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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED LOAN

IN THE AMOUNT OF US $ 400 MILLION

TO

TÜRKİYE SINAİ KALKINMA BANKASI A.Ş. (TSKB)

WITH THE GUARANTEE OF

THE REPUBLIC OF TURKEY

FOR A

INCLUSIVE ACCESS TO FINANCE PROJECT

May 1, 2018

Finance, Competitiveness And Innovation Global Practice
Europe And Central Asia Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective March 30, 2018)

Currency Unit =	Turkish Lira (TL)
TL 1.00 =	US$ 0.25
US$ 1.00 =	TL 3.94

GOVERNMENT FISCAL YEAR
January 1 - December 31

Regional Vice President:	Cyril E Muller
Country Director:	Johannes C.M. Zutt
Senior Global Practice Director:	Ceyla Pazarbasioglu-Dutz
Practice Manager:	Mario Guadamillas
Task Team Leader(s):	Alper Ahmet Oguz, Alexander Pankov

ABBREVIATIONS AND ACRONYMS

AAOIFI	Accounting and Audit Organization of Islamic Financial Institutions
AFAD	Disaster and Emergency Management Authority
AFD	Agence Française de Développement
BP	Bank Procedure
BRSA	Banking Regulation and Supervision Agency
CAR	Capital Adequacy Ratio
CBRT	Central Bank of the Republic of Turkey
CEDAW	Convention on the Elimination of All Forms of Discrimination against Women
CPF	Country Partnership Framework
DA	Designated Account
DFI	Development Finance Institutions
DGMM	Directorate General of Migration Management
DSCR	Debt Service Coverage Ratio
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia
EDGE	Global Business Certification for Gender Equality
EFIL	Export Finance Intermediation Loan
EIS	Entrepreneur Information System
ES	Enterprise Survey
ESMF	Environmental and Social Management Framework
EU	European Union
EUR	Euro
FEM	Equal Opportunities Model - Firsat Esitligi Modeli
FM	Financial Management
FSAP	Financial Sector Assessment Program
FX	Foreign Exchange
GDP	Gross Domestic Product
GHG	Green House Gas
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
IA2F	Innovative Access to Finance
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFR	Interim un-audited Financial Report
IPF	Investment Project Financing
ISA	International Standards on Auditing
ISCO	International Classification of Occupations
KAGIDER	Women Entrepreneurs Association
LE	Large Enterprise
LFS	Labor Force Survey
MoEU	Ministry of Environment and Urbanization
MoJ	Ministry of Justice

MSME	Micro, Small and Medium Enterprise
NGO	Non-Governmental Organization
NPL	Non-performing Loan
NUTS	Nomenclature of Territorial Units for Statistics
OECD	Organization for Economic Co-operation and Development
OM	Operations Manual
OP	Operational Policy
PAD	Project Appraisal Document
PDO	Project Development Objective
PFI	Participating Financial Institution
PIU	Project Implementation Unit
ROA	Return on Assets
ROE	Return on Equity
RVP	Regional Vice President
SAFE	Survey on the Access to Finance of Enterprises
SCD	Systematic Country Diagnostic
SEGE	Socio-Economic Development index
SOE	Statement of Expenditures
SORT	Systematic Operations Risk Rating Tool
SuTP	Syrians under Temporary Protection
TL	Turkish Lira
TOR	Terms of Reference
TSKB	Türkiye Sınai Kalkınma Bankası
TURKSTAT	Turkish Statistical Institute
UN	United Nations
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
VAT	Value Added Tax
WBG	World Bank Group
YUKK	Foreigners and International Protection

BASIC INFORMATION

Is this a regionally tagged project?	Country(ies)	Financing Instrument
No		Investment Project Financing

[ ] Situations of Urgent Need of Assistance or Capacity Constraints

[✓] Financial Intermediaries

[ ] Series of Projects

Approval Date	Closing Date	Environmental Assessment Category
22-May-2018	30-Jun-2023	F - Financial Intermediary Assessment

Bank/IFC Collaboration
No

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 Name	Cost (US$, millions)
Component 1	200.00
Component 2	200.00

Organizations

Borrower : TÜRKİYE SINAİ KALKINMA BANKASI A.Ş. (TSKB)

Implementing Agency : TÜRKİYE SINAİ KALKINMA BANKASI A.Ş. (TSKB)

PROJECT FINANCING DATA (US$, Millions)

[ ] Counterpart Funding	[✓] IBRD	[ ] IDA Credit	[ ] IDA Grant	[ ] Trust Funds	[ ] Parallel Financing

Total Project Cost:	Total Financing:	Financing Gap:
400.00	400.00	0.00
	Of Which Bank Financing (IBRD/IDA):	
	400.00	

Financing (in US$, millions)

Financing Source	Amount
IBRD-88600	400.00
Total	**400.00**

Expected Disbursements (in US$, millions)

Fiscal Year	2018	2019	2020	2021	2022	2023
Annual	0.00	49.76	106.77	117.65	82.24	43.57
Cumulative	0.00	49.76	156.53	274.18	356.43	400.00

INSTITUTIONAL DATA

Practice Area (Lead)

Finance, Competitiveness and Innovation

Contributing Practice Areas

Climate Change and Disaster Screening

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

Gender Tag

Does the project plan to undertake any of the following?

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

Yes

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

Yes

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

Yes

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Low
4. Technical Design of Project or Program	Low
5. Institutional Capacity for Implementation and Sustainability	Low
6. Fiduciary	Low
7. Environment and Social	Low
8. Stakeholders	Low
9. Other	Low
10. Overall	Low

COMPLIANCE

Policy

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

[ ] Yes [✔] No

Does the project require any waivers of Bank policies?

[ ] Yes [✔] No

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

Legal Covenants

Sections and Description

The Borrower shall maintain a PIU for, inter alia: (a) selecting, and on-lending to, PFIs under Project component 1, (b) monitoring the PFIs' carrying out of the Project, (c) overseeing the Borrower's direct lending to SMEs and LEs under Project component 2, (d) ensuring adherence to all Bank fiduciary and safeguard requirements by Project beneficiaries, and (e) carrying out Project monitoring and evaluation.

Sections and Description

The Borrower shall perform all its obligations under the Operations Manual, including ensuring the PFIs' and Project beneficiaries' adherence to the relevant terms of the manual.

Sections and Description

The Borrower shall comply with the applicable prudential regulations of the Guarantor.

Sections and Description
The Borrower shall, except as the Bank may otherwise agree, ensure that: (a) at least 60% of the Loan is allocated to finance Sub-loans to SMEs; (b) no more than 40% of the Loan is allocated to finance Sub-loans to LEs; (c) at least 30% of the Loan is allocated to finance Women-Inclusive Enterprises; and (d) at least 30% of the Loan is allocated to finance enterprises in Less Developed Sub-regions, of which a percentage agreed to by the Bank shall be allocated to finance enterprises in Least Developed Sub-regions.

Sections and Description
The Borrower shall: (a) within 12 months after the Borrower's signing of a Subsidiary Financing Agreement with a selected PFI, cause the PFI to carry out a gender bias survey of the PFI's loan officers; and (b) organize training on gender finance, and cause the selected PFI to ensure the attendance of said training by its loan officers.

Sections and Description
For Project component 1, the Borrower shall, as appropriate, ensure or cause to ensure the eligibility criteria for selecting PFIs, the terms and conditions for the Borrower to provide Subsidiary Financing to PFIs, the eligibility criteria for selecting beneficiary SMEs, the eligibility criteria for selecting Sub-projects, the terms and conditions for the selected PFIs to provide Sub-loans to SMEs, and the procedures for approving Sub-loans, as set forth in the Operations Manual and Annex 1 of Schedule 2 to the Loan Agreement, are followed.

Sections and Description
For Project component 2, the Borrower shall ensure that the selection criteria of the beneficiary SMEs and LEs, the eligibility criteria for selecting Sub-projects, the terms and conditions for the Borrower to provide Sub-loans to SMEs and LEs, and the procedures for approving Sub-projects, as set forth in the Operations Manual and Annex 2 of Schedule 2 to the Loan Agreement, are followed.

Sections and Description
The Borrower shall utilize principal Repayments, as defined in the Loan Agreement, from the first financing cycle to provide additional Subsidiary Financing to the same or other PFIs under Project component 1 and additional Sub-loans to the same or other SMEs and LEs under Project component 2 ("Reflows") for at least one additional financing cycle, and such Reflows are made in accordance with the terms reflected in the Loan Agreement.

Sections and Description
The Borrower shall: (a) in carrying out the Project, and/or cause the relevant PFIs to, take all necessary measures in accordance with the Operations Manual, the ESMF and ESMPs; (b) ensure, and/or cause the respective PFIs to ensure that no Sub-project involves any Involuntary Resettlement; and (c) ensure that adequate information on the implementation of the ESMF and the ESMPs is suitably included in the Project Reports.

Sections and Description

The Borrower shall not in carrying out Project component 2, and cause the PFIs to not in carrying out Project component 1, provide Sub-loans for any Sub-project unless: (a) the Sub-project has been screened and approved in accordance with the provisions of the Operations Manual and the ESMF; and (b) as the case may be, the Sub-project has been subjected to an environmental and social analysis and its environmental and social impacts have been addressed in accordance with the provisions of the Operations Manual and the ESMF.

Sections and Description

If a proposed Sub-project involves potential land acquisition, the Borrower shall cause the PFIs in carrying out Project component 1, or shall in carrying out Project component 2: (a) perform a study using a land acquisition screening form, satisfactory to the Bank, to justify a determination that no conditions triggering Involuntary Resettlement are involved; (b) ensure that any proposed land acquisition are market-based, involving only willing buyers and willing sellers; (c) in the case of public lands, ensure the transfer documents for the allocation or rental arrangements are included as supporting documentation, and such land is not utilized either informally or formally by any persons as a source of income or means of livelihood; and (d) ensure that no Sub-projects involve Involuntary Resettlement or expropriation.

Conditions

Type	Description
Effectiveness	The Borrower shall have adopted the Operations Manual in a manner satisfactory to the Bank.
Effectiveness	The Borrower shall have entered into with Participating Financial Institutions at least two Subsidiary Financing Agreements, satisfactory to the Bank.

PROJECT TEAM

Bank Staff

Name	Role	Specialization	Unit
Alper Ahmet Oguz	Team Leader(ADM Responsible)		GFCEW
Alexander Pankov	Team Leader		GFCEW
Salih Bugra Erdurmus	Procurement Specialist(ADM Responsible)		GGOPC
Zeynep Lalik	Financial Management		GGOEW

	Specialist		
Ana Maria Munoz Boudet	Team Member	Gender Specialist	GPV03
Anne Muuna Kisumo	Team Member		GFCEW
Arzu Uraz Yavas	Social Safeguards Specialist		GSU03
Esra Arikan	Environmental Safeguards Specialist		GEN03
Jasna Mestnik	Team Member		WFACS
Lisa Lui	Team Member		LEGLE
Mehmet Kemal Sokeli	Team Member		GFCEW
Rinku Chandra	Team Member		GFCAS
Sanjay Agarwal	Social Safeguards Specialist		GSU03

Extended Team

Name	Title	Organization	Location

TURKEY
INCLUSIVE ACCESS TO FINANCE PROJECT

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I. STRATEGIC CONTEXT

A. Country Context

1. **Turkey has achieved commendable economic and social development results since the early 2000s.** 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. The prospect of EU membership and the process of accession negotiations provided an important anchor for reform efforts. All these reform efforts resulted in higher incomes as well as increasing convergence of social indicators to OECD norms. Per-capita income and the incomes of the bottom 40 percent tripled since the start of the century.

2. **Turkey's achievements have recently been challenged by economic and political developments that have contributed to persisting domestic and external imbalances.** With a swift rebound from the effects of the global crisis in 2008-09, real GDP growth averaged 7.3 percent per year between 2010 and 2015, making Turkey one of the fastest growing emerging economies over this period. However, growth was disproportionately driven by domestic demand – consumption and construction investment in particular – boosted by debt-creating capital inflows. Dependence on energy imports and insufficient domestic savings contributed to chronic external imbalances and reliance on external financing. Meanwhile, fiscal management remained prudent with sustainable public debt levels. Since early 2015, Turkey has experienced increased political volatility, including tensions with major trading partners, a long election cycle (with two parliamentary elections in 2015, and constitution referendum in 2017), and a failed coup attempt in July 2016. On the back of these developments, Turkey's GDP growth declined to 3.2 percent in 2016.

3. **In 2017, Turkey experienced a cyclical recovery, supported by a substantial fiscal stimulus and accelerating external demand.** Growth was strong at 7.4 percent in 2017. Expansionary fiscal policy and private sector credit growth driven by the extension of government guarantees through the Credit Guarantee Fund together boosted growth rebound. Exports surged sharply thanks to stronger external demand particularly in the EU. While machinery and equipment investment has started to pick up as of third quarter of 2017, investments remain highly concentrated in construction. Current account deficit widened significantly to $47.2 billion at the end of 2017 from $33.1 billion a year earlier, due to a surge in gold imports, rebound in oil prices and strong domestic demand. Portfolio flows nearly quadrupled to around $24.3 billion compared to 2016. This financed around half of the large current account deficit (5.5 percent of GDP in 2017). Foreign direct investment remained below the average of post-crisis period, concentrated mostly in real estate. The headline inflation reached 11.1 percent (annual on average), well above the inflation target in 2017 and is likely to be the main challenge in the medium term.

4. **The growth outlook remains cautious, with a need to accelerate structural reforms to achieve Turkey's full growth potential.** With the unwinding of the fiscal stimulus and high base effect, GDP growth is expected to moderate in 2018, before picking up again over the medium term. Turkey's external financing needs over the coming years are expected to remain high due to a sizeable current account deficit. US monetary policy tapering in 2018 with continued uncertainty in international financial markets

may lead to an increase in external financing costs and expected gradual tightening of global liquidity. The private sector is particularly vulnerable with high external debt. Lira depreciation over the last few years has strained balance sheets and raised the debt service burdens of the corporate sector, weighing heavily on private investment. Although structural reform implementation resumed during the last two years further progress will be key to restoring investor confidence, mitigating vulnerabilities, and supporting growth. The key structural reforms include: improving investment climate, deepening financial markets, strengthening public expenditure management, and completing overdue labor market reforms. These reforms are critical for sustaining Turkey's impressive economic performance, reducing current account deficit, ensuring further poverty alleviation and shared prosperity, and continuing progress towards high income status.

B. Sectoral and Institutional Context

5. **Turkey's financial system is dominated by the banking sector and has further room for deepening and diversification compared to its peers.** The ratio of the sum of the outstanding domestic private securities, stock market capitalization and the private credit by deposit taking banks to GDP was around 85 percent as of end-2016, below the upper-middle income country average (95 percent) and the levels observed in many peer economies including Brazil (123), Chile (194), China (251), Thailand (253), Korea (289), Malaysia (294) and South Africa (328). Banks represent around 88 percent of total assets in the financial system. Non-bank financial institutions are smaller in size compared with those in peer emerging markets—insurance and pension fund assets constitute less than four percent and two percent of the sector respectively. The leasing sector is also relatively small (leasing receivables at less than 2 percent of GDP) but provides an increasingly important alternative to bank credit, growing by 6.9 per year on average between 2009 and 2016. Capital market intermediation remains limited, with stock market capitalization at 23.5 percent of GDP at end 2016. The financial system is about 123 percent of 2016 GDP by assets, although it has been growing significantly faster than GDP since 2008 (see additional sector background in Annex 4).

6. **The banking sector exhibits good soundness indicators, but vulnerabilities are on the rise.** Capital adequacy ratio was at 16.9, non-performing loans at 2.95, return on assets at 1.63 and return on equity at 16.04 percent as of December 2017. However, capital buffers, liquidity and profitability of the banks have been hovering around lower than pre- global crisis levels in recent years, reflecting a more challenging operating environment. The loan to deposit ratio has breached 127 percent at the end of 2017[1], as the loan portfolio grew rapidly (by 21 percent in 2017), supported by expanded Credit Guarantee Fund. However, the banks have limited sources to support further loan growth due to: (i) low domestic savings rates significantly limiting banks' ability to attract new deposits, (ii) uncertainty on global and domestic economic and political outlook limiting foreign borrowing, and (iii) low profitability discouraging shareholders' increase of capital. As demonstrated by 2016 FSAP, the banking sector vulnerabilities include 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).

[1] When investment and development banks are excluded the ratio falls to 118,9 percent.

7. The bank-dominated financial sector has limited ability to provide the maturity critical to support SMEs and LEs that need to make long-term investments, expand production capacity and increase employment. Long term finance is crucial since it reduces firms' exposure to rollover and interest rate risks, enabling them to undertake longer term fixed investments. Despite some progress to deepen the capital market, the diversity of corporate debt instruments is limited, banks dominate issuances, and bonds are to a considerable extent floating rate securities with an average maturity of 250 days. The banking sector has limited access to long-term finance, despite a recent lengthening in the average funding maturity especially from international sources. The banking system is funded mostly by relatively stable customer deposits, backing 53 percent of total assets. However, about 88 percent of the sector's deposits had maturity below three months, while 79 percent of the lending was concentrated above three months. Characteristically, only 4.1 percent of deposits had maturity of over one year, dropping to only 1.4 percent for Turkish Lira (TL) deposits. The result is a negative liquidity gap (i.e. more liquid liabilities than assets, also known as the liquidity mismatch risk) that peaks in the one to five-year maturity. These imbalances are reflected on the bank loan portfolio and the enterprises' liability structure. About 47 percent of bank loans have less than one-year remaining maturity, 40 percent between 1-5 years, and only 12 percent above 5 years. Consolidated sectoral balance sheet data for manufacturing enterprises offer a similar picture – the share of short term external liabilities below 1 year makes up almost 67 percent of the total external liabilities for the enterprises.

8. 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. Although there have been some reform efforts in recent years[2], access to finance is reported as the biggest obstacle to firms' operations by 19.5 percent of firms of all sizes, more frequently than all other business environment obstacles except tax rates (WBG Enterprise Survey (ES), 2015). Among all investment climate measures, increased access to finance stands out as the most important contributor of firm growth in Turkey, with no differentiating effect on the growth rates of Large Enterprises (LEs) or Small and Medium Size Enterprises (SMEs) (World Bank, 2010)[3]. Moreover, improved access to finance has a positive effect on labor market outcomes, resulting in higher employment growth (World Bank, 2016)[4]. While the relationship between access to finance and employment growth is stronger for SMEs, employment growth by LEs contributes more to productivity gains and overall growth through better quality jobs (Ayyagari et al., 2014)[5]. An overwhelming majority of net job creation by LEs has been formal, and LEs are less likely to create jobs with suboptimal conditions such as lower wages, fewer regulations and lower prospects of career growth (World Bank, 2017)[6].

[2] In terms of access to finance, some progress has been made in recent years such as the introduction of business angels, fund of funds, and crowdfunding as well as launching surety bonds and providing moveable assets as collateral for bank credits.
[3] World Bank, 2010. Seker, Murat; Correa, Paulo Guilherme. 2010. *Obstacles to growth for small and medium enterprises in Turkey*. Policy Research working paper; no. WPS 5323. Washington, DC: World Bank Group.
[4] World Bank, 2016. Ayyagari, Meghana; Juarros, Pedro Francisco; Martinez Peria, Maria Soledad; Singh, Sandeep. 2016. *Access to finance and job growth: firm-level evidence across developing countries*. Policy Research working paper; no. WPS 7604. Washington, DC: World Bank Group.
[5] Ayyagari, Meghana, Demirguc-Kunt, Asli; Maksimovic, Vojislav. 2014. *Who creates jobs in developing countries?* Small Bus Econ (2014) 43: 75. New York, NY
[6] World Bank, 2017. *Creating Good Jobs in Turkey.* Washington, DC: World Bank Group.

9. **SMEs play a crucial role in the Turkish economy, yet face particularly significant access to finance constraints and are more susceptible to credit cycle fluctuations.** SMEs[7] account for 98.8 percent of all enterprises, 72.7 percent of employment, 58.3 percent of investments, and 55.1 percent of exports. Furthermore, SMEs' contribution to gross domestic expenditure and employment in research and development amounts to 17.7 percent and 35.3 percent, respectively (TURKSTAT, 2014/2015). While SMEs and LEs in Turkey both cite access to finance as the top obstacle to their operations, SMEs have lower access to deposit mobilization and credit services, rely more on state-owned banks for loans, are more likely to have their loan applications rejected compared with LEs. Moreover, Turkey's SMEs make more use of internal funds for financing investments and working capital and face higher collateral requirements than their peers in the ECA region (ES, 2015). Recorded perceptions of Turkey's SMEs between 2015 and 2016 demonstrated a net increase in the demand for bank loans and in collateral requirements of 37 percent and 21 percent, respectively (Survey on Access to Finance of Enterprises (SAFE), European Central Bank, 2016). SMEs' share in total credit declined by 5 percentage points to just over 20 percent in the aftermath of the global crisis in 2009 and peaked above 27 percent in early 2017 following the economic upturn and the highly-utilized credit guarantee scheme. This fluctuation demonstrates how SMEs are among the first and most affected frontiers of a financing cycle.

Gender gap in Turkish economy

10. **Turkey ranks only 128th among 144 countries in economic participation and opportunities category of the Global Gender Gap Index** (World Economic Forum, 2017). Despite an upward trend, Turkey's female labor force participation rate is the lowest among all the OECD and ECA countries, standing at 34 percent (TURKSTAT, November 2017), well below the expected level for the country's development stage. Bringing Turkey's female labor force participation rate to the OECD average of 63 percent by 2025 could be a very effective lever of growth, resulting in a 20 percent increase in Turkey's GDP over the same period (McKinsey Global Institute, 2016)[8]. The share of women in employment is lower than that of men across all NUTS-II sub-regions of Turkey and all sectors of the economy except education, human health and social work activities, and activities of households (EIS, 2016; LFS, 2016). Women are particularly underrepresented in managerial positions, with the lowest 40th percentile of enterprises employing no women with registered managerial tasks and duties as defined by the International Classification of Occupations (ISCO) (EIS, 2016). Women make up 31 percent of overall employees and 15 percent of employees with decision-making responsibilities in Turkey (LFS, 2016). Turkey's female-led (i.e., women-owned and/or managed) enterprises are mostly defined as sole-proprietorship in legal form, operating mostly in the wholesale and retail trade sectors, and less common in technology intensive manufacturing sectors.

11. **Turkey's female led enterprises face particular access to finance constraints.** Mirroring the gender gap in access to finance among individuals in the country (25 percentage points difference between women and men in terms of owning an account at a financial institution, and 10 percentage points difference in borrowing from a financial institution[9]), female-led enterprises have lower access to finance compared with men owned enterprises, having fewer open lines of credit or outstanding

[7] SMEs in Turkey are defined as enterprises with less than 250 employees and sales below TL 40 million.
[8] McKinsey&Company, 2016. *Turkey's Potential for the Future: Women in Business.*
[9] WBG Global Findex 2014

loans amounting to lower values, facing stricter collateral requirements, and citing access to finance more frequently as a serious obstacle (ES, 2015). These differences are partly a result of structural differences between male-owned and female-led firms in Turkey – the latter are typically smaller in size and younger. However, explicit or implicit bias by loan officers may play a role in credit allocation decisions, based on international experience (Beck et al 2018, Calcagnini et al 2015, Alesina et al. 2013)[10]. The recent nation-wide survey of bank loan officers commissioned by the World Bank suggests that women-owned enterprises in Turkey are more likely to suffer from the taste-based bias in the credit market compared with men-owned enterprises, independent of their credit riskiness. Alleviating access to finance constraints can help women-owned and/or managed enterprises evolve into higher size categories over time, thus closing the gap with men-owned enterprises in Turkey and peers in the ECA region.

12. **Significant economic gains can be achieved through integrating more women into the labor force**. By fostering gender equality and increasing the proportion of women in their workforce composition, enterprises in Turkey can attract and retain the best talent in the labor pool more easily, improve performance in the workplace thanks to greater availability of diverse perspectives and better serve consumer markets with products aimed at women. Furthermore, they can greatly benefit from increasing leadership opportunities for women, which is demonstrated to contribute to better governance and organizational effectiveness of the enterprise thanks to a richer set of experience and knowledge passed on to the top and tricked down to other employees.[11] Research done by the World Bank looking at the gender differences in labor participation both in wage employment and entrepreneurship finds that of the estimated 22 percent of income per capita that Turkey currently loses as a result of such gender gap, one third is due to the gender gap in entrepreneurship. However, this estimate is based on the assumption that capital is assigned to firms in a competitive and gender-neutral way, and thus might be underestimating the losses (Cuberes and Teignier, 2015)[12].

13. **The Government of Turkey has been taking steps to improve women's employment and access to finance opportunities, in some instances with the support of the World Bank.** A signatory of the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), Turkey is committed to integrating gender equality into all aspects of its legal and policy framework. In terms of employment, Turkey has enacted protections to women in the work place, including equal remuneration for work of equal value, although it has yet to regulate discrimination in hiring practices. The Government has been incentivizing female employment through an employment subsidy program. The 10th National Development Plan for 2014-2018 sets forth the goal to increase women's employment by promoting reconciliation of family and professional life. To this end, the Regulation on Maternity Leave or Part-Time

[10] Beck, T., Behr, P. and Madestam, A., 2018. *Sex and credit: Do gender interactions matter for credit market outcomes?*. Journal of Banking & Finance, *87*, pp.380-396.; Calcagnini, G., Giombini, G. and Lenti, E., 2015. *Gender differences in bank loan access: an empirical analysis.* Italian Economic Journal, *1*(2), pp.193-217; Alesina, A.F., Lotti, F. and Mistrulli, P.E., 2013. *Do women pay more for credit? Evidence from Italy.* Journal of the European Economic Association, 11(suppl_1), pp.45-66.

[11] The results of a survey conducted globally in 2017 with 60,000 employees at more than 100 enterprises reveal that enterprises with three or more women in senior management functions score higher, on average, in all nine dimensions measuring the organizational performance and health of the enterprise, calling for leadership behaviors that are more frequently applied by women (McKinsey&Company, 2017. *Time to accelerate: Ten years of insights on gender diversity*).

[12] Cuberes, David; Teignier, Marc. 2015. *How costly are labor gender gaps ? estimates for the Balkans and Turkey (English)*. Policy Research working paper; no. WPS 7319. Washington, DC : World Bank Group.

Work after Unpaid Leave (2016) enables mothers and fathers in public sector to work part-time for 60, 120 and 180 days for the first, second and third and further pregnancies, respectively, and mothers to take voluntary unpaid leave up to 180 days once the maternity leave ends. The National Development Plan also sets forth a commitment for state support for entrepreneurship and SMEs with a focus on innovation, productivity and employment, growth and collaboration, giving priority to women, youth and social entrepreneurship. In terms of access to finance, men and women in Turkey have equal access to collateral via equal ownership rights to property and equal inheritance rights. Secure property rights to assets alone, however, may not suffice to increase access to finance for women with other significant barriers to lending such as lack of formal employment and decent wages (Field and Torero, 2006, Galiani and Schargrodsky, 2010)[13].

Less developed regions impacted by the SuTP influx

14. **Turkey has become one of the world's top refugee-hosting countries following the mass influx of displaced Syrians into the country since 2011**. Though there are 3.53 million Syrians under Temporary Protection (SuTP) status[14] residing in Turkey, only a small fraction (0.23 million) lives in designated camps along the Syrian border, while the majority resides in urban areas interacting daily with the host communities (Directorate General of Migration Management (DGMM), March 2018). The Muhtar Survey conducted by the World Bank in 2016 reveals that the SuTP population is distributed quite unevenly across the country's 26 regional units (also known as NUTS-II sub-regions), which is also evidenced by the information collected by DGMM at regular intervals. In 16 NUTS-II sub-regions, the number of SuTPs accommodated amounted to more than 1 percent of total population, with the figure as high as 19 percent in two sub-regions. Except for several economic hubs in the western part of the country, the sub-regions with a high concentration of SuTPs mainly include lagging provinces in the south-east that already had low Socio-Economic Development Index[15] (SEGE) values prior to the refugee influx.

15. **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 additional economic and social pressures that risk stalling convergence of less-developed regions. The results of a qualitative survey conducted in late 2017 by the World Bank demonstrate that enterprise owners in areas impacted by the SuTP influx associate the negative economic conditions in the country with the ongoing crisis in Syria; have experienced a drop in domestic and foreign trade; and are negatively affected by the hike in housing and commercial rents due to increased demand following the SuTP influx. Social tensions seem to be on the

[13] Field, Erica, Maximo Torero, 2006. *Do Property Titles Increase Credit Access Among the Urban Poor? Evidence from a Nationwide Titling Program*. Harvard University, Group for Development Analysis, and International Food Policy Research Institute. Galiani Sebastian; Schargrodsky, Ernesto. 2010. *Property Rights for the Poor: Effects of Land Titling*. Journal of Public Economics 94: 700-29.

[14] Syrians under Temporary Protection refer to those Syria nationals who are registered and verified by the Government of Turkey as fleeing persons of concern due to the ongoing Syrian conflict and who enjoy rights and assume responsibilities stipulated in the framework of Article 91 of Law No. 6458 on Foreigners and International Protection (YUKK) dated 04/04/2013 and Temporary Protection Regulation (Council of Ministers Decision No: 2014/6883).

[15] The Socio-Economic Development Index, introduced in 2011 by the Ministry of Development, ranks 26 NUTS-II sub-regions in Turkey according to their development levels using indicators on demographics, employment, education, health, competitiveness, finance, access to infrastructure and quality of life.

rise as enterprise owners cited informal employment of SuTPs[16] as well as damaging and unfair practices of unregistered enterprises set up by SuTPs as obstacles to their operations.

16. **The enterprises in less developed sub-regions impacted by SuTP influx face particularly severe access to finance constraints.** 11 less developed NUTS-II sub-regions accounted for only 16.8 percent of total credit in the economy in end-2017, while accounting for 34 percent of population. The enterprises in these sub-regions, compared with the national average, use deposit mobilization and credit services at a much lower rate, rely more on internal funds for financing investments and working capital, experience higher rejection rates for their recent loans and face collateral requirements more frequently (ES, 2015). 76 percent of respondents to the recent WB survey of firms in a sample of sub-regions impacted by the SuTP influx stated that the availability of external financing has deteriorated in the past 12 months, as witnessed by worsened loan terms and conditions (interest rate, maturity, collateral requirements) compared with the previous year.

17. **The Government of Turkey's current response to the SuTP influx seeks to ease harmonization of refugees into society and economy, including through promotion of economic activity in regions affected by refugee influx.** An estimated USD 25 billion has been hitherto spent by mid-2016[17], largely from national emergency funds, to ease the burden on social services, support acceptable living conditions and prevent negative effects on human capital and health of SuTPs and host communities. The EU contributions totaling EUR 3 billion under the Facility for Refugees in Turkey lead the integrated international response, with UN agencies, bilateral donors and international and national NGOs providing complementary services. In parallel, the Government is seeking to stimulate economic activity in the SuTP impacted sub-regions, aiming to reduce regional disparities, create local employment opportunities, and enhance social cohesion. In particular, Turkey amended its Investment Incentive Regime[18] with the Cabinet Decree No. 2012/3305 dated June 15, 2012, introducing four new investment schemes that took effect on January 1, 2012. Measures aimed at increasing access to finance in the less developed sub-regions affected by the SuTP influx, complemented with the investment incentives, are expected to create a multiplier effect on the investment decisions and labor demand of the existing enterprises. The World Bank has supported the Government's response to refugee influx through a variety of analytical and operational instruments, summarized in Box 1.

[16] While formal firms confront higher labor costs and informal competition, informal firms face higher capital costs and lower productivity. World Bank, 2016. Loayza, Norman V. 2016. *Informality in the Process of Development and Growth*. Policy research working paper; no. WPS7858. Washington, DC: World Bank Group.
[17] From the speech given by AFAD Director on September 27, 2016. *https://www.afad.gov.tr/tr/10544/AFAD-Baskani-Bilden-3-Milyon-Suriyeliye-Ev-Sahipligi-Yapiyoruz*
[18] The Regional Investment Incentive Scheme groups 81 NUTS-III provinces in Turkey under 6 different investment incentive scheme regions according to their SEGE rankings. The existing enterprises in the 4th, 5th and 6th investment incentive scheme regions, which overlap, to a greater extent, with those in the sub-regions affected by the SuTP influx, can benefit from a number of investment incentives such as VAT refund, VAT exemption, customs duty exemption, tax reduction, etc.

Box 1: World Bank Group's response to the refugee influx in Turkey

Protracted displacement of Syrians under Temporary Protection in Turkey requires both short-term and long-term approaches to mitigate potential negative effects, and the World Bank has been supporting the Government of Turkey's response to the refugee influx by providing analytical, policy-related and capacity building assistance as well as through coordination of financial resources. While previous assistance instruments mostly addressed the immediate needs such as needs assessments, data collection, policy formulation, capacity building and key public services in education and health, the proposed Project is complementary to ongoing efforts as it aims at increasing employment opportunities by providing long-term finance to private enterprises in less developed sub-regions impacted by the SuTP influx.

The World Bank's previous and ongoing analytical and operational work on the refugees in Turkey can be outlined under the following three channels:

(i) **Increasing data availability, analytics and diagnostic work.** The World Bank's *Humanitarian Assistance to Refugees in Turkey: Findings from the Roll-out and Ex-Ante Impact Results of the Emergency Social Safety Net* conducted an impact evaluation of the Emergency Social Safety Net (ESSN) program co-implemented by the Ministry of Family and Social Policies (MoFSP), Red Crescent and World Food Programme, assessing the program's targeting efficiency and measuring its impact on refugees, to provide support for partner agencies in designing the next phase of the program for the longer-term. Furthermore, the World Bank conducted surveys on refugees to increase data availability such as the Muhtar Survey in 2016 as well as a nationally-representative quantitative household survey focusing on employment/skills, housing/municipal services, human development and other socio-economic indicators. Additional impact analysis papers, on the other hand, evaluated the effects of refugees on the Turkish labor markets, the effects of refugees on the human capital acquisition of Turkish populations and the root causes of social tension to mitigate them and implement a harmonization strategy.

(ii) **Providing policy and capacity building support.** The World Bank implemented various technical assistance activities with the Migration and Emergency Education Unit of the Ministry of National Education to help integrate refugees into the national education system. Moreover, the World Bank's support for migration management and harmonization issues included technical assistance to the Directorate General of Migration Management of the Ministry of Interior (DGMM) to implement its harmonization strategy, technical assistance and project design to DGMM for the creation of one-stop reception centers and technical support and project design to MoFSP for the national roll-out of the case management system for both refugees and Turkish citizens. Additional technical assistance included on-demand policy briefs and knowledge products on international comparisons of migrant youth parenting tools.

(iii) **Financing and project implementation.** Education Infrastructure for Resilience Project (P162004) helps the Government of Turkey expand its school safety agenda and meet the growing demand for new education facilities to accommodate access to education for SuTPs and host communities. Employment Support Project for Syrians under Temporary Protection and Turkish Citizens Project (P161670) aims at improving the employability of SuTPs and host communities residing in selected localities with high presence of SuTPs via various active labor market programs coordinated with the Turkish Employment Agency (ISKUR) and conducting an impact evaluation of the said programs. Strengthening Economic Opportunities for Syrians under Temporary Protection and Turkish Citizens in Selected Localities Project (P165687) helps the Government of Turkey strengthen its capacity to assess demand for skills, support job creation and entrepreneurship in selected localities with high concentration of SuTPs and includes the design and implementation of a micro-grants scheme to promote entrepreneurship as well as business advisory services to the enterprises accessing the micro-grants.

Climate change risks

18. **As Turkey's economy was growing, the country's total GHG emissions rose from 207.8 MtCO2e (in 1990) to 459.10 MtCO2e (in 2013).** Out of the total emissions, 67.8 percent was generated by the energy sector (which includes fuel combustion for manufacturing industries), 15.7 percent by industrial processes and product use, 10.8 percent by agriculture, and 5.7 percent by waste sector. The industrial processes and product use emissions alone saw an increase of 131.8 percent in greenhouse gas emissions

compared to 1990.[19] Within the context of the 10th National Development Plan, Turkey is taking actions to integrate climate change considerations into the goals of increasing competitiveness of the enterprise sector and raising their contribution to economic growth, including through the program for enhancing productivity in manufacturing and energy efficiency improvement program.

C. Higher Level Objectives to which the Project Contributes

19. **The project is fully consistent with Turkey's Country Partnership Framework (CPF) for the period FY18-FY21, endorsed by the World Bank's Executive Board on August 29, 2017.** The project directly supports two strategic objectives stated in the CPF: (i) enhanced access to finance to underserved segments; and (ii) increased labor force participation of women and vulnerable groups. Drawing on the World Bank's Country Gender Assessment for Turkey (2017), the project places gender challenges facing Turkey, namely in access to finance and women's labor force participation, at center stage. Responding to the socio-economic impact of the SuTP influx on less developed sub-regions, the project also aligns with the policy laid out in the Government of Turkey's Response to the Syrian Refugee Crisis and the Road Ahead.

20. **The project is also aligned with Government of Turkey's 10th National Development Plan 2014-2018, Medium Term Programs 2017-2019 and 2018-2020 and SME Strategy and Action Plan 2015-2018.** Priority Transformation Programs of the 10th National Development Plan 2014-2018, namely the Program for Improving Labor Market Effectiveness and the Program for Enhancing Productivity in Manufacturing, have dedicated components for increasing women's labor force participation and employability, and improving SMEs' access to finance. The Medium-Term Program 2017-2019 includes employment policies that aim to increase women's labor force participation, whereas facilitating SMEs' access to finance is one of the main strategic areas under the SME Strategy and Action Plan 2015-2018.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

21. **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[20].**

B. Project Beneficiaries

22. **Main project beneficiaries are women-inclusive enterprises and enterprises located in less-developed sub-regions affected by the SuTP influx.** At least 60 percent of the Loan will be used to fund the investment and working capital needs of SMEs, defined as firms employing fewer than 250 people. Up to 40 percent of the Loan may also be used to support the investment and working capital needs of

[19] Turkey's Sixth National Communication to the UNFCCC (*https://unfccc.int/files/national_reports/non-annex_i_natcom/application/pdf/6_bildirim_eng_11_reducedfilesize.pdf*).
[20] Definitions of women-inclusive enterprises and less developed sub-regions affected by refugee impact can be found in Section III.A (Project Components) below.

Large Enterprises (LEs), defined as firms employing fewer than 1,000 people.[21] TSKB and other participating banks and leasing companies will also benefit from the project as they will receive long term funding from the World Bank, and further develop their lending products targeting women-inclusive firms and firms in less developed sub-regions. Finally, the general population in the less developed regions impacted by the SuTP influx will indirectly benefit from increased economic activity and employment generated by the Project.

C. PDO-Level Results Indicators

23. **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 Borrower's LE portfolio not financed under the Project; and (iii) volume of Bank support (cumulative, US$ million).

24. **Key intermediate results indicators include**, inter alia: (i) percentage point difference between the total employment growth in beneficiary enterprises under the Project and employment growth in the respective sectors; (ii) percentage point difference between female employment growth in beneficiary enterprises and female employment growth in the respective sectors; (iii) percentage point difference between employment growth in beneficiary enterprises located in less developed regions and employment growth in the respective sectors; (iv) number of women-inclusive beneficiary enterprises; (v) PFIs' financial performance and prudential compliance indicators; (vi)client engagement indicators, and additional indicators, monitored for analytical purposes (see complete list in section VII).

III. PROJECT DESCRIPTION

A. Project Components

25. **The Project will be supported by a loan of USD 400 million, divided into equal-sized wholesale lending and direct lending components.** The credit line, guaranteed by the Government of Turkey, will be intermediated by TSKB, which will be the borrower and implementing agency for the project. At least 60 percent of the total IBRD loan amount will be earmarked for SMEs, and at most 40 percent can be allocated to LEs. To ensure the balanced allocation of resources between the two target groups of beneficiaries, at least 30 percent of the total IBRD loan amount will be allocated to women-inclusive companies, and at least 30 percent will be allocated to companies operating in less developed sub-regions. There will be no sectoral restrictions and sub-finance will be extended on market terms to avoid any distortion. Although IBRD loan will be provided in FX, the PFIs and TSKB will be able to provide loans to beneficiary enterprises in local currency, if required, by making use of country's well-developed currency swap market. TSKB and PFIs will make use of the loan in accordance with the Council of Minister's Decree Number 32 which regulates the foreign exchange lending provisions. Detailed project description, including criteria for the TSKB, PFIs and beneficiary enterprises, can be found in Annex 1.

[21] Large enterprises in least developed priority sub-regions have the cap of 1,500 employees, in order to maximize employment creation in these areas.

26. 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.

27. Beneficiary enterprises will be selected by PFIs based on clearly-defined eligibility criteria, and include: (i) women-inclusive enterprises, and (ii) enterprises in less-developed sub-regions affected by the SuTP influx. In addition to meeting the standard creditworthiness criteria (see the list in Annex 1), a beneficiary SME would need to fall in one of the following two categories:

- *Women-inclusive enterprises*, defined as: (i) owned by women (i.e., with at least one female shareholder with properly documented representative and managing powers[22]); or (ii) managed by women (i.e., with at least one female C-level[23] manager or with at least 25% female representation in mid-level management[24]); or (iii) employing a ratio of women that is higher than the average ratio observed in the respective sector.
- *Enterprises in less developed sub-regions*, i.e., 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. The current list of less developed sub-regions includes 11 NUTS-II sub-regions (out of the country's 26 NUTS-II sub-regions), mostly in the south-eastern half of the country, out of which 7 are priority regions, mostly along the border with Syria. The set of eligible sub-regions could be subject to a review at the project mid-term, to reflect the possible changes in above-mentioned socio-economic indicators.

28. The Project will also support the development of technical capacity of PFIs to lend to women-inclusive enterprises. To this end, each prospective PFI will need to commit to conducting the gender bias survey of loan officers after the signing of Subsidiary Finance Agreement with TSKB, based on the standard methodology agreed with the WB. The survey results will be shared with the top management

[22] Documents evidencing woman shareholder's representative and managing powers include (i) resolution of shareholder meeting delegating authority to woman shareholder, (ii) authorized signatory document for the company including woman shareholder, (iii) a board resolution or a similar document showing female shareholder is sharing statutory managerial responsibility with the other partner or partners or has been appointed by the other partners to exercise such managerial powers. These documents will be detailed in the Operations Manual.
[23] C-level jobs are the top executive or highest level corporate positions in a company including; General Manager, Executive Vice President, Deputy General Manager, Chief Executive Officer, Chief Operations Officer, Chief Finance Officer, Chief Marketing Officer, Chief Technology Officer, and Chief Information Officer.
[24] Mid-level management includes those holding managerial positions excluding chief executives, senior officials and legislators. The share of women among employees holding managerial and leadership positions in Turkish firms stands at 15 percent according to the national statistics.

of PFI to inform the potential training needs of loan officers. PFIs will also commit to participating in the series of training events during project implementation (organized jointly by TSKB and WB) to improve capacity for lending to women-inclusive enterprises.

29. 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 (mostly LEs), while working capital sub-finance extended by TSKB shall not exceed 20 percent of total disbursements under Component 2. The minimum maturity of investment sub-finance and working capital sub-finance extended directly by TSKB will be four and two years, respectively.

30. Beneficiary enterprises will be selected by TSKB based on clearly-defined eligibility criteria, and include: (i) women-inclusive enterprises, and (ii) enterprises in less-developed sub-regions affected by the SuTP influx. While criteria for beneficiary enterprises in less developed sub-regions will be the same as under Component 1, a different, more rigorous approach will be used by TSKB to select the women-inclusive enterprises. Specifically, an eligible women-inclusive firm will need to meet one of the following criteria: (i) have a valid gender certification acceptable to the World Bank; or (ii) obtain a minimum required score when assessed by TSKB against a gender toolkit, acceptable to the World Bank; or (iii) commit to implementation of a credible gender action plan that would result in achieving the minimum required score in the gender toolkit.

31. The gender toolkit will assess the firm's commitment to gender equality using a number of standard indicators such as female representation, management, employment, policies, procedures, etc. (see Box 2 for more detail). The toolkit is being developed by TSKB, with World Bank's support, on the basis on an earlier pilot implemented under a credit line funded by Agence Française de Développement (AFD). Further details on the toolkit, including implementation guidelines and scoring methodology, will be included in the Operations Manual for the Project.

Box 2: TSKB's Gender Toolkit

The Gender Toolkit which will be used by TSKB in the Project draws on earlier experience with gender certification in Turkey and other countries. In Turkey, the World Bank supported the Equal Opportunities Model (FEM) 2011, implemented by Kagider (Turkey's leading women entrepreneurs' association), which gave companies a certificate when their policies and practices met several indicators of equal opportunity for women in the workplace. The FEM model drew on the first certification of this kind, implemented in Mexico, also with the support of the World Bank. During 2016, TSKB piloted a similar model inspired by the French certification of gender equality. The proposed Gender Toolkit reflects this recent WB and TSKB experience, and incorporates relevant good practiced from other international models, including the EDGE certification, UNDP's Gender Equity Seal, and the government promoted Label Egalite (France), Workplace Gender Equality Agency Certification (Australia), and the Commission for Equality in Labour and Employment (Portugal).

The model assesses the women-inclusiveness of the firms in seven areas: (i) Formal corporate commitments, (ii) Opportunities in job recruitment and selection, (iii) Access to training and self-improvement activities, (iv) Promotions and career development opportunities, (v) Support procedures for employees with children, (vi) Procedures for harassment claim management, and (vii) Communications activities. Each area contains indicators where, if adequate action is taken, gender equality in the workplace and a female-friendly environment can be achieved. In total, the model has 15 indicators. These indicators are, in turn, divided into two categories. First category is comprised of essential indicators that are reflective of existing legal requirements in the country or are considered the 'bare minimum' signal of a non-discriminatory employer (for example, existence of facilities such as breastfeeding rooms for companies with over 100 employees). Second category is comprised of additional indicators that are 'additional' steps for gender equality (for example, the existence of a recruitment process that in its design is free from discrimination risk). Companies are required to provide proof (via formal documents, rules and procedures) to TSKB for each indicator.

Each indicator will be assigned a 0 or 1 score based on two metrics, either existence or not of the requirement, or based on the meeting of a specific threshold. The 7 essential (or compliance) indicators are weighted at 70 percent of the final score, while the 8 additional indicators, or beyond compliance indicators, correspond to 30 percent of the final score. A firm is considered female-inclusive, and eligible for financing under the Project, when scoring above the 50 percent of the maximum score (3.65 points out of 7.3). Companies between 30 percent-50 percent of the maximum score (above 2.19 points and below 3.65 points) will be eligible for financing under the Project provided they commit to implementation of a credible time-bound action that would result in achievement of the minimum score of 3.65 points within a year.

32. **The Project's targeted design and dual lending modality aims at maximizing the impact in regard to additionality and outreach.** Placing an emphasis on SMEs and, to a certain extent, on LEs as final beneficiaries, the Project aims to spur investments and generate good-quality employment by enhancing access to longer-term finance for underserved segments that might not have secured loans with similar conditions in the absence of the Project. Focus on beneficiaries of different sizes (SMEs and LEs) and on different themes (women-inclusive enterprises and enterprises in less developed sub-regions impacted by the SuTP influx) calls for a variety of intermediary institutions and models that complement each other. Therefore, the Project's two equal-sized direct lending and wholesale lending components are intended to facilitate the outreach to all targeted segments and achievement of the operation's PDO.

33. **The Project is expected to generate climate change mitigation co-benefits**, even though the Project does not focus on specific sectors of the economy, and climate change impact is not one of the criteria used for the beneficiary enterprises selection. It is expected that financing of sub-loans for investment purposes will enable a number of beneficiary enterprises to achieve energy efficiency improvements (for instance, though the installation of more efficient equipment, replacement of an older facility with a more efficient facility, etc.), which would, in turn result in GHG emission reductions. Using conservative assumptions about the share of investment sub-loans in Project's portfolio, it is estimated

that at least 5 percent of the WB financing will be dedicated to sub-projects that result in energy efficiency improvements. Building on the TSKB's in-house capacity to track and assess climate mitigation impact of its financing, a report estimating the overall climate mitigation co-benefits from the direct lending component will be produced by TSKB at the end of Project implementation.

B. Project Cost and Financing

34. **The proposed investment project financing uses IBRD funds, with TSKB as the Borrower.** The loan repayment will be guaranteed by the Government of Turkey. The total amount of the IBRD loan will be US$400 million. Details of the project cost and financing and allocation among components are provided in the table below.

Table 1: Project Costs and Financing

Project Components	**Project Cost**	**IBRD Financing**
Component 1 (wholesale lending)	US$ 199.5 m	US$ 199.5 m
Component 2 (direct lending by TSKB)	US$ 199.5 m	US$ 199.5 m
Front-End Fee	US$ 1 m	US$ 1 m
Total Costs	US$ 400 m	US$ 400 m

C. Lessons Learned and Reflected in the Project Design

35. **The project will leverage the WB's comparative advantage in offering competitively priced long-term funds, and builds on and expands the successful experience with implementing line of credit interventions in Turkey.** The project design reflects the lessons from a series of recent line of credit operations supporting Turkish exporters, SMEs, and energy efficiency investments (including EFIL I (P065188), EFIL II (P082801), EFIL III (P093568), SME I (P082822), EFIL IV (P096858), etc.), all rated Highly Satisfactory or Satisfactory by the WBG's Independent Evaluation Group. The key lessons learned include: (i) need for a capable Borrower/implementing agency; (ii) a simple and flexible design, allowing for easy operational adjustments if needed; (iii) clear definition of target beneficiary enterprises, with minimum overlap between wholesale and direct lending components (iv) intensive monitoring of key indicators that measure the quality of the loan portfolio; (v) use of quantitative eligibility criteria for selecting PFIs; and (vi) availability and use of sound analysis and data on the financial performance of PFIs, and external audit for verification. Furthermore, the Project seeks to enhance the development effectiveness of IBRD's financial intermediation operations in Turkey by targeting specific segments of the economy – women-inclusive firms and firms in less developed sub-regions – that experience particularly severe access to finance constraints. The innovative design reflects the lessons learned from gender-targeted IBRD credit lines in other regions (e.g., Africa), as well as from recent gender-focused credit lines by IFC and EBRD in Turkey.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

36. **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**. TSKB, the country's oldest, privately owned development bank, has extensive experience in implementing financial intermediation loans funded by the WB and other IFIs, including both direct lending and on-lending through PFIs. TSKB has the unique capacity to implement this innovative, more focused Project, which fits well with the bank's current strategic focus on social inclusion and gender equality (see section on Sustainability for more detail). Additional criteria for selecting TSKB include the bank's financial soundness, quality of credit portfolio, and its strong performance as the Borrower in the ongoing Innovative Access to Finance Project (P147183, as on-lender to PFIs) and several other, completed World Bank projects rated at Satisfactory or Highly Satisfactory by IEG. Annex 5 provides background information on TSKB, and a summary evaluation of TSKB against the World Bank's standard criteria for financial intermediaries listed in OP10.

37. **The Project Implementation Unit (PIU) in TSKB is staffed with capable and qualified personnel for the implementation of the project**. The PIU responsibilities will include: (i) selection of and on-lending to PFIs; (ii) monitoring of PFIs to ensure compliance with project criteria; (iii) coordination of TSKB's direct lending; (iv) responsibility for adherence to all fiduciary and safeguard requirements of the World Bank for final borrowers; and (v) monitoring and evaluation based on agreed results indicators.

38. **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.** TSKB will take the credit risk of PFIs and therefore has a strong incentive to carefully assess their financial health and operational capabilities. The PFI selection is also subject to a no-objection process by the World Bank, while Subsidiary Finance Agreement covenants between TSKB and PFIs require compliance with standard prudential regulations thereby ensuring the financial health of the PFIs. If PFIs do not effectively implement the project, or become incompliant with project requirement, they may be denied their eligibility status under the first come first serve design.

B. Results Monitoring and Evaluation

39. **The Borrower will evaluate progress on the agreed indicators through regular reports.** TSKB's PIU will monitor the PDO and intermediate indicators (that includes SME finance core indicators for Bank-wide monitoring and a gender related indicators) of the Results Framework (see Section VII) on a semi-annual and annual basis. The PIU will prepare semi-annual project reports to be shared with the World Bank. Although the scope of reporting will be significant, TSKB is well accustomed to collecting such information from PFIs and beneficiary enterprises in previous WB projects. A mid-term survey on Citizen Engagement will be conducted by TSKB to seek feedback from the beneficiary enterprises on their satisfaction with the Project. The PIU will discuss the survey results with PFIs and the results will inform project implementation, as appropriate. The financial performance of TSKB will be monitored through independent auditors' reports and separate management letters confirming adherence to prudential norms. Monitoring of core intermediate result indicators such as SME loan portfolio and SME accounts, portfolio quality, profitability, and compliance with prudential regulation at PFI level will enable TSKB and

the WB team to take action in case of a significant deviation for a specific PFI which may impact the progress towards project development objective. The Core Intermediate Results Indicators offer no baseline or targets, as PFIs have not been preselected and the indicator collection is for analytical purposes and project implementation adjustments.

C. Sustainability

40. **The project is expected to facilitate greater intermediation by the financial sector in currently underserved market segments.** Although the IBRD loan amount is relatively small relative to the potential demand for credit from women-inclusive enterprises and enterprises in less-developed sub-regions, the multiplication effect will be achieved through TSKB channeling any sub-finance repayments to other eligible firms, both through PFIs and directly, for the same purpose. More broadly, the WB's financing support under the Project will go hand in hand with strengthening the capacity of TSKB and other PFIs to serve the specific needs of women-inclusive enterprises and enterprises in less-developed sub-regions. For example, TSKB anticipates rolling out the Project's gender toolkit in lending using its own funds, and sharing its experience with this instrument with other PFIs. This is fully consistent with TSKB's current corporate strategy that prioritizes gender equality and social inclusion. TSKB is leading several initiatives on gender and socially responsible finance at the national level and in the international forum of development banks. The World Bank team will provide technical support throughout project implementation for TSKB's gender equality and social inclusion initiatives, and assist with organizing training for PFIs.

41. **To avoid market distortions, TSKB and the PFIs will follow their respective pricing policy according to market conditions.** The cost of on-lending subsidiary financing through PFIs will include, at a minimum, the cost of IBRD funds to TSKB plus an on-lending margin reflecting TSKB's administrative costs, a credit risk margin (or risk markup) associated with the PFI, and fees to the Undersecretariat of Treasury for the Guarantee provision. Ultimate beneficiary cost will add, at a minimum, the PFI's administrative costs, and a credit risk margin (or risk markup) associated with the beneficiary enterprise. The cost of the targeted direct financing by TSKB will include, at a minimum, the cost of IBRD funds to TSKB plus an on-lending margin reflecting TSKB's administrative costs, a credit risk margin associated with the beneficiary enterprise, and fees to the Undersecretariat of Treasury for the Guarantee provision. The only significant market advantage from the World Bank funds is in terms of maturity, facilitating the provision of long-term finance to enterprises without taking on a significant maturity mismatch.

D. Role of Partners

42. **The broader gender equality and regional development agenda in Turkey is supported by a wide range of partners, including EU, EBRD, UN, AFD, and domestic NGOs.** Project design benefited from consultations with these partners.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

43. **The overall implementation risk for the project is assessed as Low.** TSKB is a proven borrower with sound governance and strong financial position, and very familiar with the World Bank's

requirement. As the first privately-owned development and investment bank in Turkey, TSKB has been the Borrower and implementing agency in eight IBRD lines of credit since 2004 and in many others since its establishment in 1950. While the project's more targeted approach is a novelty for both TSKB and the World Bank, the design builds on previous credit lines in Turkey, with performance and outcomes rated satisfactory/highly satisfactory. In particular, TSKB has recently piloted a gender toolkit in a credit line funded by AFD, and a number of prospective PFIs have experience with gender-based credit lines funded by EBRD and IFC. The team's and TSKB's consultations with potential PFIs suggest that there will be adequate demand for credit resources provided under this Project. More broadly, Turkey is facing increased economic and political uncertainty risks, with the potential spillover to the banking system. In light of structural and short-term vulnerabilities described in section I. Strategic Context, A. Country Context, the macroeconomic risk for the Project is rated as Substantial. However, the potential economic downturn or banking sector instability would render the proposed operation even more relevant, as it could play a counter-cyclical role in the provision of long term finance to underserved market segments.

44. TSKB and the PFIs are well positioned to manage the currency risks for both financial institutions and final beneficiaries. Currency risk in WB-funded credit lines is a two-tier issue. The first tier involves IBRD's FX funding provided to financial institutions, which are best positioned to manage any currency risk or mismatches within the regulatory limits required by the Project as an eligibility criterion for PFIs. Turkey has a well-developed currency swap market, and TSKB and other banks use it actively to manage their FX positions and offer loans in TL to clients who prefer this option. In addition, the IBRD Loan includes embedded conversion options which the Borrower (in this case, TSKB) can use to receive funding in local currency. Furthermore, very long-term maturity and terms of the World Bank's lending to TSKB reduces rollover risk, repricing risk and cost of funding. The second tier involves FX-denominated lending to final beneficiaries, whose ability to pay back an FX loan will be thoroughly assessed by TSKB and the PFIs, as they will be assuming final beneficiaries' risk. Moreover, Turkey's recently issued regulations introduce robust DSCR-based restrictions[25] for FX borrowing by SME borrowers. Based on the experience from previous lines of credit in Turkey, TSKB and the PFIs have the capacity to offer financing in local currency to final beneficiaries that prefer this option and are encouraged to lend in any currency to meet the financing needs of final beneficiaries.

VI. APPRAISAL SUMMARY

A. Economic and Financial (if applicable) Analysis

45. The beneficiary enterprises are expected to gain better access to financial resources, with longer maturity. Sub-projects to be funded are not pre-identified and project costs are not defined; thus, a traditional economic/financial analysis cannot be conducted. Nevertheless, the project is expected to increase availability and tenors of financing offered by participating banks and leasing companies. The project will also build capacity at TSKB and PFI level to develop new business lines focusing on products for women-inclusive enterprises and less-developed regions affected by refugee influx. The cost of on-lending subsidiary financing through PFIs will include, at a minimum, the cost of IBRD funds to TSKB plus an on-lending margin reflecting TSKB's administrative costs, a credit risk margin associated with the PFI, and fees to the Undersecretariat of Treasury for the Guarantee provision. Ultimate cost of credit for the beneficiary enterprise will include, at a minimum, the PFI's administrative costs, and a credit risk margin

[25] Debt-Service Coverage Ratio (DSCR) is a measure of the cash flow available to pay current debt obligations.

associated with the particular borrower. The cost of the targeted direct financing by TSKB will include, at a minimum, the cost of IBRD funds to TSKB plus an on-lending margin reflecting TSKB's administrative costs, a credit risk margin associated with the borrower enterprise, and fees to the Undersecretariat of Treasury for the Guarantee provision.

46. **There is potential demand for credit from women-inclusive enterprises and enterprises in less developed sub-regions by the SuTP influx, and adequate distribution network for credit in the eligible sub-regions.** Previous lines of credit with gender focus by AfD, EBRD and IFC experienced no significant difficulties with disbursements, while the loan amount earmarked for enterprises in less developed sub-regions impacted by the SuTP influx is relatively small compared with the total credit disbursed by the banking sector in these sub-regions. The World Bank team conducted consultations with six potential PFIs during the project preparation mission, all of whom confirmed preliminary interest in the project design, as well as with EBRD and IFC to get informed of lessons learned in similar previous lines of credit. The Turkish financial sector consists of 46 banks with high representation in major cities overall, of which 6 banks (particularly Garanti Bank and İş Bank) have full nationwide presence with extensive branch network in all 81 NUTS-III provinces in Turkey. These figures do not include participation (Islamic) banks or leasing companies, which may also participate in the Project as PFIs.

47. **The financial condition of TSKB is analyzed in Annex 5, and the financial terms and conditions are laid out in Annex 1.** Provisions are included in the project to ensure that interest rates reflect the cost of intermediating project funds and appropriate risk margins.

B. Technical

48. **The design is based on extensive analysis conducted by the World Bank and TSKB.** On the WB side, the project design takes into account: (i) the findings of recent Enterprise Surveys; (ii) the analytical work supported by the Sweden TF on women's economic opportunities in Turkey; (iii) the findings of the Regional Investment Climate Assessments reports produced for each of the 26 NUTS-II sub-regions; and (iv) the recent surveys on the bank lending to women-owned companies and on business environment in SuTP impacted regions. The project design has also benefited from extensive analysis on gender and regional development issues in Turkey conducted by TSKB.

C. Financial Management

49. **A recent financial management review rated the project financial management systems at TSKB as highly satisfactory**. TSKB is an experienced borrower with the World Bank and has adequate systems and procedures in place to manage the project. The Bank team will check continued soundness of TSKB and its compliance with domestic prudential regulations through the annual entity audit reports. TSKB will appropriately document and account for the project transactions. TSKB will prepare Interim Un-Audited Financial Reports (IFRs) semi-annually and send them to the World Bank no later than 45 days after the end of each calendar semester. TSKB and the World Bank will agree on the IFR format during project negotiations. The financial statements of the project as well as the entity financial statements prepared in accordance with IFRS will be subject to independent audit on an annual basis. The Access to Information policy of the World Bank requires the project audit report to be publicly available. The World Bank may approve disclosure of an abridged version of the audit report when the financial statements have proprietary or commercially sensitive information.

D. Procurement

50. **As per Section II. General Considerations of the Procurement Regulations for Investment Project Finance (IPF) Borrowers (July 2016, revised November 2017), the Procurement Regulations do not apply to the procurement of Goods, Works, Non-consulting Services, and Consulting Services financed by the Bank through loans made by eligible financial intermediaries to private borrowers.** The project proposes TSKB to act as the financial intermediary and will on-lend funds directly to eligible beneficiary SMEs and LEs. Accordingly, the World Bank's Procurement Regulations will not apply for the Project.

E. Social (including Safeguards)

51. **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 SuTP influx. Furthermore, additional positive social impacts of the project include: (i) possible generation/retainment of overall and female employment; (ii) indirect support for social cohesion through promotion of economic opportunities in less developed sub-regions where there is a direct competition for jobs between Syrian refugees and host communities; (iii) action plans and/or commitments made by final beneficiaries to improve their gender-friendly workplace practices; and (iv) minimization/elimination of possible taste-based gender bias among loan officers assessing loan applications at TSKB and PFIs. The project will collect sex-disaggregated indicators for analytical purposes and towards the design of future projects. Namely, an indicator will cover the number of SME and LE beneficiaries assessed via the gender toolkit under the direct lending component, and female employment generated/preserved in all final beneficiaries will be tracked. 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. Another positive impact of the Project will be generated through local procurement, as beneficiary enterprises will (where possible) make effort to prioritize local goods and services in procurement.

52. **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 the 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. and includes a land acquisition screening form guiding TSKB and PFIs for assuring that any land needed for the Project is taken by the willing buyer-willing seller method.

53. **Citizen engagement.** At mid-term, TSKB will conduct a satisfaction survey with the beneficiaries regarding the sub-finance received in term of their needs. However, the survey will not include satisfaction with financial intermediary (FI, i.e. TSKB) decisions related to the size, terms and conditions that need to be market based (as required by OP 10). Survey results will be reported in mid-term and will inform project implementation, as appropriate.

54. **Grievance redress.** TSKB will have a grievance mechanism in place 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. Any concerns or requests regarding project finance or implementation of

sub-projects will be addressed through the mechanism. TSKB will ensure that the Grievance Redress Mechanism (GRM) will be established prior to the start of project implementation. TSKB will inform direct beneficiaries and beneficiaries of PFIs at the time of contract on the availability of a project GRM.

F. Environment (including Safeguards)

55. The project is categorized as FI since the implementing agency, TSKB, is a financial intermediary. TSKB will either directly finance sub-projects with beneficiary enterprises, or on-lend the IBRD loan proceeds to PFIs, which will then finance sub-projects. It is expected that the sub-projects to be financed with working capital or investment loans will be mostly in the manufacturing sector. Investment loans may involve purchase of machinery/replacement of small scale construction works. Therefore, it is expected that there will be no large scale significant and/or irreversible impacts, and sub-projects are expected to be Category C or, less frequently, Category B in nature. Sub-projects in environmental Category A will not be eligible for funding. TSKB has a well-established environmental and social risk rating tool and project management system, which will be useful while monitoring the projects financed directly by TSKB or by PFIs during sub-project screening, evaluation, approval and implementation. ESMF prepared by TSKB and approved by the World Bank, which will be annexed into the Project Operations Manual, includes evaluation forms to assess the environmental due-diligence of SMEs and LEs applying for loans, as well as the negative list for projects which are not eligible for WB financing. Moreover, ESMF provides guidance for additional requirements if an investment sub-finance includes activities that will lead to a classification of Category B for sub-projects. ESMF differentiates the respective responsibilities of the World Bank, TSKB and PFIs regarding the environmental review and clearance procedures. The policy on Physical/Cultural Property was also triggered assuming that some renovation works could be conducted in buildings which has cultural significance and listed under the cultural inventory of Ministry of Culture and Tourism. ESMF also guides the sub-borrower for chance find procedures (in case there is a new construction which leads to a chance find). ESMF is disclosed in country on March 6, 2018, and on WB's external website on March 7, 2018. The framework will also be a part of the legal agreements signed between TSKB and PFIs. The latter will be informed that implementing ESMF will be their responsibility, their capacity of implementation will be assessed by TSKB, and any necessary improvement measures will be assigned by TSKB (with the assistance of WB if requested). Environmental issues of final beneficiaries and their sub-projects will be addressed through the sub-finance environmental eligibility assessments, which will be carried out in accordance with both Ministry of Environment and Urbanization (MoEU) Environmental Assessment Regulation and World Bank safeguard policies.

G. Other Safeguard Policies (if applicable)

56. International Waterways (OP/BP 7.50) was not triggered, and it is clearly stated in the draft OM that the project will not finance any investment that can involve the use or pollution of, or otherwise affect the quality or quantity of water of international waterways, as defined in OP/BP 7.50. The waterways identified as NOT an international waterway (do not trigger OP 7.50) in Turkey are as follows: Susurluk, North Aegean, Gediz, Kuçuk Menderes, Buyuk Menderes, Western Mediterranean, Antalya, Sakarya, Western Black Sea, Yesilirmak, Kizilirmak, Konya Kapali, Eastern Mediterranean, Seyhan, Ceyhan, Eastern Black Sea, Burdur, Afyon, Orta Anadolu, and Van.

H. World Bank Grievance Redress

57. **Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit *http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress service*. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

VII. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY : Turkey
Inclusive Access to Finance

Project Development Objectives

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.

Project Development Objective Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: 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.		Text	0	>1	Semi-annual	Project reports.	PIU and PFIs
Description: No description provided.							
Name: Ratio of the average maturity of LE sub-financing		Text	0	>1	Semi-annual	Project reports	PIU and PFIs

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
under the project, over the average maturity of the Borrower's LE portfolio not financed under the project.							
Description: No description provided.							
Name: Volume of Bank support (cumulative, US$ million)		Amount(USD)	0.00	400.00	Semi-annual	Project reports.	PIU and PFIs
Description:							

Intermediate Results Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Number of PFIs under the project (cumulative)		Number	0.00	5.00	Semi-annual	Project reports.	PIU
Description: No description provided.							
Name: Percentage point difference between female employment growth in		Text	0	>0	Annual	Project reports.	PIU and PFIs

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
beneficiary enterprises and female employment growth in the respective sectors							
Description: The above indicator will report on generation/preservation of female employment among beneficiary enterprises compared with generation/preservation of total female employment in respective sectors of economic activity. Data on female employment growth in beneficiary enterprises under the Project will be collected directly from final beneficiary enterprises. The data on total female employment growth in the respective sectors will be collected from the annual Labor Force Survey conducted by TURKSTAT and from Entrepreneur Information System database, to which the World Bank has access thanks to an MoU signed with the Ministry of Science, Industry and Technology. Detailed information on data collection techniques and calculation methodology for the above indicator will be included in the Operations Manual for the Project.							
Name: Percentage point difference between employment growth in beneficiary enterprises located in less developed regions and employment growth in the respective sectors		Text	0	>0	Annual	Project reports.	PIU and PFIs
Description: The top indicator will report on generation/preservation of employment among final beneficiaries in less developed sub-regions impacted by the SuTP influx compared with generation/preservation of total employment among enterprises in less developed sub-regions impacted by the SuTP influx in respective sectors of economic activity. Data on employment growth in beneficiary enterprises in less developed sub-regions impacted by the SuTP influx under the Project will be collected directly from final beneficiary enterprises. The data on total employment growth in less developed sub-regions impacted by the SuTP influx in the respective sectors will be collected from the annual Labor Force Survey conducted by TURKSTAT and from Entrepreneur Information System database, to which the World Bank has access thanks to an MoU signed with the Ministry of Science, Industry and Technology. Detailed information on data collection techniques and calculation methodology for the above indicator will be included in the Operations Manual for the Project.							
Name: Number of enterprises assessed		Number	0.00	50.00	Semi-annual.	Project reports.	PIU

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
through Project Gender Toolkit (Cumulative)							
Description: No description provided.							
Name: Number of beneficiary enterprises that completed implementation of a gender action plan (Cumulative)		Number	0.00	15.00	Semi-annual.	Project reports.	PIU
Description: No description provided.							
Name: Number of women-inclusive beneficiary enterprises financed under the project (cumulative)		Number	0.00	70.00	Semi-annual	Project reports.	PIU and PFIs
Description: No description provided.							
Name: Percent of sub-finance financing beneficiary enterprise sub-projects in the least developed sub-regions (Cumulative)		Text	0	7.5	Semi-annual	Project reports.	PIU and PFIs
Description: No description provided.							

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Number of SME beneficiaries financed under the project (cumulative)		Number	0.00	240.00	Semi-annual	Project reports.	PIU and PFIs
Description: No description provided.							
Name: Number of LE beneficiaries financed under the project (cumulative)		Number	0.00	40.00	Semi-annual	Project reports.	PIU and PFIs
Description: No description provided.							
Name: Based on Core Indicator: Outstanding MSME finance portfolio (USD million)		Text	n/a	n/a	Annual	Project reports.	PIU and PFIs
Description: Note: The top indicator will report the entire portfolio of the PFIs, not just the Bank-financed portion, as per Core Indicator guidance. However, the accompanying text will report by PFI, both the entire portfolio and the Bank-financed portion.							
Name: Based on Core Indicator: Number of active MSME finance accounts (not cumulative)		Text	n/a	n/a	Annual	Project reports.	PIU and PFIs
Description: Note: The top indicator will report the entire portfolio of the PFIs, not just the Bank-financed portion, as per Core Indicator guidance. However, the							

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
accompanying text will report by PFI, both the entire portfolio and the Bank-financed portion.							
Name: Based on Core Indicator: Portfolio Quality: Portfolio at risk (%)		Text	n/a	n/a	Semi-annual	Project reports.	PIU and PFIs
Description: Note: The indicator follows the local definition for NPLs, as regulated by BRSA. The top indicator will report on TSKB. However, the accompanying text will report by PFI, both the entire portfolio and the Bank-financed portion.							
Name: Based on Core Indicator: Financial Sustainability: Return on Assets (%)		Text	n/a	n/a	Semi-annual	Project reports.	PIU and PFIs
Description: Note: The top indicator will report on TSKB. However, the accompanying text will report by PFI.							
Name: Based on Core Indicator: Financial Sustainability: Return on Equity (%)		Text	n/a	n/a	Semi-annual	Project reports.	PIU and PFIs
Description: Note: The top indicator will report on TSKB. However, the accompanying text will report by PFI.							
Name: Compliance with prudential regulation		Text	n/a	n/a	Semi-annual	Project reports.	PIU and PFIs

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Description: Note: The top indicator will report on TSKB. However, the accompanying text will report by PFI.							
Name: Citizen Engagement: SMEs and LEs that feel project sub-finance reflected their needs		Text	0	n/a	Mid-term	Survey basis	PIU and PFIs
Description: A mid-term survey will measure the satisfaction of the sub-beneficiary (SMEs and LEs) with the sub-finance in term of their needs (e.g. short-term working capital and long-term investment finance). This will exclude satisfaction with FI decisions related to the size, terms and conditions that need to be market based (as required by OP10). The survey results will inform the project implementation, as appropriate.							
Name: Percentage point difference between the total employment growth in beneficiary enterprises under the Project and employment growth in the respective sectors		Text	0	>0	Annual	Project reports	PIU and PFIs
Description: The top indicator will report on generation/preservation of employment among final beneficiaries compared with generation/preservation of total employment in respective sectors of economic activity. Data on employment growth in beneficiary enterprises under the Project will be collected directly from final beneficiary enterprises. The data on total employment growth in the respective sectors will be collected from the annual Labor Force Survey conducted by TURKSTAT and from Entrepreneur Information System database, to which the World Bank has access thanks to an MoU signed with the Ministry of Science, Industry and Technology. Detailed information on data collection techniques and calculation methodology for the above indicator will be included in the Operations Manual for the Project.							

Target Values

Project Development Objective Indicators

Indicator Name	Baseline	YR1	YR2	YR3	YR4	End Target
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.	0	>1	>1	>1	>1	>1
Ratio of the average maturity of LE sub-financing under the project, over the average maturity of the Borrower's LE portfolio not financed under the project.	0	>1	>1	>1	>1	>1
Volume of Bank support (cumulative, US$ million)	0.00	75.00	150.00	300.00	400.00	400.00

Intermediate Results Indicators

Indicator Name	Baseline	YR1	YR2	YR3	YR4	End Target
Number of PFIs under the project (cumulative)	0.00	2.00	4.00	5.00	5.00	5.00
Percentage point difference between female employment growth in beneficiary enterprises and female employment growth in the respective sectors	0	>0	>0	>0	>0	>0
Percentage point difference between employment growth in beneficiary enterprises	0	>0	>0	>0	>0	>0

Indicator Name	Baseline	YR1	YR2	YR3	YR4	End Target
located in less developed regions and employment growth in the respective sectors						
Number of enterprises assessed through Project Gender Toolkit (Cumulative)	0.00	10.00	20.00	40.00	50.00	50.00
Number of beneficiary enterprises that completed implementation of a gender action plan (Cumulative)	0.00	1.00	6.00	11.00	15.00	15.00
Number of women-inclusive beneficiary enterprises financed under the project (cumulative)	0.00	5.00	25.00	55.00	70.00	70.00
Percent of sub-finance financing beneficiary enterprise sub-projects in the least developed sub-regions (Cumulative)	0	2	4	6	7.5	7.5
Number of SME beneficiaries financed under the project (cumulative)	0.00	60.00	120.00	180.00	240.00	240.00
Number of LE beneficiaries financed under the project (cumulative)	0.00	10.00	20.00	30.00	40.00	40.00
Based on Core Indicator: Outstanding MSME finance portfolio (USD million)	n/a	n/a	n/a	n/a	n/a	n/a
Based on Core Indicator: Number of active MSME finance accounts (not cumulative)	n/a	n/a	n/a	n/a	n/a	n/a
Based on Core Indicator: Portfolio Quality: Portfolio at risk (%)	n/a	n/a	n/a	n/a	n/a	n/a

Indicator Name	Baseline	YR1	YR2	YR3	YR4	End Target
Based on Core Indicator: Financial Sustainability: Return on Assets (%)	n/a	n/a	n/a	n/a	n/a	n/a
Based on Core Indicator: Financial Sustainability: Return on Equity (%)	n/a	n/a	n/a	n/a	n/a	n/a
Compliance with prudential regulation	n/a	n/a	n/a	n/a	n/a	n/a
Citizen Engagement: SMEs and LEs that feel project sub-finance reflected their needs	0	value	value	value	value	n/a
Percentage point difference between the total employment growth in beneficiary enterprises under the Project and employment growth in the respective sectors	0					>0

ANNEX 1: DETAILED PROJECT DESCRIPTION

COUNTRY : Turkey
Inclusive Access to Finance

1. **This Annex describes the following in summary:**

(a) Loan terms and conditions between the World Bank and TSKB;

(b) Subsidiary financing terms and conditions for TSKB's on-lending/financing to PFIs;

(i) Eligibility criteria for the PFIs that will be financed by TSKB;

(ii) Terms and conditions of subsidiary financing between TSKB and PFIs;

(c) Sub-finance terms and conditions for PFI's and TSKB' sub-project financing to SMEs and LEs;

(i) Eligibility criteria for the SMEs and LEs;

(ii) Terms and conditions of sub-finance between PFIs and SMEs;

(iii) Terms and conditions of sub-finance between TSKB and SMEs/LEs.

(a) Loan terms and conditions between the World Bank and TSKB

- TSKB's selection of IBRD Loan characteristics will take place prior to Negotiations.
- TSKB will extend a minimum of USD200 million of Loan proceeds to PFIs, subject to a maximum USD 40 million equivalent per PFI, using Subsidiary Financing Agreements (SFAs). The selection of PFIs and all SFAs are subject to prior review and acceptance by the World Bank.
- TSKB will directly lend a maximum of USD200 million of the Loan proceeds.
- A minimum of 30 percent of the Loan proceeds will be extended as sub-finance to women-inclusive enterprises in Turkey, and a minimum of 30 percent of the Loan proceeds will be extended as sub-finance to existing enterprises in the less developed sub-regions impacted by the SuTP influx.
- Total sub-finance to SMEs and LEs extended by PFIs and TSKB together must constitute at least 60 percent and at maximum 40 percent of the Loan proceeds, respectively.
- TSKB will maintain, during project implementation, a Project Implementation Unit (PIU) with procedures, responsibilities and staffed with qualified personnel capable of implementing all aspects of the project in a satisfactory manner.
- TSKB must be in compliance with the requirements (including the Environment and Procurement requirements) listed in the Operations Manual (OM).
- For the duration of the project implementation period, beginning with the year 2017, TSKB will submit annually an entity audit report that is prepared in accordance with International Auditing Standards and International Financial Reporting Standards.
- TSKB must submit relevant reports including the semi-annual un-audited Interim Financial Reports (IFRs) certified by its Management.
- TSKB will be responsible for monitoring and reporting of the PDO and Intermediate Results indicators listed in Project Appraisal Document (PAD) Annex 1 "Results Framework and Monitoring" and the Additional indicators in the OM and PAD Annex 2 (Implementation Arrangements) on a quarterly, semi-annual and yearly basis.

- After at least US$30 million equivalent has been collected as PFIs' repayments of the World Bank funds, TSKB will on-lend/finance the reflows to PFIs within 1 year to be used for the purpose consistent with the Project Development Objective. Total reflows to be on-lent/financed for at least one financing cycle will be an amount equal to the aggregate of the Subsidiary financing, and the selection of PFIs under the reflows will be independent of earlier commitments. Similarly, TSKB will use the repayments under the direct lending component for new loans to women-inclusive firms and firms in less developed sub-regions, for at least one financing cycle.

(b) Subsidiary financing terms and conditions for TSKB's on-lending/financing to PFIs

TSKB will on-lend/finance PFIs for a minimum of USD200 million of the Loan proceeds. Before the final selection of PFIs, TSKB will submit to the World Bank the evaluation report, including financials of the proposed PFIs, together with a request to include the PFIs in the project. The World Bank will review and clear TSKB's assessment by conveying no objection for each PFI's participation. The no objection will be based on the criteria included in this section. TSKB will send the financials of the proposed PFIs to the World Bank every year, within the first six months of each calendar year, to ensure that the selected PFIs continue to meet the required criteria until full repayment of the Sub-financing. The no objection is not required for the continued participation of the selected PFIs.

(i) Eligibility criteria for the PFIs that will be financed by TSKB

PFIs will be selected based on their expression of interest in participating in the project, their implementation capacity, their capacity to present timely reports on project indicators and on acceptance by TSKB of their credit risk, as well as the following eligibility criteria:

For Banks, unless agreed otherwise by the World Bank:

- Total assets during the last two fiscal years to exceed a minimum of USD1 billion equivalent on average.
- Compliance with all BRSA prudential norms.
- General compliance with legal and regulatory requirements applicable to the banking industry, including but not limited to such prudential regulations as minimum capital adequacy ratio, maximum foreign currency exposure limits, maximum large exposure to single and connected clients and maximum insider lending limits, etc., duly certified by the banks' auditors every year and confirmed by the management as of June 30 every year. In such cases where the year-end audits have already been completed, the bank shall submit a management letter confirming its compliance with prudential norms.
- Audited IFRS financial statements as per BRSA requirements.
- Adequate organization, management, staff and other resources necessary for its efficient operation.
- Application of appropriate procedures for appraisal, supervision, and monitoring of Sub-projects, including for the efficient evaluation and supervision of the procurement and environmental elements of Sub-projects.
- Commitment to undertake the Gender Bias Survey for their loan officers, and training on gender awareness in accordance with parameters which will be provided in the Operations Manual (OM).

For Leasing Companies, unless agreed otherwise by the World Bank:

- Total lease receivables during the last two fiscal years to exceed a minimum of USD50 million equivalent on average.
- New lease volume during the last two fiscal years to exceed a minimum of USD50 million equivalent on average.
- The leasing company should have been profitable for at least two out of the last three years of operations.
- Compliance with all BRSA prudential norms.
- General compliance with legal and regulatory requirements applicable to the leasing industry, including but not limited to such regulations as minimum equity capital, the total sum of lease exposures, and the total sum of exposures to related parties, duly certified by the leasing companies' external auditors every year and confirmed by management as of June 30 every year. In such cases where the year-end audits have already been completed, the leasing company shall submit a management letter confirming its compliance with prudential norms.
- Audited financial statements as per BRSA requirements.
- Adequate organization, management, staff and other resources necessary for its efficient operation.
- Application of appropriate procedures for appraisal, supervision, and monitoring of Sub-projects, including for the efficient evaluation and supervision of the procurement and environmental elements of Sub-projects.
- Commitment to undertake the Gender Bias Survey for their loan officers, and training on gender awareness in accordance with parameters which will be provided in the Operations Manual (OM).

(ii) Terms and conditions of subsidiary financing between TSKB and PFIs (banks and leasing companies)

- PFIs must start and remain in compliance with the eligibility criteria for PFIs.
- The funds available to PFIs will depend upon the availability of funds to TSKB from the World Bank.
- Maturity of funds from TSKB to Bank PFIs will be at least 6 years and for Leasing PFIs at least 5 years.
- The cost of subsidiary funds will include, at a minimum, the cost of the World Bank funds to TSKB plus an on-lending margin covering: (a) TSKB's administrative costs, and (b) risk premium.
- PFIs will be responsible for ensuring that sub-beneficiaries comply with the applicable Turkish environmental legislation and regulations, and the World Bank policy on environmental assessment.
- PFIs will provide TSKB with a set of documentation for all sub-finance to enable it to maintain all project records and make them available for ex-post review by the World Bank or by external auditors as necessary.
- PFIs, SMEs and LEs will be required to provide reasonable information for the purpose of monitoring and impact assessment for 5 years after the project closing date or as may be otherwise requested by the World Bank and/or the Borrower.

(c) Sub-finance terms and conditions for PFIs' and TSKB's sub-project financing to SMEs and LEs

(i) Eligibility criteria for the SMEs and LEs, unless agreed otherwise by the World Bank

- For the purpose of this project, SMEs are defined as firms with fewer than 250 employees.
- For the purpose of this project, LEs are defined as firms with fewer than 1,500 employees if they locate in a least developed sub-region and as firms with fewer than 1,000 employees if they locate in any other region.
- Women-inclusive enterprises eligible for PFI lending include SMEs in Turkey that: (i) have at least one female shareholder with representative and managing powers; and/or (ii) have at least one female C-level[26] manager; and/or have 25 percent or a higher ratio of women in middle management[27]; and/or (iii) employ a ratio of women that is higher than the average ratio observed in the respective sector[28].
- Women-inclusive enterprises eligible for TSKB direct lending include SMEs and LEs that: (i) have a valid gender certification acceptable to the World Bank; and/or (ii) obtain a minimum required score when assessed by TSKB against a gender toolkit, acceptable to the World Bank; and/or (iii) commit to implementation of a credible gender action plan that would result in achieving the minimum required score in the gender toolkit. Details on the gender certification programs, gender toolkit, its implementation guidelines and minimum scores will be included in the Operations Manual for the Project.
- Enterprises in the less developed sub-regions impacted by the SuTP influx include SMEs and LEs in-Turkey's NUTS-II sub-regions with scores below the 40 percentile in the composite index based on five major socio-economic indicators including SuTP concentration, Socio-Economic Development Index, Job Quality Index, unemployment rate, and female labor force participation rate. The three largest cities, Istanbul, Ankara and Izmir, will be excluded. The applicable set of sub-regions could be subject to a review at the project mid-term and revised if needed, to reflect the changes in above-mentioned socio-economic indicators. At least 25 percent of the Loan proceeds extended as sub-finance to enterprises in less developed sub-regions will be earmarked for enterprises in the *least developed* priority sub-regions that were already lagging behind before the SuTP influx. The least developed sub-regions are NUTS-II sub-regions with scores below the 25 percentile in the composite index. The list of the least developed sub-regions will be provided in the OM and could be subject to a review at the project mid-term and revised if needed.
- All women-inclusive SMEs and LEs in Turkey and existing SMEs and LEs in the sub-regions impacted by the SuTP influx, with private ownership more than 50 percent and irrespective of their sector, will be eligible for participation as sub-beneficiaries on a commercial basis.

(ii) Terms and conditions of sub-finance between PFIs and SMEs, unless agreed otherwise by the World Bank:

- Sub-finance will be evaluated in accordance with PFIs' normal project and finance evaluation guidelines. TSKB will ascertain the eligibility of the sub-finance provided by PFIs to ensure that they meet the project requirements, but will not conduct its own evaluation of sub-finance.
- The cost of sub-finance by PFIs to SMEs will include, at a minimum, the cost of the project funds to PFIs plus an on-lending margin reflecting: (a) PFI's administrative costs, and (b) a risk premium.

[26] C-level jobs are the top executive or highest level corporate positions in a company including; General Manager, Executive Vice President, Deputy General Manager, Chief Executive Officer, Chief Operations Officer, Chief Finance Officer, Chief Marketing Officer, Chief Technology Officer, and Chief Information Officer.
[27] Mid-level management includes those holding managerial positions excluding chief executives, senior officials and legislators.
[28] Figures for average ratio in the respective sectors can be collected annually from Labor Force Survey (LFS) and Entrepreneur Information System (EIS) database.

- The amount of an individual sub-finance will not exceed USD3.5 million equivalent for SMEs, except as the World Bank shall otherwise agree. Total exposure, the aggregate amount of outstanding sub-finance to any one SME, shall not exceed USD6 million equivalent.
- Sub-finance to SMEs may be made for working capital and investment purposes.
- All working capital and investment sub-finance to SMEs must have at least two and three years maturity, respectively.
- For all sub-finance above USD1 million equivalent, sub-beneficiaries must submit a cash flow statement following a format agreed upon with TSKB.
- For sub-finance above USD1 million equivalent, sub-beneficiaries must have a financial debt/equity ratio of not more than 85:15 after the receipt of the sub-finance, unless agreed otherwise by the World Bank.
- For sub-finance above USD1 million equivalent, sub-beneficiaries should, after the receipt of the sub-finance, be projected to maintain a financial debt service coverage ratio at least 1.1:1 and calculated on an average basis over the sub-finance life, unless agreed otherwise by the World Bank.
- The first sub-finance by each PFI, irrespective of size, will be subject to prior review by the World Bank. Sub-finance to be provided to a SME exceeding USD2.5 million equivalent will require prior approval by the World Bank.
- All sub-finance not subject to prior review may be subject to ex-post review by TSKB and/or by the World Bank to verify compliance with the terms and conditions.
- The relevant authorities must certify that the SMEs (sub-beneficiaries) and sub-projects meet environmental laws and standards in force in Turkey. The World Bank policy on environmental assessment will also be complied with.
- Sub-projects classified as World Bank's Environmental Category A or involving dams and international waterways will not be financed.
- Sub-projects that would trigger OP 4.12, and goods, works, non-consulting services and consultant services on the World Bank's negative list will not be eligible for financing.
- Contracts from sub-beneficiaries where the contracted firms are on the World Bank lists of debarred or suspended firms will not be eligible for financing.
- SMEs will be required to keep copies of invoices for all expenses financed with working capital and investment finance received under the project. SMEs will be required to send to their respective PFIs invoice and other documentation for sub-finance, except in the case of working capital expenditures. For working capital expenses, which would be financed by working capital loans, SMEs will either (i) send the list of working capital expenses financed with working capital loan to the PFIs or (ii) based on a due diligence undertaken by the World Bank, eligible Financial Institution's calculations on working capital gap will be accepted to document working capital expenditures. Ultimately the invoices/documentation for all expenses will be kept by the SME and made available to the PFIs, TSKB, and the World Bank if requested.
- Sub-beneficiaries will be required to provide reasonable information for the purpose of monitoring and impact assessment for 5 years after the project closing date, or as may be requested by the World Bank, and/ or the Borrower.
- Sub-beneficiaries are required to comply with the World Bank's "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants (revised as of July 1, 2016)" (Anti-Corruption Guidelines) as part of its general obligations relating to the receipt and use of such proceeds of the Loan. The Turkish translation of the Anti-Corruption

Guidelines is available on the World Bank website in Turkey (http://www.worldbank.org.tr). The English language version will apply in case of any inconsistency between the Turkish and the English versions of the Anti-Corruption Guidelines.

(iii) Terms and conditions of sub-finance between TSKB and SMEs/LEs, unless agreed otherwise by the World Bank

- Sub-finance will be evaluated in accordance with TSKB's normal project and finance evaluation guidelines. TSKB will ascertain the eligibility of the sub-finance to ensure that they meet the project requirements.
- The cost of sub-finance by TSKB to SMEs and LEs will include, at a minimum, the cost of IBRD funds to TSKB plus an on-lending margin reflecting: (a) TSKB's administrative costs, and (b) a risk premium.
- The amount of an individual sub-finance will not exceed USD 3.5 million equivalent for SMEs, and USD 6 million equivalent for LEs except as the World Bank shall otherwise agree. Total exposure, the aggregate amount of outstanding sub-finance to any one SME or LE, shall not exceed USD 6 and USD 10 million equivalent respectively.
- Sub-finance to SMEs and LEs may be made for working capital and investment purposes. Total working capital sub-finance extended directly by TSKB shall not amount to more than 20 percent of the Component 2 proceeds.
- All working capital and investment sub-finance to both SMEs and LEs must have at least two and four years maturity, respectively.
- For all sub-finance above USD1 million equivalent, sub-beneficiaries must submit a cash flow statement following a format agreed upon with TSKB.
- For sub-finance above USD1 million equivalent, sub-beneficiaries must have a financial debt/equity ratio of not more than 85:15 after the receipt of the sub-finance, unless agreed otherwise by the World Bank.
- For sub-finance above USD1 million equivalent, sub-beneficiaries should, after the receipt of the sub-finance, be projected to maintain a financial debt service coverage ratio at least 1.1:1 and calculated on an average basis over the sub-finance life, unless agreed otherwise by the World Bank.
- The first sub-finance by TSKB, irrespective of size, will be subject to prior review by the World Bank. Sub-finance to be provided to an SME exceeding USD 2.5 million equivalent and to an LE exceeding USD 5 million equivalent will require prior approval by the World Bank.
- All sub-finance not subject to prior review may be subject to ex-post review by the World Bank to verify compliance with the terms and conditions.
- The relevant authorities must certify that the SMEs and LEs (sub-beneficiaries) and sub-projects meet environmental laws and standards in force in Turkey. The World Bank policy on environmental assessment will also be complied with.
- Sub-projects classified as World Bank's Environmental Category A or involving dams and international waterways will not be financed.
- Sub-projects that would trigger OP 4.12, and goods, works, non-consulting services and consultant services on the World Bank's negative list will not be eligible for financing.
- Contracts from sub-beneficiaries where the contracted firms are on the World Bank lists of debarred or suspended firms will not be eligible for financing.

- SMEs and LEs will be required to keep copies of invoices for all expenses financed with working capital and investment finance received under the project. SMEs and LEs will be required to send to the Borrower invoice and other documentation for sub-finance, except in the case of working capital expenditures. For working capital expenses, which would be financed by working capital loans, SMEs and LEs will either (i) send the list of working capital expenses financed with working capital loan to the Borrower, or (ii) based on a due diligence undertaken by the World Bank, Borrower's calculations on working capital gap will be accepted to document working capital expenditures. Ultimately the invoices/documentation for all expenses will be kept by the sub-beneficiary and made available to the Borrower, and the World Bank if requested.
- Sub-beneficiaries will be required to provide reasonable information for the purpose of monitoring and impact assessment for 5 years after the project closing date or, as may be requested by the World Bank and/or the Borrower.
- Sub-beneficiaries are required to comply with the World Bank's "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants (revised as of July 1, 2016)" (Anti-Corruption Guidelines) as part of its general obligations relating to the receipt and use of such proceeds of the Loan. The Turkish translation of the Anti-Corruption Guidelines is available on the World Bank website in Turkey (http://www.worldbank.org.tr). The English language version will apply in case of any inconsistency between the Turkish and the English versions of the Anti-Corruption Guidelines.

ANNEX 2: IMPLEMENTATION ARRANGEMENTS

COUNTRY : Turkey
Inclusive Access to Finance

Project Institutional and Implementation Arrangements

1. **TSKB will be responsible for the implementation of the project.** The PIU responsibilities will include: (i) selection of and on-lending to PFIs; (ii) monitoring of PFIs to ensure compliance with project criteria; (iii) coordination of TSKB's direct lending; (iv) responsibility for adherence to all fiduciary and safeguard requirements of the World Bank for final borrowers; and (v) monitoring and evaluation based on agreed results indicators.

2. **The Project Implementation Unit (PIU) in TSKB is staffed with capable and qualified personnel for the implementation of the project**. TSKB, the country's oldest, privately owned development bank, has extensive experience in implementing financial intermediation loans funded by the WB and other IFIs, including both direct lending and on-lending through PFIs. TSKB has the unique capacity to implement this innovative, more focused Project, which fits well with the bank's current strategic focus on social inclusion and gender equality. TSKB's strong performance as the Borrower in the ongoing Innovative Access to Finance Project (P147183, as on-lender to PFIs) and several other, completed World Bank projects rated at Satisfactory or Highly Satisfactory by IEG. Furthermore, TSKB has a dedicated PIU for World Bank projects which is proficient in all implementation aspects, including financial management, safeguards, and results monitoring and reporting. TSKB is also uniquely positioned to manage a wholesale credit line with PFIs since TSKB is operating an online portal for PFIs to manage their applications and to transfer documents and reporting which is integrated with internal Management Information Systems (MIS).

Financial Management

3. **The Project will consist of a direct TSKB lending component and a wholesale component intermediated by PFIs which will be banks or leasing companies.** The accounting and auditing requirements, as well as prudential requirements applicable to the banks and leasing companies in Turkey, are determined by the Banking Regulation and Supervision Agency (BRSA).

   a. Banks submit quarterly financial reports to the BRSA and publish semi-annual and annual audited financial statements. The applicable standards for accounting and auditing are the standards issued by the Public Oversight, Accounting and Auditing Standards Authority, which are in compliance with the International Financial Reporting Standards and International Standards on Auditing. The external auditors are required to report to the BRSA on the banks' internal control and risk management systems. They also report directly to BRSA with respect to certain issues that may threaten the going concern nature of a bank or factoring company.

b. Leasing companies prepare solo and consolidated financial statements based on the standards published by the Public Oversight, Accounting and Auditing Standards Authority. They need to publish their independent audit reports for five years as per BRSA regulations.

Accounting

4. **Staffing: TSKB will integrate the Project in its systems and use own staff for the financial management of the project. Accordingly, TSKB staff in various departments will manage and implement the Project as part of their regular routine.** The staff assigned to work on the project are highly qualified and experienced. There is a clear segregation of duties between the staff with respect to evaluation of applications, review of documents and approvals, accounting and reporting. TSKB will document work flows specific to the project in the Operations Manual (OM).

5. **Information systems: TSKB will use its regular procedures and processes for the direct lending part.** For the wholesale part, TSKB will use the web based application, approval and monitoring system that is now in use for ongoing wholesale operations. The system is accessible by the PFIs from the web. The PFIs make their first application as well as their withdrawal applications by using the system and can check the status of each application real time from the web. The system has adequate security levels and is integrated into the management information system of the bank. The semi-annual IFRs will be generated automatically by the system.

6. **Accounting Policies and Procedures: TSKB uses the chart of account determined by the BRSA for all financial institutions and will integrate the project into its own accounting system.** TSKB will complete the OM that will include detailed work flow charts, as well as the templates for the IFRs by the disbursement period.

Internal Control and Internal Auditing

7. **TSKB has adequate internal control procedures for the ongoing World Bank financed project.** These controls are documented in the web-based system (APEX online). The procedures are described in the following paragraphs and TSKB will tailor the system for the specific requirements of this Project.

8. **PFIs apply for a loan through the web-based system.** Upon receipt of the application, the system generates an e-mail to the APEX (Wholesale Funding) Unit, established within the Development Finance Institutions Department (DFI). The APEX Unit is responsible for technical evaluation and approval of the proposed project/invoice as well as the review of the eligibility criteria for the beneficiary enterprises. After the review and approval by two authorized signatories from the APEX Unit, the PFI uploads the approved invoices for withdrawal. The eligibility criteria for the beneficiary enterprises are verified by the APEX Unit as described in the Operations Manual.

9. **When the PFI uploads the approved invoices following the communication with DFI, the Loan Operations department makes verifications for the date, number and amount of invoices and enters them into the main management information system of TSKB.** At this stage DFI makes a final check to confirm that the invoice is the same as the initially approved invoice and notifies the PFI that it can request

a money transfer from the APEX online system. There are additional controls embedded in the system that prevent the PFI from making a request exceeding the approved invoice amount.

10. The transfer request of the PFI is processed by the Loan Operations department that is responsible for distributing the request to the relevant units within TSKB, namely the Treasury, DFI, Operational units. The transfer is then executed and recorded in the accounting system using the appropriate codes for the specific project.

11. TSKB has an internal audit department and the project related transactions will be subject to a regular review. TSKB has an Audit Committee structured pursuant to the Banking Law No. 5411 with the following duties: establishing the internal audit and risk management systems in compliance with legal and internal regulations, ensuring that they function effectively and sufficiently, assessing the external auditors and monitoring the appointed auditor's activities on a regular basis, ensuring that the internal audit functions of subsidiaries on a consolidated basis are coordinated in line with regulations, reporting to the Board of Directors that the internal audit, risk management, internal control unit and the external auditors operate within the framework of the related regulations and informing the Board of any issues or incidents that could have an adverse impact on the continuity or soundness of the Bank's activities, analyzing and submitting quarterly internal audit reports to the Board of Directors, which are prepared by responsible internal auditors according to 2nd paragraph of 29th article of the Banking Law No: 5411. Furthermore, the duties and responsibilities of the Executive Risk Committee, which is responsible for preparing, getting approval from the Board of Directors and monitoring the execution of the risk management strategies and policies the Bank, were transferred to the Audit Committee as of September 2012.

12. TSKB shows good performance with respect to the Principles of Corporate Governance issued by the Capital Markets Board in 2011, scoring 9.54 out of 10 in 2017 as per the assessment of an accredited corporate governance and credit rating company. The score shows that TSKB has, to varying degrees, identified and actively managed all significant corporate governance risks through comprehensive internal controls and management systems. The company's performance is considered to stand for best practice, and it had almost no deficiencies in any of the areas rated.

13. TSKB has published policies and internal regulations for its operations, including regulation on the prevention of laundering proceeds of crime and financing of terrorism.

Financial Reporting

14. TSKB will maintain records and will integrate the accounting for the funds provided for the project into its systems. The interim un-audited financial reports (IFR) will be prepared semi-annually and will be sent to the Bank no later than 45 days after the end of the period. The templates will be determined at the Negotiation stage. The OM for the project will also include the format of the IFRs.

Auditing

15. KPMG audited TSKB's IFRS financial statements for the years ended December 31, 2015, and 2016 in accordance with ISA and issued an unmodified (clean) audit opinion on the IFRS financial statements. The auditors changed in 2017 due to mandatory rotation. Ernst Young audited the 2017 financial statements prepared in accordance with the BRSA regulations. The auditors issued a qualified [29]opinion and the report is published on TSKB's website.

16. TSKB will integrate the audit of the project financial statements into the audit TOR. The auditors' TOR should also include the preparation of an End-Year Certificate of compliance of TSKB with the prudential and regulatory norms set forth and enforced by the BRSA. The following Table 1 identifies the audit reports that will be required to be submitted by TSKB:

Table 1. Audit reports and due dates

Audit Report	Due Date
Entity financial statements	Within six months after the end of each calendar year
Certificate of compliance with BRSA's prudential regulations	Within six months after the end of each calendar year
Project financial statements (PFS) including SOEs and designated account. PFS include sources and uses of funds and designated account statement	Within six months after the end of each calendar year and also at the closing of the project

17. The entity audit reports are published on TSKB's website as per BRSA regulations. Project audit reports will be subject to the World Bank's Access to Information Policy and accordingly be made publicly available. The World Bank may approve disclosure of an abridged version of the audit report when the financial statements have proprietary or commercially sensitive information.

Funds Flow

18. TSKB will open a USD denominated designated account (DA) for the project. Funds from the Loan will be made available to PFIs following submission of payment documents to TSKB -- for investment sub-loans invoices for the goods; alternative procedures will apply for working capital loans and the procedures will be described in the OM.

[29] The audit opinion is qualified due to excess provisions booked by TSKB for possible worsening in the economic and market conditions. The net income of TSKB is thus understated by TL 148 Million (approximately USD 37 Million) in the consolidated financial statements.

Retroactive Financing

19. **Retroactive Financing is an aggregate amount not exceeding equivalent of US$ 80 Million (20 percent of the loan amount).** Withdrawals up to US $ 80 million (20 percent of the loan amount) of the loan may be made for payments made prior to the Signature Date of the Loan Agreement but on or after July 1, 2017 in respect of sub-loans and subsidiary financing made in accordance with criteria and procedures set forth in the Loan Agreement and OM.

Disbursements

20. **The detailed disbursement procedures will be communicated in the Disbursement and Financial Information Letter (DFIL) that is an integral part of the legal package of the Project.** General arrangements are described below.

21. **TSKB will have one designated account with an authorized allocation of US$ 100 million.** Withdrawal applications will be submitted by TSKB with two signatures indicated in their list of authorized signatures. Applications for replenishment of the DA will be submitted to the Bank on a semi-annual basis, and will include appropriate supporting documents as defined in the DFIL.

22. **Disbursements from the IBRD Loan Account will follow the transaction-based method, i.e., traditional World Bank procedures: Advances, Direct Payments and Reimbursement (with full documentation and against Statements of Expenditures (SOEs)).** Full documentation in support of SOEs would be retained by the banks for at least two years after the World Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made. This information will be made available for review during supervision by World Bank staff and for annual audits which will be required to specifically comment on the propriety of SOE disbursements and the quality of the associated record-keeping.

Procurement

23. **As per Section II. General Considerations of the Procurement Regulations for IPF Borrowers (July 2016, revised November 2017), the Procurement Regulations do not apply to the procurement of Goods, Works, Non-consulting Services, and Consulting Services financed by the Bank through loans made by eligible financial intermediaries to private borrowers.** The project proposes TSKB to act as the financial intermediary and will on-lend funds directly to eligible beneficiary SMEs and LEs. Accordingly, World Bank's Procurement Regulations will not apply to the Project.

Environmental and Social (including safeguards)

24. **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.

25. The sub-finance under the Loan should be subjected to an environmental review process by PFIs (including TSKB as PFI under direct lending). However, TSKB will have the overall responsibility for successful implementation of the project in line with World Bank's safeguard policies. The PFIs will be responsible for environmental classification of sub-beneficiaries/sub-projects, and for ensuring that each sub-finance and sub-project proposal includes an evaluation of its environmental impact and clearance documentation from the local authorities. Once environmental requirements are established and recommendations incorporated into the sub-project, PFIs will appraise the proposed sub-finance package. Adherence to any environmental obligations established by the regulatory authorities and the World Bank safeguard requirements will be monitored by the PFIs.

26. In order for the World Bank to fulfill its fiduciary responsibilities, for the first sub-project application submitted to PFI, the PFI will provide information on the sub-project to TSKB for the World Bank's "prior review", together with its proposed classification of the sub-project (Category B or C) and the advice it proposes to give to the sub-beneficiary regarding additional actions needed to fulfill World Bank requirements as will be detailed in the OM. After TSKB reviews the environmental documentation for the first application, it will submit all the documents to the World Bank for final review. In addition, if first sub-project is not Category B project, first Category B sub-projects of PFIs will follow the same procedure. Following this "pilot" period, the World Bank 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. After the prior review process, TSKB will share the relevant due-diligence, environmental and social documentation with the World Bank via frequent progress reports.

27. TSKB will assess the capacity of the PFIs and offer them training if necessary. The capacity assessment tools, assessment results and the improvement measures identified for the PFIs will also be shared with the World Bank (in advance of the World Bank's no-objection for the first 2 applications and then periodically in progress reports to be submitted to World Bank). Independent of prior or post review process, the improvement measures (if suggested during the PFI review of TSKB) should be taken prior to the respective PFI's beginning of on-lending/financing WB funds for any sub-projects with potential safeguards impacts.

28. World Bank Operational Policy (OP) 4.12 on Involuntary Resettlement will not be triggered. Should any proposed sub project have land acquisition requirements, TSKB and PFIs will perform a screening study for all their sub projects using a land acquisition screening form which will be included in the OM, to justify that there are no conditions triggering OP 4.12. In cases where the sponsor needs to acquire new private lands for the proposed sub-project, TSKB and PFIs will ensure that the acquisition takes place through a willing buyer/ willing seller transaction on the market allowing for the seller to refuse or negotiate on the price. Where public lands are to be utilized, the transfer documents for the allocation of land or rental arrangements will be provided as supporting documents to the land acquisition screening form. PFIs are obliged to deliver filled Land Acquisition Screening Forms and supporting documents to TSKB for clearance on sub-project basis, where there is land acquisition as described in OM. Any proposed land that i) requires involuntary acquisition or expropriation and/or ii) with formal or informal use, that will trigger OP 4.12, will not be eligible for financing under the scope of this project.

Monitoring and Evaluation

29. **Key indicators for measuring the PDO include:**

(a) 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.
(b) Ratio of the average maturity of LE sub-financing under the project, over the average maturity of the Borrower's LE portfolio not financed under the project.
(c) Volume of Bank support (cumulative, USD million).

30. **Key Intermediate Results indicators include:**

(a) Number of PFIs under the project (cumulative)
(b) Ratio of the employment growth of beneficiary enterprises under the project relative to the employment growth in the respective sectors.
(c) Ratio of the female employment growth of beneficiary enterprises under the project relative to the female employment growth of the respective sectors.
(d) Ratio of the employment growth of beneficiary enterprises in the less developed sub-regions relative to the employment growth of the respective sectors.
(e) Number of beneficiary enterprises assessed through Project Gender Toolkit (cumulative).
(f) Number of beneficiary enterprises that completed implementation of a gender action plan (cumulative).
(g) Number of women-inclusive beneficiary enterprises financed under the project (cumulative).
(h) Percent of sub-finance financing beneficiary enterprise sub-projects in the least developed sub-regions.
(i) Number of SME beneficiaries financed under the project (cumulative).
(j) Number of LE beneficiaries financed under the project (cumulative).
(k) Based on Core Indicator: Outstanding MSME finance portfolio (USD million).
(l) Based on Core Indicator: Number of active MSME finance accounts (not cumulative).
(m) Based on Core Indicator: Portfolio Quality: Portfolio at risk (%).
(n) Based on Core Indicator: Financial Sustainability: Return on Assets (%).
(o) Based on Core Indicator: Financial Sustainability: Return on Equity (%).
(p) Compliance with prudential regulation.
(q) Citizen Engagement: beneficiary enterprises that feel project sub-finance reflected their needs.

31. **In addition to the above indicators, the project will monitor some additional indicators.** These indicators will be monitored for analytical purposes only and will serve as useful inputs to define policies and projects aimed at further improving SMEs' and LEs' access to finance in Turkey:

(a) Performance of SMEs and LEs under the project: (i) Increase in employment.
(b) Profile of SMEs and LEs under the project: (i) Size of SMEs and LEs (number of employees); (ii) Economic sector; (iii) Geographical location.
(c) Profile of finance under the project: (i) Size of sub-finance; (ii) Maturity of sub-finance; (iii) Interest or markup of sub-finance.

32. **Section VII (Result Framework and Monitoring") includes the data sources, frequency, and responsibility for data collection for the Project Development Objective and Intermediate Results Indicators.** Table 2 below describes the arrangements for monitoring for the Additional Indicators.

33. **The data will come from TSKB's internal reports.** Although the scope of reporting will be significant, TSKB has worked with the World Bank team in the design of the appropriate reporting templates in the OM, and it is well accustomed to collecting such information from its clients. Financial performance of TSKB will be monitored through independent auditors' reports and separate management letters confirming adherence to prudential norms.

Table 2. Additional Indicators and Arrangements for Monitoring

Indicator Name	Frequency	Data Source/ Methodology	Responsibility for Data Collection
Performance of SMEs and LEs under the project			
Increase in employment	Annual	Project report	PIU
Profile of SMEs and LEs under the project			
Size of SMEs and LEs (number of employees)	Annual	Project report	PIU
Economic sector	Annual	Project report	PIU
Geographical location	Annual	Project report	PIU
Profile of finance under the project			
Size of sub-loan	Annual	Project report	PIU
Maturity of sub-loan	Annual	Project report	PIU
Interest or markup of sub-loan	Annual	Project report	PIU

ANNEX 3: IMPLEMENTATION SUPPORT PLAN

COUNTRY : Turkey
Inclusive Access to Finance

Strategy and Approach for Implementation Support

The implementation support strategy was developed taking into account the risks and mitigation measures related to the operation and targets the provision of flexible and efficient implementation support to the Borrower and other stakeholders.

(a) Technical Support – IBRD implementation support missions will include Financial Sector Specialist(s) to help guide TSKB with project implementation. Also, continuous technical support will be available both at WB office in Turkey and at WB HQ.
(b) Financial Management – During project implementation, the World Bank will supervise the project's financial management arrangements in two ways: (i) review the project's semi-annual project reports as well as TSKB's and the project's annual audited financial statements; and (ii) during the World Bank's implementation support missions, review the project's financial management and disbursement arrangements to ensure compliance with the World Bank's minimum requirements. As required, a World Bank-accredited Financial Management Specialist will assist in the supervision process.
(c) Safeguards – A Project Implementation Unit (PIU) is already established. Although TSKB has implemented World Bank Loans before, implementation support will need to be provided, especially by the World Bank Specialist on Environmental Safeguards and World Bank Specialist on Social Safeguards.

Implementation Support Plan and Resource Requirements

Time	Focus	Skills Needed	Resource Estimate
Year 1	Task management	Project management	7 staff weeks (SWs)
	Technical reviews	Financial Sector Specialist	6 SWs
	FM supervision	FM Specialist (Ankara based)	3 SWs
	Safeguards	Environmental and social safeguard specialists (Ankara based)	3 SWs
Year 2-4	Task management	Project management	5 SWs per year
	Technical reviews	Financial Sector Specialist	4 SWs per year
	FM supervision	FM Specialist (Ankara based)	3 SWs per year
	Safeguards	Environmental and social safeguard specialists (Ankara based)	3 SWs per year

ANNEX 4: ADDITIONAL SECTOR BACKGROUND

COUNTRY : Turkey
Inclusive Access to Finance

Financial Sector

1. **Turkish financial system is dominated by the banking sector and has further room for deepening and diversification compared to its peers.** Despite substantial progress since 2000-2001 crisis, the Turkish financial system is well below the levels reached in peer economies. As of end-2016, the sum of the outstanding domestic private securities, stock market capitalization and the private credit by deposit money banks to GDP amounted to around 85 percent, below the upper-middle income country average (95 percent) and levels observed in many peer economies, including Brazil (123), Chile (194), China (251), Thailand (253), Korea (289), Malaysia (294) and South Africa (328). The banking sector represents around 88 percent of total assets in the financial system as of December 2017. The sector comprises 51 banks, including 5 participation (Islamic Finance) banks, and is characterized by strong competition. The non-bank financial sector, on the other hand, has room for development: despite a relatively large number and variety of non-bank financial institutions, the sector accounted for just 12 percent of the financial system's assets in 2016. Non-bank financial institutions are smaller in size compared with those in peer markets—insurance and pension fund assets constitute less than four percent and two percent of the sector, respectively. Capital market intermediation remains small. The financial system is about 123 percent of GDP in 2016 by assets and has been growing faster than GDP since 2008.

2. **The modern Turkish banking sector's foundations were laid by a comprehensive reform program undertaken in the aftermath of the 2000-01 financial crisis.** The banking sector reforms included: (i) the establishment of an independent monetary authority; (ii) the transparent recapitalization of the banking system; (iii) the introduction of a new banking sector legal framework with the establishment of an independent regulator and introduction of stronger regulation and supervision; (iv) restructuring and partial privatization of the State-Owned Banks (SOBs), and (v) resolution of troubled banks.

3. **The reforms resulted in the emergence of a stronger and more competitive banking sector, which went through the most recent global financial crisis without any state intervention and exhibits good soundness indicators.** According to the official data reported by BRSA, capital adequacy ratio (CAR) and core CAR stood at 16.9 percent and 14 percent, respectively, and non-performing loan (NPL) ratio - having reached as high as 5.30 percent in 2009 - declined to 2.95 percent as of December 2017. Return on assets (ROA) and return on equity (ROE) amounted to 1.63 percent and 16.04 percent, respectively, as of December 2017. However, capital buffers, liquidity and profitability of the banks have been hovering around lower than pre- global crisis levels, although remaining comfortably above the regulatory thresholds. The loan to deposit ratio has breached 127 percent by end of 2017[30], and banks have limited sources to support further loan growth due to: (i) chronically low domestic savings rates significantly limiting banks' ability to attract new deposits, (ii) the uncertainty about global and domestic economic and political outlook limiting foreign borrowing, and (iii) lower profitability compared to the pre-global

[30] When investment & development banks are excluded the ratio falls to 118,9 percent.

crisis period discouraging shareholders' increase of capital. Loan growth accelerated sharply following the scale-up of government-supported Credit Guarantee Fund scheme in early 2017, rising to 21 percent (FX-adjusted, 12-month moving average) in December 2017 from 10 percent in end-2016 (Box 1). Rapid loan growth outpacing deposit growth resulted in increased deposit interest rates and increased reliance on FX-funding, which has reached 22 percent of total bank liabilities in end-2016 from 14 percent in 2010.

Box 1. Turkish banking sector ratios

Source: BRSA

4. **Despite strong loan growth in the banking sector, especially in the SME segment, structural challenges persist, particularly in the availability of long-term financing.** Although deposits constitute the main funding source for banks, corresponding to 53 percent of the assets, 94 percent (according to

date of final maturity)[31] of the bank deposits have a maturity of less than three months. On the other hand, 79 percent of the total loans have maturities above three months as of September 2017 (Bankers Association and BRSA, 2017). As a result, there is a negative liquidity gap that peaks in the one to five-year maturity bucket. With the loan to deposit ratio breaching 127 percent, banks are having to increasingly rely on foreign funding; however, this is limited and the average maturity of the sector's foreign liabilities barely breaches 4.5 years (average maturity of the foreign borrowing of banks is around 59 months as of November 2017 (CBRT)).

5. **The development of capital markets is a challenging but critical endeavor to ensure stable sources of long-term financing and secure sustainable growth.** Reducing dependency on external (and volatile) financing, smoothing the volatility of credit cycle in the current bank-centric model and meeting the strong demand for long term investments in areas such as infrastructure are just some of the reasons why capital markets development is critical. Given that the banking sector is vulnerable due to structural factors including high dependence on cross-border financing, high debt and savings held in foreign currency at short maturities, the development of capital markets could enhance longer-term financing in local currency, supporting growth and financial stability. Deeper capital markets could help alleviate FX-exposures and duration mismatches of banks and corporates. They could also serve as an important complement to bank-based financing to support investments, providing more stable financing for productive real sector activities, expanding the pool of assets and instruments available for different types of investors and leaving larger space for lending to SMEs and underserved segments in banks' balance sheets.

SME and LE sectors

6. **Small and Medium Enterprises play crucial role in the Turkish economy, yet face significant access to finance constraints and are more susceptible to credit cycle fluctuations.** SMEs account for 98.8 percent of all enterprises, 72.7 percent of employment, 58.3 percent of investments, and 55.1 percent of exports. Furthermore, SMEs' contribution to gross domestic expenditure and employment in research and development amounts to 17.7 percent and 35.3 percent, respectively (TURKSTAT, 2014/2015). Despite their role as the engine of growth and employment generation, and despite the recent reform efforts to improve access to finance[32], Turkey's SMEs face disproportionately severe constraints in accessing finance. The results of the latest WBG Enterprise Survey conducted in Turkey in 2015 demonstrate that, while SMEs and LEs both cite access to finance frequently as the top obstacle to their operations, SMEs have lower access to deposit mobilization and credit services, rely more on state-owned banks for loans, and are more likely to have their loan applications rejected compared with LEs. Moreover, Turkey's SMEs make more use of internal funds for financing investments and working capital and face higher collateral requirements (292 percent of loan amount) than their peers in the ECA region (205 percent) (ES, 2015). Recorded perceptions of Turkey's SMEs between 2015 and 2016 demonstrated a net increase in the demand for bank loans and in collateral requirements of 37 percent and 21 percent, respectively (Survey on Access to Finance of Enterprises (SAFE), European Central Bank, 2016). SMEs' share in total credit declined by 5 percentage points to just over 20 percent in the aftermath of the global crisis in 2009 and peaked above 27 percent in early 2017 owing to the economic upturn and the highly-

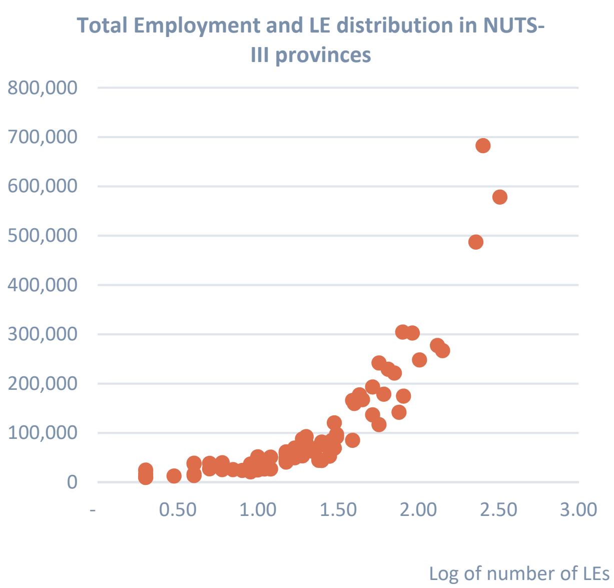
[31] 88 percent according to original maturity.

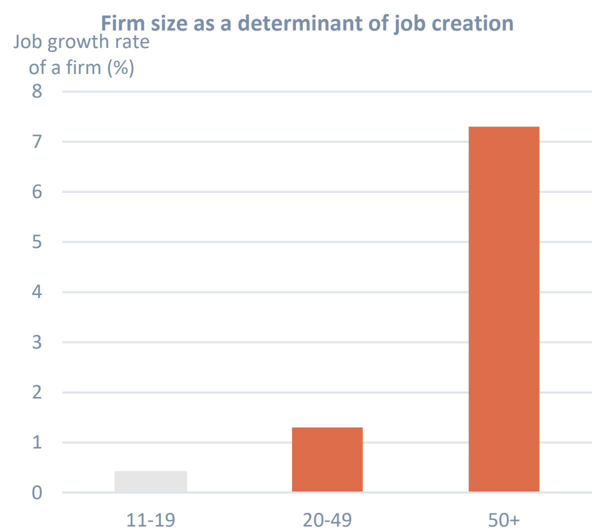
[32] In terms of access to finance, some progress has been made in recent years such as the introduction of business angels, fund of funds, and crowdfunding as well as launching surety bonds and providing moveable assets as collateral for bank credits.

utilized Credit Guarantee Fund. The fluctuation demonstrates that SMEs are among the most affected frontiers of a financing cycle.

7. Longer term finance is critical for both SMEs and LEs that need to make long-term investments, expand production capacity and increase employment as they try to match the maturity of their assets and liabilities. Women-inclusive enterprises and enterprises in less developed sub-regions impacted by the SuTP influx consist mostly of SMEs and hence face particularly significant access to finance constraints and have higher exposure to refinancing and repricing risk since their loans are typically shorter term. Furthermore, financial institutions cut SME loans first during bad times with looming macroeconomic risks and deteriorating credit market conditions, leaving SMEs more susceptible to credit cycle fluctuations. SMEs that secure long-term finance do not face this risk as they do not need refinancing frequently and can confidently finance their long-term investments. On the other hand, firm size is a determining factor of job creation, which in Turkey increases with firm size (Box 2). The recent analytical work conducted by the World Bank in Turkey reveals that LEs not only create more jobs, but also better quality jobs. An overwhelming majority of net job creation by LEs has been formal, and LEs are less likely to create jobs with suboptimal conditions such as lower wages, fewer regulations and lower prospects of career growth (World Bank, 2017)[33]. Moreover, the results of a qualitative survey conducted in December 2017 by the World Bank reveal that LEs have been even more adversely affected by the SuTP influx than SMEs: the latter benefitted exclusively from a temporary substantial increase in consumption initiated with the arrival of SuTPs in the impacted sub-regions.

Box 2: Firm size and employment in Turkey





Source: TURKSTAT

* significant effect (benchmark: micro (0-10) category

Source: Creating Good Jobs in Turkey, 2017

[33] World Bank, 2017. *Creating Good Jobs in Turkey.* Washington, DC: World Bank Group.

8. **Providing much-needed access to investment finance for SMEs with reduced collateral and credit history requirements, the leasing sector in Turkey is below its potential and on a downward trend.** Turkey ranks similar to its peers in the upper-middle income group and the countries in its region with 0.70 percent of new leasing volume relative to GDP (Finstats, 2018). The country ranked 34th in 2016 in leasing penetration rate globally, down from the 32nd place in 2015 (Association of Financial Leasing, Factoring and Financing Companies). The leasing sector had experienced a major contraction in Turkey due to the sharp drop in investment expenditure demand after the global financial crisis in 2008-09 and the abolition of tax incentives in 2008. Pickup in the global economic growth, rising market confidence, partial reinstatement of tax incentives and introduction of a diverse range of leasing contract types such as operating leasing and sale-and-leaseback helped leasing receivables gain some ground and grow with an average annual compound growth rate of 6.9 percent between 2009 and 2016. NPL ratio in the sector, on the other hand, decreased from double-digit levels in 2009 to 5.9 percent in 2017 (BRSA). More recently, however, leasing transaction volume and number of leasing transactions decreased by 12 percent in USD terms and 10 percent, respectively, in Q2 2017, compared with the same period in 2016. Against this cautiously pessimistic backdrop, changes in the need for leasing experienced a net increase of 12 percent among SMEs, 22 percent of which used leasing between April and September 2016 (SAFE, 2016). Leasing companies in Turkey, especially those that are not bank-owned, do not have the same access to sources of funding as banks and heavily rely on the banking sector to finance their operations. Therefore, compared with the banking sector, the leasing sector in the country is susceptible to tighter funding conditions with shorter maturities and higher costs and more prone to funding pinches during times of economic uncertainty.

Box 3: The World Bank Group's support for long-term finance and SMEs' access to finance in Turkey

Turkey's Tenth National Development Plan (2014-2018), along with its priority transformation programs on Increasing Domestic Savings and on Istanbul International Financial Center and its development targets for SMEs, prioritizes long-term finance and SMEs' access to finance as key areas of focus for the Government of Turkey. Moreover, the latest Financial Sector Assessment Program (FSAP) conducted jointly by the World Bank and the IMF in 2016 highlights the need to increase the maturity and diversity of funding instruments on which banks and firms depend as well as the challenges related to limited access to finance for under-served segments. In line with these priorities and objectives, the World Bank supports structural reforms in various topics both through advisory services and development policy lending.

One of the major constraints in accessing finance for SMEs and under-served segments such as women-owned enterprises and enterprises in less developed regions is not having sufficient amount of collateral. Enterprises in Turkey are facing onerous collateral requirements, with value of the collateral needed amounting on average to 292 percent of the loan amount (ES, 2015), well above the ECA average of 205 percent. Law No. 6750 on Moveable Collateral in Commercial Operations, which became effective as of January 1, 2017 and had been supported at the preparation stage with the World Bank's technical assistance via a diagnostic report assessing Turkey's previous moveable collateral regime and a roadmap proposing improvements in the secured transactions framework, is an important step forward in enhancing access to finance by enabling SMEs to use tangible and intangible moveable assets including receivables, stocks, machinery and equipment as security to generate capital. Endorsed subsequently by the World Bank's Resilience, Inclusion and Growth Development Policy Financing (P162071), the law can be further aligned with international standards, for example, by unifying the established collateral registry with other co-existing registries through a single, notice-based, online system and by granting non-possessory security without requiring a specific description of collateral.

In addition, SMEs have less transparent financial statements and problems related to the bankruptcy framework. Turkey's costly and less efficient insolvency framework is one of the main impediments to financial intermediation and business climate, placing the country in 139th place for Resolving Insolvency indicator in the World Bank's Doing Business 2018 report. Costs of the insolvency procedures are high and estimated to reach 14.5 percent of the bankruptcy estate, with government levies alone amounting to 4.6 percent. Resolution of the insolvency procedures are slow and taking, on average, 5 years, more than twice as long as the ECA average at 2.3 years. Furthermore, the average recovery rate of creditors is low at 15.3 cents on the dollar, which is also less than half the ECA average corresponding to 38 cents on the dollar. Since its introduction in 2013, the bankruptcy postponement procedure was widely used by enterprises; however, only 2 percent of 3,524 enterprises that applied to postpone bankruptcy in 2009-20014 were subsequently able to recover from insolvency. These inefficiencies create constraints in the financial institutions' efforts to extend lending to SMEs, increasing cost of financing to SMEs and decreasing the available amount of funding. Building on the conclusions of the conference co-organized by the Ministry of Justice (MoJ) and the World Bank in 2013 on the challenges of the bankruptcy framework, the World Bank has provided technical assistance to identify a reform agenda to improve the insolvency system, by having prepared a diagnostic note outlining major impediments in the bankruptcy and NPL resolution framework in August 2017 and organized a workshop with the MoJ, Ministry of Customs and Trade and Credit Registry on Doing Business topics including Resolving Insolvency in 2018. World Bank supported preparation of a new law (Law no 7101) enacted in February 2018 which was revising the Bankruptcy Law. The new Law introduced a new "concordat" procedure replacing the earlier "postponement" procedure. The new process is a significant improvement from the previously-practiced "postponement" procedure in that it will include a more inclusive and efficient insolvency process treating all creditors, secured and unsecured.

Lack of long term finance has serious implications on economic growth by limiting available long-term funds for investments. Turkey has made substantial progress towards a deeper capital market, but there are non-trivial challenges to be overcome. The World Bank has been working with the Turkish government to address the challenges through technical assistance and development policy lending. The World Bank has provided support to the government on corporate bond market development, mutual funds, capital markets law and secondary regulations of the capital markets law, development of the institutional investor base (particularly on pension funds reform and insurance sector), and development of long term capital markets instruments for PPP, infrastructure and municipal finance.

Gender

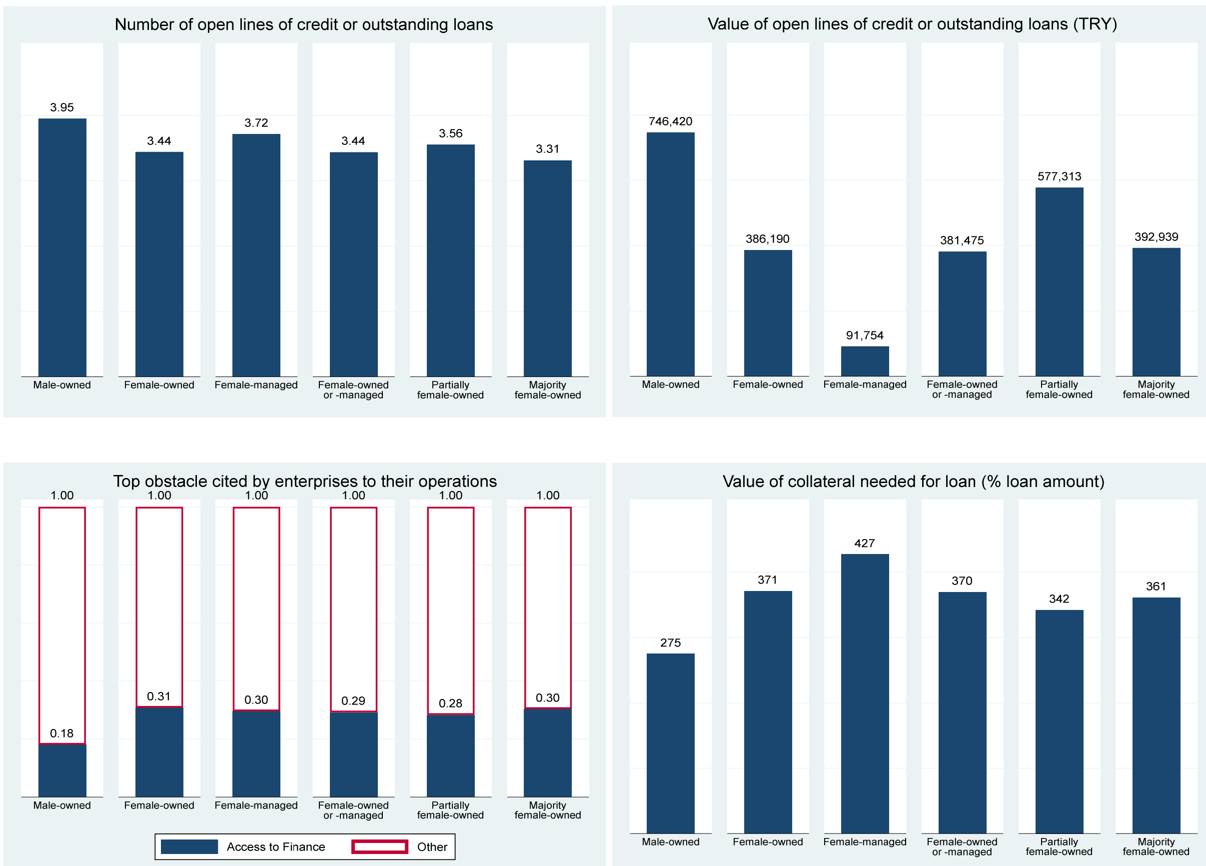
9. **Turkey has plenty of room for further improvement in women's participation in its economy, and women's inclusivity is targeted through three distinct channels by this operation.** Turkey ranks 128th place among 144 countries in the economic participation and opportunities category of the Global Gender Gap Index (World Economic Forum, 2017), and economic empowerment of women offers a huge potential boost for the country's economic growth and resilience. Persistent gaps between men and women in economic participation in Turkey stem mainly from the following three gender-specific distortions: (i) constrained access to finance for women-owned and/or -managed firms; (ii) under-representation of women in the workplace and leadership positions; and (iii) low female labor force participation rate.

10. **Access to finance is a pressing business environment issue for all enterprises in Turkey; however, the women-owned and/or -managed enterprises encounter particular constraints due to existing statistical and taste-based biases.** The latest WBG Enterprise Survey (2015) reveals that enterprises in Turkey are relatively under-banked given the country's level of development: less than two thirds of enterprises reported having any kind of bank account and about a quarter stated having a bank loan or line of credit. Women-owned and/or -managed enterprises have lower access to finance compared with men-owned enterprises, having fewer open lines of credit or outstanding loans amounting to lower values, facing stricter collateral requirements and citing access to finance more frequently as the top obstacle to their operations (ES, 2015) (Box 4). The gender-specific disparities in enterprises' access to finance could be the result of three potential sources of bias: (a) legal bias; (b) statistical bias; and (c) taste-based bias[34].

[34] Non-rational, prejudiced behavior from the supply side, emerging from a taste-based bias of loan officers assessing loan applications at the expense of profit maximization

Box 4: Access to finance constraints faced by women-owned and/or -managed enterprises

The World Bank's Enterprise Surveys (ES) consist of firm-level surveys conducted hitherto with representative samples of 139 economies' private sector using a global methodology and covering a wide range of business environment topics including access to finance. ES' sex-disaggregated data on firm ownership and management provides invaluable information on possible gender gaps in enterprises' access to financial services.



Source: Enterprise Survey, 2015

Note: Male-owned and female-owned enterprises do not have any women or men among the owners of the enterprise, respectively. Female-managed enterprises are defined as enterprises with a female top manager. Partially female-owned enterprises and majority female-owned enterprises are those with 10 percent or more and 50 percent or more female ownership, respectively.

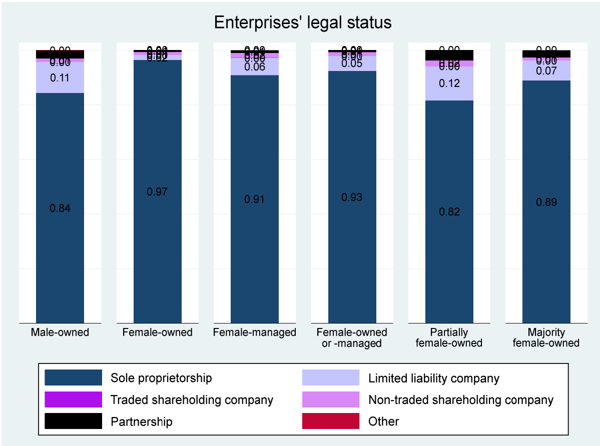
(a) Restrictive government policies may limit women's full economic participation through laws and regulations that create a legal bias, reducing women's ability to engage in entrepreneurial activities and capacity to access credit[35]. A signatory and ratifier of the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), Turkey, however, is committed to integrating gender equality into all aspects of its legal and policy framework.

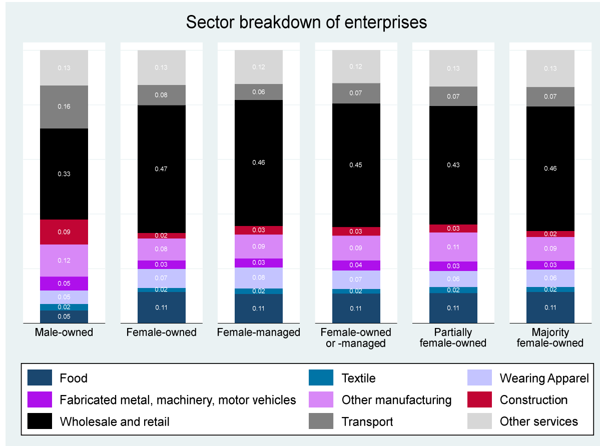
[35] Legal discrimination against women and gender norms, such as discriminatory inheritance laws and legal requirement for male family members' signatures, may deprive women of accessing certain financial services (Demirguc-Kunt, Asli; Klapper, Leora; Singer, Dorothe. 2013. *Financial inclusion and legal discrimination against women: evidence from developing countries.* Policy Research working paper no. WPS6416. Washington, DC: World Bank).

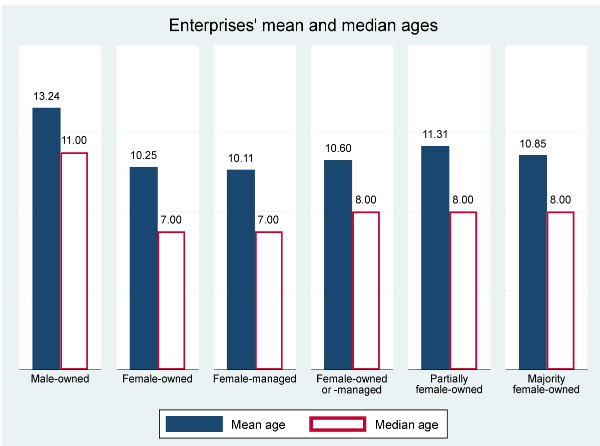
The World Bank's Women, Business and the Law report, which compiled and analyzed quantitative data to compare legal gender differences across 173 economies in 2016, reports that Turkish laws do not prohibit equal access for men and women when conducting financial transactions, such as applying for credit or loans. Hence, there is no legal bias that prevents women-owned and/or -managed firms in Turkey from obtaining credit or other financial services.

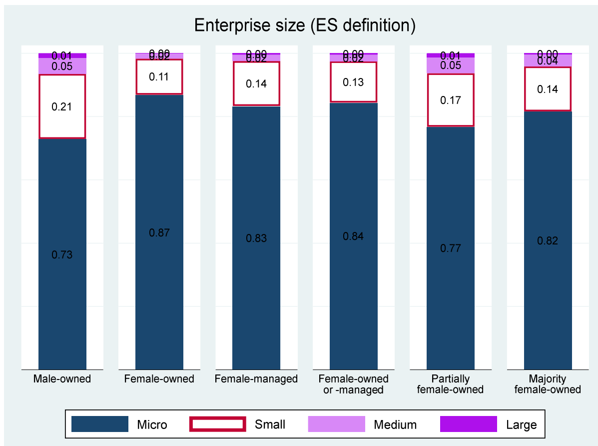
(b) Different structural characteristics between men-owned enterprises and women-owned and/or -managed enterprises, in terms of indicators such as firm size, age or sector, result in a statistical bias justified by higher level of borrower riskiness. The statistical bias can explain, to greater extent, gender differences in accessing credit in Turkey. Compared with men-owned enterprises, women-owned and/or -managed enterprises in the country are mostly defined as sole-proprietorship in legal form, operating mostly in the wholesale and retail trade sectors, far less common in technology intensive manufacturing sectors, 3 years younger in mean and median ages, respectively, smaller in size with employment levels having the highest representation in the micro (0-4) category and being represented less in larger annual sales volume categories (ES, 2015) (Box 5). Adverse treatment for riskier borrowers due to the statistical bias is expected if the loan officers assessing loan applications are rational and non-prejudiced since the statistical bias is consistent with profit maximization.

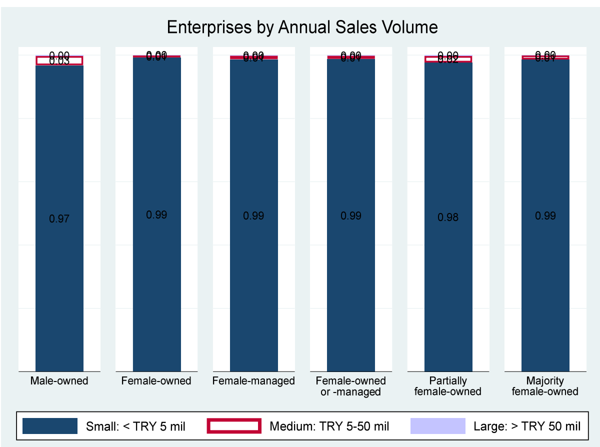
Box 5: Evidence for statistical bias: structural differences between men-owned and women-owned and/or -managed enterprises











Source: Enterprise Survey, 2015

Note: Male-owned and female-owned enterprises do not have any women or men among the owners of the enterprise, respectively. Female-managed enterprises are defined as enterprises with a female top manager. Partially female-owned enterprises and majority female-owned enterprises are those with 10 percent or more and 50 percent or more female ownership, respectively.

(c) Gender differences in accessing credit can alternatively be explained by non-rational, prejudiced behavior from the supply side, emerging from a taste-based bias of loan officers assessing loan applications at the expense of profit maximization. Men-owned enterprises and women-owned and/or -managed enterprises with the same structural characteristics and level of riskiness may still experience different outcomes[36] in the credit market due to favoritism based on gender identity. The Gender Bias in Lending Survey recently conducted by the World Bank among randomly selected loan officers in Turkey suggests that women-owned enterprises are more likely to suffer from the taste-based bias in the credit market compared with men-owned enterprises, independent of their credit riskiness (Box 6).

Box 6: Evidence for taste-based bias: Gender Bias in Lending Survey results

The World Bank developed the Gender Bias in Lending Survey and piloted it in Turkey in December 2017 to measure possible taste-based gender bias in access to finance against women-owned enterprises in the country. The sample consisted of loan officers that assess SME loan applications in private and public commercial banks in Turkey and featured 12 NUTS-I regions of stratification for stratified random sampling methodology. The survey comprises the following four modules, and analyses of responses collected from loan officers indicate possible taste-based gender bias:

- **Controlled experiment module** included four fictional loan applications, namely Application A, Application B, Application C and Application D, among which loan officers were asked to distribute a pre-fixed sum amounting to TRY 2 million. Each loan application contained key client information as well as a description of the client's enterprise. Application A and Application B were assigned financial ratios that suggest potential NPLs, whereas Application C and Application D were designed to contain low financial risk. Furthermore, survey respondents were randomly assigned to two groups, for which the gender of the client was switched between Application A and Application B and between Application C and Application D, respectively, to isolate the impact of the client's gender on lending behavior. Across applications with low financial risk, women-owned enterprises were granted on average TRY 157,572 less than men-owned enterprises, 10.2 percent of the average across applications with low financial risk, despite having identical characteristics except for the gender of the client. Across applications with high financial risk, women-owned enterprises were also granted less credit than men-owned enterprises, yet the difference was not of substantial magnitude.
- **Implicit reaction test (IRT) module**, a spin-off of the implicit association test, asked loan officers to rapidly respond to randomly ordered 16 statements with key attributes for both genders to gauge implicit and explicit gender biases by recording their reaction times. IRT results revealed with statistical significance that loan officers declared men implicitly to be better entrepreneurs, more competitive and better leaders than women, while acknowledging men explicitly as better leaders. Women, on the other hand, were recognized explicitly to be more emotional. The differences in implicit and explicit perceptions for men and women among loan officers are likely to explain the variance in loan amounts allocated to male and female applicants in the controlled experiment module.
- **Conjoint module** asked loan officers to assess 28 loan applications generated via random permutation of 6 indicators including gender of applicant, age of applicant, education level of applicant, firm's area of economic activity, firm age and firm size. Though the impact of the gender attribute on loan officers' lending decisions was found to be subtler than other indicators, the results demonstrated that female applicants were penalized more (by 3 percent of loan portfolio on average) than male applicants when other indicators were held constant.
- **Descriptive module** consisted of questions that were descriptive in nature and related to loan officers' decision-making process whilst assessing SME loan applications. According to survey respondents, SME loan applications submitted by women are being approved at a lower rate, mainly because some women-owned enterprises are regarded as replacements of spouses' men-owned enterprises with high financial risk, women-owned enterprises are younger on average and/or women are stated to be worse entrepreneurs due to lack of experience. Furthermore, 93 percent of loan officers asserted that they take into account specific additional criteria for assessing SME loan applications submitted by women unlike those submitted by men.

[36] Enterprises subject to adverse treatment due to the taste-based bias may be charged higher interest rates on loans requested, imposed more stringent pre-contractual conditions and/or demanded higher levels of credit worthiness.

11. **Enterprises in Turkey can reap economic benefits from and enhance their competitiveness by having more diverse and gender-balanced workforce and management.** The share of women in employment is lower than that of men across all NUTS-II sub-regions and all sectors of economic activity in Turkey except education, human health and social work activities, and activities of households (EIS, 2016; LFS, 2016). The share of women holding management positions at the firm level conveys an even gloomier picture, with the lowest 40th percentile of enterprises employing no women with registered managerial tasks and duties as defined by the International Classification of Occupations (ISCO) (EIS, 2016). Women make up 31 percent of overall employees and 15 percent of employees with decision-making responsibilities (LFS, 2016) (Box 7). By fostering gender equality and increasing the proportion of women in their workforce composition, enterprises in Turkey can attract and retain the best talent in the labor pool more easily, improve performance in the workplace thanks to greater availability of diverse perspectives and better serve consumer markets with products aimed at women[37]. Furthermore, they can greatly benefit from increasing leadership opportunities for women, which is demonstrated to contribute to better governance and organizational effectiveness of the enterprise thanks to a richer set of experience and knowledge passed on to the top and tricked down to other employees[38].

[37] It is estimated that about one quarter of growth in aggregate output per person in the US economy between 1960 and 2010 can be attributed to the changing allocation of under-represented groups in the workforce, notably women (Hsieh et al. 2016. *The Allocation of Talent and US Economic Growth*).

[38] The results of a survey conducted globally in 2017 with 60,000 employees at more than 100 enterprises reveal that enterprises with three or more women in senior management functions score higher, on average, in all nine dimensions measuring the organizational performance and health of the enterprise, calling for leadership behaviors that are more frequently applied by women (McKinsey&Company, 2017. *Time to accelerate: Ten years of insights on gender diversity*).

Box 7: Gender composition in employment and management positions

Entrepreneur Information System (EIS) of the Ministry of Science, Industry and Technology is a database that compiles data from Turkey's eight public institutions including Social Security Institution and Turkish Statistical Institute (TURKSTAT). The database hosts reliable firm-level administrative data on all registered private sector firms in Turkey (minus financial institutions), numbered more than 3 million in 2016. EIS' sex-disaggregated data as well as NACE-2 sector classifications available at the employee level help determine female representation among formally registered employees by sector.

Labor Force Survey (LFS) is conducted at regular intervals by TURKSTAT and provides information on sex-disaggregated data on formally and informally employed persons as well as NACE-2 sector and ISCO-8 occupation classifications, allowing for identifying female representation in employment and female involvement in managerial responsibilities by sector in Turkey. The discrepancy between EIS and LFS figures below mainly stem from the fact that the former reports fourth quarter results and the latter take into account informal employees as well.

Share of women in employment

Aggregate sector	EIS (2016)	LFS (2016)
A- Agriculture, Forestry and Fishing	30.0%	44.9%
B- Mining and Quarrying	6.4%	3.5%
C- Manufacturing	23.2%	24.6%
D- Electricity, Gas, Steam and AC Supply	9.3%	11.1%
E- Water Supply and Waste Management	*	10.5%
F-Construction	8.7%	4.2%
G- Wholesale and Retail Trade	29.2%	23.7%
H- Transportation and Storage	14.0%	9.4%
I- Accommodation and Food Service	30.0%	23.4%
J- Information and Communication	32.0%	25.2%
K- Financial and Insurance Activities	46.1%	44.0%
L- Real Estate	28.2%	17.8%
M- Scientific and Technical Activities	35.0%	40.1%
N- Administrative and Support Services	30.1%	33.6%
O- Public Administration and Defence	14.0%	17.2%
P- Education	58.3%	52.8%
Q- Human Health and Social Work	60.3%	70.8%
R- Arts, Entertainment and Recreation	31.0%	24.4%
S- Other Service Activities	38.8%	20.7%
T- Activities of Households	*	89.8%

Share of women in management

ISCO skill level groups	LFS
1- Managers	15.1%
2- Professionals	45.9%
3- Technicians and Associate Professionals	26.3%
4- Clerical Support Workers	43.5%
5- Services and Sales Workers	31.3%
6- Skilled Agricultural, Forestry and Fishery	38.1%
7- Craft and Related Trades Workers	12.0%
8- Plant and Machine Operators and Assemblers	10.6%
9- Elementary Occupations	41.2%

Share of women in top and middle management

Disaggregated ISCO skill level groups	LFS (2016)
11- Chief Executives, Senior Officials and Legislators	12.2%
Top Management	**12.2%**
12- Administrative and Commercial Managers	29.2%
13- Production and Specialized Services Managers	11.6%
14- Hospitality, Retail and Other Services Managers	11.9%
Middle Management	**15.5%**

*: censored data, Source(s): Labor Force Survey, 2016; Entrepreneur Information System, 2016

12. **Turkey can achieve even greater economic gains through integrating more women into the labor force.** Despite an upward trend owing to important structural changes[39] that have facilitated female participation in the labor market, Turkey's female labor force participation rate is still the lowest among all OECD and ECA countries, standing at 33.5 percent (TURKSTAT, December 2017) and well below the expected level for the country's development stage (Box 8). Narrowing the gap between women's and men's participation in the labor market results in accelerated economic growth. For example, bringing Turkey's female labor force participation rate to the OECD average of 63 percent by 2025 can be a very effective lever of growth, resulting in a 20 percent increase in Turkey's GDP by 2025 (McKinsey Global Institute, 2016)[40], and generate, at the same time, additional social positive externalities.

[39] Women in Turkey are attaining higher levels of education, married at a later age and expected to give birth to fewer children.
[40] McKinsey&Company, 2016. *Turkey's Potential for the Future: Women in Business.*

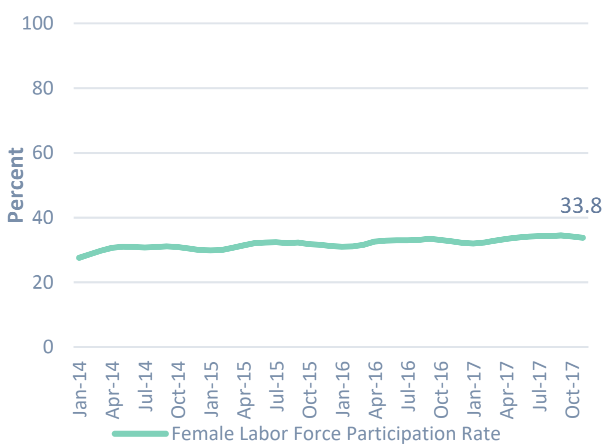
Box 8: Female labor participation rate in Turkey

Female labor participation rate across 26 NUTS-II sub-regions (min: 15.0 percent, max: 44.2 percent)

TR10	TR21	TR22	TR31	TR32	TR33	TR41	TR42	TR51
35.5%	39.0%	31.7%	37.9%	38.8%	34.3%	30.3%	33.3%	32.8%

TR52	TR61	TR62	TR63	TR71	TR72	TR81	TR82	TR83
27.4%	39.2%	30.1%	26.4%	32.3%	28.0%	35.1%	44.2%	36.1%

TR90	TRA1	TRA2	TRB1	TRB2	TRC1	TRC2	TRC3	Total
41.3%	31.4%	33.5%	30.2%	22.9%	19.3%	22.4%	15.0%	32.5%



Source: TURKSTAT, November 2017

Less developed sub-regions impacted by the SuTP influx

13. **Turkey has become one of the world's top refugee-hosting countries following the mass influx of displaced Syrians into the country since 2011**. Though there are 3.53 million SuTPs residing in Turkey, only a small fraction (0.23 million) lives in designated camps along the Syrian border, while the majority resides in urban areas interacting daily with the host communities (DGMM, February 2018). The Muhtar Survey conducted by the World Bank in 2016 reveals that the SuTP population is distributed quite unevenly across the country's 26 regional units (also known as NUTS-II sub-regions), which is also evidenced by the information collected by DGMM at regular intervals. In 16 NUTS-II sub-regions, the number of SuTPs accommodated amounted to more than 1 percent of total population, with the figure as high as 19 percent in two sub-regions, namely in TRC1 and TR63.

14. **The SuTP influx widens the variation in quality of business environment and accentuates the long-standing disparities in socio-economic development among Turkey's 26 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 sub-regions with a high concentration of SuTPs mainly consist of lagging provinces that already had low Socio-Economic Development Index values prior to the influx. High concentration of SuTPs exacerbates the challenges in the business environment for the existing enterprises in less developed sub-regions and creates new economic and social pressures that risk stalling further convergence among sub-regions. The

results of a qualitative survey conducted in December 2017 by the World Bank demonstrate that enterprise owners in areas impacted by the SuTP influx in Turkey associate the negative economic conditions in the country with the ongoing crisis in Syria; have experienced a drop in domestic and foreign trade due to the security deficit formed in regard to logistics and transportation in their sub-regions; are negatively affected by the hike in housing and commercial rents due to increased demand following the SuTP influx; stated largely (76 percent) that their general economic outlook considering the availability of external financing has deteriorated in the past 12 months; cited informal employment of SuTPs as well as damaging and unfair practices of unregistered enterprises set up by SuTPs as obstacles to their operations; and are facing worsened loan terms and conditions (interest rate, maturity, collateral requirements) compared with the previous year.

15. To help reduce the sub-regional disparities in Turkey and contribute to the sustainable development of the country, less developed sub-regions impacted by the SuTP influx are specifically targeted under this Project. A composite index is constructed via the aggregation of five socio-economic indicators, which differ significantly across sub-regions and are impacted directly or indirectly by the SuTP influx, to determine less developed sub-regions eligible for Project financing (Box 9).

Box 9: Composite index indicators

The concentration of SuTPs relative to local population at the sub-regional level, computed thanks to temporary protection statistics published at weekly intervals by the Directorate General of Migration Management, helps us identify the strain of the external shock of the Syrian crisis on the business environment in Turkey through a sub-regional lens. The results of the latest Enterprise Survey conducted in Turkey reveal that enterprises in the sub-regions with higher concentration of SuTPs underperform the national average in use of financial services, thus having limited prospects and means for further growth.

The Socio-Economic Development Index (SEGE) calculated by the Ministry of Development in 2011 ranks 26 NUTS-II sub-regions according to their development levels by using indicators on demographics, employment, education, health, competitiveness, finance, access to infrastructure and quality of life. The sub-regions that were lagging in SEGE ranking prior to the SuTP influx have been more adversely affected by higher concentration of SuTPs, facing sub-region-specific exacerbated business environment challenges.

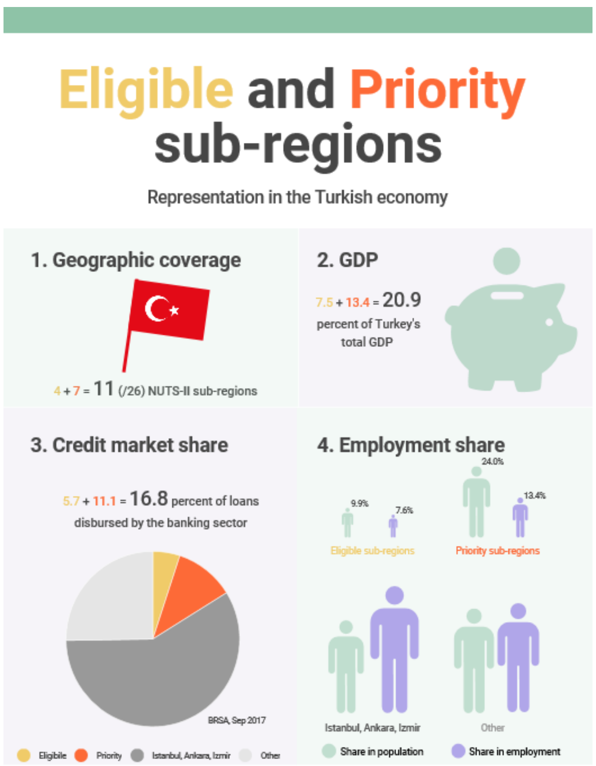
The Job Quality Index (JQI) developed by the World Bank consists of 13 measurable components evaluating the quality of jobs in Turkey at the subnational level, taking into account multidimensional aspects of employment such as regulation and protection by the Labor Law and safe working conditions, linkage between wages and the job, career advancement and growth opportunities, level of productivity, resilience to shocks and adaptation to a changing economy. Disparities in job quality are substantial across 26 NUTS-II sub-regions, with low-quality jobs concentrated in the southeastern part of the country. All necessary data to calculate the composite index of job quality are obtained from the Labor Force Survey. The biggest impact of creating good jobs is linked to 'formality' and efficient functioning of the formal labor market, which can be augmented at the core by improving enterprises' access to finance so that they grow in size and adapt to labor market conditions in a flexible way.

The unemployment rate, registered at 10.9 percent overall in 2016 (TURKSTAT), has increased gradually since 2012, widening Turkey's output gap. Unemployment levels obtained from the Labor Force Survey vary widely across 26 NUTS-II sub-regions, and disparities in the observed rates are persistent over time, indicating structural bottlenecks at the sub-regional level. Moreover, the concentration of SuTPs seems to follow a shift towards the industrialized western/central sub-regions, a trend captured by the findings of the Muhtar Survey, and put pressure on the unemployment rates in these sub-regions with increased labor force and subdued job creation. Removing restrictions in credit supply in the sub-regions with higher levels of unemployment can bolster employment growth, even more so among SMEs, which are more financially constrained.

The female labor force participation rate, registered at 32.5 percent overall in 2016 (TURKSTAT), has been demonstrating an upward trend over the years yet stays well below the OECD average. The SuTP influx has affected women's labor market outcomes most severely in areas with SuTP inflows: among the displaced employees, men have mostly remained unemployed, while almost all women have dropped out of the labor force after having found it very difficult to find new jobs (CBRT, 2017).

16. **Once Turkey's 26 sub-regions are ranked according to their composite index scores, selection and prioritization of less developed sub-regions impacted by the SuTP influx are concluded by identifying the bottom 40th and 25th percentile of sub-regions, respectively** (Figure 1). At least 25 percent of the Loan proceeds allocated to the less developed sub-regions impacted by the SuTP influx is earmarked for the least-developed, priority sub-regions. In order to address anticipated changes in values of the indicators of the composite index and mobility of SuTPs, the composite index scores for all sub-regions could be subject to a review at the project mid-term and revised if needed.

17. **Despite holding a substantial geographic coverage, less developed sub-regions impacted by the SuTP influx have very low economic dynamism and offer few employment opportunities.** Eligible sub-regions in total constitute a relatively small fraction of Turkey's GDP, total credit and exports. Moreover, the share of less developed sub-regions impacted by the SuTP influx in employment is significantly below their share in country's population (Box 10).

Box 10: Less developed sub-regions impacted by the SuTP influx in the Turkish economy	**Figure 1: Initial set of eligible less-developed and least developed sub-regions**
	

18. **Alleviating the strain on the business environment by reducing restrictions in the credit supply in less developed sub-regions impacted by the SuTP influx can facilitate sub-regional convergence, help existing enterprises sustain growth and bolster social cohesion through job creation.** Existing enterprises in eligible and priority sub-regions, compared with the national average, use deposit mobilization and credit services at a much lower rate, rely more on internal funds for financing investments and working

capital, experience higher rejection rates for their recent loans, and face collateral requirements more frequently (ES, 2015). Furthermore, there is direct competition for jobs among the subsets of SuTPs and host communities, which resulted in negative labor market outcomes for the latter, especially among disadvantaged groups including women and youth (CBRT, 2017)[41], prompting social tensions. Improved access to finance in less developed sub-regions impacted by the SuTP influx would not only enable the private sector to sustain its investment spending levels observed prior to the SuTP influx, but also ease growing tensions between SuTPs and host communities over scarce opportunities in the labor market through employment generation.

[41] Ceritoğlu, Evren et al. 2017. *The Impact of Syrian Refugees on Natives' Labor Market Outcomes in Turkey: Evidence from a Quasi-Experimental Design.* Central Bank of the Republic of Turkey working paper no: 17/05.

ANNEX 5: FINANCIAL INTERMEDIARY ASSESSMENT

COUNTRY : Turkey
Inclusive Access to Finance

Financial Intermediary Assessment

1. An assessment of TSKB took place at the pre-appraisal stage based on eligibility criteria in accordance with OP10.0. Eligibility criteria included:

a. The bank must be *duly licensed* and at least two years in operation.

b. The bank's owners and managers must be considered "*fit and proper*". It must have qualified and experienced management, adequate organization and institutional capacity for its specific risk profile.

c. The bank must be in "*good standing*" with its supervisory authority (i.e., it should meet all pertinent prudential and other applicable laws and regulations) and remain in compliance at all times.

d. The bank must maintain *capital adequacy* prescribed by prudential regulations.

e. The bank must have *adequate liquidit*y.

f. The bank must have *positive profitability and acceptable risk profile*. It must maintain the value of its capital.

g. The bank must have well defined policies and written procedures for *management of all types of financial risks* (liquidity, credit, currency, interest rate and market risk, as well as risks associated with balance sheet and income statement structures) *and operational risk*.

h. The bank must classify its assets and off-balance-sheet credit risk exposures (at least four times per year) and make adequate provisions. It must have *adequate portfolio quality*. The bank should not have more than 10% of criticized assets (i.e., classified as doubtful and loss).

i. The bank must have *adequate internal audits and controls*.

j. The bank must have *adequate management information systems*.

2. A detailed confidential appraisal report has been internally filed with summary results presented in the Table 1 below. The appraisal is based on the following sources of information: (i) audited financial statements as of June 30, 2017; (ii) written information provided by TSKB; (iii) interviews with senior TSKB management.

Table 1: Summary of TSKB appraisal

Criterion	Comments/Actions
1. License	Criterion met.
2. Owners/Managers "fit & proper", governance quality	Criterion met.
3. Good standing with BRSA	Criterion met.
4. Capital Adequacy	Criterion met.
5. Liquidity	Criterion met.
6. Profitability	Criterion met.
7. Policies and Risk Management Functions	Criterion met.
8. Asset Quality and Provisions	Criterion met.
9. Internal Audit and Controls	Criterion met.
10. Adequate MIS	Criterion met.

Background on TSKB

3. **Türkiye Sınai Kalkınma Bankası A.Ş. (TSKB) is a private, non-deposit taking, development and investment bank.** It was established in 1950 with the support of the World Bank, the Undersecretariat of Treasury, the Central Bank and the leading commercial banks in the Republic of Turkey. Current ownership structure is as follows: 50.7 percent is held by Is Bank (largest privately owned domestic bank in Turkey), 8.4 by percent by Vakıfbank, and the remaining shares are mainly free float held by foreign and domestic investors. TSKB's asset size is TL29.9 billion, placing it as the 15th largest bank in Turkey in terms of asset size as of September 30, 2017. It has 375 employees and two branches in Izmir and Ankara in addition to its head office in Istanbul. TSKB's funding structure is 87 percent long term, whereas 72 percent of long term funds correspond to DFI funding, of which 37 percent is funded by IBRD, 29 percent by EIB, 14 percent by KfW, while others include IDB, CEB, IFC, AFD, EBRD, CITI, JBIC and OEB. TSKB is currently rated by Fitch LTFC (BB+) and Moody's LTIR (Ba1), with a corporate governance rating of 9.54/10 by SAHA[42].

Background on World Bank projects with TSKB

4. **TSKB is the recipient of two active and six closed lines of credit from the World Bank in the last decade.** TSKB has reached 93 percent disbursement rate as of February 2018 under the Innovative Access to Finance Project, expecting full disbursement by the closing date in December 2018. In addition, the Geothermal Development Project has disbursed 20 percent and is expected to close in December 2022. Some recent World Bank engagements include Renewable Energy Project (P112578- US$ 202.3 million, direct lending, closed in 2010), SME I (P082822- US$125 million, originally on-lending later restructured for direct lending, closed in 2012); EFIL II (P082801- US$303 million, on-lending, closed 2009); EFIL III (P093568- US$305 million on-lending, closed in 2010); EFIL IV (P096858- US$300 million, on-lending, US$180 million and EUR87.8 additional financing, closed in 2014); the Private Sector Renewable Energy

42 Corporate Governance and Credit Rating Services Inc. SAHA Ratings was established in December 2005. It was certified by the Capital Markets Board (CMB) to conduct Corporate Governance Compliance Rating on December 14, 2006 and to operate in the field of Credit Rating on September 11, 2007. SAHA was the first domestic rating agency authorized to conduct corporate governance compliance ratings.

and Energy Efficiency Project (P124898- US$210 million and EUR 109.6 million, direct lending, US$100 and EUR 69.3 million additional financing, closed in 2016).

Table 2: Simplified consolidated balance sheet and income statement for TSKB

(TR million)	31/12/2017			31/12/2016		
	TRY	FX	TOTAL	TRY	FX	TOTAL
Cash and Banks	476	865	1,341	236	1,040	1,276
Securities	3,591	1,369	4,960	3,377	1,454	4,831
Loans	3,996	18,405	22,401	2,613	14,727	17,340
Subsidiaries	379	-	379	328	-	328
Other	626	210	837	633	468	1,100
Total	9,068	20,849	29,918	7,187	17,689	24,875
ST Funds	-	3,521	3,521	-	2,538	2,538
LT Funds	221	15,260	15,481	147	13,442	13,589
Repo*	450	161	611	234	61	295
Other	1,440	5,154	6,594	1,482	3,828	5,310
Equity	3,699	12	3,711	3,170	(27)	3,143
Total	5,810	24,108	29,918	5,033	19,842	24,875

(TR million)	Jan 1 – Dec 31, 2017	Jan 1 – Dec 31, 2016	Change (%)
Net Interest Income	**1,017**	**759**	**34.0**
Net Fees + Commissions	43	25	72.0
Dividend Income	5	11	-54.5
Net Trading Income	-65	-68	-4.4
Other Operating Income	35	69	27
Total Operating Income	**1,069**	**754**	**41.8**
Provisions(+/-)	-203	-70	190.0
Other Op. Expenses	-170	-169	0.6
Net Operating Income	**696**	**515**	**35.1**
Profit Before Tax	739	554	33.4
Tax Provisions	-134	-118	13.6
Net Profit	**605**	**436**	**38.8**

Table 3: TSKB's key financial ratios on consolidated basis

(percent)	2017Q4	2017Q3	2017Q2	2017Q1	2016Q4
CAR	17.0	17.7	17.6	17.4	14.6
NPL	0.2	0.3	0.3	0.3	0.3
ROE	17.8	18.6	18.5	18.1	15.0
ROA	2.2	2.4	2.3	2.2	1.9
Cost to Income	15.9	17.7	18.7	20.5	22.4