proposed Deadline for Withdrawal Applications |
|------------|-----------|------------------|--------------------|------------------|---|
| IBRD-88430 | Effective | 31-Aug-2025 | 31-Aug-2025 | 29-May-2026 | 29-Sep-2026 |

Expected Disbursements (in US\$)

| Fiscal Year | Annual | Cumulative |
|-------------|----------------|----------------|
| 2018 | 0.00 | 0.00 |
| 2019 | 22,000,000.00 | 22,000,000.00 |
| 2020 | 30,090,000.00 | 52,090,000.00 |
| 2021 | 42,000,000.00 | 94,090,000.00 |
| 2022 | 88,000,000.00 | 182,090,000.00 |
| 2023 | 120,000,000.00 | 302,090,000.00 |
| 2024 | 140,000,000.00 | 442,090,000.00 |
| 2025 | 150,000,000.00 | 592,090,000.00 |
| 2026 | 60,030,000.00 | 652,120,000.00 |
| 2027 | 2,140,000.00 | 654,260,000.00 |

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

| Risk Category | Latest ISR Rating | Current Rating |
|--|-------------------|----------------|
| Political and Governance | ● Moderate | ● Moderate |
| Macroeconomic | ● Substantial | ● Substantial |
| Sector Strategies and Policies | ● Low | ● Low |
| Technical Design of Project or Program | ● Moderate | ● Moderate |
| Institutional Capacity for Implementation and Sustainability | ● Moderate | ● Moderate |
| Fiduciary | ● Moderate | ● Moderate |



| | | |
|------------------------|---------------|---------------|
| Environment and Social | ● Substantial | ● Substantial |
| Stakeholders | ● Moderate | ● Moderate |
| Other | | |
| Overall | ● Moderate | ● Moderate |

LEGAL COVENANTS – Sustainable Cities Project 2 - Additional Financing (P170612)

Sections and Description

Loan Agreement, Schedule 2, Section I.B.1 (a). The Borrower shall, no later than forty-five (45) days after the Effective Date, update the Operational Manual, and adopted, in substance and manner acceptable to the Bank.

Loan Agreement, Schedule 2, Section I.D.6. The Borrower shall: (a) as soon as reasonably practicable, but no later than seven (7) working days after the occurrence of a Significant Event, inform the Bank by any electronic means of the nature of the incident, accident, or circumstance and any effect or impact (whether on-site or off-site) resulting therefrom; (b) as soon as reasonably practicable, but no later than thirty (30) calendar days after such Significant Event, provide the Bank with a summary report that includes a description of such Significant Event, and the measures, if any, that the Sub-borrower is taking or plans to take to address such Significant Event and to prevent any future similar event; and (c) keep the Bank informed of the on-going implementation of the said measures and plans.

Conditions



VIII. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY: Turkey

Sustainable Cities Project 2 - Additional Financing

Project Development Objective(s)

The Project Development Objective is to improve the access to targeted municipal services in participating municipalities and utilities.

Project Development Objective Indicators by Objectives/ Outcomes

| Indicator Name | DLI | Baseline | Intermediate Targets | | | | | | | End Target |
|--|------|----------|----------------------|-----------|------------|------------|------------|------------|------------|------------|
| | | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| Improved access to targeted municipal services | | | | | | | | | | |
| People provided with access to improved sanitation services (CRI, Number) | 0.00 | 0.00 | 0.00 | 27,000.00 | 126,000.00 | 198,000.00 | 234,000.00 | 252,000.00 | 268,000.00 | 268,000.00 |
| People provided with access to improved sanitation services - Female (RMS requirement) (CRI, Number) | 0.00 | 0.00 | 0.00 | 13,500.00 | 63,000.00 | 99,000.00 | 117,000.00 | 126,000.00 | 134,000.00 | 134,000.00 |
| People provided with access to improved sanitation services - rural (CRI, Number) | 0.00 | 0.00 | 0.00 | | | | | | | 0.00 |



| Indicator Name | DLI | Baseline | Intermediate Targets | | | | | | | End Target |
|---|-----|----------|----------------------|-----------|------------|------------|------------|------------|------------|------------|
| | | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| People provided with access to improved sanitation services - urban (CRI, Number) | | 0.00 | 0.00 | 27,000.00 | 126,000.00 | 198,000.00 | 234,000.00 | 252,000.00 | 268,000.00 | 268,000.00 |
| Additional water capacity provided (m3/d) (Cubic Meter(m3)) | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 112,000.00 | 225,000.00 | 225,000.00 | 225,000.00 |
| People provided with access to appropriate solid waste management and disposal services (Number) | | 0.00 | | | | | | | | 190,000.00 |
| Action: This indicator is New | | | | | | | | | | |
| Number of people provided with safer, cleaner and more accesible urban transport systems (Number) | | 0.00 | | | | | | | | 380,000.00 |
| Action: This indicator is New | | | | | | | | | | |
| Reduction in energy consumption in water and waste water utilities (Percentage) | | 0.00 | | | | | | | | 50.00 |
| Action: This indicator is New | | | | | | | | | | |



Intermediate Results Indicators by Components

| Indicator Name | DLI | Baseline | Intermediate Targets | | | | | | | | | End Target |
|---|------|----------|----------------------|------------|------------|------------|------------|------------|---|---|---|------------|
| | | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | |
| Component A: Municipal Investments | | | | | | | | | | | | |
| Length of water pipes laid under the project (progress indicator) (kilometers) (Kilometers) | 0.00 | 0.00 | 0.00 | 9.00 | 22.00 | 32.00 | 36.00 | 36.00 | | | | 36.00 |
| Length of sewerage pipes laid under the project (progress indicator) (Kilometers) | 0.00 | 0.00 | 117.00 | 243.00 | 315.00 | 333.00 | 333.00 | 333.00 | | | | 333.00 |
| Number of water utilities that the project is supporting (Number) | 0.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | | | | 2.00 |
| Female beneficiaries (Number) | 0.00 | 0.00 | 40,500.00 | 99,500.00 | 139,500.00 | 183,500.00 | 207,000.00 | 207,000.00 | | | | 207,000.00 |
| Grievances registered related to delivery of project benefits addressed (%) (Percentage) | 0.00 | 0.00 | 80.00 | 80.00 | 82.00 | 82.00 | 85.00 | 85.00 | | | | 85.00 |
| Direct project beneficiaries (Number) | 0.00 | 0.00 | 81,000.00 | 198,000.00 | 279,000.00 | 365,000.00 | 414,000.00 | 414,000.00 | | | | 414,000.00 |



| Indicator Name | DLI | Baseline | Intermediate Targets | | | | | | | | | End Target | |
|--|--|----------|----------------------|------|------|------|------|------|------|------|------|------------|------|
| | | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | | |
| Number of deep sea discharge lines constructed under the project (Number) | | 0.00 | 0.00 | 0.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Ratio of total stock of rolled over loans against gross loans outstanding (Percentage) | | 1.77 | | | | | | | | | | | 1.70 |
| Action: This indicator is New | Rationale: <i>The purpose of this indicator is to measure the strength of Ilbank's portfolio. This indicator is for monitoring purposes only.</i> | | | | | | | | | | | | |
| Operating return on equity (ROE) (%) | | 0.00 | | | | | | | | | | | 0.00 |
| Action: This indicator is New | Rationale: <i>ROE is considered a measure of how effectively management is using assets to create profits and therefore a measure of profitability. This indicator is for monitoring purposes only</i> | | | | | | | | | | | | |

| Monitoring & Evaluation Plan: PDO Indicators | | | | | |
|---|---|-----------|------------------|---------------------------------|------------------------------------|
| Indicator Name | Definition/Description | Frequency | Datasource | Methodology for Data Collection | Responsibility for Data Collection |
| People provided with access to improved sanitation services | The indicator measures the cumulative number of people who benefited from improved sanitation facilities that have been | Annual | Reports from PIU | | Municipal PIUs and Ilbank PMU |



| | | | | | |
|--|---|--------|---------------------|--|-------------------------------|
| | constructed through operations supported by the World Bank. | | | | |
| People provided with access to improved sanitation services - Female (RMS requirement) | The indicator measures the cumulative number of people who benefited from improved sanitation facilities that have been constructed through operations supported by the World Bank. | Annual | Reports from PIU | | Municipal PIUs and Ilbank PMU |
| People provided with access to improved sanitation services - rural | | | | | |
| People provided with access to improved sanitation services - urban | | | | | |
| Additional water capacity provided (m3/d) | This indicator measures the amount of water from which people benefited from as a result of the water supply facilities constructed under the project. The baseline value is expected to be zero. | Yearly | Reports from PIU | | Municipal PIUs and Ilbank PMU |
| People provided with access to appropriate solid waste management and disposal services | | Yearly | PIU and PMU reports | | PIUs and Ilbank PMU |
| Number of people provided with safer, cleaner and more accesible urban transport systems | | | | | |
| Reduction in energy consumption in water and waste water utilities | | | | | |

**Monitoring & Evaluation Plan: Intermediate Results Indicators**

| Indicator Name | Definition/Description | Frequency | Datasource | Methodology for Data Collection | Responsibility for Data Collection |
|--|--|-----------|------------------|---------------------------------|------------------------------------|
| Length of water pipes laid under the project (progress indicator) (kilometers) | This indicator measures the cumulative length of water pipes laid under the project. The baseline value is expected to be zero. | Annual | Reports from PIU | | Municipal PIUs and Ilbank PMU |
| Length of sewerage pipes laid under the project (progress indicator) | This indicator measures the cumulative length of wastewater pipes laid under the project. The baseline value is expected to be zero. | Annual | Reports from PIU | | Municipal PIUs and Ilbank PMU |
| Number of water utilities that the project is supporting | Total number of utilities with which the World Bank is working under the project. | Annual | Reports from PIU | | Municipal PIUs and Ilbank PMU |
| Female beneficiaries | Based on the assessment and definition of direct project beneficiaries who are female. | | Reports from PIU | | Municipal PIUs and Ilbank PMU |
| Grievances registered related to delivery of project benefits addressed (%) | This indicator measures the transparency and accountability mechanisms established by the project so the target beneficiaries have trust in the process and are willing to | Biannual | Reports from PIU | | Municipal PIUs and Ilbank PMU |



| | | | | | |
|---|--|--------|------------------|--|-------------------------------|
| | participate, and they feel that their grievances are attended to promptly. Grievance system will track all grievances. However, the indicator will exclude the grievances that require third-party assessment and seasonality. | | | | |
| Direct project beneficiaries | Direct beneficiaries are people or groups who directly derive benefits from an intervention. This indicator is calculated as a number. | Annual | Reports from PIU | | Municipal PIUs and Ilbank PMU |
| Number of deep sea discharge lines constructed under the project | This indicator defines the number of deep sea outfall lines constructed under the project. | | | | |
| Ratio of total stock of rolled over loans against gross loans outstanding | | Annual | Ilbank | | |
| Operating return on equity (ROE) | ROE is a measure of financial performance calculated by dividing net income by stakeholders equity. | Yearly | | | |





ANNEX 1: FINANCIAL INTERMEDIARY ASSESSMENT

1. Because this project includes a line of credit, it requires an OP 10 FIF policy compliance review. This review ensures that the project does not contradict the World Bank Group's ongoing financial sector policy dialogue with national authorities and does not promote unsustainable practices. In this case, the use of a state-owned bank can raise the risks of unsound practices, such as unsustainably priced loans to sub-borrowers, poor client selection, or ineffective loan contract enforcement. However, since this is an AF and the team has demonstrated that Ilbank is a strong performing partner, these risks are not significant.

Summary of Findings and Recommendations

2. The project complies with OP 10 FIF requirements in general, but there are important risks to mitigate:

- (a) A technical review finds that there are risks related to the financial sector (inflationary trends until recently), foreign exchange (with lending in local currency but sources of financing in Euros), and force majeure (natural disaster risk that would overwhelm a single municipal borrower). The final design should find transparent ways to allocate the risks to the actors in the best position to absorb them.
- (b) A full-cost interest rate from Ilbank to participating municipalities should be in place, covering cost of funds, administrative expenses, minimal loan loss projections (given the built-in repayment system with revenue sharing), and a minimal profit margin. Ilbank should be encouraged to include a grace period (with interest paid but principal delayed initially) to facilitate timely repayment by the municipalities.
- (c) Documentation of municipal borrowing and repayment would help municipalities to move to commercial sources of financing for revenue-generating investments in the future. The project should support Ilbank in setting up a repayment documentation system that creates a credit history for the participating municipalities.
- (d) State-owned banks can behave in non-commercial ways. During project implementation, the task team should monitor this risk carefully and project funds should be used in line with project activities.

3. **Macroeconomic situation.** The fiscal deficit is modest and the level of public debt is under control. However, 2018 year-end annual consumer price inflation rate stood at 19.7% in March 2019, declining from a peak of 25.2 percent in October 2018 following a major currency shock in August 2018. There is no indexing practice in the country, which could help manage spikes in inflation. According to data released on March 11, 2019 the Turkish economy shrank 3.0 percent in the fourth quarter of last year, with the aftereffects of the currency crisis cooling activity. Growth for 2018 as a whole came in at 2.6 percent, the lowest in a decade. This combination of factors could make long-term lending unattractive to borrowers and lenders alike.



4. **Financial sector situation.** While this project might be unaffected by problems in the financial sector, financial statistics demonstrate the risks to lending in general. If the project hopes to eventually involve commercial banks in lending to municipalities, the financial sector situation would be important. There has been a steep rise in provisions with the implementation of the IFRS 9 and the more cautious attitude of the banking sector due to recent fluctuations observed in the financial markets.
5. **Due diligence of retail institution (Ilbank).** The Government has named Ilbank as the sole retail institution, for onlending project funds to qualified municipal governments for a list of projects. Ilbank is already working on the parent project which is the basis for this AF. Ilbank in the capacity of specialized lender operates as the dominant player for lending to municipalities and local authorities. Market share pressure from commercial lenders remains limited if any due to competitive pricing coming from both Ilbank's not-for-profit business model and quasi-sovereign status. Intergovernmental institutional frameworks and municipal borrowing regulations in Turkey define control and supervision. Ilbank is under the Ministry of Environment and Urbanization, which plays a role in operational oversight. Public and financial sector supervision authorities oversee banking functions. A full review of Ilbank is found in project files. The due diligence review has detected only two areas in need of strengthening and the project will address them: (a) credit review and (b) risk management policies, specifically related to timely enforcement of loan contracts.
6. **Interest rate on loans to municipalities.** IlBank follows a pricing policy that is in line with its role in supporting the financing of public goods by municipalities. The basic tenet of the product policy is in line with the mandate to offer investment loans with longer maturities and lower interest rates than the comparable domestic market. However, Ilbank will document the costs and repayment results of the portfolio to provide information for private lenders to appreciate the potential market opportunity in the future. Ilbank typically lends on 5-year to 10-year terms for municipal services related to various projects and facilities that have been included in the national investment program. The longest maturity has gradually extended to 15 years, but the average maturity is still low. Ilbank offers Turkish lira loans from its equity by using the interest rate to the Central Bank base rate as reference.
7. **Municipality risks.** Ilbank passes all currency risks to the municipalities. There is no hedging option available due to costs and administrative limitations. These substantial foreign exchange risks borne by the municipalities are somewhat mitigated by the long-term and amortizing repayment profile of foreign currency loans. On the other hand, at this time, force majeure (disaster) risk is not passed on to the municipalities, because there is a short-term moratorium on deductions from their revenue sharing allocations. This is a cause for concern in the event of a large-scale disaster affecting assets of participating municipalities.
8. **M&E.** Based on this FIF assessment, intermediate indicators have been added to the project Results Framework to measure both the portfolio quality and profitability of IlBank. Also, a team member from the Finance, Competitiveness, and Innovation Global Practice of the Bank has been added to the project team, in addition to the team financial sector consultant, to provide timely technical assistance in credit line management and risk mitigation.



ANNEX 2: ILBANK'S SAFEGUARDS PERFORMANCE

1. Ilbank has long-term experience with the Bank due to previous projects such as MSP1 and its AF, and SCP1 and SCP2. Ilbank's main area of operation covers water supply and wastewater networks, treatment plants, solid waste management facilities, and municipal infrastructure projects such as; construction and repair of provincial roads, construction and rehabilitation of pavements, and construction of bridges.
2. As an affiliate to the Turkish Ministry of Environment and Urbanization, Ilbank is subject to Turkish national laws and regulations which also regulate the management of their subprojects. Ilbank has adopted international standards and policies for the management of environmental and social issues through working with the Bank, JICA, EIB, and so on. Albeit, Ilbank does not have a separate Environmental and Social Management System (ESMS) or set of procedures for ESMS, projects that Ilbank finances through international financing are governed by ESMF documents based on these international standards.
3. Furthermore, Ilbank has established a department, the International Relations Department, which oversees and administers all internationally financed projects. This department uses key procedural documents for internationally financed investments. These documents managing the project's environmental and social screening, review, and monitoring procedures for subprojects are the ESMF and LARPF/RPF which are implemented throughout the lifetime of the internationally funded projects. For Bank-financed projects, these framework documents are integrated into the Project Appraisal Document or Project Paper and the Project Operations Manual and the core elements are referred in the Loan Agreements. Therefore, Ilbank is fully responsible for ensuring the satisfactory implementation of the safeguard framework documents. The ESMF and LARPF additionally require that site-specific environmental and social assessment documents are prepared for the subprojects and these become a part of the Sub-Loan Agreements between Ilbank and sub-borrowers. Through these Sub-Loan Agreements, Ilbank and the Bank manage and oversee the subprojects in terms of the Bank's safeguards requirements.
4. The ESMF describes the subproject screening criteria according to the Bank's operational policies and also includes comparison of Bank requirements and standards with respect to national standards. Similar to the ESMF, the LARPF compares national law and Bank policy requirements on land acquisition and sets the principles for a best practice land acquisition process. As a rule of thumb, the most stringent standards apply to the projects for all environmental and social standards.
5. The screening of subprojects is initially discussed between the Ilbank PMU and sub-borrowers to determine the safeguards risks of the project. Before reaching a final agreement on the safeguard risks, the Ilbank PMU consults with the Bank safeguards team for final decision. The appropriate safeguard instrument is then decided upon the mutually agreed safeguard risks.
6. Ilbank also undertakes the initial review of the safeguard instruments, however Category A and Category B subprojects will be subject to prior review and approval of the Bank. During the implementation of the project, the Bank can mutually agree with Ilbank that, Ilbank conducts prior review to the environmental and social assessment documents to low-risk Category B projects (rehabilitation of water or sewer network systems, renovation of existing municipal structures—except the ones having any



degree of protection, cultural importance, or the ones located in natural habitats, and so on) and the Bank conducts post review. Before signing the sub-loan agreements, the Bank and Ilbank mutually agrees on the category of the subprojects as well as approving the safeguards instruments that will be used.

7. Ilbank and Bank team conduct and attend site visits during subproject risk identification and implementation. Following the site visits and evaluation of safeguards documents, Ilbank team prepares semiannual progress reports for the Bank which also includes environmental and social performances related to the subprojects.

8. Ilbank's International Relations Department has experienced staff in technical, procurement, environmental, social and FM-related procedures of the Bank. Ilbank staff received numerous trainings related to the Bank's safeguard operational policies including the recent ESMF as a part of the Borrower Training Rollout Program. Ilbank's safeguards team consists of two technical experts—one acting as the environmental focal point and the other as the social development/land acquisition focal point. For each subproject's environmental and social risk identification and monitoring, Ilbank and Bank safeguards teams conduct regular meetings, informal discussions and joint meetings with the sub-borrowers as necessary. Ilbank team gained significant experience during the implementation of the MSP and its AF and SCP1 and SCP2, all financed by the Bank.

9. Similar to its parent project, the SCP2-AF will also be governed by the Bank operational policies however to meet best practice standards, Ilbank's labor and working conditions including its OHS approach was assessed. As for the environmental and social issues, Ilbank is subject to national legislations for labor-related issues.

10. In this context, Turkey is party to a multitude of International Labour Organization (ILO) conventions, including but not limited to conventions on equal treatment of employees, gender equality, child labor, forced labor, OHS, right of association, and minimum wage. Accordingly, the current Turkish Labor Law (No. 4857) is in compliance with international labor standards and the Bank's Environmental and Social Standards on Labor and Working Conditions (ESS2).

11. Ilbank has published a corporate-level Human Resource Policy (dated January 4, 2013 in the Official Gazette 28518) that is also in line with national regulations as well as Bank requirements. The document aims to define the employee personal rights including; working hours, leaves (maternity, social events, unpaid), financial rights, working conditions, promotions, and so on. The policy allows for equal opportunity and employment rights. As Ilbank is a government agency, no one under the legal age (18 years) is permitted to work within the institution, thus no child labor-related issues exist. Cases including unregistered/uninsured employment of refugees, unequal employment opportunities for women, and so on that may be relevant to civil works that Ilbank's or borrowing municipality's contractors may encounter will not be an issue in terms of incompliance with ESS2 for Ilbank.

12. Ilbank aims to follow up on and meet the needs and expectations of its employees through a grievance mechanism. For this purpose, there are request and complaint boxes in various parts of Ilbank buildings. Additionally, requests, grievances and suggestions can be sent to the Quality Management Unit through the utilization of, 'Send Message' and 'Communication' sections of the quality management website. Requests, grievances, and suggestions received are evaluated every 30 days and presented to



the management. The evaluation results are listed internally on the grievance system and can be accessed by employees through their own Intranet.

13. In recent years, Turkey has undergone a reform to improve its national OHS system through adapting a set of international and regional standards into its national level requirements for the prevention occupational risks defined in the ILO Occupational Safety and Health Convention, 1981 (No. 155). The convention, along with the Occupational Health Services Convention, 1985 (No. 161) were both ratified by Turkey in 2005 who is also party to the Labor Inspection Convention, 1945 (No. 81) since 1951. In 2014, Turkey ratified the Promotional Framework for Occupational Safety and Health Convention, 2006 (No. 187).

14. During 2012, a stand-alone Law on OHS (No. 6331) was put into force (20 June 2012). The OHS Law governs workplace environments and industries (both public and private) as well as virtually all classes of employees including part-time workers, interns, and apprentices. The legislation is comprehensive and is generally applicable across all sectors and many industries.

15. Ilbank has a separate OHS Policy; however, it lacks detailed procedures. As a government agency Ilbank is subject to the National Law on OHS of the Ministry of Family, Labor and Social Security. According to the National OHS Law, all employers must notify the ministry in 3 work days after OHS-related incidents. The period and conditions for Ilbank to notify the Bank has been defined and agreed as detailed in relevant sections of the ESMF document.

16. All Ilbank facilities are equipped with fire safety instruments as required by local regulation. Fire safety plans are also prepared and revised by the responsible department. The staff receives routine training on fire safety and first aid. Regular drills are conducted and reported.