



# Appraisal Environmental and Social Review Summary

## Appraisal Stage

### **(ESRS Appraisal Stage)**

Date Prepared/Updated: 06/14/2020 | Report No: ERSRA00908



**BASIC INFORMATION**

**A. Basic Project Data**

Country	Region	Project ID	Parent Project ID (if any)
Turkey	EUROPE AND CENTRAL ASIA	P174112	
Project Name	Emergency Firm Support Project		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Finance, Competitiveness and Innovation	Investment Project Financing	6/8/2020	7/14/2020
Borrower(s)	Implementing Agency(ies)		
Türkiye Kalkınma ve Yatırım Bankası A.Ş. (TKYB) Bank, Türkiye Vakıflar Bankası T.A.O. (VakıfBank)	Türkiye Vakıflar Bankası T.A.O. (VakıfBank), Türkiye Kalkınma ve Yatırım Bankası A.Ş. (TKYB) Bank		

Proposed Development Objective(s)

The Project Development Objective is to ensure access to finance for private SMEs affected by or adapting to the economic impact of COVID-19

Financing (in USD Million)	Amount
<b>Total Project Cost</b>	<b>500.00</b>

**B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?**

Yes

**C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]**

The Project will focus on supporting viable small and medium sized enterprises that face temporary cash flow disruptions due to lower demand for their products and supply chain problems brought about by the COVID-19 crisis, as well as the businesses that were required to shut down to follow social distancing guidelines. The Project will be implemented by VakıfBank and TKYB, two state-owned banks with a strong track record in supporting the enterprise sector, including under World Bank projects. VakıfBank will lend directly to enterprises while TKYB will provide



financing through wholesale lending. The Project will only support businesses that were in sound financial condition prior to crisis and that are expected to survive the crisis, based on the bank's credit appraisal process. The World Bank financing provided under the Project, mostly in the form of working capital sub-loans, will help keep these businesses afloat and maintain their employment during the acute phase of the crisis and support a faster recovery when the health situation improves and the economy re-opens.

In addition, the Project will support SMEs' efforts to adapt to the new operating environment by: (i) shifting to alternative working modalities (e.g., going digital, increasing automation); and (ii) investing to increase resilience by introducing crisis management systems or health & safety measures (e.g., reducing contagion risk at the workplace).

#### **D. Environmental and Social Overview**

D.1. Detailed project location(s) and salient physical characteristics relevant to the E&S assessment [geographic, environmental, social]

Turkey has been severely impacted by COVID-19, both in terms of the health impact and economic losses. Turkey recorded its first confirmed COVID-19 case on March 11, and over the following 20 days, the number of cases increased to 38,000, one of the fastest growth rates of the epidemic seen so far. The potential loss of employment and earnings could be devastating and may disproportionately hit women in work and marginal workers. Although little data on impact is available yet in this emerging crisis, if unmitigated, the shock to firms is expected to force them to lay off employees in huge numbers. Early data on the US shows an unprecedentedly large rise in the unemployment rate. The leisure and hospitality sector was by far the hardest hit, with employment declining by almost 3 percent in a single month, while many other industrial and service sectors saw employment declines. Globally, the International Labor Organization (ILO) estimates that working hours will decline by around 7 percent in the second quarter of 2020. In Turkey, this would be the equivalent of around 2 million formal jobs and another 700,000 informal jobs. World Bank (WB) estimates of the household impact of an unmitigated COVID19 shock in Turkey suggest that the incidence of poverty could increase from around 10 percent at present by four percentage points nationwide, and a further three percent of the population would become vulnerable to falling into poverty.

Small and Medium Enterprises (SMEs) are expected to be worst affected by credit rationing and a lack of access to finance during a downturn. Since the start of the recession in 2018, the SME share of loans declined (by approximately 5 percentage points) to 23 percent by December 2019. SME loans are perceived as riskier and tend to be among st the first to decline when risk appetite lowers during a downturn. SMEs more frequently rely on collateral, often of lower quality than larger corporates, to secure financing. During downturns, with asset values falling, this collateral loses value, and they are no longer able to access as much finance. SMEs also tend to be less able to absorb shocks than large firms and are more exposed to refinancing and interest rate risks. As a result, SMEs, in particular, may be unable to raise the needed working capital over the COVID-19 crisis, and many could face a real risk of insolvency.

Within the SME segment, certain groups may be particularly disadvantaged. Certain categories of firms, e.g. young firms, women-inclusive firms, and firms operating in less developed regions – may be impacted more severely by the tightening of credit conditions given that banks perceive them as higher-risk even in normal times. The underlying reasons include, among others, a lack of credit history, insufficient collateral, lack of good and transparent financial accounts, and possibly conscious or unconscious bias.



The project will be implemented country – wide in Turkey. With a population of 83 million people and 783, 356 km<sup>2</sup> area, Turkey is located in Eurasia between the Black, Mediterranean, Marmara and Aegean Seas, bordering with Bulgaria, Greece, Syria, Iraq, Iran, Armenia and Georgia. The proposed Project will provide US\$500 million for the establishment and operation of credit line facilities to extend sub-loans to private SMEs affected by the economic impact of COVID-19 in Turkey through two public banks – VakifBank and TKYB. SMEs are defined as firms employing fewer than 250 workers. The Project will support the immediate crisis response as well as the recovery phase.

The Project targets firms that were severely affected by the COVID-19 crisis but that remain financially viable and are likely to survive the crisis if provided financing to meet temporary liquidity needs and those that want to adapt to the new operating environment. The primary focus of the Project will be to support viable businesses that face temporary cash flow disruptions due to decreased demand to their products and supply chain problems, as well as businesses that had to shut down to follow social distancing guidelines. The project has two components. Component 1 is credit line to VakifBank, for direct on-lending to eligible enterprises. The VakifBank loan will be exclusively focusing on SMEs. Component 2 consists of a credit line to TKYB with on-lending to participating financial institutions (PFIs), to provide financing to eligible SME enterprises. The PFIs under Component 2 consists of private commercial banks and leasing companies. The proposed Project will target viable businesses that face temporary cash flow disruptions due to decreased demand to their products and supply chain problems, as well as businesses that had to shut down to follow social distancing guidelines. VakifBank and TKYB will both be the implementing agencies for the Project.

The portfolio to be supported by the credit line for both banks consists of SME loans. The VakifBank SME portfolio includes exposures to the following key sectors: manufacturing (31%); wholesale/retail (20%); construction (12,5 %), transportation, storage and communication (6.5%); energy (5.6%). At the time of appraisal, the PFIs to be supported TKYB have not been identified, however, SME's in Turkey are usually within the following key sectors: wholesale/retail; consumer services; ICT; construction; transportation and storage. It is expected that these will be the sectors predominantly represented in the PFI's SME portfolio.

The eligibility criteria established for the Project will exclude the following types of activities from project financing: sub-projects activities with substantial and/or high environmental and social risk; sub-project activities requiring land acquisition and involuntary resettlement; and those with impacts on sensitive areas (for example, nationally and internationally protected areas); and cultural heritage. No major civil works are expected for any of the sub-projects. Child and forced labor and other activities listed in the WB Exclusion List will be prohibited under the Exclusion Lists of VakifBank and TKYB's PFIs..

This project does not trigger any of the Bank operational policies OP 7.50 Projects on International Waterways and OP 7.60 Projects in Disputed Areas.

#### D. 2. Borrower's Institutional Capacity

The Borrowers and Project Implementing Agencies for the project will be VakifBank (Component 1) and TKYB (Component 2). IBRD will enter into a Loan Agreement with each bank. TKYB and VakifBank are public banks in Turkey with existing World Bank financed projects. For implementation of Component 2, TKYB will enter into Subsidiary Financing Agreements with eligible PFIs, which will on-lend the IBRD loan proceeds to eligible enterprises through sub-loan agreements.

VakifBank



VakifBank is a state-controlled bank and is Turkey's third-largest bank in terms of loan book and has extensive experience in offering direct credit to SMEs and midcap companies through its extensive branch network. VakifBank has been an existing client of the World Bank, and completed two projects namely, Second Turkey Access to Finance for Small and Medium Enterprises Project (P118308) and Turkey SME Energy Efficiency Project (P122178). Both of the projects were implemented under safeguards policies and accordingly environmental and social risk ratings were "FI". Overall safeguard implementation performance at the closure of the projects were determined as satisfactory. Therefore, this will be the first project implemented under ESF by VakifBank. At the stage of appraisal, VakifBank currently does not have an ESMS in place. However, VakifBank had recently initiated establishment of an ESMS for its entire portfolio. The ESMS shall be in place by the Effective date of the Project. Within the scope of this project, VakifBank will develop and implement an ESMS including all the elements defined under ESS9. The ESMS shall be proportionate to the level of E&S risk of the project and will ensure that the necessary capacity and commitment is in place to adequately manage the E&S risks of its lending activities under the WB financing. VakifBank will hire/assign environmental and social experts to manage the environmental and social risks of the banks' lending activities. The Bank will also conduct ESF training and capacity building for VakifBank after the Effective Date of the project.

#### TKYB

TKYB is a state-owned development and investment bank and it supports the investment projects in renewable energy, energy efficiency, manufacturing industry, tourism, education sectors through the financing facilities and loans from the international financing institutions including WB, EIB, KfW, CEB, IsDB, JBIC etc. TKYB has been a long-lasting client of the Bank and has adopted international standards and policies for the management of environmental and social issues through working with IFIs. Up to date, TKYB has successfully carried out projects such as Private Sector Renewable Energy and Energy Efficiency Project (P112578), closed with satisfactory safeguards performance) and additional financing (P124898,) closed with satisfactory safeguards performance) and is currently implementing Turkey Geothermal Development Project (P151739), in operation with satisfactory safeguards performance) with Bank financing. All these projects were implemented under WB safeguard policies. In addition to those, the Bank recently approved, Formal Employment Creation Project (P171766) where Bank's Environmental and Social Framework (ESF) was applied. TKYB's Environmental and Social Management System (ESMS) was approved by its Executive Board in January 2020, which has been reviewed by the Bank and found acceptable to be applied in the project including for the assessment and management of environmental and social risks of sub-projects. Elements of TKYB's ESMS include: (i) the environmental and social(E&S) policy including the environmental and social exclusion list which defines how E&S impacts of activities supported by TKYB's financing will be managed, (ii) E&S risk evaluation procedure which provides guidance for E&S risk assessment and monitoring process (including the risk categorization of credit line projects), (iii) the E&S training process, and (iv) TKYB's communication approach and grievance system. TKYB will ensure that its corporate ESMS with specific guidelines for adherence by PFIs, will be applied to the sub-projects financed by the PFIs under the WB project. This will be specifically reflected in the terms and conditions for the sub-loan agreements between TKYB and the PFIs.

TKYB has a PIU established to administer World Bank financed projects in order to manage and monitor the implementation of projects. With the recent expansion of TKYB's portfolio, especially with respect to IFI financing, TKYB has improved its E&S risk management capacity by hiring additional E&S risk specialist to support the implementation and monitoring of the E&S risks to ensure compliance with the Bank's ESF. TKYB will hire/assign environmental and social experts to manage the environmental and social risks of the PFIs lending activities. The World Bank will also conduct ESF training and capacity building for TKYB after the Effective Date of the project.



TKYB will administer and supervise the World Bank’s E&S requirements in on-lending to PFIs. The PFIs that TKYB has the potential to work within the scope of the project have not been determined at appraisal stage, but will be selected during implementation phase. TKYB will ensure that each PFI will implement TKYB’s ESMS that will be proportionate to the level of environmental and social risks of sub-loans, and is of satisfactory quality to TKYB and the World Bank, reflecting the World Bank’s Environmental and Social Framework requirements. TKYB will prepare guidelines and training for PFIs for the implementation of its ESMS, which shall be acceptable to the World Bank. These ESMS implementation guidelines and training will include all elements with respect to ESS9 on Financial Intermediaries, screening criteria for the sub-project proposals against E&S risks, and exclusion of substantial and high risk projects; procedures for managing the E&S risks and monitoring and reporting system on the E&S performance of sub-projects and PFIs within the scope of the TKYB/ World Bank financed portfolio; and external communication and grievance mechanism. The eligibility criteria for financing specified for TKYB will also be applied to the PFIs. PFIs will also have an E&S risk specialist to ensure that ESMS is applied, managed and monitored for TKYB/Bank financed portfolio. TKYB drafted a guideline document for the PFIs to apply TKYB ESMS which includes (i) training of the PFI’s experts on TKYB’s ESMS including E&S requirements with respect to national law and Bank’s ESF, (ii) preparation of a checklist document that identifies E&S risks in line with the risk evaluation model with respect to different sectors anticipated to be involved in the project, (iii) risk categorization and prior approval the TKYB for categorization and actions required and (iv) monitoring and reporting requirements throughout the lifecycle of the project. The final guideline document will be finalized before the Effective Date of the project and acceptable to the Bank. TKYB will provide a training to PFIs on the application of TKYB’s ESMS before PFIs start disbursing loans.

## II. SUMMARY OF ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS

### A. Environmental and Social Risk Classification (ESRC)

Moderate

#### Environmental Risk Rating

Moderate

The environmental risk rating is classified as Moderate. The credit line shall mainly address working capital needs such as salary payments and fixed costs, and a small portion for investment expenditures for adapting to the new operating environment of SMEs adversely affected by the economic shock triggered by COVID-19, therefore the environmental risks are considered minimal. The main environmental risks of the project are related to occupational health and safety (OHS), dust, noise, energy use and waste management at the sub-project firm level. These are expected to be site specific, temporary and can be readily addressed through standard mitigation measures and compliance with national laws. The overall portfolio risk is thus considered moderate. The sub-projects rated high and substantial on environmental and social risks will not be eligible for financing. TKYB and VakifBank will be required to implement satisfactory ESMSs for their lending activities. At the SME levels, simplified environmental and social management plans and compliance with national laws can serve as underlying framework for addressing E&S risks and impacts. Given the nature of SME business activities and the prescribed eligibility criteria, it is anticipated that finance will be utilized as working capital to support the entire existing enterprises. PFIs under the TKYB component will conduct screening of the SME businesses they will finance and will require the SMEs to develop and comply with corrective action plans to improve the E&S performance of the firms. Given VakifBank’s lack of prior experience in ESMS implementation, the World Bank will maintain close oversight particularly in the early stages of implementation. Before final selection of PFIs, TKYB will submit the evaluation report to the WB for no objection.



Additionally, WB E&S specialists will maintain close oversight on initial PFI sub-projects and the efficacy of the FIs assessing, managing and monitoring the E&S risks and impacts of the firms.

### **Social Risk Rating**

Moderate

The social risk is assessed as Moderate. Overall, the project will have positive social impact by addressing the economic impacts of COVID -19 pandemic in Turkey, helping firms stay afloat and reducing the potential layoffs of workers as a consequence of reduced economic activity. The credit will mainly finance working capital needs of SMEs adversely affected by the economic shock of COVID-19, including salary payments, and fixed costs such as rent, utilities and supplies. The potential adverse risks and impacts on human populations and the environment are not likely to be significant, are predictable and expected to be temporary and reversible.

The main social risks are associated with labor and working conditions and occupational health and safety (OHS), mainly in relation to financing salaries of workers in SMEs. Projects requiring land acquisition and involuntary resettlement, and those with impacts on cultural heritage will not be eligible for financing. The sub-projects will not involve any major civil works, therefore risks of labor influx are not expected, and community health and safety risks and impacts are anticipated to be below. Child and forced labor risks are not expected as the project will finance formal enterprises, and exclusion lists of FIs will include ineligibility of activities involving child and forced labor in sub-projects. Legal agreements between FIs and sub-project firms will include requirement for compliance with national environmental and social laws, including labor, OHS and laws prohibiting sexual exploitation and abuse (SEA) and sexual harassment (SH).

TKYB and VakifBank prepared Stakeholder Engagement Plans (SEP) to guide continuous engagement with potential beneficiary firms and other interested parties such as business associations, and national authorities. SEPs include detailed grievance mechanisms for sub-project beneficiaries. TKYB has previous experience with World Bank safeguards policies and ESF and has already established corporate ESMS. VakifBank implemented two projects under safeguards policies but does not have the experience with ESF implementation and project specific ESMS will be established by the Effective Date of the Project. The VakifBank has engaged an experienced consultancy to assist them in developing ESMS. Overall, it is assessed that social risks associated with the project will be site specific, temporary and can be readily addressed through standard mitigation measures and compliance with national laws.

## **B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered**

### **B.1. General Assessment**

#### **ESS1 Assessment and Management of Environmental and Social Risks and Impacts**

##### ***Overview of the relevance of the Standard for the Project:***

This standard is relevant. The project is being processed applying paragraph 12 of Section III of the Investment Project Financing (IPF) Policy with paragraph 12 being triggered due to the situation of a natural disaster caused by the COVID-19 pandemic. The project is processed under condensed procedures, pursuant to the Bank's procedure "Preparation of Investment Project Financing – Situations of Urgent Needs of Assistance or Capacity Constraints".

The Project will support SMEs to keep these businesses afloat and maintain the employment of their workers during the current acute phase of the crisis and support their recovery when the COVID-19 pandemic situation improves and the economy re-opens. The Project will support the immediate crisis response as well as the recovery phase. In





addition, the Project will support the companies' working capital (salaries, rent, utilities and supplies payments) and investment expenditures to adapt to the new operating environment or to increase production in strategic sectors relevant for addressing COVID -19 pandemic. The investment expenditures will focus mainly on introducing new products and services, new marketing channels, and new business solutions which are expected to be based on e-services and digital technology and are not anticipated to pose additional environmental and social risks. While the project is across multiple sectors, it will mainly prioritize those which are adversely affected by COVID -19 such as retail and wholesale trade in the following key sectors: transport and storage, construction, motor vehicles, and textiles.

The main environmental and social risks and impacts are anticipated to be labor and working conditions, OHS, dust, noise, water use, energy use and waste management at the sub-project level. These are expected to be site specific, temporary and can be readily addressed through standard mitigation measures and compliance with national laws. These impacts are expected to be mainly associated with the investments by the firms, taken to adapt their workplaces to COVID-19 situation and minimize the spread of the infection, or to increase the production of goods in high demand. Risks and impacts related to financing working capital needs (eg. salaries) will be mainly associated with working conditions impacts.

Projects requiring land acquisition and involuntary resettlement, and those with impacts on cultural heritage and naturally sensitive areas will not be eligible for financing. Sub-projects activities rated as high and substantial environmental and social risk will not be eligible for financing. The sub-projects will not involve any major civil works; therefore, risks of labor influx are not expected, and community health and safety risks and impacts are estimated as low. Any minor refurbishment works will follow the World Bank guidelines to minimize the risk of COVID-19 transmission in the workplace. Child and forced labor risks are not expected as the project will finance formal enterprises, and the exclusion list include prohibition of child and forced labor in sub-projects. Legal agreements between FIs and sub-project firms will include requirement for compliance with national environmental and social laws, including labor, OHS and laws prohibiting SEA/SH.

TKYB and VakifBank prepared Stakeholder Engagement Plans (SEPs) to guide continuous engagement with potential beneficiary firms and other interested parties such as business associations, and national authorities. SEPs include detailed grievance mechanisms for sub-project beneficiaries.

VakifBank and TKYB's PFIs under this project will be required to develop, implement and maintain their own ESMS with adequate capacity in place. Details of TKYB and VakifBank ESMS are discussed under ESS9 section. VakifBank and PFIs will be required to implement satisfactory ESMSs to address and manage the environmental and social (E&S) risks of the Project's SME portfolio. Prior to credit approval, all beneficiary firms will be assessed for E&S risks and impacts in accordance with the FIs' ESMS approved by the World Bank. Where SMEs are likely to have minimal or no adverse risks or impacts, the FIs and PFIs will require compliance with Turkish environmental, social, labor and OHS laws. VakifBank and TKYB's PFIs will only lend to SMEs. The FIs and PFIs will categorize any SME activity that involves significant risks and impacts on the environment, community health and safety, labor and working conditions, biodiversity or cultural heritage as high or substantial risk, and screen these out as ineligible for financing in accordance with the project's terms and conditions. As part of the credit approval procedure, E&S due diligence will be conducted by VakifBank and each PFI for their respective sub-borrowers. Given the purpose of the project and the eligibility criteria set forth for the credit line, it is anticipated that finance will be mainly utilized as working capital to





support the entire existing business enterprises affected by the COVID -19 pandemic. VakifBank and all PFIs will apply their respective ESMSs (PFIs will apply the ESMS and guidelines prepared by TKYB) to each eligible SME requiring the credit line.

Legal agreements between VakifBank, TKYB and the PFIs with their sub-project firms shall include the principle of non-discrimination of vulnerable groups of employees and the selection of beneficiary firms by FIs shall apply the principle of non-discrimination.

Within the SME segment, the project design includes support to female inclusive enterprises: (i) owned by women (i.e., with at least one female shareholder with properly documented representative and managing powers); or (ii) managed by women (i.e., with at least one female C-level manager or with at least 25% female representation in mid-level management); or (iii) employing a ratio of women that is higher than the average ratio observed in the respective sector. The project will also target highly impacted underserved with financial assistance SMEs such as young enterprises, and enterprises in less developed regions as these firms are expected to be impacted even more severely by the COVID-19 crisis.

### **ESS10 Stakeholder Engagement and Information Disclosure**

The standard is relevant. TKYB and VakifBank have prepared two draft SEPs for the project with consultation activities at key ministerial, business associations and firm stakeholder level, taking into account combating the evolving COVID -19 situation in Turkey. These measures are underlined by social distancing requirements, ban to public gatherings, lockdowns and mobility restrictions. Two draft SEPs were disclosed on June 5th, 2020 on respective TKYB's and VakifBanks' websites.

The two SEPs cover the whole project. They identify and analyze key stakeholders (i.e. affected parties, other interested parties and disadvantaged and vulnerable groups) and describe the process and modalities for sharing information on the project activities, incorporating stakeholder feedback into the Project and reporting and disclosure of project documents.

Project preparation has included a detailed mapping of the stakeholders. Direct beneficiaries have been identified as eligible SMEs and MCEs, and their employees, including firms operating in sectors heavily affected by COVID-19, firms seeking to adapt to the COVID -19 environment; and PFIs. Additionally, vulnerable types of direct beneficiaries include women-inclusive enterprises, firms in regions which are underserved with financial assistance, and young firms (those with less than 5 years in operation).

The SEPs will help with reaching to the firms that are financially adversely affected by the economic impacts of COVID-19 pandemic, while at the same time relying on stakeholder engagement strategies to minimize close contact and follow the physical distancing procedures. The strategies for information disclosure and consultations will mainly rely on digital technologies, virtual meetings and focus groups, social media and FIs' webpages. Any face to face meetings and consultations will resume only after the government rules on restrictions on social gatherings are eased and lifted



Both TKYB and VakifBank have established grievance mechanisms (GM) to receive concerns, complaints, suggestions and feedback from loan beneficiaries as well as those who believe may be adversely affected by the activities of FIs as well as loan beneficiaries. Detailed GM procedures are presented in SEPs including departments responsible to receive and address grievances, different means of receiving grievances (e-mail, webpage, phone number, mail) and stipulated time frames to address and respond to grievances. Both VakifBank and TKYB (which will be extended to all PFIs) have established databases to log complaints. SEPs include strategies to report back to stakeholders during project implementation.

The SEP will be updated within 30 days from the project Effective Date, to include feedback received during virtual consultations and refined consultation strategies and modalities with due consideration of measures in place at such time. The final SEP will be shared with relevant stakeholders via culturally appropriate means.

## **B.2. Specific Risks and Impacts**

**A brief description of the potential environmental and social risks and impacts relevant to the Project.**

### **ESS2 Labor and Working Conditions**

This standard is relevant. ESS2 requirements will apply to the employees of TKYB, VakifBank and PFIs. TKYB and VakifBank have a set of human resources policies and procedures in place which meet the requirements of ESS2 and national labor and OHS legislation. PFIs have not been selected yet. The banking sector in Turkey is subject to the same regulation, and therefore, PFIs' human resources policies will be assessed against the ESS2 requirements and national labor and OHS legislation during project implementation. In ESCP, TKYB and VakifBank will commit that any consultants directly hired by TKYB, VakifBank and PFIs to carry out the activities related to the projects, will be employed under the terms and conditions as required by the national labor law and ESS2, ESCP will include requirement that PFIs have human resources policies and procedures consistent with ESS2 and national law requirements.

The project will not engage community and primary supply workers as per ESS2 definition.

As of November 2019, TKYB employed 213 staff (44% women). As of April 2020, VakifBank employed 20,436 staff (46% women). TKYB and VakifBank will ensure that national labor and OHS laws, and ESS2 are applicable throughout the life of project to its own employees, and PFI employees. Both FI's employee are subject to the Turkish Labor Code 4857. In addition, VakifBank's workers are members of the Bank, Finance and Insurance Workers Union and there is a Collective Bargaining Agreement (2019) in place.

Assessment of labor management procedures: Both TKYB and VakifBank have human resource policies which define employees' rights such as compensation and wages, working hours, overtime hours and payment, leaves (maternity, annual, sick, unpaid), recruitment, training, promotions, severance payment, disciplinary measures, non-discrimination and equal opportunity. The policies prohibit forced labor and the minimum working age at TKYB and VakifBank is 18 years. Human resources procedures prohibit harassment including sexual harassment and provide for mechanisms to report such cases. Human resources policies are accessible to employees on FIs intranet webpages sites.



The banking regulation in Turkey requires all banks to establish grievance mechanism for customers and employees. TKYB and VakifBank have such grievance mechanisms established, and these were described in detail in respective SEPs. The grievance mechanism for employees is accessible via intranet webpages, and employees can also lodge grievances to the human resources departments. In addition, both TKYB and VakifBank have Code of Ethics applicable to its employees and associated Code of Ethics Committee, where employees can raise workplace ethics concerns.

Occupational health and safety: TKYB's and VakifBank's facilities are equipped with fire safety instruments as required by local regulation and both FIs have emergency action plans in place. The staff receives routine training on fire safety and first aid. Regular drills are conducted and reported. VakifBank holds OHSAS 18001 certification and reports to its management on a yearly basis on the implementation. TKYB and VakifBank have incident reporting procedures and as per national OHS Law notify the Ministry of Labor within 3 business days about OHS related incidents.

Overall, it is assessed that TKYB's and VakifBank's labor management procedures, including procedures relating to working conditions and terms of employment, nondiscrimination and equal opportunity, grievance mechanisms and OHS meet the requirements of ESS2. TKYB and Vakifbank provided documented evidence of their labor management procedures as per ESS9 para 13. Similar documentation shall be reviewed for PFIs as well, which will on-lend TKYB funding, when beneficiary PFIs are identified during project implementation.

The current Turkish Labor Law (No.4857) is to large extent consistent with ESS2 requirements. Turkey ratified all the four Core ILO Conventions and OHS ILO Conventions. The main gap with ESS2 is related to the requirement for the grievance mechanism for workers. However, both FI have such mechanisms in place. Forced labor is prohibited by the Turkish Constitution.

In line with ESS9, TKYB and VakifBank, through respective ESMSs, will apply relevant requirements of ESS2 to sub-projects - SMEs recipients of loans. Exclusion Lists will include prohibition of financing of activities involving forced and child labor and screening and monitoring of sub-projects will include compliance with national labor and OHS laws. Legal agreements between FIs and loan recipient firms will include requirements for compliance with national labor and OHS laws. Labor and working conditions risks and impacts will be identified, assessed and addressed within the scope of the FIs ESMS in accordance with relevant ESS2 requirements.

Grievance mechanisms established by TKYB and VakifBank will provide an avenue for employees of sub-projects firms to report any non-compliance with project procedures including labor issues.

### **ESS3 Resource Efficiency and Pollution Prevention and Management**

This standard is relevant. The potential issues related to the project such as air emissions, water releases, energy efficiency and waste management at the sub-project level will be mitigated through implementation of the FIs ESMS. The VakifBank and TKYB's ESMS which is fully discussed under ESS 9, will include all the necessary processes and procedures to ensure site specific considerations related to resource efficiency, pollution prevention and management will be addressed and managed. Environmental risks of sub-projects which might cause significant pollution impacts, will be rated as High or Substantial, and thus, will be considered ineligible for financing.



#### **ESS4 Community Health and Safety**

This standard is relevant. The implementation of sub-projects might cause impacts associated with the community health and safety. Such impacts will be identified, assessed and addressed within the scope of the VakifBank and TKYB's ESMS in accordance with ESS4 requirements. Sub-projects which might be associated with significant impacts rated as High or Substantial risk will be considered ineligible for financing.

#### **ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement**

This standard is not relevant, and the project will exclude any investments which may require land acquisition and involuntary resettlement.

#### **ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources**

This standard is not relevant, and sub-projects which might adversely impact biodiversity conservation and sustainable management of living natural resources will not be eligible for financing within the scope of the project.

#### **ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities**

The standard is not relevant, since there are no Indigenous Peoples in Turkey.

#### **ESS8 Cultural Heritage**

This standard is not relevant, and sub-projects having impacts on cultural heritage will not be eligible for financing within the scope of the project.

#### **ESS9 Financial Intermediaries**

This standard is relevant. TKYB, VakifBank and TKYB's PFIs will be required to develop and implement their own ESMSs satisfactory to the Bank to manage the E&S risks of the Project.

The corporate ESMS of TKYB was adopted by TKYB Executive Board on January 17, 2020 and its Environment and Social Policy was disclosed on TKYB's website on February 6, 2020. TKYB has embedded its ESMS into its existing risk management and compliance process. The summary of the E&S risk assessment and management procedures was also disclosed on February 28, 2020. The ESMS has been reviewed by the Bank and found acceptable to be applied to the project. Specifically, the ESMS includes the main elements as required by ESS9: (i) TKYB's corporate environmental policy which describes TKYB priorities to minimize adverse E&S impacts, adopts principles of resource optimization, and its aim to enhance positive E&S impacts of its lending activities; (ii) defined procedures for the assessment and management of E&S risks and impacts of its lending activities; (iii) sufficient organizational capacity and competency; (iv) monitoring and review of E&S performance of its lending portfolio, and (v) external communication mechanism.

The ESMS describes TKYB's commitment to sustainability and corporate governance through core elements including – regulatory compliance; disclosure and transparency; social, health and safety issues; environmental issues; training;



and commitment to environmental, social and governance (ESG) best practices. The ESMS Policy defines the applicable requirements for investments – Exclusion List and host country laws – and describes the process for categorization and assessment of E&S risks and impacts associated with potential investments. In addition, TKYB will apply relevant World Bank Environmental and Social Standards to sub-projects. The WBG General Environmental Health and Safety (EHS) guidelines, Industry Specific Guidelines, and Good International Industry Practices (GIIP) as well as relevant sectoral guidelines are also used for E&S assessments in addition to the national legislation requirements. In accordance with TKYB applicable requirements for E&S risks management, E&S due diligence has been incorporated into its loan review process. The E&S screening and risk assessments are completed using its E&S risk evaluation tool – ERET, where applicable, and E&S action plans are developed to address identified gaps. The ESMS also includes the process for monitoring and auditing, the roles of members of ESMS team as well as the legal documentation requirements for investments. In addition, the ESMS includes a procedure for managing grievances and complaints from the stakeholders. The Bank assessed the ESMS as satisfactory.

TKYB will require the PFIs to apply ESMS developed by TKYB, which will be proportionate to the environmental and social risks of the project, including E&S assessment procedures which are in full compliance with the corporate ESMS requirements of TKYB, the World Bank ESF and acceptable to the World Bank. In this respect, TKYB is currently preparing a guideline document for the PFIs to apply TKYB's ESMS. The guideline document includes (i) training of the PFI's E&S experts on TKYB's ESMS including E&S requirements with respect to national law and Bank's ESF; (ii) preparation of a checklist document that identifies E&S risks in line with the risk evaluation model with respect to different sectors anticipated to be involved in the project; (iii) risk categorization and prior approval of TKYB for categorization and actions required; and (iv) monitoring and reporting requirements throughout the lifecycle of the project. The guideline documents will be submitted to the Bank for review and approval prior to the project effective date. TKYB will ensure that PFIs have ESMSs procedures in place, which are acceptable to the Bank and TKYB, before any sub-loans are approved. PFIs will monitor the entire World Bank-financed portfolio and report to TKYB, in a manner which is acceptable to the Bank. TKYB will be required to monitor and supervise the environmental and social performance of the PFIs and their portfolio exposures. The content of semi-annual reports will be detailed in the Project Operational Manual. The World Bank will monitor TKYB, and TKYB will monitor the E&S performance of PFIs for their sub-borrowers. The World Bank will conduct prior review for an initial set of sub-projects of PFIs and thereafter TKYB the World Bank will conduct supervision spot checks for a number of sub-projects. The details of prior and post review will be described in the Project Operational Manual.

Similarly, VakifBank will be required to develop and implement a satisfactory ESMS with adequate capacity for the Project. VakifBank will develop and implement an ESMS including all the elements defined under ESS9, that is proportionate to the level of E&S risk of the project and will ensure that the necessary capacity and commitment is in place to adequately manage the E&S risks of its lending activities. The ESMS for the Project, satisfactory to the Bank, will be established before the Effective Date of the Project.

Both TKYB and VakifBank have established grievance mechanisms to enable beneficiaries as well as those who believe they are adversely impacted to submit complaints, feedback, inquiries, and suggestions such as violation of project policies, guidelines, or procedures, including those related to child labor, health and safety of workers, workplace harassment. The GM will also allow submission of anonymous grievances. The details of the GM are explained in the SEPs and will also be presented in the project's operational manual.



**C. Legal Operational Policies that Apply**

<b>OP 7.50 Projects on International Waterways</b>	No
<b>OP 7.60 Projects in Disputed Areas</b>	No

**III. BORROWER’S ENVIRONMENTAL AND SOCIAL COMMITMENT PLAN (ESCP)**

DELIVERABLES against MEASURES AND ACTIONs IDENTIFIED	TIMELINE
<b>ESS 1 Assessment and Management of Environmental and Social Risks and Impacts</b>	
Project Implementation Units (PIU) of FIs to appoint one environmental and one social expert and ensure that staff remain on assigned duty until end of Project implementation.	08/2020
Corporate ESMS of TKYB is fully operational and maintained throughout the life of the project.	
Conduct E&S due diligence assessments for each sub-borrower in line with the Exclusion List, national laws, ESSs and eligibility criteria for all potential investments and where applicable, E&S action plans (ESAP) shall be developed to address identified gaps following the assessments.	08/2020
VakifBank shall develop, disclose, maintain and implement a satisfactory Environmental and Social Management System (ESMS) in line with the requirements of ESS9, that is acceptable to the Bank. The ESMS shall include documents and procedures to ensure that its lending activities are compliant with the WBG Exclusion List, the applicable national laws and the Environmental and Social Standards.	08/2020
Prepare and submit to the Bank regular monitoring reports on the environmental and social performance of the Project, including but not limited to the implementation of the ESCP, status of preparation and implementation of E&S documents required under the ESCP, stakeholder engagement activities, performance of the grievance mechanism(s) and ESMS implementation.	07/2024
<b>ESS 10 Stakeholder Engagement and Information Disclosure</b>	
Prepare, disclose, maintain and Implement project SEP in a manner acceptable to the Bank.	09/2020
Develop, adopt, maintain and operate a grievance mechanism, as described in the SEP.	08/2020
<b>ESS 2 Labor and Working Conditions</b>	
Maintain and implement human resources (HR) policies and procedures consistent with requirements under national law and ESS2.	07/2024

Public Disclosure



Establish, maintain, and operate an accessible grievance mechanism (GM) for Project workers as described in the HR policies and procedures, consistent with requirements under the national law and ESS2.	08/2020
Maintain and implement occupational health and safety (OHS) procedures consistent with requirements under national law and ESS2.	07/2024
<b>ESS 3 Resource Efficiency and Pollution Prevention and Management</b>	
As part of the E&S due diligence (ESDD) to be conducted for each sub-borrower a, ESS 3 will be applied within the scope of the respective FI's ESMS as relevant.	07/2024
<b>ESS 4 Community Health and Safety</b>	
As part of the E&S due diligence (ESDD) to be conducted for each sub-borrower a, ESS 4 will be applied within the scope of the respective FI's ESMS as relevant.	07/2024
<b>ESS 5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement</b>	
NA	07/2024
<b>ESS 6 Biodiversity Conservation and Sustainable Management of Living Natural Resources</b>	
NA	07/2024
<b>ESS 7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities</b>	
NA	07/2024
<b>ESS 8 Cultural Heritage</b>	
NA	07/2024
<b>ESS 9 Financial Intermediaries</b>	
TKYB to maintain and satisfactorily implement the corporate ESMS, acceptable to the Bank.	07/2024
Vakif to develop and implement an E&S management system (ESMS) that is acceptable to the Bank including elements as required by ESS9.	08/2020

Public Disclosure

**B.3. Reliance on Borrower’s policy, legal and institutional framework, relevant to the Project risks and impacts**

**Is this project being prepared for use of Borrower Framework?**

No

**Areas where “Use of Borrower Framework” is being considered:**

The Project is not being prepared using the Borrower Framework.





#### IV. CONTACT POINTS

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##### Borrower/Client/Recipient

Borrower:	Türkiye Kalkınma ve Yatırım Bankası A.Ş. (TKYB) Bank
Borrower:	Türkiye Vakıflar Bankası T.A.O. (VakıfBank)

##### Implementing Agency(ies)

Implementing Agency:	Türkiye Vakıflar Bankası T.A.O. (VakıfBank)
Implementing Agency:	Türkiye Kalkınma ve Yatırım Bankası A.Ş. (TKYB) Bank

#### V. FOR MORE INFORMATION CONTACT

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#### VI. APPROVAL

Task Team Leader(s):	Birgitte Berg, Alper Oguz, David Knight
Practice Manager (ENR/Social)	Javid Afzal Cleared on 11-Jun-2020 at 17:12:19 EDT
Safeguards Advisor ESSA	Nina Chee (SAESSA) Concurred on 14-Jun-2020 at 14:30:51 EDT