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# Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 13-Feb-2020 | Report No: PIDA27641

## BASIC INFORMATION

### A. Basic Project Data

| Country | Project ID | Project Name | Parent Project ID (if any) |
|---|---|---|---|
| Turkey | P171766 | Formal Employment Creation for Refugees and Turkish Citizens | |
| **Region** | **Estimated Appraisal Date** | **Estimated Board Date** | **Practice Area (Lead)** |
| EUROPE AND CENTRAL ASIA | 12-Feb-2020 | 31-Mar-2020 | Social Protection & Jobs |
| **Financing Instrument** | **Borrower(s)** | **Implementing Agency** | |
| Investment Project Financing | Development and Investment Bank of Turkey | Development and Investment Bank of Turkey | |

Proposed Development Objective(s)

The Project aims at enhancing the conditions for formal job creation by firms operating in provinces with high incidence of Syrian under Temporary Protection, for the benefit of refugees and host-community members.

Components

Loans targeting established firms with high potential for job creation
Grants targeting emerging firms conditional on job creation
Technical and Institutional Support

The processing of this project is applying the policy requirements exceptions for situations of urgent need of assistance or capacity constraints that are outlined in OP 10.00, paragraph 12.
Yes

## PROJECT FINANCING DATA (US$, Millions)

### SUMMARY

| | |
|---|---|
| **Total Project Cost** | 327.11 |
| **Total Financing** | 327.11 |
| **of which IBRD/IDA** | 242.01 |
| **Financing Gap** | 0.00 |

### DETAILS

| | |
|---|---|
| **World Bank Group Financing** | |
| International Bank for Reconstruction and Development (IBRD) | 242.01 |
| **Non-World Bank Group Financing** | |
| Trust Funds | 85.11 |
| European Commission Development Fund - TF | 85.11 |

Environmental and Social Risk Classification

Substantial

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

## B. Introduction and Context

Country Context

**Turkey has high growth potential, but economic vulnerabilities that had accumulated over the past four years have affected the sustainability of its economic gains since the early 2000s**. After the global financial crisis in 2008-2009, growth has been increasingly fueled by credit booms and rapid accumulation of (mostly foreign exchange) private sector debt, together with short-term stimulus policy. These led to declining productivity and growing macroeconomic imbalances in late 2017/early 2018.

**Turkey now faces a two-fold challenge:** in the near-term to extricate itself from a downturn while inflation is high (albeit declining), the external environment is uncertain, and firms are struggling with debt; and to put in place appropriate policy and institutional settings to support a shift to a sustainable-medium term growth model. The pace and sustainability of Turkey's recovery will depend on reducing economic uncertainty backed by a consistent policy mix. The economy has stabilized in the short-term. GDP is projected to rebound to 3 percent and 4 percent in 2020 and 2021, respectively. Rigorous progress in advancing structural reforms, such as deepening financial markets and completing overdue labor market reforms, will help to mitigate vulnerabilities and support growth in the medium term.

**Turkey is both a transit and reception country for migrants and refugees and, globally, the country hosts the highest number of refugees.**[1] As a result of the crisis in its southern border with Syria, Turkey has been hosting an increasing number of refugees and foreigners seeking international protection. In addition to hosting more than 3.6 million Syrians, who are under temporary protection, there are an estimated 400,000 asylum seekers

[1] DGMM. 2019. This PID uses the term refugee regardless of country of origin, although Syrians are under temporary protection status, and non-Syrians under international protection law.
http://www.goc.gov.tr/icerik6/temporary-protection_915_1024_4748_icerik

and refugees from other nationalities. The country's refugee response has been progressive and provides a model to other countries hosting refugees. However, the magnitude of the refugee and migrant influx continues to pose substantial development consequences for not only the displaced but also the communities into which they settle. Apart from the large cities such as Ankara, Istanbul and Izmir, many of the cities hosting a high concentration of Syrians are already located in the more vulnerable or disadvantaged provinces in Turkey, which exacerbates the development challenges.

**The Government of Turkey (GT) spent an estimated EUR 31 billion to meet the needs of refugees and hosting communities from the beginning of the Syrian crisis to 2017.**[2] The international community has also provided over EUR 4 billion since 2016, of which 95 percent is from the European Union (EU).[3] Other donors, UN agencies, international, national and local civil society organizations, as well as International Financial Institutions (IFIs), have also been playing an important role in Turkey's refugee response, implementing a diverse range of programs and projects, accounting for over EUR 200 million. These efforts have been geared primarily towards facilitating refugee access to existing public services while strengthening the capacity and responsiveness of state institutions at the national and local levels.

### Sectoral and Institutional Context

**Creating more and better formal jobs remains a priority because, as a result of the recent economic downturn, the long-term declining trend in informality has slowed substantially.** Informality decreased from 48 percent in 2005 to 33 percent in 2018, but this trend has been stagnating since 2015. Informal employment is more extensive in provinces that have been affected by the Syrian influx, reflecting the absorption of Syrians able to work in informal jobs.

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

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

[2] European Commission (2018): Technical Assistance to the EU Facility for Refugees in Turkey – Updated EU Needs Assessment. October 2018. Refer to: https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/updated_needs_assessment.pdf
[3] Ibid.

**SMEs account for most firms in Turkey, but they have been facing difficulties in growing and expanding.** Firm composition is highly skewed toward microenterprises and small firms. However, 84 percent of all new job creation between 2014 and 2016 was generated by large firms (more than 250 employees); while firms with fewer than 50 employees experienced net employment loss (- 4.5 percent). Meanwhile, SMEs are more highly exposed to rising mandatory labor costs, such as the increase in the national minimum wage. Constrained by such costs, SMEs may resort to hiring workers informally or might exit completely from the registered formal sector and continue operations informally.

**Another major challenge affecting the capacity of firms to create jobs and expand is the capacity to find skilled workers.** An inadequately educated labor force is perceived among the top five constraints to doing business in Turkey after taxes, access to finance, competition from informal firms, and political instability. The analysis of the Labor Market Needs Assessment Survey of the Turkish Employment Institution (ISKUR) shows that the most critical skills sought by employers across provinces are behavioral, socioemotional and software-related skills.[4]

**By supporting enterprises in gaining access to longer-term financing through grants and loans to boost their operational capacity, and on formal job creation that provides decent working conditions in the case of grant recipients, the project will contribute to improving the conditions to increase formal employment[5] opportunities and to contribute to the formalization of workers in selected provinces.** It also contributes to the employability of the beneficiaries through formal on the job work experience and skill building. This will directly or indirectly contribute to strengthening the local economy by reducing unemployment and informality and easing social tensions.

## C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The Project aims at enhancing the conditions for formal job creation by firms operating in provinces with a high incidence of Syrians under Temporary Protection, for the benefit of refugees and host-community members.

Key Results

(i) number of formal jobs created in grant beneficiary firms (for Turkish citizens, refugees, disaggregated by gender, and firm size);
(ii) ratio of the average maturity of loan beneficiary firms sub-financed under the Project, over the average maturity of the Participating Financing Institutions (PFIs)' SME and LE portfolio (excluding World Bank financing from other projects); and
(iii) improved skill set of the employers (in the loan beneficiary firms) and employees (in the grant beneficiary firms).

## D. Project Description

**The project design is linked to *World Development Report 2013*, on jobs, and is based on a combination of access to finance, managerial technical and socioemotional skills, and institutional strengthening for**

[4] https://media.iskur.gov.tr/33412/istihdamda-3i-30-sayi-ek1-2019-yili-isgucu-piyasasi-arastirmasi-sonuclari.pdf
[5] The definition of formal employment used here is: "workers registered in the social security system through their main job"

**sustainable job creation.** They address two of the five key constraints[6] identified in the sectoral analysis: access to finance and skills. Collectively, these assets enhance the ability of firms to facilitate job creation with additional job-related obligations for grant recipient firms.

**The planned operation will support refugees and Turkish citizens in accessing formal employment opportunities in creditworthy enterprises in provinces with a high incidence of Syrian refugees.** It will offer beneficiary firms in project provinces[7] a greater access to financial resources and skills to enhance their capacity to expand business and, ultimately, increase formal employment and decent working conditions; that is, social security and other legally mandated benefits.

**The Project will be funded by a EUR 216 million loan from the World Bank, and a EUR 80 million grant from the EU under the Facility for Refugees in Turkey (FRIT) program constituting a special measure on health, protection, socio-economic support and municipal infrastructure.**

**The grant and loan programs will be implemented by the Development and Investment Bank of Turkey (TKYB) with the support locally PFIs.** The program will take advantage of TKYB's extensive network and loan provision activities.

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

**Component 1: Loans targeting firms with high potential for job creation (€215 million, US$240.89 million)**

**This component supports loan financing for financially viable firms (i) through direct lending, and (ii) wholesale lending.** TKYB will be the borrower and implementing agency under the guarantee of the Ministry of Treasury and Finance. TKYB will provide loans to LEs directly (direct lending), and to SMEs[8] through PFIs (wholesale lending), thereby expanding its geographical and sectoral reach.

**TKYB will select PFIs, including banks and/or leasing companies, based on PFIs' financial health and capacity to implement subprojects.** The selection will be based on a two-step procedure: (i) A general limit allocation study (asset quality, return on equity, capital adequacy ratios etc.) conducted and approved by TKYB, and (ii) PFIs' willingness to be part of a specific loan program and their business orientation and operational capacity. The TKYB will assumes the credit risk of PFIs and therefore has a strong incentive to assess their financial health and operational capabilities.

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

[6] The five constrains for doing business are: taxes, access to finance, competition from informal firms, political instability, and adequate skills of the workforce (See Enterprise Surveys database, International Finance Corporation and World Bank, Washington, DC, https://www.enterprisesurveys.org ).

[7] Project provinces include: Istanbul, Sanliurfa, Hatay, Gaziantep, Adana, Mersin, Bursa, Izmir, Kilis, Konya, Mardin, Ankara, Kahramanmaras, Kayseri, Kocaeli, Osmaniye, Diyarbakir, Malatya, Adiyaman, Batman, Manisa, Denizli, Tekirdag, Sakarya.

[8] SME are defined here as firms below 250 employees (SE 10-49; ME 50-249), while large enterprises (LE) are defined as firms employing equal to or over 250 employees.

**Component 2: Grants targeting firms conditional on job creation (€70 million, US$78.4 million)**

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

**The intended beneficiary firms can apply to two sub-grant schemes: (i) firms submitting an employment plan to recruit refugees (including Emergency Social Safety Net Program {ESSN} beneficiaries), and (ii) firms submitting a viable business and employment plan.** These two grant schemes will have different selection criteria. The first grant scheme will be allocated with 60 percent of the total. SMEs, and LEs will be given a quota of 60 percent and 40 percent under each grant scheme, respectively.

**Applications will be evaluated by a grant evaluation committee including TKYB experts and independent evaluators.** The committee will be responsible for preliminary approval of the grants, with the no-objection of World Bank. Applicant firms will be screened under each grant scheme separately. The grant evaluation committee will evaluate the first group based on employment creation potential and the second group based on their financial statements, potential for job creation, and business plan. The firms will receive a score depending on several factors, including: the number of new employments created per grant amount awarded; whether the firm is women-inclusive or refugee-inclusive.

**Component 3. Technical and institutional support (€6.96 million, US$7.78 million)**

**This component includes three subcomponents as follows:**

**Subcomponent 3.1: skills building for loan beneficiary firms (€0.52 million, US$0.59 million).** The loan beneficiary firms will be expected to participate in management capacity-building activities, provided by TKYB. Training will include management practices, socioemotional skills (such as leadership, teamwork, client orientation), and financial literacy. This component will be financed by the Loan.

**Subcomponent 3.2: skills building for grant beneficiary firms (€2.32 million, US$2.59 million).** In addition to submitting their business plans in the request for financing, grant beneficiary firms will be expected to commit to participate in capacity-building activities, provided by TKYB. Training for employees will focus on building the skills identified in the diagnosis as constraining firms' capacity to increase formal job creation, including technical and analytical skills (for example, software and IT knowledge and data analytics). This component will be financed by the Grant.

**Subcomponent 3.3: Capacity Building for Loan implementation (€0.48 million, US$0.53 million).** This sub-component will finance individual consultants to be recruited under the Project Implementation Unit (PIU), and training activities for TKYB and PFIs. This component will be financed by the Loan.

**Subcomponent 3.4: Capacity Building for Grant implementation (€3.64 million, US$4.08 million).** This sub-component will finance individual consultants to be recruited under the PIU, grant governance body, goods, non-consulting services (including travel), communication and visibility activities, and operational expenses to implement the grant component. This component will be financed by the Grant.

Legal Operational Policies

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

Summary of Assessment of Environmental and Social Risks and Impacts

The structure of the project is based on providing loans and grants to SMEs and LEs. Although there are no restrictions on sectoral basis, except the exclusion list of the Bank and TKYB, potential sectors that were surveyed during design phase and are likely to be supported under this project, are expected to be manufacturing, motor vehicle repair and maintenance, food processing, education, construction and real estate. Sub-projects of substantial and/or high risk will be ineligible for financing. Furthermore, subprojects that are likely to have significant impacts on sensitive areas (e.g., nationally and internationally protected areas, culturally significant, etc.) and that will require involuntary resettlement and land acquisition will not be eligible for financing. Subprojects aimed at strengthening client's/subproject proponent's capacity for the implementation of substantial/high risk projects, will be subject to limitation on changing the final product, by-product or major process changes. Risks to cultural heritage, and community health and safety are limited, labor influx is not expected as a result of project activities. The project will also support women-inclusive enterprises. Potential risks and impacts related to labor and working conditions will be managed with measures included in the project design, and in TKYB's Environmental and Social Management System (ESMS) and Labor Management Procedure (LMP). TKYB will screen SMEs and LEs, recipients of loans and grants, to ensure consistency World Bank Environmental and Social Framework standards, and adherence with labor and OHS laws. The project design includes periodic labor audits to ensure that formal employment opportunities provide decent working conditions in accordance with national labor and health and safety laws.. Training programs will aim to increase integration of refugees into workplace environment. Though potential impacts are anticipated to be predictable and expected to be temporary and/or reversible, because of the complexity of working in vulnerable areas with host and refugee populations, the proposed environmental and social risk rating is Substantial.

## E. Implementation

Institutional and Implementation Arrangements

**TKYB will be responsible for the implementation of the project and was selected based on its demonstrated strong capacity to design and implement complex, innovative projects**. TKYB has experience in implementing financial intermediation loans funded by the World Bank, including both direct lending and on-lending through PFIs.

**A PIU will be established under the TKYB, which will coordinate and facilitate relevant project activities and have fiduciary responsibility.** The PIU will be staffed with individual consultants with safeguards, fiduciary, monitoring and evaluation, and technical experience, as well as TKYB staff from different units. The PIU responsibilities will include: (i) selection of and on-lending to PFIs; (ii) monitoring of PFIs to ensure compliance with project criteria including PFIs' application of TKYB's ESMS where needed (projects with moderate risk will require application of TKYB's ESMS whereas subprojects with low risk can be conducted based on the environmental and social risk assessment procedures of PFIs); (iii) coordination of TKYB's direct lending to large firms eligible for loans (iv) coordination of extending grants to eligible

firms and monitoring their compliance with grant agreements (with help of a grant governance body); (v) adherence to all fiduciary and safeguard requirements of the World Bank for final borrowers; (vi) financial management arrangements for the project, (vii) all procurement implementation under Component 3 and overseeing all beneficiary procurement under Component 2; and (viii) monitoring and evaluation based on agreed results indicators.

**PFIs will be selected by TKYB based on their financial health, as well as their capacity to work with refugee and women-inclusive firms.** PFIs will on lend to SMEs under the loan component, thereby increasing the reach of TKYB to areas and sectors where it currently has no presence. The PFI selection is also subject to a no-objection process by the World Bank, while Subsidiary Finance Agreement covenants between TKYB and PFIs require compliance with standard prudential regulations thereby ensuring the financial health of the PFIs.

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

**TKYB will collaborate with ISKUR to find prospective employees of beneficiary firms.** TKYB and PFI staff will guide beneficiary firms to identify and recruit employable refugees and Turkish citizens in close collaboration with ISKUR.

**A project operations manual that details the responsibilities of all stakeholders and institutions at central and local levels for implementation of the project components will be developed and finalized before effectiveness.** The manual will be shared with all stakeholders to ensure full understanding of project content and implementation.

## CONTACT POINT

### World Bank

Ahmet Levent Yener
Senior Human Development Specialist

### Borrower/Client/Recipient

Development and Investment Bank of Turkey
Ozlem Cinemre
Deputy Director General
ozlem.cinemre@kalkinma.gov.tr

### Implementing Agencies

Development and Investment Bank of Turkey
Ozlem Cinemre
Deputy Director General
ozlem.cinemre@kalkinma.gov.tr

## FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

## APPROVAL

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|---|---|
| Task Team Leader(s): | Ahmet Levent Yener |

### Approved By

| | | |
|---|---|---|
| Environmental and Social Standards Advisor: | | |
| Practice Manager/Manager: | | |
| Country Director: | Eavan O'Halloran | 13-Feb-2020 |