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# Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 13-May-2024 | Report No: PIDIA00448



## BASIC INFORMATION

### A. Basic Project Data

Project Beneficiary(ies)	Region	Operation ID	Operation Name
Türkiye	EUROPE AND CENTRAL ASIA	P502837	Türkiye: Small Industrial Estates Reconstruction and Regional Economic Recovery Project
Financing Instrument	Estimated Appraisal Date	Estimated Approval Date	Practice Area (Lead)
Investment Project Financing (IPF)	24-Apr-2024	11-Jul-2024	Finance, Competitiveness and Innovation
Borrower(s)	Implementing Agency		
Ministry of Treasury and Finance (MoTF)	Ministry of Industry and Technology (MoIT), Directorate General of Industrial Zones		

### Proposed Development Objective(s)

The PDO is to support the restoration and sustainability of MSME operations in earthquake affected provinces through building resilient, and low-emission Small Industrial Estates (SIEs).

### Components

Construction of Resilient and Low-Emission SIEs  
Technical Assistance and Project Management

## PROJECT FINANCING DATA (US\$, Millions)

### Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)? Yes

Is this project Private Capital Enabling (PCE)? Yes

### SUMMARY

Total Operation Cost	600.00
Total Financing	600.00
of which IBRD/IDA	600.00



<b>Financing Gap</b>	<b>0.00</b>
<b>DETAILS</b>	
<b>World Bank Group Financing</b>	
International Bank for Reconstruction and Development (IBRD)	600.00
Environmental And Social Risk Classification	
Moderate	
Decision	
The review did authorize the team to appraise and negotiate	

Other Decision (as needed)

## B. Introduction and Context

### Country Context

- Türkiye’s development achievements over the past two decades have been remarkable.** Real gross domestic product (GDP) growth averaged 5.4 percent between 2002 and 2022, resulting in income per capita (in real terms) that was more than doubled over the same period. Moreover, growth was accompanied by rapid poverty reduction, with the poverty rate (\$6.85 2017 PPP poverty line) halving from above 20 percent in 2007 to less than 10 percent in 2021. As in other countries, the COVID-19 pandemic had a negative impact on growth in 2020, but the country was one of the few that did not register a GDP contraction that year, instead growing 1.9 percent. This performance was due, to a large extent, to the government’s economic policy response to the pandemic, which focused on loosening monetary policy and rapid credit expansion. Moreover, supported by domestic and external demand, Türkiye achieved double-digit GDP growth in 2021 (11.4 percent) and maintained significant momentum in 2022 (5.5 percent) and 2023 (4.5 percent).
- However, the policy framework that ensured a strong economic performance during and after the pandemic also heightened macroeconomic risks.** As a result of the loose monetary policy, the country has been suffering from high inflation (with annual inflation reaching 69.8 percent in April 2024 after having peaked at 85.5 percent in October 2022), currency depreciation (77 percent against the US\$ between January 2020 and January 2024), corporate and banking sector vulnerabilities, and declines in reserve buffers.
- Following the May 2023 elections, the Government has taken steps towards normalizing the economy in a gradual way in order to manage risks associated with the adjustment process.** This includes monetary policy tightening, with interest rates increasing from 8.5 percent in May 2023 to 50 percent in March 2024, the unwinding of distortive financial regulations, and fiscal revenue measures to curtail the fiscal deficit. Markets are reacting positively with 5-year CDSs declining from above 500 basis points (bps) in May 2023 to around 300bps in March 2024. The major rating agencies have



upgraded their outlook to positive recently, and both Fitch and S&P upgraded the credit rating to B+. The authorities are also contemplating how to complement these actions with structural reforms that may help with growth prospects going forward. These efforts will need to be sustained and supported in the coming months because the monetary, fiscal, and macro-prudential challenges and associated economic vulnerabilities were of such magnitude that despite the significant progress, there is some road ahead.

#### Sectoral and Institutional Context

**4. Micro, Small and Medium Enterprises (MSMEs) in Türkiye account for 99 percent of total registered businesses and make an important contribution to the Turkish economy.** According to KOSGEB's SME data, about 15 percent of MSMEs in Türkiye are in the 11 earthquake-affected provinces (473,354 MSMEs), including 35,674 manufacturing MSMEs that employ 133,024 workers. Many manufacturing MSMEs are based in Small Industrial Estates (SIEs), known as Küçük Sanayi Siteleri in Turkish language, which are registered as cooperatives at the Ministry of Environment, Urbanization and Climate Change (MoUECC). The Ministry of Industry and Technology (MoIT), Directorate General of Industrial Zones (DGIZ) has oversight over SIEs, and like with Organized Industrial Zones, has the authority to invest in SIE infrastructure. MoIT records show that 248 SIEs (14.6 percent of all SIEs) are in the 11 earthquake-affected provinces and have been impacted by the 2023 earthquakes to a varying degree, resulting in interruptions in economic activity and labor outflows.

**5. SIEs have played an important role in the Turkish economy since their introduction in 1963 by providing a suitable environment for MSMEs to operate.** These estates are usually located on the outskirts of cities and offer a range of facilities and services to support MSMEs, such as affordable workshops, shared resources, access to infrastructure, utilities, transportation and, since 1965, also access to credit facilities. Most SIEs are established and operate as building or management cooperatives, bringing together small entrepreneurs, such as craftspeople, tradespeople, small-scale manufacturers, and service providers. According to MoEUCC, since 1960s, approximately over 1,500 SIEs have been registered across Türkiye to date, providing workshops to more than 100,000 MSMEs. SIEs facilitate industrial agglomeration and significantly contribute to employment and economic development. The establishment of new SIEs using disaster-resilient materials and greener technologies can ensure that MSMEs and wider communities in the earthquake-affected provinces can better withstand and adapt to the adverse impacts of climate change.

**6. Since 1965, the MoIT has offered credit to building cooperatives to incentivize SIE development throughout Türkiye.** MoIT has financed up to 100 percent of the common SIE infrastructure, such as shared buildings and areas, electricity, and water connections, and 70 percent of the workshop costs. Through these investments, MoIT had completed the establishment of 497 SIEs across the country by the time the earthquakes hit in February 2023. Currently, MoIT continues to offer financing at a 3 percent annual interest rate with a 3-year grace period and a maturity of 13 years. Those 497 SIEs include about 97,511 workshops that employ 487,232 workers who have benefited from improved working conditions. As of today, the overall cost of the program is 71.2 billion Turkish Liras (approximately US\$2.2 billion according to the March 20, 2024, exchange rate).

**7. The SIEs in the 11 earthquake-affected provinces were affected to varying degrees during the February 2023 earthquakes.** 28 SIEs (of 248 in total) located in the impacted provinces suffered the greatest damages. MoIT estimates that around 4,400 workshops, employing approximately 13,263 workers, were either destroyed or severely damaged. As of March 2024, most of these workshops and common SIE infrastructure remain in need of reconstruction or repair, with some firms operating out of unsafe, partially destroyed buildings. Overall, KOSGEB reported that 15,786 manufacturing



MSMEs, located both within and outside existing SIEs, and employing 45,709 workers, were slightly to severely damaged, and are, therefore, in need of either rebuilding damaged their damaged workshops or building new workshops. Out of the 11 most affected provinces, MoIT will build the new SIEs in seven regions that were deemed more suitable for investments, closer to urban centres, and where the terrain was more suitable for construction.

8. **The GoT has requested World Bank support to design and finance a lending operation to build new SIEs on designated public land.** As a follow-up to the existing Post-Earthquake MSMEs Recovery Project for Türkiye (P181068), and in line with the Amendment to the OIZ Law and the Regulation on Industrial Areas and Workplaces in Disaster Areas the Project will support the construction of approximately 1,600 workshops for MSMEs that owned or rented such workshops in the 11 earthquake-affected provinces prior to the February 2023 earthquakes. The new SIEs will be designed to be resilient to future earthquakes, other natural disasters, and adverse impacts of climate change, and will include energy and water efficiency measures in their construction design. Based on a preliminary assessment, about 111,039 kWh/year of renewable energy could be generated, and 147,030 metric tons/year of CO<sub>2</sub> equivalent emissions could be reduced through the new investments in renewable energy (in particular, solar energy and use of low-carbon materials in the construction process) in 7 of the selected industrial sites. To ensure that these design criteria are implemented, MoIT will issue a special regulation to govern the implementation of the new program, including eligibility criteria, financing terms, and application process.

### C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

9. The PDO is to support the restoration and sustainability of MSME operations in earthquake-affected provinces through building resilient and low-emission Small Industrial Estates (SIEs).

#### Key Results

- a) Beneficiary MSMEs retained or increased their employment post-earthquake (percentage).
- b) Beneficiary MSMEs started commercial activities in climate resilient and carbon-emission workshops (number of MSMEs).
- c) Reduction in net greenhouse gas (GHG) emissions per year (Corporate Scorecard Indicator) (metric tons of carbon dioxide equivalent per year).

### D. Project Description

10. **The World Bank will provide financial support to MoIT's DGIZ for the construction of new SIEs with ready-built workshops to house MSMEs heavily impacted by the earthquakes of February 2023.** The workshops will be disaster- and climate-resilient, and eligible MSMEs will be those that owned or rented a workshop inside a SIE, an Organized Industry Zone, or an Industrial Park in one of the 11 earthquake-affected provinces prior to the February 2023 earthquakes. If MSMEs operated outside one of existing SIEs, they are also eligible per the July 2024 OIZ Law amendment, provided they operated in the manufacturing or the maintenance and repair sectors before the earthquakes. In either case, the new workshops will replace a fully destroyed or heavily damaged workshop. Once the new workshops are completed, eligible MSMEs will be able to purchase the new workshops with indirect loans provided by MoIT, equal to a pre-determined workshop cost.

11. **The proposed new Project will include two components:** the first will finance investments in new SIEs and workshops to be built and offered for sale to eligible MSMEs, and the second will finance expenses for Project-related



technical assistance and management by the MoIT. The bulk of the financing will be under component 1, given the huge reconstruction needs. However, some important technical assistance will also accompany the investments in ‘brick and mortar’ to enable beneficiary MSMEs to be better prepared for climate and disaster challenges and equip them with the skills needed to become more women inclusive.

12. **Component 1. Construction of Resilient and Low-Emission SIEs (US\$585 million).** This component will finance the construction of 7 new SIEs, including 1,600 workshops, which will then be sold to eligible MSMEs. In addition to the workshops, the component will also finance the construction of common infrastructure in the SIEs, outer spaces, electricity and water lines, small access roads and other necessary facilities. To determine the MSMEs’ needs, in early 2024 MoIT estimated the likely demand for workshops based on extensive consultations with MSMEs and business associations in the earthquake-affected provinces which discussed workshop features, such as location, size, materials used and building techniques, timelines and potential construction costs. The assessment identified a clear preference by MSMEs for newly built workshops (rather than repairing existing ones) in new SIEs. In total, according to site visits of MoIT staff, MSMEs need 8,517 new workshops in 7 new SIEs to be built in 4 provinces.<sup>1</sup> MoIT has requested that Bank financing be provided under component 1 for the construction of 1,600 workshops and related common infrastructure in the 7 newly selected SIEs at an estimated cost of US\$585 million. MoIT has preliminarily allocated the 1,600 workshops using a combination of criteria that consider several factors, including the size of the plot, any specific regulation affecting the land, and the level of damage in the province.

13. **The new SIEs will be built following disaster resilience and climate mitigation and adaptation standards and practices.** Within the SIEs, the new workshops will be designed using energy-efficient blueprints and materials, while the common infrastructure and areas in the new SIEs will adhere to sustainable principles that reduce carbon and water footprints. To construct such workshops, best practices point to incorporating specific solutions, such as the use of advanced and durable materials, with low embedded carbon, capable of withstanding both natural disasters and climate-induced stresses. When building the common infrastructure, the focus will be on integrating sustainable energy solutions, such as solar panels for renewable energy generation, as well as wastewater treatment plant, and rainwater harvesting systems to enhance water efficiency and to mitigate future climate-related risks.

14. **Component 2. Technical Assistance and Project Management (US\$15 million).** This component will provide technical assistance and capacity building to MoIT’s DGIZ and finance the PIU to manage the implementation of project activities. Technical assistance and capacity building activities will include: (a) Support for the PIU, which will assist MoIT with technical supervision of the project activities; (b) Technical assistance to facilitate the establishment of “management cooperatives” or “site managements” for the workshop owners in each SIE; (c) Studies for green infrastructure investments; (d) Costs associated with the ‘Safe Green Buildings’ certification scheme administered by the Turkish Standards Institute (TSE); (e) Gaining knowledge from both international and domestic experiences.

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<sup>1</sup> The financial analysis shows that the estimated cost for these new workshops amounts is approximately US\$4.8 billion, including the workshop construction costs, common infrastructure, and all the disaster resilience construction, climate mitigation, and climate adaptation measures. The GoT is planning to finance only about a quarter of the total potential demand, or 2,555 new workshops, for a total cost of US\$1.2 billion using its own resources and external funding.



Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Area OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

15. **Both the environmental and social risks are assessed as “Moderate” due to nature of activities and the urban or semi-urban setting where the activities will be undertaken.** The key environmental risks at construction stage include potential adverse impacts due to dust and noise generation, vehicle and machines emissions, generation of construction waste, hazardous material and waste including oil, grease, hydrocarbons as well as Occupational Health and Safety (OHS) issues, including traffic management and safety of local population. In most cases the impacts are limited to direct physical project area and could not have a wider impact. The key social risks include land use related impacts, management of labor (e.g., non-compliance with laws, exploitation of labor, health and safety risks, labor influx), social exclusion (of targeted beneficiaries, especially the vulnerable groups), social tensions, community health and safety and Sexual Exploitation and Abuse and Sexual Harassment (SEA/SH) risks. Since the sub-projects' locations of the SIEs will not be known during the appraisal stage, an Environmental and Social Management Framework (ESMF) has been prepared for the Project. The ESMF includes guidance and procedures for identifying and mitigating associated environmental and social risks/adverse impacts, as well as implementation, monitoring and reporting arrangements that will ensure adequate implementation of the ESF requirements. The scale and extent of the construction activities and the location settings may in few cases require, in addition to ESMPs, the preparation of site-specific Environmental and Social Impact Assessment (ESIAs) to ensure proper identification of site-specific risks and impacts. This would apply in cases where the locations are close to registered national heritage, cultural heritage, or other sensitive sites, including potential water supply points for population, which will be determined during the sub-project screening stage. In addition, a Resettlement Framework (RF), Labor Management Procedure (LMP) and Stakeholder Engagement Plan (SEP) have been prepared to ensure compliance with relevant Environmental and Social Standards (ESSs) of the Bank.

### E. Implementation

#### Institutional and Implementation Arrangements

16. **The Ministry of Treasury and Finance (MoTF) will be the Borrower, with MoIT as implementing agency of the proposed Project.** The PIU, which was established within the DGIZ for managing the ongoing Türkiye Organized Industrial Zones Project (P171645), will manage the Project activities and carry out all fiduciary responsibilities. The PIU has gained significant capabilities and experience in managing the Türkiye Organized Industrial Zones Project. The PIU capacity will also be expanded by recruiting additional staff required to effectively handle its expanded responsibility of managing the



proposed Project. Finally, the Project will include appropriate environmental and social safeguards systems, as well as a monitoring and evaluation framework and experts.

17. **MoIT, the primary entity responsible for supporting SIEs, will be the Implementing Agency of the Project.** The support to SIEs in Türkiye is covered by special legislation under Presidential Decree No. 1. DGIZ offers a credit scheme to SIEs (and OIZs) for their establishment and the development of infrastructure and workshops. DGIZ employs approximately 160 staff across 21 units, and these staff are responsible for the supervision and monitoring of infrastructure projects, construction works, environmental management and treatment projects, topography and geographical information systems, tendering, zoning, financial affairs, industrial zones establishment and monitoring, utilities, site selection, national plan and strategies, and investment programs.

18. **Using the proposed IBRD loan, DGIZ will directly finance and construct the SIEs and then transfer the workshops to beneficiary MSMEs upon signing legally binding individual debt agreements with each MSME in Turkish Lira.** MoIT will offer beneficiary MSMEs to pay back the costs of the workshops over a 13-year repayment plan at a 3 percent interest rate, including a 3-year grace period. MoIT will begin collecting repayments from beneficiary MSMEs through Ziraat Bank, a commercial bank that will only serve as a conduit for the financing in exchange for a fee and without taking any credit risk. DGIZ will procure private international consulting firms to support the design, supervision, and management of new SIE construction, and contractual arrangement with MSMEs. DGIZ will also procure private construction firms to build the new SIEs.

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### Borrower/Client/Recipient

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**APPROVAL**

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