

**PROJECT INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

Report No.: PIDA62558

<b>Project Name</b>	SUSTAINABLE CITIES (P128605)
<b>Region</b>	EUROPE AND CENTRAL ASIA
<b>Country</b>	Turkey
<b>Sector(s)</b>	Sub-national government administration (15%), Other Renewable Energy (20%), Urban Transport (15%), Wastewater Collection and Transportation (25%), General water, sanitation and flood protection sector (25%)
<b>Theme(s)</b>	City-wide Infrastructure and Service Delivery (50%), Urban Economic Development (30%), Municipal governance and institution building (20%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P128605
<b>Borrower(s)</b>	ILLER BANKASI ANONIM SIRKETI
<b>Implementing Agency</b>	ILLER Bankasi-AF P11070
<b>Environmental Category</b>	F-Financial Intermediary Assessment
<b>Date PID Prepared/Updated</b>	28-Apr-2016
<b>Date PID Approved/Disclosed</b>	29-Apr-2016
<b>Estimated Date of Appraisal Completion</b>	15-Apr-2016
<b>Estimated Date of Board Approval</b>	29-Sep-2016
<b>Appraisal Review Decision (from Decision Note)</b>	The Project was cleared for appraisal.

## I. Project Context

### Country Context

Turkey's economic growth has been impressive both prior to and after the global financial crisis in 2008. Real GDP growth averaged nearly 7 percent during 2003-2007; up from 4 percent in the 1990's. Growth resumed rapidly after the 2008-2009 crisis, has slowed in 2012 but reached 4.2 percent in 2015. Growth has also been fairly inclusive. Poverty incidence was more than halved during 2002-12, from 44 percent to 21 percent of the population. Extreme poverty declined at an even higher proportional rate, decreasing from 13 to 4.5 percent.

Turkey's economic growth was also accompanied by remarkable improvements in access to health, education and municipal services, particularly for the poor. Under 5 mortality rate has been halved from 27.7 percent in 2005 to 13.5 in 2015, an outcome of near-universal access to health established through reforms in the public service delivery. Coverage in primary education is almost

universal, and the gender gap disappeared in 2011-12. In addition, the net secondary enrollment rate jumped from 38 percent in 1997-98 to 77 percent in 2013-14, while the gender gap decreased significantly. Finally, at least 90 percent of the poor had access to piped water and indoor sanitation by 2012; although access to piped natural gas and central heating is low at 6 and 7 percent respectively.

However, Turkey's macroeconomic achievements have recently been challenged by an uncertain economic and political outlook. Economic growth has slowed significantly in recent years; and exchange rate depreciation and higher food prices has pushed inflation to 8.8 percent by the end-2015, much higher than the Central Bank's target rate.

### **Sectoral and institutional Context**

Cities and urbanization have played a key role in Turkey's economic achievements. Over the course of the last 70 years, Turkey has experienced one of the most dramatic and transformative urbanization experiences of any country in the world. While the country's total population has increased by 9.2 percent during the 2007-2014 period, the urban population increased by 15.4 percent during that period. What distinguishes Turkey from many other developing countries is that it harnessed the benefits of agglomeration economies that accompanied rural-urban migration. This is reflected in the structural shifts in Turkey's economy during the peak period of urbanization (1960-2013), in which the industrial share contribution to GDP rose from 17.6 percent to 27 percent, while the service sector contribution rose even more dramatically from just over 26 percent to nearly 64 percent. These structural shifts and productivity gains paid dividends for Turkish citizens over the last three decades, as per capita GDP more than doubled from \$5,986 (1980) to \$10,515 (2014).

Turkey's urbanization process has also been inclusive, with a rising share of urban growth in the country's smaller cities. A salient feature of Turkey's urbanization experience has been its inclusiveness and geographical reach over time. Initially, much of the burden for creating new jobs and absorbing rural migrants has been borne by Turkey's three primary cities of Istanbul, Izmir, and the nation's capital of Ankara. However, the last decade (2000-2012) has witnessed a rising share of urban growth in the country's secondary and smaller cities like Bursa, Mersin, Kocaeli, Kayseri, Gaziantep, have captured a larger share of new urban migrants. Smaller cities have also created jobs at the same rate as the three biggest cities between 2010 and 2013. The sub-regions of Gaziantep, Balikesir, Malatya, and Aydin, for example, created over 406,000 jobs between 2010 and 2013. This increase in the number of jobs of 15.7 percent is comparable to the 16.8 percent increase of Istanbul, Izmir and Ankara sub-regions combined.

The process of urbanization has brought new challenges and although Turkey has addressed many of these, planning towards sustainability remains a concern. As urban population increased, cities have sprawled exceeding their mandated boundaries, consuming large areas of land and requiring significant investments in infrastructure to ensure that they meet service standards of a middle income country. Consequently, although access to services have improved, significant gaps remain. For example, in the transport sector even Istanbul and Ankara, which have the highest rates of mass public transit in Turkey, continue to rank at the bottom of the international distribution on mass transit with only 10.1, and 5.5 meters of high transit capacity per capita. In the water sector, Turkey has significantly increased access to water (98% in municipal areas); however improving water quality (only 52 percent of drinkable and usable water was treated in 2010), reducing non-revenue

water losses and continued maintenance of the network remain challenging concerns. Access to sanitary landfill have increased from 34 percent in 2006 to 60 percent in 2012; however there is still significant scope for improvement to meet the upper middle income target of 96 percent. Finally, buildings not compliant with building code regulations are common – as of 2013, 97,000 buildings had been identified as ‘at risk’.

Recognizing the challenges to sustainability, the goal of the Government’s Integrated Urban Development Strategy and Action Plan (KENTGES) 2010-2023 is to improve livability in settlements. It aims to do so through three axes: (a) restructuring the spatial planning system to include enacting a comprehensive framework law, and developing effective monitoring and control mechanisms; (b) improving quality of space and life in settlements including through encouraging an urban macro form which decreases costs, uses resources efficiently and prevents extensive growth.; (c) strengthening the economic and social structures of settlements through a combination of strategies that tackle within-city harmonization, accessibility of services, urban poverty and urban culture through participatory approach.

To operationalize the sustainability aspects of KENTGES, a paper on ‘Sustainable Cities Approach for Local Administrations (SCALA)’ (March, 2015) was developed. It recognized three key dimensions of sustainability - environmental, economic/financial and social – most relevant for Turkish cities. It also identifies instruments, primarily spatial and environmental planning, in each of the sustainability dimensions that would move cities along a sustainability spectrum from Planned Cities to Healthy Cities and finally, Smart Cities.

In addition, the Government has also recently created 14 new metropolitan municipalities with the aim to assist in addressing sprawl and promoting sustainability efforts. In December 2012, an amendment to the Metropolitan Municipality Law (1984) created fourteen additional metropolitan municipalities. The Law enables metropolitan municipalities to extend the formulation of policies and to take decisive action to cover the municipality’s respective regional and economic footprint. For instance, the Law enables metropolitan municipalities to undertake their own higher scale territorial planning (1:100,000 scale) that provides a strategic framework to plan and develop city-regions or provinces. Urban transport planning and investment functions have also been consolidated at the larger metropolitan municipality level. Water utilities have been corporatized to improve efficiency. These geographically and functionally expanded responsibilities are meant to address urban sprawl and promote sustainable planning and development; however, they have also resulted in significant management challenges for the metropolitan municipalities and their respective district municipalities.

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resulted in significant management challenges for the metropolitan municipalities and their respective district municipalities.

Within this context, the Government of Turkey has requested financing from the World Bank for a Sustainable Cities Project.

## II. Proposed Development Objectives

The Project Development Objective is to improve quality, efficiency and sustainability of service delivery in participating municipalities.

## III. Project Description

### Component Name

Component A: Sustainable City Planning and Management Systems

### Comments (optional)

Component A would be financed through an EU-IPA2 Recipient Executed Trust Fund Grant in its entirety and would finance consultant services and goods. It would provide technical assistance support to municipalities, preparation of feasibility studies, environmental assessments and basic engineering designs and support to Ilker Bank (Ilbank) in grants management and capacity building.

### Component Name

Component B: Municipal Investments

### Comments (optional)

This component will finance targeted infrastructure investments in participating municipalities. Sectors eligible for investments include public transport, water and sanitation, solid waste management, and energy. In the water sector, it is anticipated that the sub-borrower will be the utility company, with a guarantee provided by the municipality. The component will finance goods, works and consultant services. Participation in Component B is demand driven. Subsequent to expressing interest in participation in the project, municipalities are required to meet financial eligibility criteria set by Ilbank; i.e. ability to meet the borrowing criteria set forth in the Law on Regulating Public Finance and Debt Management (Law # 4749).

### Component Name

Component C: Project Management

### Comments (optional)

This component will finance goods and consultants services for monitoring and evaluation, outreach and communication and local technical consultants for the engineering supervision of Component B.

## IV. Financing (in USD Million)

Total Project Cost:	172.20	Total Bank Financing:	138.70
Financing Gap:	0.00		
<b>For Loans/Credits/Others</b>			<b>Amount</b>
Borrower			5.50
International Bank for Reconstruction and Development			138.70
Free-standing TFs for ECA CU4 Country Unit			28.00
Total			172.20

## V. Implementation

Ilbank will be the Implementing Agency for the project. The institution has the capacity to implement the project and, due to its central tax transfer function, the institution is in regular contact with all municipalities. It has specialized departments including a Projects Departments responsible for control and approval of designs, an Investment Appraisal Department responsible for evaluating the financial capacity of a municipality and Infrastructure Implementation Department which has the capacity to prepare technical specifications and bidding documents, complete tender documents and provides consultancy services to the municipalities. The institution also has eighteen regional directorates that can monitor sub-project implementation.

A Project Management Unit (PMU) has been established under the International Relations Department. The PMU is composed of three groups, namely Procurement Group, Technical Group and Finance Group led by the Project Director. The departments that work in coordination with the Project Management Unit under this project are: Project department, Infrastructure Implementation department, Investment Appraisal department, Accounting and Financial Affairs department, IT department, Banking Services department, Spatial Planning department and the relevant Regional Directorates.

Municipalities that have been selected to participate in Component B will have to meet the Sub-Borrower eligibility criteria. Ilbank will have to ensure that Sub-Project eligibility criteria are met. Fund flow and the control of fund flow under the project is carried out by the PMU. Within the scope of the project, the PMU is responsible for ensuring World Bank compliance of procurements of goods, works and services.

## VI. Safeguard Policies (including public consultation)

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04	x	
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11	x	
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37	x	
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

**Comments (optional)**

## VII. Contact point

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