



# Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 23-Mar-2018 | Report No: PIDISDSA24114



**BASIC INFORMATION**

**A. Basic Project Data**

Country Turkey	Project ID P163225	Project Name Inclusive Access to Finance	Parent Project ID (if any)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date 22-Mar-2018	Estimated Board Date 31-May-2018	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing	Borrower(s) TÜRKİYE SINAİ KALKINMA BANKASI A.Ş. (TSKB)	Implementing Agency TÜRKİYE SINAİ KALKINMA BANKASI A.Ş. (TSKB)	

Proposed Development Objective(s)

The PDO is to improve access to longer-term finance for (i) women-inclusive enterprises and (ii) enterprises in less developed sub-regions affected by SuTP influx.

Components

- Component 1
- Component 2

**Financing (in USD Million)**

Financing Source	Amount
International Bank for Reconstruction and Development	400.00
<b>Total Project Cost</b>	<b>400.00</b>

Environmental Assessment Category

F - Financial Intermediary Assessment

Decision

The review did authorize the preparation to continue

Other Decision (as needed)



## B. Introduction and Context

### Country Context

**Turkey has achieved commendable economic and social development results since the early 2000s, raising it to the world's 17th largest economy.** After a financial crisis in 2001, the country embarked on a path of structural reforms supported by strong fiscal consolidation, strengthened banking supervision, and a shift to a flexible exchange rate regime with an independent central bank responsible for inflation targeting.

**In 2017, Turkey experienced a cyclical recovery, supported by a substantial fiscal stimulus and accelerating external demand. Growth was strong close to 7 percent in 2017.** Deeper structural reforms are needed to ensure a more sustainable economic growth trajectory over the medium term. The key structural reforms include: improving investment climate, deepening financial markets, strengthening public expenditure management and completing overdue labor market reforms. These could be critical to help improve the resilience of the economy and help private investment to pick up in the medium term. This is important to sustain Turkey's impressive economic performance, ensure further poverty alleviation and shared prosperity, and continue progress towards high income status.

### Sectoral and Institutional Context

**Dominated by the banking sector, the Turkish financial system lacks the depth one would expect given the size of the economy, and compared to peers.** The banking sector overcame the 2008 global financial crisis without any state intervention, and exhibits good soundness indicators. However, capital buffers, liquidity and profitability of the banks have been in a downward trend since the global crisis although remaining comfortably above the regulatory thresholds. Going forward, Turkey needs to closely monitor financial sector risks and potential spillovers to the economy as a whole. As demonstrated by 2016 FSAP, the sector is vulnerable due to structural factors (high dependence on cross-border financing, high debt and savings held in foreign currency at short maturities) as well as cyclical factors (growing corporate leverage, rising corporate-bank and (contingent) corporate-sovereign exposures).

**The Turkish economy can benefit from enhanced access to finance to underserved segments which would enable more firms to grow and increase employment and productivity.** Access to finance was reported as the biggest obstacle to firms' operations by 19.5 percent of firms of all sizes in Turkey, more frequently than all other business environment obstacles except tax rates (Enterprise Survey, 2015).

**Small and Medium Enterprises (SMEs) play crucial role in the Turkish economy, yet face particularly significant access to finance constraints and are more susceptible to credit cycle fluctuations.** Despite their role as the engine of growth and employment generation, Turkey's SMEs face disproportionately severe constraints in accessing finance.

**Turkey's current gender equality levels have plenty of room for further improvement in access to finance and participation in the labor market force, offering a huge potential for economic growth.**



Alleviating access to finance constraints can help women-led enterprises evolve into higher size categories over time, thus closing the gap with men-led enterprises in Turkey and peers in the ECA region. Even greater economic gains can be achieved through integrating more women into the labor force and enhancing their employability.

**Alleviating the strain on the business environment in the sub-regions affected by the influx of Syrians under Temporary Protection (SuTP) can help the existing enterprises sustain growth and create jobs, bolstering social cohesion.** Turkey has become one of the top refugee-hosting countries following the mass influx of displaced Syrians as refugees into the country since 2011. Except for several economic hubs in the western part of the country providing a passage to Europe and/or job opportunities in better labor markets, the sub-regions with a high concentration of SuTPs mainly consist of lagging provinces that already had low Socio-Economic Development Index<sup>1</sup> (SEGE) values prior to the influx, exacerbating the challenges in the business environment for the existing enterprises. Improvement in the access to finance can enable the private sector to sustain its investment spending observed prior to the influx and employment generation in the sub-regions affected by the influx can ease growing tensions between SuTPs and host communities over scarce opportunities in the labor market.

**The SuTP influx accentuates the long-standing disparities in socio-economic development among Turkey's sub-regions.** Despite impressive economic achievements at the aggregate level in the past decade, Turkey has been suffering from persistent regional disparities jeopardizing the country's sustainable development. The influx of more than 3 million SuTPs has created new economic and social pressures that risk further stalling convergence of less-developed regions. Reducing restrictions in credit supply in the sub-regions with strained economic and social indicators due to the SuTP influx would facilitate sub-regional convergence in socio-economic development, accelerating firm growth and alleviating the potential negative effects of the SuTP influx on local employment and social cohesion.

Relationship to CPF

**The project is consistent with and supports the Country Partnership Framework (CPF) for the period FY18-FY21, endorsed by the World Bank's Executive Board on August 29, 2017.** The project supports two strategic objectives of the CPF directly: (ii) enhanced access to finance to underserved segments and (v) increased labor force participation of women and vulnerable groups.

### C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

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<sup>1</sup> The Socio-Economic Development Index, introduced in 2011 by the Ministry of Development, ranks 81 NUTS-II in Turkey according to their development levels using indicators on demographics, employment, education, health, competitiveness, finance, access to infrastructure and quality of life.



The PDO is to improve access to longer-term finance for (i) women-inclusive enterprises and (ii) enterprises in less developed sub-regions affected by the SuTP influx

#### Key Results

**PDO-level indicators include the following:** (i) ratio of the average maturity of SME sub-financing under the Project, over the average maturity of the PFIs' SME portfolio not financed under the Project; (ii) ratio of the average maturity of LE sub-financing under the Project, over the average maturity of the PFIs' LE portfolio not financed under the Project; and (iii) volume of Bank support (cumulative, US\$ million).

#### D. Project Description

**Under Component 1 (USD 200 million), TSKB will on-lend funds through qualified PFIs to eligible beneficiary SMEs.** TSKB will select PFIs according to criteria agreed upon with the World Bank, and subject to no-objection from the World Bank. PFIs can be banks and leasing companies. The selected PFIs will, in turn, provide sub-finance for investment and working capital purposes to eligible beneficiary enterprises. Investment and working capital sub-finance to SMEs must have at least three and two years maturity, respectively. The maximum of USD 40 million can be disbursed through a single PFI. The PFIs will assume the credit risk of the sub-beneficiaries that will be selected based on agreed upon eligibility criteria. TSKB will have exposure only to the selected PFIs and will assume the credit risk for on-lending funds to PFIs.

**Under Component 2 (USD 200 million), TSKB will on-lend funds directly to eligible beneficiary SMEs and LEs.** TSKB's direct lending under this component will be more targeted than the lending by PFIs under wholesale component, reflecting TSKB's unique expertise and capacity as the country's leading development bank. In particular, TSKB will provide primarily investment sub-finance to beneficiary enterprises, while working capital sub-finance extended directly by TSKB shall not amount to more than 20 percent of the component amount. The minimum maturity of investment sub-finance will be four years.

#### E. Implementation

##### Institutional and Implementation Arrangements

TSKB will be responsible for the implementation of the project and was selected based on its demonstrated strong capacity to design and implement complex, innovative projects. PFIs will be selected by TSKB based on their financial health, as well as their capacity to work with women-inclusive firms and firms in less developed sub-regions.

#### F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The project will be implemented by TSKB as Financial Intermediary and also through the PFIs. The sub-project locations are not defined at this stage and are expected to be all over Turkey. One component of the project will focus on provinces affected by SuTP (Syrians under Temporary Protection) population.



Enterprises in less developed sub-regions will be defined as enterprises operating in the NUTS-II sub-regions with scores below the 40th percentile in the composite index comprised of the following five major socio-economic indicators: share of refugees in population, GoT’s Socio-Economic Development Index, Job Quality Index, unemployment rate, and female labor force participation rate. In addition, at least 25 percent of total IBRD loan proceeds allocated to enterprises in less developed sub-regions will be earmarked for enterprises in the priority (least developed) sub-regions below the 25th percentile in the above-mentioned index.

**G. Environmental and Social Safeguards Specialists on the Team**

Sanjay Agarwal, Social Safeguards Specialist  
Arzu Uraz Yavas, Social Safeguards Specialist  
Esra Arikan, Environmental Safeguards Specialist

**SAFEGUARD POLICIES THAT MIGHT APPLY**

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	<p>The project is categorized as FI since the implementing agency (TSKB) will be a financial intermediary. TSKB will then either directly finance some sub-projects or on lend to participating FIs (PFIs) and then sub-projects will be financed by PFIs. It is expected that the sub-projects to be financed will be mostly in the manufacturing sector. And the projects will not finance new establishments in green fields. Sub-project applications will be for working capital or investment loans. The investment loans may involve machinery purchase/replacement or small scale construction works. Therefore, it is expected that there will be no large scale significant and/or irreversible impacts. The sub-projects are therefore expected to be Category C or B (few) in nature. Category A projects will not be eligible for financing.</p> <p>Regarding social implications, it is expected that the project may have positive impacts regarding improving local employment in the areas of sub-beneficiaries and also another positive impact of the project will be on local economy through local</p>



procurement. SMEs and/or LEs will (where possible) make effort to prioritize in procuring local goods and services.

The environmental assessment (including environmental due diligence) procedures will be conducted according to the environmental and social management framework (ESMF) which was prepared by TSKB and approved by the WB. The ESMF includes evaluation forms for assessing the environmental due-diligence of the existing facilities (LEs and/or SMEs) which will be applying for working capital or investment loans. The framework will provide guidance for additional requirements if the investment loan includes activities which will then lead to a classification of 'Category B' for the sub-projects. The ESMF also provides explanation about how to exclude Category A projects from project financing. ESMF includes the negative list (projects which are not eligible for WB financing. i.e. tobacco industry, etc.). It is expected to have a prior review for an initial set of projects whereby WB will review all safeguard documentation, and then it is planned to have a sampling system where WB's environmental and social safeguard specialists will conduct site visits and safeguard documentation assessment for randomly selected sub-projects. The ESMF describes the methodology for proper selection of safeguard instrument (ESMP, ESMP checklist, etc.) and its consultation and disclosure requirements. The ESMF also includes a Land Acquisition Screening form which guides the FI and PFIs for assuring that any land needed for the project is taken by willing buyer willing seller method and OP 4.12 is not triggered.

The ESMF will be replicated for the PFIs and will be made a part of sub-financing agreements between TSKB and PFIs.

Review process: It is the responsibility of the PFI to make the WB screening of the sub-projects. PFIs will decide on the sub-project's environmental category in agreement with TSKB. In order for the WB to fulfill its fiduciary responsibilities, first sub-project application from each PFI will be sent to TSKB for



prior review and to make sure that this ESMF is fully complied with. After TSKB’s review, the first application will be submitted to World Bank for no objection. In addition, if first sub-project is not category B nature, first category B sub projects of PFIs will follow the same procedure. Following this “pilot” period, if TSKB and the WB agree, the WB will change to spot checking the screening and environmental review process on a “post review” basis. TSKB could decide on its ‘prior review’ procedures with the relevant PFI separately, through the sub finance agreements. In Component 2, where TSKB can directly lend to its clients, It is the responsibility of the TSKB to make the WB screening of the sub-projects. TSKB will decide on the sub-project’s environmental category. In case of Category B subprojects, first two sub-project will be submitted to World Bank for review and clearance. Assuming the ESMF is being implemented by the TSKB satisfactorily; the next Cat B sub-projects will be reviewed and cleared by TSKB itself. World Bank will conduct post-review for the Cat B sub-projects.

Sub-projects are expected to be working capitals or small scale construction/rehabilitation works and will not be executed on green lands. In any case the project will not finance sub-projects which may have impacts on natural habitats. The ESMF includes the criteria for excluding sub-projects which may trigger OP 4.04.

No activities related to timber production or any other activity triggering this policy is expected.

No activities related to purchase of pesticides or application of pesticides or any other activity triggering this policy is expected.

This policy was triggered to be on the safe side. Because the specific civil works of the existing factory buildings could potentially be within a historic district, the Bank safeguard policy on Physical Cultural Resources (OPO/BP 4.11) is applicable to these investments. For cultural property issues, local municipality is responsible for application of Turkish laws and regulations, including those relating to cultural heritage. Chance find procedures were addressed in the ESMF as well.

There are no identified indigenous people in Turkey.

Natural Habitats OP/BP 4.04	No		
Forests OP/BP 4.36	No		
Pest Management OP 4.09	No		
Physical Cultural Resources OP/BP 4.11	Yes		
Indigenous Peoples OP/BP 4.10	No		





Involuntary Resettlement OP/BP 4.12	No	Involuntary land acquisition will not be eligible under the proposed project. Due to this, OP 4.12 is not triggered. In cases where the sponsor needs to acquire additional lands for the proposed sub-project, TSKB will ensure that the land is acquired through a willing buyer-willing seller transaction on the market allowing the seller to refuse or negotiate the price. Where public lands are to be utilized, the transfer will take place as per the relevant legislation. Any proposed land that requires involuntary acquisition or expropriation and/or has formal and/or informal users that trigger OP 4.12, will not be eligible for financing under the project. TSKB will screen all sub-project proposals that involve land acquisition to ensure the above through a land acquisition screening form which will be in the ESMF included in the Operations Manual prepared by the Borrower (TSKB). The social safeguards specialist will provide guidance to TSKB (and to other PFIs, if necessary) regarding the Bank's OP 4.12 on Involuntary Resettlement, in order to eliminate any non-compliance with OP 4.12. The ESMF includes a Land acquisition Screening form which assures the land to be taken (by willing buyer willing seller method) does not involve any informal settlers.
Safety of Dams OP/BP 4.37	No	No projects related to dams, or relying on dams will be financed.
Projects on International Waterways OP/BP 7.50	No	There is an eligible basin list (basins not triggering OP 7.50) for Turkey and the list is included in the ESMF. TSKB is the ultimate responsible for ensuring that this eligible list is strictly followed.
Projects in Disputed Areas OP/BP 7.60	No	N/A for Turkey

**KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT**

**A. Summary of Key Safeguard Issues**

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

The project is an “FI” with Category C and few B sub-projects since it is anticipated that there will be no large scale significant and/or irreversible impacts from the project. The project will be executed by TSKB (as the main financial intermediary) and with participating financial intermediary (PFI) banks and leasing companies. Environmental issues of sub-beneficiaries and their sub-projects will be addressed through the sub-finance environmental eligibility assessments. Environmental assessments will be carried out in accordance with both Ministry of Environment and



Urbanization (MoEU) Environmental Assessment Regulation and World Bank Environmental Assessment (OP 4.01) requirements. Most of the sub-finance is expected to be working capital, and investment finance comprising of equipment/machinery purchase type of activities. There could be some rehabilitation activities and/or small scale construction works as well. Category A projects and projects triggering World Bank policy on Natural Habitats (OP/BP 4.04), Safety of Dams (OP/BP 4.37), Projects on International Waterways (OP/BP 7.50) will not be eligible for financing. Due to Turkey's rich cultural heritage inventory the policy on physical cultural resources (OP 4.11) is triggered to be on the safe side. Environmental Assessment, public consultation and disclosure procedures that the sub-project should comply with will be explained in details in the environmental review sections of the FI Bank's Operations Manuals (in the form of Environmental and Social Management Framework).

The project is not expected to have negative social effects. By increasing access to long-term finance, the project is expected to have a positive impact on the growth of SMEs and LEs that are women-inclusive and/or located in less developed sub-regions impacted by the Syrians Under Temporary Protection (SuTP) influx. Any involuntary land acquisition or associated involuntary resettlement that would trigger the World Bank Operational Policy (OP) 4.12 on Involuntary Resettlement will not be eligible for financing under the scope of this project. In light of this, TSKB will be screening the sub-projects accordingly to ensure that the OP 4.12 is not triggered. The Environmental and Social Management Framework (ESMF), which was prepared by TSKB for the project and approved by the World Bank, details how the sub-projects will be screened to ensure that they do not trigger OP 4.12.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area: This will be evaluated in individual sub-project environmental assessment documents as needed.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts. This will be evaluated in individual sub-project environmental assessment documents as needed.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

TSKB (borrower), during the course of the implementation of the numerous WB financed credit line projects, has developed institutional capacity to determine and monitor environmental risks of sub-projects. TSKB also has a sustainability framework and adopting the sustainability principles in all projects it funds. TSKB applies the Environmental and Social Risk Evaluation Tool (ERET) Model, which was structured in 2006, to all investment projects irrespective of the investment amount. According to the latest portfolio assessment conducted at end 2017, TSKB risk percentages per projects are 2 (Cat A), 13 (Cat B+), 53 (Cat B-), and 33 (Cat C).

The project will be implemented by TSKB itself and via participation banks (PFIs), which are not determined at this stage. TSKB, has a well established environmental and social risk rating tool and project management system, which will be useful while monitoring the projects directly financed by TSKB and financed by PFIs during the course of the sub-project screening, evaluation, approval and implementation. TSKB has drafted the Environmental and Social Management Framework (ESMF) and this will be annexed into the Project Operations Manual. The ESMF will be a part of the agreements between TSKB and the PFIs. PFIs will be informed that implementing the ESMF will be their responsibility, and their capacity of implementation will be assessed by TSKB, and improvement measures will be assigned by TSKB (with the assistance of WB if requested) as necessary. TSKB will also assess the capacities of the PFIs by considering factors such as: previous engagement with WBG or other development partners, inclusion of environmental and social sustainability in PFIs risk assessment/project management system, staff dedicated to implementing environmental and social requirements to be detailed in the ESMF, etc. PFIs will be provided with a training (by TSKB) on the implementation of the ESMF.



TSKB will establish a grievance mechanism to resolve and administer the grievances that could be encountered during project finance. The system will be made available to both beneficiaries of TSKB and PFIs prior to project implementation (end CY 2018). The mechanism will allow to record and address the concerns or requests regarding project finance or implementation of sub-projects. Direct beneficiaries and beneficiaries of PFIs will be informed on the GRM during sign of contract.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

The environmental and social management framework (ESMF) has been drafted and disclosed by TSKB in the country on March 6, 2018. The ESMF was sent to disclosure on WB external website. A physical meeting was not organized for the ESMF since project's design and estimated environmental and social impacts are very similar to TSKB's previous operations with the Bank. Therefore, the ESMF was open for review and comments on the website. The sub-project safeguard documents will include more project specific information and its consultation and disclosure will be held separately by the final beneficiary. If the sub-project requires a public consultation and environmental assessment document disclosure for specific sub-projects, then these will be handled in line with the procedures defined in the ESMF document. If the sub-project is a Category B, it will be necessary to conduct a public consultation meeting to comply with WB policies. Moreover, it is necessary that a document summarizing the impacts and mitigation activities that will be realized with the implementation of the sub-project (this document can be a draft EMP or an informative brochure providing the same information) should be made publicly available (on web page and as hard-copies, in local language) in advance (approximately 3-4 weeks before the public consultation meeting). Necessary announcements should also be made about the disclosure of this environmental documentation in whatever media are appropriate to ensure effective dissemination of this information to all likely interested parties. In addition, once a PFI officially transmits the relevant environmental documentation (ESMP, etc.) to the TSKB for onwards transmission to WB, a copy of the safeguard document is made available at the project site/SME/construction site/ etc.

ESMF will be replicated for the PFIs and will be made a part of sub-loan agreements between TSKB and PFIs.

The project will ensure that TSKB will collect and respond to feedback from final beneficiaries as necessary to inform implementation of this project and possibly design of future projects. In regard to Citizen Engagement, the final beneficiaries will be surveyed on their satisfaction with the sub-finance received in term of their needs.

**B. Disclosure Requirements**

Environmental Assessment/Audit/Management Plan/Other		
Date of receipt by the Bank	Date of submission for disclosure	For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors
05-Mar-2018	06-Mar-2018	
<b>"In country" Disclosure</b>		
Turkey		
06-Mar-2018		
Comments		



**C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)**

**OP/BP/GP 4.01 - Environment Assessment**

Does the project require a stand-alone EA (including EMP) report?

Yes

If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?

Yes

Are the cost and the accountabilities for the EMP incorporated in the credit/loan?

Yes

**OP/BP 4.11 - Physical Cultural Resources**

Does the EA include adequate measures related to cultural property?

Yes

Does the credit/loan incorporate mechanisms to mitigate the potential adverse impacts on cultural property?

Yes

**The World Bank Policy on Disclosure of Information**

Have relevant safeguard policies documents been sent to the World Bank for disclosure?

Yes

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?

Yes



### All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?

Yes

Have costs related to safeguard policy measures been included in the project cost?

Yes

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?

Yes

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?

Yes

### CONTACT POINT

#### World Bank

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#### Borrower/Client/Recipient

TÜRKİYE SINAİ KALKINMA BANKASI A.Ş. (TSKB)

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**APPROVAL**

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**Approved By**

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Country Director:	Johannes Zutt	24-Mar-2018