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Report No: PAD5443

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A
PROPOSED LOAN

IN THE AMOUNT OF US\$450 MILLION
TO THE

SMALL AND MEDIUM ENTERPRISES DEVELOPMENT ORGANIZATION OF TÜRKİYE (KOSGEB)
WITH A GUARANTEE FROM THE REPUBLIC OF TÜRKİYE

FOR THE

TÜRKİYE: POST-EARTHQUAKE MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) RECOVERY
PROJECT

June 12, 2023

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

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CURRENCY EQUIVALENTS

(Exchange Rate Effective May 31, 2023)

Currency Unit = Turkish lira (TRY)

TRY20.69 = US\$1

US\$0.048 = TRY 1

FISCAL YEAR

January 1 - December 31

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ABBREVIATIONS AND ACRONYMS

AALs	Average Annual Losses	JICA	Japan International Cooperation Agency
AECID	Spanish Agency of International Development Cooperation	KBS	KOSGEB's web-based support infrastructure
AM	Accountability Mechanism	KOSGEB	The Small and Medium Enterprise (SME) Development Organization of Türkiye
APA	Alternate Procurement Arrangements	LA	Loan Agreement
CE	Citizen Engagement (please confirm if it's the correct interpretation of CE acronym in this document)	M&E	Monitoring and Evaluation
CERC	Contingent Emergency Response Component	MoEUCC	Ministry of Environment, Urbanization and Climate Change
CGRF	Global Crisis Response Framework	MoIT	Ministry of Industry and Technology
CPF	Country Partnership Framework	MOTF	Ministry of Treasury and Finance
CPI	Consumer Price Index	MPA	Multiphase Programmatic Approach
DA	Designated Account	MSMEs	Micro, Small and Medium Enterprises
EFA	Economic and Financial Analysis	NPV	Net Present Value
EHS	Essential Health Services	OHS	Occupational Health and Safety
EIS	Enterprise Information System	OIZs	Organized Industrial Zones
E&S	Environmental and Social	PBCs	Performance-Based Conditions
ERR	Economic Rate of Return	PDO	Project Development Objective
ESCP	Environmental and Social Commitment Plan	PFMC	Public Financial Management and Control
ESF	Environmental and Social Framework	PIU	Project Implementation Unit
ESMS	Environmental and Social Management Systems	PLR	Program and Learning Review
ESRS	Environmental and Social Review Summary	POM	Project Operations Manual
ESSs	Environmental and Social Standards	PPP	Purchasing Power Parities
EU	European Union	PPL	Public Procurement Law
F&C	Fraud and Corruption	PPSD	Project Procurement Strategy for Development
FI	Financial Intermediaries	RSMSEP	Rapid Support for Micro and Small Enterprises Project
GDP	Gross Domestic Product	SEA	Sexual Exploitation and Abuse
GDPM	General Directorate of Project Management	SEPs	Stakeholder Engagement Plans
GFDRR	Global Facility for Disaster Reduction and Recovery	SERR	Social Economic Rate of Return
GoT	Government of Türkiye	SH	Sexual Harassment
GRADE	Global Rapid Post-Disaster Damage Estimation	SME	Small and Medium Enterprise
GRS	Grievance Redress Service	STEP	Systematic Tracking of Exchanges in Procurement
HEIS	Hands-on Enhanced Implementation Support	SOP	Series of Projects
IBRD	International Bank for Reconstruction and Development	UMI	Upper Middle Income
IDA	International Development Association	UNDP	United Nations Development Program
IFC	International Finance Corporation	USAID	United States Agency for International Development
IFRs	Interim Financial Statements	WBG	World Bank Group
IOM	International Organization for Migration		
IPF	Investment Project Financing		



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DATASHEET

BASIC INFORMATION

Country(ies)	Project Name		
Türkiye	Türkiye: Post-Earthquake Micro, Small and Medium Enterprises (MSME) Recovery project		
Project ID	Financing Instrument	Environmental and Social Risk Classification	Process
P181068	Investment Project Financing	Moderate	Urgent Need or Capacity Constraints (FCC)

Financing & Implementation Modalities

<input type="checkbox"/> Multiphase Programmatic Approach (MPA)	<input type="checkbox"/> Contingent Emergency Response Component (CERC)
<input type="checkbox"/> Series of Projects (SOP)	<input type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Performance-Based Conditions (PBCs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input checked="" type="checkbox"/> Responding to Natural or Man-made Disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	<input type="checkbox"/> Hands-on Enhanced Implementation Support (HEIS)

Expected Approval Date	Expected Closing Date
27-Jun-2023	30-Jun-2025

Bank/IFC Collaboration

No

Proposed Development Objective(s)

The PDO is to support business continuity and sustainable growth of viable MSMEs in the earthquake-affected provinces.

**Components**

Component Name	Cost (US\$, millions)
Performance-based reimbursable financing for eligible MSMEs	449.00
Technical support to the KOSGEB Project Implementation Unit	1.00

Organizations

Borrower:	The Small and Medium Enterprises (SME) Development Organization of Türkiye (KOSGEB)
Implementing Agency:	The Small and Medium Enterprises (SME) Development Organization of Türkiye (KOSGEB)

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	450.00
Total Financing	450.00
of which IBRD/IDA	450.00
Financing Gap	0.00

DETAILS**World Bank Group Financing**

International Bank for Reconstruction and Development (IBRD)	450.00
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Expected Disbursements (in US\$, Millions)

WB Fiscal Year	2023	2024	2025
Annual	0.00	238.73	211.27
Cumulative	0.00	238.73	450.00

INSTITUTIONAL DATA

Practice Area (Lead)	Contributing Practice Areas
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Finance, Competitiveness and Innovation

Climate Change and Disaster Screening

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

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	Moderate
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other	Moderate
10. Overall	Moderate

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

**Environmental and Social Standards Relevance Given its Context at the Time of Appraisal**

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Relevant
Community Health and Safety	Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
Cultural Heritage	Not Currently Relevant
Financial Intermediaries	Relevant

NOTE: For further information regarding the World Bank's due diligence assessment of the Project's potential environmental and social risks and impacts, please refer to the Project's Appraisal Environmental and Social Review Summary (ESRS).

Legal Covenants**Sections and Description**

Loan Agreement (LA), Schedule 2, Section I.A. Except as the Bank shall otherwise agree, the Borrower shall, throughout the implementation of Project, to the satisfaction of the Bank: (a) operationalize and maintain a Project Implementation Unit ("PIU"), with terms of reference, staffing and budgetary resources necessary and appropriate to, in the Bank's opinion, effectively carry out Project; and (b) ensure the PIU satisfactorily carries out the following responsibilities, as may be further detailed in the Project Operations Manual ("POM").

Sections and Description

LA, Schedule 2, Section I.B.1-2. The Borrower shall maintain, throughout the implementation of Project, the POM, in substance and manner acceptable to the Bank (including the Reimbursable Financing Manual for the implementation of Part 1 of the Project), and shall carry out the Project, and cause the Project to be carried out, in accordance with the arrangements, procedures and guidelines set forth in the POM.



Sections and Description

LA, Schedule 2, Section I.C.1-5. In carrying out Part 1 of the Project, the Borrower shall: (a) extend Reimbursable Financing, on a first come, first served basis, to MSMEs that qualify in accordance with the relevant eligibility criteria and terms and conditions set forth in [the Loan Agreement], and as such criteria, terms and conditions may be further detailed in the Reimbursable Financing Manual; and (b) determine the amount of Reimbursable Financing to be extended to qualifying MSMEs based on criteria and the Reimbursable Financing limits acceptable to the Bank, as set forth [in the Loan Agreement] and detailed in the Reimbursable Financing Manual.

Sections and Description

LA, Schedule 2, Section I.C.5(d). The Borrower shall obtain a written agreement (“Reimbursable Financing Agreement”) with each beneficiary MSME that sets forth the terms and conditions for the Reimbursable Financing acceptable to the Bank, and rights adequate to protect the interests of the Borrower and the interests of the Bank and the Guarantor.

Sections and Description

LA, Schedule 2, Section I.D.2. The Borrower shall ensure that the Project is implemented in accordance with the Environmental and Social Commitment Plan (“ESCP”), in a manner acceptable to the Bank.

Sections and Description

LA, Schedule 2, Section I.E. The Borrower shall: (a) prepare and furnish to the Bank not later than December 15th of each year during the implementation of the Project, a proposed Annual Work Plan and Budget containing: (i) all activities to be carried out under the Project during the following year; and (ii) a proposed financing plan for expenditures required for such activities, setting forth the proposed amounts and sources of financing; (b) afford the Bank a reasonable opportunity to exchange views on each such proposed Annual Work Plan and Budget, and shall thereafter ensure that the Project is implemented with due diligence during said following year, in accordance with such Annual Work Plan and Budget as shall have been approved by the Bank.

Conditions

Type Effectiveness	Financing source IBRD/IDA	Description Section 4.01(a). The Borrower has properly established and staffed its Project Implementation Unit, with positions, terms of reference, and qualified staff acceptable to the Bank
Type Effectiveness	Financing source IBRD/IDA	Description Section 4.01(b). The Borrower has adopted a Project Operations Manual, which shall include a Reimbursable Financing Manual, in form and substance satisfactory to the Bank



I. STRATEGIC CONTEXT

A. Country Context

1. **On February 6, 2023, two earthquakes of magnitude 7.8 and 7.5 hit southeast Türkiye and Syria; these were followed by thousands of aftershocks, and another earthquake of magnitude 6.7 on February 20, 2023.**

The epicenters of the first two earthquakes were in Kahramanmaraş Province with neighboring provinces of Adana, Adıyaman, Diyarbakır, Elazığ, Gaziantep, Hatay, Kilis, Malatya, Osmaniye, and Şanlıurfa (the earthquake region) all suffering damages. The epicenter of the third earthquake was in Hatay. According to official statistics, the earthquakes resulted in over 50,000 casualties, 107,000 people injured, 1.9 million housing units damaged or destroyed, and almost 2 million in need of shelter in camps and container settlements. The 11 affected provinces have an area of about 110,000 square kilometers, was home to 14 million Turkish citizens (16.4 percent of the country's population) and 1.8 million Syrians under Temporary Protection (SuTPs) and accounted for 9.4 percent of Turkish gross domestic product (GDP) in 2022.

2. **The earthquakes have caused massive damage and the macroeconomic impacts are still unfolding.** A World Bank Global Rapid Post-Disaster Damage Estimation (GRADE) estimated initial direct physical damages of the earthquakes at US\$34.2 billion, the equivalent of 4 percent of Türkiye's 2021 GDP. The report already highlighted that recovery and reconstruction costs would be much higher, potentially twice as high. The Government of Türkiye (GoT) conducted a more in-depth needs and loss assessment with support from the European Union, the United Nations Development Program, and the Bank that was presented at a donor conference on March 20, 2023. This assessment estimated recovery and reconstruction needs at US\$81.5 billion. The net effects of the earthquakes on economic activity are expected to be mildly negative in 2023, and positive in 2024 as reconstruction activity offsets the disruption to productive sectors in the affected region.

3. **The earthquakes have struck Türkiye at a time when the country is facing significant macroeconomic pressures.** Türkiye enjoyed high economic growth between 2002-2020 (5.2 percent on average) that supported rapid poverty reduction, with the poverty rate nearly halving from above 20 percent in 2007 to 12.9 percent in 2020 (UMI poverty rate of US\$6.85 in 2017 PPP). 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 (GDP growth was 1.9 percent). This performance was due, to a large extent, to the government's economic policy response to the pandemic focusing on loosening monetary policy and rapid credit expansion. Indeed, supported by domestic and external demand, Türkiye achieved double-digit GDP growth in 2021 (11.4 percent) and maintained significant momentum in 2022 (5.6 percent). However, the policy framework that ensured a strong economic performance during and in the aftermath of the pandemic, compounded by the effects of the Russia's invasion of Ukraine, also heightened macroeconomic risks, including rising inflation (with annual inflation reaching 43.7 percent in April 2023 after having peaked at 85.5 percent in October 2022), currency depreciation (69 percent against the US\$ between January 2020 and April 2023) and a decline in foreign exchange reserve buffers.

4. **Beyond Türkiye's vulnerability to earthquakes, the country is also vulnerable to other natural disasters (e.g., climate-related), which have significant social and economic impacts and hamper the country's ability to recover from recent multiple crises.** About 70 percent of Türkiye's population live in first- and second-degree seismic zones. According to the United Nations (UN), Türkiye ranks 9th globally with regards to human losses due to earthquakes. Not including the February 2023 earthquakes, Türkiye has experienced 39 earthquakes with a magnitude of 5 and above since 1990, resulting in approximately 20,000 fatalities, a total affected population of



4.4 million, and direct damages exceeding US\$43 billion. The country's exposure to climate-related hazards, such as flooding and wildfires, is also considered high and further contributes to the country's vulnerability. In late 2019, 935 extreme events occurred, caused mainly by heavy rains, floods, windstorms, snow, and hail. Climate-related disasters have been striking with greater frequency and intensity over the past two decades and can create compound risks; for example, on March 15, 2023, torrential rains caused flooding and further damage in regions affected by the devastating February 2023 earthquakes. Average Annual Losses (AALs) to GDP from earthquakes in Türkiye are estimated at US\$10 billion, and impact 1 million people on average annually. Floods result in an AALs to GDP of US\$5 billion and impact an estimated 600,000 people on average annually. Disasters also disproportionately affect women and other vulnerable groups in terms of labor force participation, unemployment, and relative asset losses, among other outcomes.¹

B. Sectoral and Institutional Context

5. **The earthquake-affected provinces are home to 473,354 private enterprises, 99 percent of which are MSMEs (of which 95 percent are micro enterprises).** Most of the enterprises are concentrated in Adana (18.7 percent), Gaziantep (17.7 percent), Hatay (13.9 percent), Şanlıurfa (12 percent), Diyarbakır (8.5 percent), and Kahramanmaraş (8.3 percent) and are present in all economic sectors (agriculture, industry and services). According to the Small and Medium Enterprises Development Organization of Türkiye (KOSGEB), about 110,000 MSMEs were slightly to severely damaged in the 11 provinces, which is 23.3 percent of the total number of MSMEs in the provinces (472,753 MSMEs). On top of this, approximately 22,000 firms lost business because of economic disruptions or displacement of workers. Thus, 132,092 MSMEs have either suffered damages or loss of income (or both) in the earthquake-affected provinces (Table 1).

Table 1: Number and Size of Damaged MSMEs in the Earthquake-Affected Provinces

Size of Enterprise	Slightly Damaged	Moderately Damaged	Heavily Damaged	Income loss (in most affected areas)*	Total
Micro	66,957	7,919	30,680	20,925	126,481
Small	2,842	334	1,039	776	4,991
Medium	351	42	98	129	620
Total	70,150	8,295	31,817	21,830	132,092**

Source: KOSGEB

* MSMEs that had incurred an income loss of 50 percent or more, following the February 6 earthquakes. The numbers are based on self-declaration, in specific areas that were most affected by earthquake.

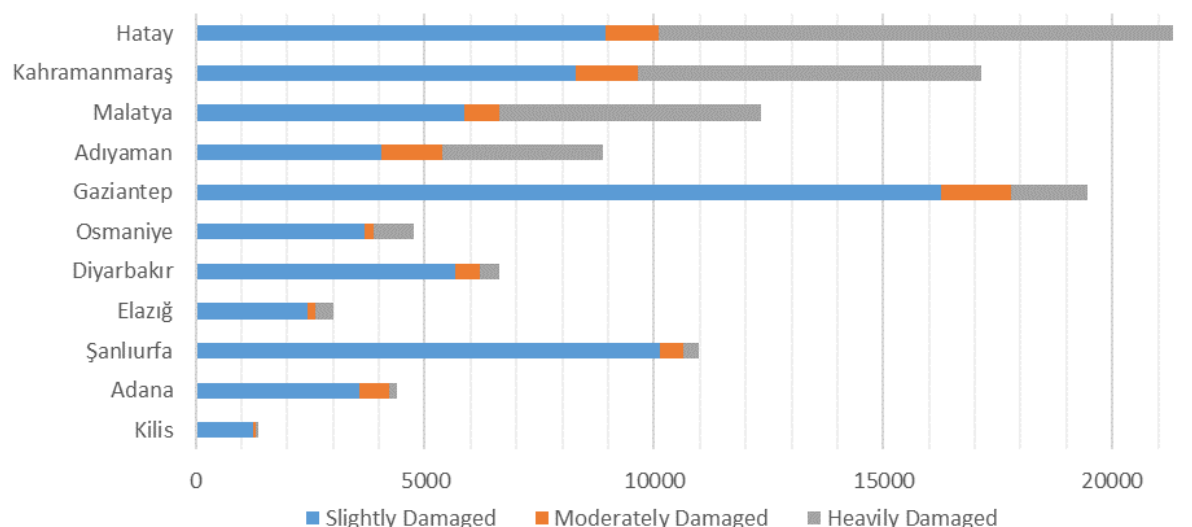
** Viable MSMEs are expected to be 75 percent of the total number of MSMEs.

6. **The damaged MSMEs in the 11 earthquake-affected provinces employed about 346,000 workers until February 2023.** The most affected areas of Adıyaman, Hatay, Kahramanmaraş, Malatya, Nurdağı, and İslahiye. Adıyaman employed about 223,000 workers at the time of the earthquake. MSMEs in the other affected areas of Adana, Diyarbakır, Elazığ, Kilis, Osmaniye, Şanlıurfa, and Gaziantep (except Nurdağı and İslahiye) employed about 123,000 workers. The MSMEs in these areas that suffered physical damage to their facilities as a result of the earthquakes are also facing financial challenges and find it difficult to retain their workers. In this regard, the proposed operation is expected to contribute to the prevention of job losses, which, in turn, may result in additional migration.

¹ Erman, A. et al. 2021. Gender Dimensions of Disaster Risk and Resilience: Existing Evidence. World Bank, Washington, DC. <https://openknowledge.worldbank.org/handle/10986/35202>



Figure 1: Number of Damaged MSMEs in the 11 Earthquake-Affected Provinces



Source: KOSGEB

Table 2: Number of Workers in Damaged MSMEs in the 11 Earthquake-affected Provinces, by Region, Degree of Damage and Firm Size (before the earthquake)

Region	Damage Status	Size			Total
		Micro	Small	Medium	
Group 1* Adıyaman, Hatay, Kahramanmaraş, Malatya, Nurdagi, İslahiye	Non- damaged	33,289	12,744	9,773	55,806
	Slightly Damaged	44,564	16,179	11,235	71,978
	Moderately Damaged	9,518	3,715	2,979	16,212
	Heavily Damaged	53,693	16,625	8,586	78,904
Group 2** Adana, Diyarbakır, Elazığ, Kilis, Osmaniye, Sanliurfa, Gaziantep (Except Nurdagi and İslahiye)	Slightly Damaged	67,542	25,261	15,330	108,133
	Moderately Damaged	5,919	1,853	901	8,673
	Heavily Damaged	4,361	1,238	665	6,267
Total					345,970

Source: KOSGEB

*Most affected areas, **Affected areas

C. Relevance to Higher Level Objectives

7. The proposed Project is part of an overall package of support from the WBG that is structured around (i) the reconstruction of infrastructure, (ii) the provision of public services, and (iii) economic recovery in the earthquake region. The overall package includes mobilizing support through projects that were already active before the February 2023 earthquakes and delivering new projects on a fast-track basis to provide a quick response, as well as analytical work and technical assistance. Specifically, the package encompasses the following:

- Mobilization of targeted support through the Bank's existing portfolio** in the country comprised of 24 operations for US\$8.5 billion. Within this portfolio, the Disaster Risk Management in Schools Project, the Safe Schooling and Distance Education Project, and the Health System Strengthening and Support Project are being repurposed or rebalanced to support the provision of human development services. Furthermore, the ongoing Support to Labor Market Transition Project, the Formal Employment Support



to Agriculture Sector Project, and the Formal Employment Creation Project also support social protection and labor activities in the earthquake region.

- (b) **Revision of the FY23 lending pipeline** adding new operations and adapting already planned operations to provide more targeted support to earthquake recovery. In terms of new fast-track lending operations, this includes the proposed Project and the new US\$1 billion Earthquake Reconstruction and Recovery Project. In terms of existing lending operations, the Green Industry Project was adapted to provide financing to eligible firms located in the earthquake region to support a greener economy and the Public and Municipal Renewable Energy Project includes a component that can finance renewable energy installations in earthquake region as part of the reconstruction of public buildings; and the Climate Resilient Forests Project now includes a bigger budget allocation for search and rescue/response capacity.
- (c) **Analytical work and technical assistance:** Immediately following the earthquakes, the World Bank mobilized its knowledge and convening power through the delivery of the GRADE report, followed by support to the government's assessment report, in coordination with the European Union (EU) and United Nations Development Program (UNDP) in preparation for the March 2023 donors conference held in Brussels and convened by the EU. The Bank secured US\$1 million in grant resources from the Global Facility for Disaster Reduction and Recovery (GFDRR), from its partnership with the United States Agency for International Development (USAID), for technical assistance to support the post-earthquake assessments informing the design of this Project as well as planning, prioritization, and implementation of post-disaster reconstruction investments. In addition, the Bank has an existing technical assistance program supporting policy and regulatory reforms to enhance resilience of the urban built environment in Türkiye financed by a \$825,000 grant from GFDRR under the Japan-World Bank Program for Mainstreaming Disaster Risk Management.

8. **The proposed Project is also in line with the development objective of improving competitiveness and employment, laid out in the WBG Country Partnership Framework (CPF)** for Türkiye (Report No. 110906-TR, discussed by the Board of Executive Directors on August 29, 2017) , that was originally proposed to cover FY18-FY21 but was extended through the Performance and Learning Review (Report No. 142353-TR, discussed by the Board of Executive Directors on March 13, 2020) to cover FY22-FY23 as well. Improving competitiveness and employment in selected industries are listed among the CPF/PLR objectives under, respectively, CPF Focus Areas I and II. This operation will support the development objectives of the CPF by preserving competitiveness and employment in earthquake-affected areas.

9. **The Project is aligned with the Bank's Global Crisis Response Framework (GCRF) and responding to multiple ongoing crises.** The Project will contribute to GCRF Pillar 2, Protecting People and Preserving Jobs, and Pillar 4, Strengthening Policies, Institutions and Investments for Rebuilding Better. Component 1 will support MSMEs to retain and increase jobs in earthquake-affected provinces. Component 2 will support institutional strengthening and capacity building for KOSGEB to support MSMEs after this and potential future crises.

D. Project Development Objective

PDO Statement

10. The PDO is to support business continuity and sustainable growth of viable MSMEs in the earthquake-affected provinces.



PDO Level Indicators

11. The PDO-level indicators for tracking progress toward achieving the PDO are as follows:
 - (a) Share of beneficiary MSMEs that retained or increased their employment within 24 months of receiving reimbursable financing, compared to the average employment recorded over the year before the earthquake. (Target: 60 percent of beneficiary MSMEs).
 - (i) Out of which women-owned or led MSMEs (Target: 15 percent of beneficiary MSMEs)
 - (b) Share of beneficiary MSMEs that generated annual revenue that is equal or more than the average over the year before the earthquakes (in real terms), within 24 months of receiving reimbursable financing. (Target: 70 percent of beneficiary MSMEs)
 - (i) Out of which women-owned or led MSMEs (Target: 15 percent of beneficiary MSMEs)

E. Project Components

12. **The Project will provide US\$450 million in the form of reimbursable financing to viable MSMEs affected by the severe earthquakes of February 6, 2023.**² MSMEs have a significant contribution to the Turkish economy in terms of output, exports, and employment. However, MSMEs are more vulnerable to natural disasters than large firms. Supporting the resilience of MSMEs to overcome the consequences of the earthquake will have positive spillover effects on the wider economy, through supply chains and supporting employment. The Project will aim to avert the closure of otherwise viable MSMEs due to damages to their productive assets as a result of the earthquakes, loss of workers, inputs and generally lower demand. The aim would be to alleviate liquidity pressures on MSMEs and help them restore their operations and gradually restore employment to pre-earthquake levels by re-hiring workers or replacing those who have permanently left the affected regions. The Project targets MSMEs that have been negatively affected by the earthquake but were financially viable before the earthquake and are likely to survive the disaster, provided these firms get funding to meet their temporary liquidity needs. The Project will have two components: one on reimbursable financing for eligible MSMEs, and the other one for Project management and implementation by KOSGEB. KOSGEB will be the Borrower and implementing agency for the Project, as it has successfully implemented the Rapid Support for Micro and Small Enterprises (MSEs) Project (P174144), which was a US\$300 million IPF prepared during the COVID-19 crisis to support viable eligible MSEs and will close on June 30, 2023. The latter Project has fully achieved its PDO and has generated close to 60,000 new jobs in beneficiary MSEs, the majority of which were for young graduates and women. KOSGEB has established all the Project management functions, including fiduciary, environmental and social, and monitoring and evaluation, needed for implementation of an emergency project and is well placed to implement the current Project.

13. **Component 1. Performance-based reimbursable financing for eligible MSMEs (US\$449 million). This component will provide reimbursable financing to eligible MSMEs to cover their operating expenses.** It will be disbursed through one application round on a “first come, first served” basis within a one-year period or until the funds are fully disbursed, whichever comes first. To support more vulnerable groups, 10 percent of the total reimbursable financing funds will be earmarked for women-owned or led MSMEs. While the national average of

² KOSGEB launched an interim disaster response project in May 2023 to support MSMEs affected by the earthquake. The project finances maintenance, personnel, raw materials, building repair, equipment, and hardware expenses incurred after February 6th, 2023. The project aims to support the resumption of MSME activities in earthquake-affected provinces and targets a limited number of MSMEs (estimated around 3,000 MSMEs) at up to TRY75,000 per beneficiary. KOSGEB plans to stop the project once the Post-Earthquake Micro, Small and Medium Enterprises (MSME) Recovery Project starts.



firms with female participation in ownership was 11.3 percent in 2019 and the national average of firms with a female top manager was 3.9 percent in the same year, the share of women-owned or led MSMEs in the earthquake-affected provinces is well below these figures. The MSMEs will repay this financing to KOSGEB after a grace period of up to two years, in three instalments over 12 months. There will be no interest on the repayment amount, only the principal will be repaid from each beneficiary MSME to KOSGEB.

14. **The reimbursable financing will be made directly from KOSGEB's designated Project account to the bank accounts of the beneficiary MSMEs.** KOSGEB will open a designated account at an acceptable commercial bank, as has been the practice in the ongoing Rapid Support for Micro and Small Enterprises Project (P174144). KOSGEB is responsible for confirming MSME viability and eligibility before approving financing and verifying the changes in MSME employment and sales within six months of receipt of the financing, using tax and social security data from the Revenue Administration and Social Security Institution (KOSGEB has access to firm data in both). When MSMEs apply for reimbursable financing, they will undertake a commitment, in each case, through a Reimbursable Financing Agreement, on the terms and conditions acceptable to the Bank, for receipt for the financing, and for the repayment on reasonable terms acceptable to the Bank. If payment is not made after the elapse of the additional time, all due installments will be collected through legal means. Repayment installments will be tracked through KOSGEB's existing IT infrastructure. Unpaid amounts, including any potential foreign exchange losses,³ will be covered by the KOSGEB budget.

15. **The Project incorporates clear eligibility criteria for beneficiaries to provide rapid support to MSMEs and set a reasonable mechanism for targeting earthquake-affected MSMEs,** with a focus on the most affected ones, and verifying results utilizing information in KOSGEB's and relevant public sector databases (e.g., the Ministry of Environment, Urbanization and Climate Change (MoEUCC), the Revenue Administration and the Social Security Institution). The firms that are eligible for reimbursable financing through this Project must meet all of the following criteria:

- (a) **Size criterion:** the beneficiary firm must be a MSME, as per the definitions in Turkish legislation outlined in Table 3. MSMEs are registered in the KOSGEB Database by submitting an MSME Declaration with data drawn from official records. These statements are updated every year. Due to the earthquake, the 2022 declarations have been postponed until August 2023 and data is gathered from the Revenue Administration and Social Security Institution.

Table 3: MSME Definition Criteria and Distribution by Size in Earthquake-affected Provinces in Türkiye*

	Micro	Small	Medium
Number of employees	< 10	< 50	<250
Annual sales revenue or balance sheet total per MSME	< 10 million TRY	< 100 million TRY	< 500 million TRY
Number of MSMEs total**:	450,112	19,851	2,790
Number of MSMEs negatively affected by the earthquake:	126,481	4,991	620
Ratio of affected MSMEs of total	28 percent	25 percent	22 percent

Source: KOSGEB Database.

*Firms' size definition will follow applicable Turkish legislation. The current definition of SME is in accordance with the renewed Regulation published on May 25, 2023 in Official Gazette No. 32201 Available at: <https://www.resmigazete.gov.tr/eskiler/2023/05/20230525-6.pdf>

**The numbers per category of MSMEs are as of May 15, 2023.

³ The IBRD loan will be in US\$, while KOSGEB will provide reimbursable support financing to MSMEs in TRY and MSMEs will repay KOSGEB in TRY. KOSGEB will need to repay the World Bank in the currency of the loan, hence the need for cover for the FX risk.



- (b) **Target Sectors:** This support is open for privately-owned MSMEs across all sectors, and more specifically:
- (i) B - Mining and quarrying
 - (ii) C - Manufacturing
 - (iii) D - Electricity, gas, steam, and air conditioning supply
 - (iv) E - Water supply; sewerage; waste management and remediation activities
 - (v) F - Construction
 - (vi) G - Wholesale and retail trade; repair of motor vehicles and motorcycles
 - (vii) H - Transporting and storage
 - (viii) I - Accommodation and food service activities
 - (ix) J - Information and communication
 - (x) K - Financial and insurance activities
 - (xi) M - Professional, scientific, and technical activities
 - (xii) N - Administrative and support service activities
 - (xiii) P - Education
 - (xiv) R - Arts, entertainment, and recreation
 - (xv) S - Other services activities
- (c) **Viability criterion:** (a) MSMEs that have recorded annual sales of TRY 75,000 (approximately US\$ 3,940) or above in 2022, as verified by data from the Revenue Administration. For MSMEs established in 2022 and operating for less than 12 months, annual sales will be calculated by multiplying the average sales per month by 12. This minimum income criterion is especially relevant for micro enterprises to determine whether they were active in 2022; and (b) MSMEs that have no overdue tax and social security contributions at the time of payment of the reimbursable financing. Criterion (b) is a test for the firm's financial standing with respect to state creditors.
- (d) **Being negatively affected by the earthquake:** Given the magnitude of the earthquake, most of the enterprises in the disaster area have been affected to different degrees, however, the impact can be categorized into four levels: 1) income loss: in such a case, there is no or very minor damage to the MSME's facilities, and the main impact is the revenue loss due to closure of business; 2) light damage of facilities; 3) moderate damage of facilities; and 4) heavy damage of facilities. Based on a preliminary assessment, 4 provinces (Adiyaman, Hatay, Kahramanmaraş, Malatya) plus the Nurdağı and İslahiye areas of Gaziantep Province (referred to as Group 1) were most affected areas, so all the MSMEs that pass the viability criteria would be eligible to apply. The other 7 provinces (Adana, Diyarbakır, Elazığ, Kilis, Osmaniye, Sanlıurfa, and Gaziantep (except Nurdağı and İslahiye)) (referred to as Group 2) are less affected areas, so the MSMEs that have suffered only income loss would not be eligible to apply. KOSGEB will rely on data from MoEUCC⁴ to assess the damages incurred by applicant MSMEs applying for financing under the Project. In Group 1 regions, for MSMEs that have reported only income losses, the amount of loss must be 30 percent or more (based on self-declaration) comparing the nominal monthly revenues of February 2023 against January 2023, to be eligible for reimbursable financing. In special cases where MSMEs located outside of the 11 earthquake affected provinces apply and are deemed eligible, KOSGEB will present to the Bank, on a case-by-case basis, a justification for reimbursable financing and a determination will be made by the Bank whether to provide it. The terms and conditions for Group 2 beneficiaries will apply in these rare cases.

⁴ The Ministry of Environment, Urbanization and Climate Change has collected data assessing the degree of damages to firms and households.



16. **The support will be “performance-based” because beneficiary firms that receive the reimbursable financing will agree to certain commitments.** For Group 1 beneficiaries, given the severity of the earthquake and damages to the firms, MSMEs will be expected to re-open or remain open and either restore or exceed the employment at the time of receiving the reimbursable financing for at least 6 months. If they fail to meet these conditions, beneficiaries will be asked to begin to pay back the reimbursable financing at the end of the 6th month after receiving the reimbursable financing according to the agreed repayment schedule. For Group 2 beneficiaries, MSMEs will commit to re-open or remain open and either restore or exceed the average employment that was recorded in the 12-month period preceding the earthquake within 24 months of receiving the reimbursable financing. If they fail to meet these conditions, they will be asked to begin to pay back the reimbursable financing at the end of the 24th month according to the agreed repayment schedule. If all conditions are met and the eligibility criteria are verified by KOSGEB, the disbursement will be made straight into the MSME’s bank account. At any time during the implementation of the Project, KOSGEB and the Bank reserve the right to verify the use of the reimbursable financing by beneficiary MSMEs. In line with the emergency support nature of the Project, the reimbursable financing is expected to be utilized for eligible operating expenses, such as employee salaries, supplies (including services), rent, and utilities. These will be further specified in the Reimbursable Financing Manual. Table 4 provides a breakdown of targeted MSMEs based on their group, damage status and size. Table 5 below summarizes the minimum operating expenses needed for MSMEs in Türkiye, distributed by MSME size and including rental fees, fixed costs and salaries.

Table 4: Break-down of targeted MSMEs in Group 1 and Group 2

Regions	Damage Status	Size			Total Number of MSMEs	
		Micro	Small	Medium		
Group (1): Adıyaman, Hatay, Kahramanmaraş, Malatya, Nurdagi, and İslahiye	Income loss (non-physically damaged)	20,925	776	129	21,830	81,527 (62%)
	Slightly Damaged	26,006	981	141	27,128	
	Moderately Damaged	4,406	197	31	4,634	
	Heavily Damaged	26,900	944	91	27,935	
Group (2): Adana, Diyarbakır, Elazığ, Kilis, Osmaniye, Sanlıurfa, and Gaziantep (Except Nurdagi and İslahiye)	Slightly Damaged	40,951	1,861	210	43,022	50,565 (38%)
	Moderately Damaged	3,513	137	11	3,661	
	Heavily Damaged	3,780	95	7	3,882	
Total Number of MSMEs		126,481	4,991	620	132,092	

Table 5: Minimum operating expenses for MSMEs (TRY)

According to 2023 SME declaration		Monthly costs (TRY)			Total cost (for 6 months) (TRY)
Size	Number of Employees	Minimum rent	Minimum fixed costs	Minimum Salaries*	
Micro	0 (Self-employed)	15,000	15,000	11,452.36	248,714.16
	1-4	15,000	15,000	23,202.36	319,214.16
	5-9	18,000	18,000	70,202.36	637,214.16
Small	10-49	20,000	20,000	128,952.36	1,013,714.16
Medium	50-249	30,000	30,000	598,952.36	3,953,714.16

Source: KOSGEB

*The cost of salaries to the employer is determined as 11,452.36 TL for the owner/partner and 11,750 TL for the employees of the MSME.



While calculating these costs, the anticipated increase in the minimum wage in July 2023 was not taken into account. When calculating the minimum salary, the minimum number of employees in the size classifications is taken into account and the MSME's owner/partner is also included in the calculation.

17. **The specific eligible reimbursable financing amounts will be different based on the firm's size and the level of negative earthquake impact.** The amount support limit for micro firms ranges from TRY 120,000 – 250,000, depending on the level of impact; for small firms, it ranges between TRY 180,000 and 375,000; and for medium firms, it ranges from TRY 240,000 – 500,000 (see Table 6 for details), with precise amounts dependent on the firm's fixed and variables costs. These amounts assume covering the operating expenses for an average firm for at least six months in each size category.

Table 6: Reimbursable Financing Framework: Upper Limits by Category of MSME and Financial Requirements

Regions	Damage Status	Item	Size		
			Micro	Small	Medium
Group (1): Adıyaman, Hatay, Kahramanmaraş, Malatya, Nurdagi, and İslahiye	Income loss (non-physically damaged)	<i>Amounts of Support (TRY)</i>	120,000	180,000	240,000
		Number of MSMEs	20,925	776	129
		Financial Requirement	2,511,000,000	139,680,000	30,960,000
	Slightly Damaged	<i>Amounts of Support (TRY)</i>	180,000	270,000	360,000
		Number of MSMEs	26,006	981	141
		Financial Requirement	4,681,080,000	264,870,000	50,760,000
	Moderately Damaged	<i>Amounts of Support (TRY)</i>	200,000	300,000	400,000
		Number of MSMEs	4,406	197	31
		Financial Requirement	881,200,000	59,100,000	12,400,000
	Heavily Damaged	<i>Amounts of Support (TRY)</i>	250,000	375,000	500,000
		Number of MSMEs	26,900	944	91
		Financial Requirement	6,725,000,000	354,000,000	45,500,000
Group (2): Adana, Diyarbakır, Elazığ, Kilis, Osmaniye, Şanlıurfa, and Gaziantep (Except Nurdagi and İslahiye)	Slightly Damaged	<i>Amounts of Support (TRY)</i>	150,000	225,000	300,000
		Number of MSMEs	40,951	1,861	210
		Financial Requirement	6,142,650,000	418,725,000	63,000,000
	Moderately Damaged	<i>Amounts of Support (TRY)</i>	180,000	270,000	360,000
		Number of MSMEs	3,513	137	11
		Financial Requirement	632,340,000	36,990,000	3,960,000
	Heavily Damaged	<i>Amounts of Support (TRY)</i>	200,000	300,000	400,000
		Number of MSMEs	3,780	95	7
		Financial Requirement	756,000,000	28,500,000	2,800,000

Source: KOSGEB

18. **The total number of viable MSMEs to be eligible for reimbursable financing are estimated to be 75 percent of the affected MSMEs in the 11 earthquake-affected provinces (132,092 MSMEs),** which is approximately 99,069 MSMEs. KOSGEB estimates the total funds needed to support these MSMEs' operating expenses for a period of 6 months at US\$941 million. The proposed Project will finance almost half of these



needs. The Japan International Cooperation Agency (JICA) is planning to provide parallel financing in a significant amount, yet to be determined. In addition, the Spanish Agency of International Development Cooperation (AECID) has approached the World Bank to explore co-financing options. KOSGEB has requested the World Bank to provide retroactive financing of up to 10 percent of the Project financing (US\$45 million, of which US\$44.9 million for component 1 and US\$0.1 million for component 2) to rapidly support MSMEs in earthquake-affected provinces. KOSGEB plans to start providing reimbursable financing in May-June 2023, following all the viability and eligibility criteria outlined above and further specified in the Project Operations Manual (POM) as well as the terms and conditions of the Reimbursable Financing Agreements and Manual. In addition, for retroactive financing to be applicable, KOSGEB will follow acceptable eligibility criteria and application process to the Bank and all Bank rules and procedures with regards to financial management, environmental and social (E&S) standards, and other Bank policies that would apply to the Project.

19. **Component 2. Technical support to the KOSGEB Project Implementation Unit (US\$1 million).** This component will be used to support the Project implementation unit under KOSGEB. The eligible expenses will include PIU operating costs, including consultants' costs, training, rent, utilities, information technology equipment and consultants, office supplies, communication, translation and interpretation, publication fees and other miscellaneous expenses related to the implementation of the Project, such as operational travel, monitoring and evaluation, auditing, financial management, as well as office equipment. The ongoing Rapid Support for Micro and Small Enterprises Project (P174144) has built capacity within a small PIU team, and the new PIU will comprise some existing PIU members and a few new ones, building on the expertise and experience of managing a similar operation.

F. Project Beneficiaries

20. **MSMEs will be the main beneficiaries of the overall Project which will provide immediate liquidity support.** Estimates in the economic analysis suggest up to 50,000 MSMEs will benefit directly from the Project, which will enable them to meet their short-term operational expenditures for salaries, suppliers, rent and utilities, or alleviate their financing needs overall, freeing space to invest in repairs and replenish lost inventory.

21. **Women-owned or led MSMEs will benefit directly and indirectly from all Project activities.** The Project includes specific gender targets to ensure women-owned or led MSMEs benefit from the Project and that existing gender gaps are closed. The national average of firms with female participation in ownership was 11.3 percent in 2019 and the national average of firms with a female top manager was 3.9 percent in the same year.⁵ By gathering gender-disaggregated data on MSMEs in the earthquake-affected provinces and by setting a minimum 15 percent beneficiary target for women-owned or led MSMEs, the Project will contribute to support vulnerable societal groups, such as women. Thus, the Project will reduce existing gender gaps and vulnerabilities that have likely worsened in the aftermath of the earthquakes since women are economically and financially disadvantaged in coping with the effects of major shocks, such as the earthquake.

22. **Employees of MSMEs and other firms who are eligible to be paid through the proceeds of reimbursable financing are direct beneficiaries of the Project.** As a direct result of firms remaining operational, employment will be preserved. The scheme is structured using a cascade principle, so the primary direct beneficiary group is expected to be employees of MSMEs. For MSMEs who are current on employee salaries, other indirect beneficiaries may include firms who are suppliers to these direct beneficiaries; the owners of the premises of

⁵ World Bank Enterprise Survey, Türkiye (2019)

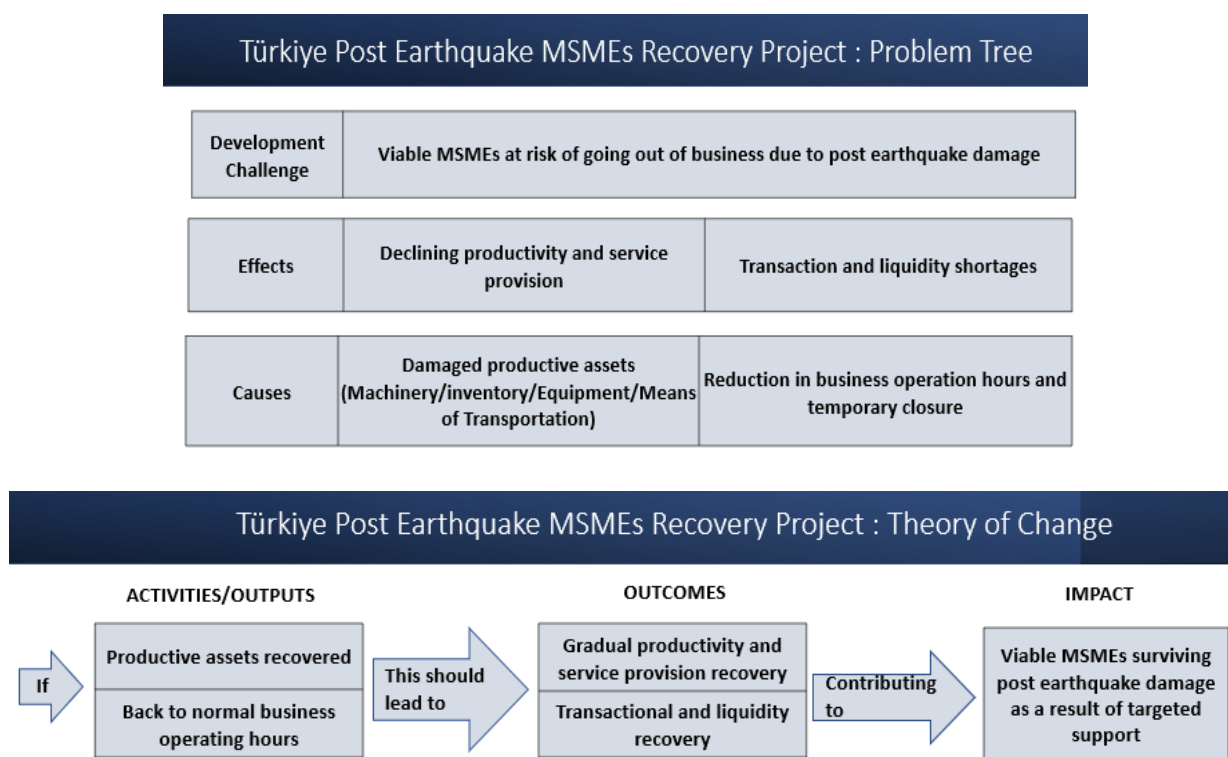


direct beneficiaries who will receive rental payments; and utility providers who will be paid outstanding utilities. Other positive effects will also be achieved because of the operation, including the preservation of innovation, goodwill, know-how, and the firms' networks of customers and suppliers.

23. **KOSGEB will benefit from financing and capacity building from the Project.** KOSGEB will receive financing to support MSMEs that it supports during normal times and thereby keep them operational and will further benefit from technical assistance to design and operationalize new MSME-support programs specifically designed for the earthquake recovery.

24. **The Turkish government will benefit from the Project proceeds.** The Project will support the relief and recovery in critical segments of the Turkish industries. The government is also expected to avoid bankruptcy-related costs in the short term and benefit from increased fiscal revenues in the medium term.

G. Results Chain



H. Rationale for Bank Involvement and Role of Partners

25. **World Bank Group (WBG) engagement for crisis mitigation is highly valuable, given the severity of the earthquake and resulting disruption of economic activities.** External resources are important for the GoT to respond the negative effects of the earthquake better. The WBG's value addition in this context is not only financing, but also the ability to quickly design new instruments to deploy the finance, building on global evidence and country knowledge that can ensure the finance achieves its intended impact. The WBG also has considerable potential to crowd in additional finance from other development partners through these instruments. The WBG value-added is also in identifying and applying a rigorous set of MSME eligibility and viability criteria as well as



targeting of earthquake-affected MSMEs and women-owned or managed MSMEs. The design is balancing the needs to be simple enough to allow fast disbursement to where it is most needed while also applying strict eligibility and targeting of beneficiaries.

26. **The WBG can play a catalytic role to crowd in other development partners.** The Japan International Cooperation Agency (JICA) has approached the Bank to co-finance the Project for the same activities and with the same objective. This builds on the successful experience of JICA in co-financing an earlier Bank operation with KOSGEB (P174144: Türkiye Rapid Support for Micro and Small Enterprises). The financing from JICA will be in a significant amount, yet to be determined. Should JICA provide parallel financing, using the same Project design, their Project will use the same PIU. This would require additional human resources within the PIU as the number of reimbursable financings to administer will double. Should the PIU be used also to implement the JICA Project, only the PIU costs attributed to the World Bank for the implementation of this Project will be eligible for Bank-financing under this Project; KOSGEB will prorate the PIU expenses in accordance with this understanding. Likewise, the Spanish Agency of International Development Cooperation (AECID) has approached the World Bank to provide co-financing in the amount of EUR 50 million, as committed by the Spanish Government in the aftermath of the earthquakes. Should this co-financing materialize, it will use the same Project design and the Project PIU for implementation.

27. **The deep and wide impact of the earthquake, with strong repercussions on the MSMEs, calls for an expansion of WB financing in support of vulnerable MSMEs, to be provided through KOSGEB.** Given the unprecedented challenge posed to the Turkish economy by the earthquake damages, the World Bank has the expertise and resources to respond promptly to the authorities' request for an emergency operation to support short-term financing needs of adversely affected firms.

I. Lessons Learned and Reflected in the Project Design

28. **Although the Project implements an innovative approach to supporting firms in a post-disaster situation, it employs lessons learned from other post-disaster assistance projects, particularly prior earthquake response projects in Haiti, India, and the 1999 earthquake in Türkiye.** These lessons include:

- (a) Rapid disbursement is critical to ensure support can be utilized quickly by earthquake victims. In Haiti, it was shown that early cash transfers were critical to help survivors recover. Focusing on sustaining employment, which is a goal in this Project, can also be helpful in the recovery process, both financially and mentally for survivors.
- (b) An active field presence in the areas of the earthquake is critical to ensure effective targeting of beneficiaries. KOSGEB has multiple offices throughout the country that will ensure this through the proposed project.
- (c) A post-disaster project can provide an opportunity to address equity concerns – grants were targeted to women in India after the Gujarat earthquake. In this project, 10 percent of the reimbursable financing will be set aside and targeted to women-owned or led businesses.
- (d) A straightforward design is also critical to avoid major delays – the proposed project only has one main component focused on reimbursable financing for operational expenses and will use an implementing institution that has already demonstrated its capacity to implement this type of project.

29. **The proposed Project follows a series of successful firm-level operations supported by the World Bank in Türkiye.** The Project draws extensively upon the lessons of previous Bank engagements in Türkiye and other



World Bank crisis-response projects:

- (a) Strong commitment and ownership by the implementing entity is essential for post-crisis recovery of firms. The proposed funding is in the list of priorities of the Government, and the active involvement of the KOSGEB leadership in identification, preparation and implementation is essential for generating ownership.
- (b) Support during project implementation. A project team with diverse skills will provide implementation support to KOSGEB during technical supervision, which is essential to ensure project success.
- (c) The Project design reflects the following lessons learned from previous emergency and crisis-response operations in Türkiye and in other countries: (i) simple and flexible design, allowing for operational adjustments, and avoiding sectoral or regional targets; (ii) reliance on financially sound partners as implementing agencies; (iii) clear definition of target beneficiaries to ensure limited World Bank resources are directed to where they are most needed; (iv) use of quantitative eligibility criteria to ensure viability of end-borrowers; and (v) partner's capacity to follow the World Bank's fiduciary, environmental and social requirements.

30. **The Project takes lessons from global World Bank operational experience, which underlined that preserving firm-worker links, when facing large temporary shocks, is an important determinant of an economy's ability to bounce back quickly as soon as the shock dissipates and is an important metric of its resilience.** In a recent report, Avdiu et al (2021) study the effect of the COVID-19 pandemic on private sector resilience in developing countries.⁶ The report did not find evidence of a negative change in allocative efficiency arising from the large temporary shock and the support policies that governments implemented to support firms and the preservation of employment. Even though the COVID crisis was a different shock to the earthquake, the principle of using similar employment-preservation, time-bound public support measure, with clear targeting and eligibility criteria, remains and will be applied in this Project.

31. **The Project takes lessons from other Bank projects in Türkiye, including the Rapid Support for Micro and Small Enterprises Project (P174144).** The project provided reimbursable financing to micro and small firms to avert their closure during the COVID-19 pandemic and to support employment. KOSGEB is the implementing entity for this project and has demonstrated both its capacity for project implementation and for the reimbursable financing mechanism. The project was restructured to increase the amounts available to firms and broaden the sectors eligible to receive the reimbursable financing. With the restructuring, the project has reached full disbursement of its original US\$300 million amount and has supported 58,393 beneficiary MSEs over 4 rounds of application between May 2021 and October 2022. Most of the proved MSEs are micro enterprises (86%) and 15.4% are female-owned (8,995 MSEs). The project generated 93,016 new jobs in beneficiary MSEs. Of these new jobs, 60.9% were for female employees (56,656 employees). Beyond demonstrating the capacity of KOSGEB and the viability of reimbursable financing, the project achieved its objectives satisfactorily and illustrated the importance of working with authorities to be flexible to adjust innovative project activities to ensure their effectiveness. The project has met its PDO and exceeded the PDO indicator targets. Financial management, procurement and environmental and social performance has been consistently satisfactory and there have been no implementation issues to date. The project will close on June 30, 2023, as planned.

⁶ Apedo-Amah, Marie Christine; Avdiu, Besart; Cirera, Xavier; Cruz, Marcio; Davies, Elwyn; Grover, Arti; Iacovone, Leonardo; Kilinc, Umut; Medvedev, Denis; Maduko, Franklin Okechukwu; Poupakis, Stavros; Torres, Jessica; Tran, Trang Thu. 2020. *Unmasking the Impact of COVID-19 on Businesses: Firm Level Evidence from Across the World*. Policy Research Working Paper; No. 9434. Washington, DC: World Bank.



32. **KOSGEB has the comparative advantages of being institutionally strong, with a significant presence across Türkiye and extensive data on its MSME clients.** The Project is designed to reinforce these strengths. With regional offices in 81 provinces of Türkiye, KOSGEB has a broad network of MSMEs countrywide, able to access individual MSME data, and has a good understanding of the needs of MSMEs that are affected by the earthquake. Since 1990, KOSGEB has developed a long successful track record of supporting Turkish MSMEs.

II. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

33. **KOSGEB was established by the law numbered 3624 as an affiliated organization of the Ministry of Science, Industry and Technology in 1990 with the objectives of increasing SMEs' effectiveness and competitiveness, and ensuring industrial integration in conformity with economic development, to contribute to the social and economic needs of Türkiye.** KOSGEB is a public institution with legal personality, with special budget and is subject to private law provisions in all its transactions.⁷ The purpose of KOSGEB is to increase the share and efficiency of small and medium enterprises in meeting the economic and social needs of the country, to strengthen their competitiveness, and to realize integration in Turkish industry in accordance with economic developments.⁸ KOSGEB executive bodies include the General Board, the Executive Committee, and the Presidency. In line with the development plans and programs, the General Board takes measures to ensure the adaptation of enterprises to technological developments and free competition environment, to take measures to ensure the planning and coordination of applications, to give regulatory directives, to examine the annual activity reports and programs of the Presidency and to make recommendations. The Executive Committee takes implementation decisions regarding the development and support of businesses in line with the policy recommendations, goals, objectives, and principles set by the General Board. The Small and Medium Enterprises Development Organization Presidency is represented by the President and the President carries out all the affairs of the organization in accordance with the relevant legislation, General Board and Executive Committee decisions. Its support is organized along four pillars: i) entrepreneurship support; ii) R&D and innovation support; iii) business development; and iv) finance and incubation, with offices in all 81 provinces of the country. Overall, KOSGEB runs 14 different programs, and in 2019 delivered services for a total of US\$420 million.

34. **KOSGEB will manage this Project, building on their experience in providing reimbursable financing to SMEs throughout Türkiye, under the ongoing Bank-funded Rapid Support for Micro and Small Enterprises Project (P174144).** The PIU at KOSGEB has developed an outreach and roll-out methodology that proved to be effective in fully disbursing the funds, achieving targets, and delivering the Project satisfactorily. KOSGEB plans to deploy the existing project's system, manuals, and personnel to support the implementation of the proposed Project.

35. **KOSGEB will establish a Project Implementation Unit (PIU) for the purposes of implementing the Project and will maintain it throughout Project implementation.** The PIU will be established prior to effectiveness and the establishment of the PIU, staffed at a minimum with a Project manager, an expert in MSME application screening, selection and coordination, and a financial management specialist, will be a condition of effectiveness. The PIU will be fully funded and staffed and will operate under the overall supervision of the KOSGEB management team, in cooperation with relevant units/departments/directorates in the 11 affected provinces. The PIU responsibilities will include: (i) ensuring that the IBRD reimbursable financing is on-lent to final

⁷ The status, organs, authority, duties, and responsibilities of KOSGEB Presidency have been redefined in the 18th section of the "Presidency Decree" No. 4, published in the Official Gazette dated 15/7/2018 and numbered 30479.

⁸ As determined in Presidential Decree No. 4.



beneficiaries in accordance with the terms and conditions recorded in the Reimbursable Financing Agreements, Project Operations Manual and Reimbursable Financing Manual; (ii) responsibility for adherence to all fiduciary and safeguard requirements of the World Bank; and (iii) monitoring and evaluation based on the agreed results indicators. The Project Operations Manual, including the Reimbursable Financing Manual, will be adopted prior to effectiveness and will also constitute effectiveness conditions.

B. Results Monitoring and Evaluation Arrangements

36. **The PIU will assign a Monitoring and Evaluation (M&E) Specialist.** The M&E Specialist will be responsible for data collection, compilation, reporting and preparation of regular M&E reports for the Project. The Results Framework (Section VI) will enable the implementing agencies to track performance, adjust implementation as needed, and demonstrate the impact of Project activities. The Project Operations Manual (POM) will include a detailed description of how Project activities will be monitored and evaluated, including assigned roles and responsibilities for data collection, analysis, reporting, evaluation, and use within certain time frames at the PIU's in KOSGEB. To monitor and evaluate the Project, key indicators linked to the Project objective would need to be agreed in advance, as well as methods for verification.

37. **The Borrower will evaluate progress through monitoring the agreed results indicators and reporting them to the WB.** The KOSGEB team will continuously monitor the PDO, and intermediate results indicators listed in the agreed Results Framework (Section VI) and report them to the WB on a quarterly basis. In addition, the financial performance of KOSGEB will be monitored through independent auditors' reports, including separate management letters confirming adherence to prudential norms.

38. **The World Bank will support the capacity-building of the KOSGEB team to monitor financing of MSMEs, the implementation process, and measuring outcomes.** Progress will be reviewed using the PDO-level and intermediate results indicators. KOSGEB will be responsible for providing the required quarterly implementation progress status reports and elaborating an M&E manual as part of the POM, which will guide the overall M&E activities. Activities to be monitored include quality control, the timely and efficient processing of reimbursable financing to MSMEs, the effective implementation of all key outcome indicators related to institutional strengthening, as well as citizen engagement and the inclusion of women-owned or led firms.

C. Sustainability

39. **The Project will promote sustainability by working through and building the capacity of KOSGEB to support MSMEs in their recovery from the earthquake.** KOSGEB will ensure comprehensive geographic coverage, access to extensive data to evaluate and monitor their received reimbursable financing, and therefore minimize the cost and time needed to deliver the support. Reimbursable financing is performance-based to avoid financing nonviable firms and distorting the private sector. MSMEs supported through this Project can resume their operations and gradually restore their production capacity.

III. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis (if applicable)

40. **An economic and financial analysis (EFA) has been conducted for the Project to determine the value of the anticipated benefits relative to the costs.** The Project Net Present Value (NPV) is estimated at US\$154 million



at a 12 percent discount rate⁹, and the Economic Rate of Return (ERR) at 25 percent based on Project investments.

41. **The analysis for Component 1 (Performance-based reimbursable financing for eligible MSMEs) is based on improved survival rates for beneficiaries that receive financing.** Many beneficiaries would be likely to fail as a result of the extensive earthquake damage without the emergency funding provided through this Project. The above calculation also includes the Project management support provided under Component 2.

42. **Social returns:** In addition to the financial benefits noted above, the Project is expected to result in wider social benefits. Most importantly, a higher survival rate for businesses in the regions impacted by the earthquake will help improve the overall business ecosystem in these regions, enabling more widespread economic spill overs. These types of returns are difficult to precisely quantify, especially given the wide range of potential beneficiaries (from other businesses to local households). To develop an indicative estimate, this analysis uses a minimum threshold multiplier to demonstrate the wider potential impact. A number of social impact investment firms¹⁰ use a minimum threshold US\$2.50 social return for every dollar invested. Using this threshold as an estimate for the additional social return, the Project Social Net Present Value (SNPV) is estimated at US\$201 million at a 12 percent discount rate and the Social Economic Rate of Return (SERR) at 29 percent. Given the emergency nature of this Project and the importance of MSMEs in the earthquake-impacted provinces, the social returns could be even higher as a large part of the economy could collapse without it. A detailed economic and social analysis for the Project is included in Annex 4.

B. Fiduciary

(i) Financial Management

43. **KOSGEB has financial management arrangements that are satisfactory to the Bank.** The Project financial management assessment was carried out in April 2023 through meetings held with KOSGEB officials. The assessment also draws information from the financial management assessment and supervision reports of the Türkiye Rapid Support to Micro and Small Enterprises Project (RSMSEP) (P174144) under implementation by KOSGEB which has satisfactory financial management arrangements.

44. **KOSGEB will be responsible for Project implementation.** The PIU established under the General Directorate of Project Management (GDPM) currently implementing the RSMSEP will have the overall responsibility for Project financial management. The financing under the Project is similar to programs KOSGEB regularly implements and the one financed under the RSMSEP. KOSGEB will integrate a module to its information system to implement and monitor the Project.

45. **The PIU will be responsible for the management of the Designated Account.** The FM department of the PIU will be responsible for the preparation of Interim Financial Statements (IFRs) and year end Project financial statements. The Project financial statements will be audited by Treasury Controllers. The Project audit report will be made publicly available as per the Access to Information Policy of the World Bank.

(ii) Procurement

⁹ We estimate a 12 percent discount rate as the risk-adjusted opportunity cost of capital. Additional NPV estimates at other discount rates have also been provided as a measure of the sensitivity of our analysis.

¹⁰ Harvard Business Review 2019, *Calculation the Value of Impact Investing*. <https://hbr.org/2019/01/calculating-the-value-of-impact-investing>.



46. **Procurements under the Project will be carried out in accordance with the World Bank Procurement Regulations for IPF Borrowers for Goods, Works, Non-Consulting and Consulting Services - November 2020 version ("Procurement Regulations").** The Project will be subject to the World Bank's Anticorruption Guidelines, dated October 15, 2006, and revised in January 2011 and July 1, 2016.
47. **Component 1 of the Project provide performance-based reimbursable financing to the eligible beneficiaries in which disbursements to the firms shall be utilized for eligible operating expenses, such as employee salaries, supplies (including services), rent, and utilities.** Hence there will be no procurement of goods, works, non-consulting services and consulting services under Component 1.
48. **The Procurement Regulations requires the Borrower to develop a PPSD for the Project.** Since the KOSGEB is in urgent need of assistance (as described under paragraph 12 of the IPF policy) because of the recent Kahramanmaraş earthquakes, KOSGEB has prepared a high-level, simplified PPSD as per paragraph 4.3 of the Procurement Regulations.
49. **The Procurement Regulations require the Borrower to use the World Bank's Systematic Tracking of Exchanges in Procurement (STEP) online procurement tracking tool to prepare, clear and update its procurement plans, and conduct all procurement transactions.** This ensures that comprehensive information on procurement and implementation of all contracts for goods, works, non-consulting services, and consulting services awarded under the whole Project are automatically available. This tool will be used to manage the exchange of information between KOSGEB and the World Bank. KOSGEB is experienced in using STEP under Development of Businesses and Entrepreneurship for Syrians under Temporary Protection and Turkish Citizen Project (P168731) and Turkey Rapid Support for Micro and Small Enterprises During the COVID-19 Crisis (P174144) and therefore it is expected that this experience will be shared with the Project PIU. PIU will create the procurement plan for the Project through STEP before initiating any procurement activity. PIU will record all procurement related complaints in the STEP complaint module. In addition, the PPSD and the Procurement Plan will be updated at least annually or as required to reflect actual Project implementation needs. PPSD and its updates will be recorded in STEP.
50. **Advance Contracting will be applicable under the Project, subject to the conditions defined in paragraphs 5.1 and 5.2 of the Procurement Regulations for Borrowers.** When conducting advance contracting, the Borrower shall use the procurement document templates agreed to by the Bank.
51. **All the selection methods defined in the Procurement Regulations can be used under the Project; however, priority will be given to streamlined and simple procedures and to those that ensure expedited delivery under the Project.** These include: Direct Selection, Request for Quotations and Consultant's Qualifications-based Selection with higher threshold limit as appropriate. Procurement will follow either an international or national approach. The national market approach can be used for the supply of goods with no threshold limitation. Bidding/proposals preparation times may be reduced to seven business days for national competition and three business days for a Request for Quotations, depending on the value and complexity of the requested scope of bid and capacity of firms to prepare responsive bids in the proposed periods; electronic bid submission and online bid opening may be arranged as appropriate; and a standstill period will not apply in any procurement under the Project.
52. **When approaching the national market, as to be agreed in the Procurement Plan, fit-for-purpose**



selection methods and market approach options will be adopted as stipulated in the POM following the World Bank's guidance for procurements in situations of urgent need of assistance. In such procurements, Turkish bidding documents accepted by the World Bank may be used by the KOSGEB.

53. **The World Bank conducted a procurement assessment for the Project, with a focus on the KOSGEB in terms of:** (i) procurement regulatory framework and management capability; (ii) integrity and oversight; (iii) procurement process and market readiness; and (iv) procurement complexity. The KOSGEB is a public entity and subject to the Public Procurement Law (PPL) under its regular operations. KOSGEB is subject to external audit by the Court of Accounts. While the proposed Project procurements will follow the procedures specified in the World Bank's Procurement Regulations, findings in the assessment concluded that applicable procurement policies and the regulatory system are designed broadly to meet the World Bank's Core Procurement Principles. KOSGEB has been implementing/implemented the Procurement Regulations under P168731 and P174144 with its own staff and thus a procurement capacity has been developed to implement the proposed Project. KOSGEB will support Project PIU with the staff experienced in the Bank's Procurement Regulations. Given the emergency nature of the Project and the limited implementation time, the overall procurement risk for the Project is assessed as Moderate. The assessment will be recorded in the Procurement Risk Assessment and Management System of the World Bank.

Table 7: Project Procurement Risks and Mitigation Measures

Action No.	Identified Risk	Mitigation Measure	Responsible Party	Time Frame
1	Use of streamlined procurement procedures may require modified and simplified procurement documents.	Develop a Project Operations Manual for KOSGEB with a procurement section.	KOSGEB	Before the Project effectiveness
2	Misinterpretation of the Procurement Regulations and terms and conditions of the contracts. It may cause noncompliance and time and cost overruns in contract implementation.	Procurements will be conducted by KOSGEB/PIU and a procurement specialist will be assigned for the Project procurement activities. PIU will work closely with the World Bank procurement specialist.		Throughout the Project. Procurement specialist will be assigned immediately after Project effectiveness (within first month).

54. **World Bank oversight arrangements.** The World Bank's oversight of procurement will be done through increased implementation support. The World Bank will review the procurement arrangements performed by the KOSGEB, including contract packaging, applicable procedures, and the scheduling of the procurement processes, for their conformity with the Legal Agreement. Those procurements that did not have ex ante due diligence by the World Bank will be subject to ex post due diligence on a sampling basis in accordance with the procedures set forth in Paragraph 4 of Annex II to the Procurement Regulations. A post review of the procurement documents will normally be undertaken annually and/or during the World Bank's supervision mission, or the World Bank may request to review any contracts at any time. In such cases, the PIU shall provide the World Bank the relevant documentation for its review. Procurement complaints (other than those covered under Annex III of the Procurement Regulations) are to be handled by the KOSGEB, as appropriate, as stipulated in the POM. Immediately upon receipt, complaints will be recorded in the STEP complaint module by the PIU. KOSGEB will not proceed with the next stage/phase of the procurement process, including with awarding a



contract, without a satisfactory resolution of the complaint(s). KOSGEB will respond to complaints within a reasonable timeframe, and no later than fifteen business days.

C. Legal Operational Policies

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

D. Environmental and Social

55. **Both the Environmental and Social risks are rated as “Moderate” for this Project.** Overall, the Project is expected to have positive environmental and social impacts as it will be helping firms stay afloat, resume operation after earthquake(s) and preserving the jobs of workers amidst economic turmoil caused by earthquake(s). Major civil works are not expected within the scope of the Project, nor activities which would require land acquisition, restrictions to land use or involuntary resettlement, as defined under ESS5; nor those with significant impacts on biodiversity or cultural heritage. The main environmental and social (E&S) risks of the Project are related to occupational health and safety (OHS), labor and working conditions, transportation, water use, energy use, limited air and noise emissions and waste management resulting from the ongoing activities, equipment supply and limited construction and repair/maintenance activities by the beneficiaries. These are expected to be site specific, temporary and can be readily addressed through standard mitigation measures and compliance with national environmental and social laws and policies of Türkiye, applicable ESF ESSs, and respective WBG EHS Guidelines. Sexual exploitation and abuse (SEA) and sexual harassment (SH) risks are assessed as low. To manage E&S risks and impacts associated with loans to MSMEs KOSGEB will implement the E&S management system (ESMS) in line with the ESS9.

56. **The Borrower has prepared draft Stakeholder Engagement Plans (SEPs), and Environmental and Social Management Systems (ESMS).** Draft SEP, of quality acceptable to the World Bank, was disclosed before Project appraisal and publicly discussed and consulted upon with stakeholders. KOSGEB already has labor management procedures in line with ESS2 and will also put in place measures to ensure that direct and contracted workers are engaged in accordance with ESS2 requirements. KOSGEB will recruit or designate qualified environmental, social, and occupational health and safety specialists to implement and monitor ESF requirements and implement the required environmental and social mitigation measures. The ESCP includes these requirements.

E. Corporate Requirements

57. **Gender:** Access to finance via diversified sources is more challenging for female-owned or led SMEs. In Türkiye, 58 percent of loans require collateral when the business is managed by a woman, versus 38 percent when a business is managed by a man. Although the situation has recently improved — 69 percent of adults now have an account in Türkiye, up from 57 percent in 2014 — only 54 percent of women have an account, compared with



83 percent of men.¹¹ This 29 percent gender gap is roughly three times as large as the average gender gap in emerging economies. Women's participation in the economy still needs improvement. The gap between women and men's overall labor force participation (ages 15+) remains large: 32.8 percent for women and 70.3 percent for men in 2021.¹² According to the World Economic Forum's 2021 Gender Gap Index, Türkiye lags behind many countries for gender equality across socio-economic dimensions. Female employers represented only 1.25 percent of all employers in Türkiye in 2019. The Project includes specific gender targets to ensure women-owned or led MSMEs benefit from the Project and that existing gender gaps are closed. While the national average of firms with female participation in ownership was 11.3 percent in 2019 and the national average of firms with a female top manager was 3.9 percent in the same year,¹³ the share of women-owned or led MSMEs in the earthquake-affected provinces is expected to be less than these. By gathering gender-disaggregated data on MSMEs in the earthquake-affected provinces and by setting a minimum 15 percent beneficiary target for women-owned or led MSMEs, the Project will contribute to reduce existing gender gaps. The Project will analyze the needs of women-owned or managed MSMEs in earthquake-affected provinces, provide outreach and capacity building sessions to encourage them to benefit from the Project.

58. **Citizen Engagement:** The Project will include a citizen-oriented design. During implementation, as a part of stakeholder engagement activities, Project implementing agencies will carry out regular dialogues with beneficiary MSMEs to provide them an opportunity to voice their challenges, needs and priorities regarding the reimbursable financing support. These dialogues can also serve as beneficiary feedback mechanism by enabling firms to provide feedback on the reimbursable financing's functionality (ease of access, transparency, etc.). This feedback can help improve the implementation of Project activities.

59. **The Project will also carry out annual beneficiary surveys which will be gender-disaggregated.** The results of the surveys will be shared during stakeholder engagement activities, and actions to address the feedback will be included in the Project implementation activities ("closing the feedback loop"). The suggested beneficiary feedback indicator (CE indicator) is "Share of enterprises that report financing reflecting their needs."

IV. GRIEVANCE REDRESS SERVICES

60. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by a Project supported by the World Bank may submit complaints to existing Project-level grievance mechanisms or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address Project-related concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted to the AM at any time after concerns have been brought directly to the attention of Bank Management and after Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit <https://accountability.worldbank.org>.

¹¹ Global Findex Database: <http://www.worldbank.org/globalfindex>

¹² International Labour Organization. "Labour Force Statistics database (LFS)" ILOSTAT. Accessed February 21, 2023. ilostat ilo.org/data.

¹³ World Bank Enterprise Survey, Türkiye (2019)



V. KEY RISKS

Overall Risk and Explanation

61. **The overall Project risk is rated as Moderate.** Specific to this Project's development outcome, there is a Moderate risk that the intervention may not be able to avert the permanent closure of its MSME beneficiaries, given the uncertainties with regards to the economic shock caused by the earthquake.

62. **Residual Political and Governance risks are rated as Moderate.** The GoT has demonstrated strong interest in the Project, particularly given the magnitude of the damage caused by the February earthquakes and the scale of the corresponding recovery and reconstruction needs. Project objectives and activities align well with the recovery priorities outlined in the government's assessment report that are likely to have broad-base support, ensuring effective coordination and engagement with various stakeholders, and by implementing the Project through existing government implementing agencies with longstanding experience in managing Bank-financed projects.

63. **Residual Macroeconomic risks are rated as Substantial.** The main macroeconomic risks for the Project stem from an uncertain outlook and volatility in macro-financial conditions. The lira lost 30 percent of its value in 2022 and the annual CPI inflation rate in Türkiye peaked at 85.5 percent in October 2022 before easing to 43.7 percent in April 2023. Production costs have risen more steeply, with the producer price index inflation reaching 157.7 percent in October 2022 before easing to 52.1 percent in April 2023. The availability of labor, construction material, and equipment may also be limited due to surging demand post-earthquake. The macro risks should be mitigated by pursuing a macro policy framework in support of macro stabilization. The Bank will continue to conduct macro-financial analysis, maintain policy dialogue, and offer technical assistance as requested by the government. However, this risk is not under the control of the Project; thus, the residual risk remains Substantial.

64. **The consolidated Fiduciary risk is rated as Moderate.** KOSGEB is very experienced in implementing similar projects from the Government's own budget and has gained experience on World Bank fiduciary requirements during the implementation of RSMSEP.

65. **The Environmental and Social (E&S) risks are rated as Moderate.** The main E&S risks of the Project are related to occupational health and safety (OHS), labor and working conditions, transportation, water use, energy use, limited air and noise emissions and waste management resulting from the ongoing activities, equipment supply and limited construction and repair/maintenance activities by the beneficiaries. KOSGEB will implement an Environmental and Social Management System (ESMS) to manage and mitigate these risks.



VI. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY: Türkiye

Türkiye: Post-Earthquake Micro, Small and Medium Enterprises (MSME) Recovery project

Project Development Objectives(s)

The PDO is to support business continuity and sustainable growth of viable MSMEs in the earthquake-affected provinces.

Project Development Objective Indicators

Indicator Name	PBC	Baseline	End Target
Support beneficiary MSMEs to retain or increase their employees post earthquake			
Share of beneficiary MSMEs that retained or increased their employment within 24 months of receiving reimbursable financing, compared to the average employment during the year before the earthquake (Percentage)		0.00	60.00
Out of which are women-owned or led MSMEs (Percentage)		0.00	15.00
Share of beneficiary MSMEs that maintained or increased their revenues post earthquake			
Share of beneficiary MSMEs that generated annual revenue that is equal or more than the average over the year before the earthquakes, within 24 months of receiving reimbursable financing (Percentage)		0.00	70.00
Out of which are women-owned or led MSMEs (Percentage)		0.00	15.00



Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	End Target
Performance-based reimbursable financing for eligible MSMEs			
Firms benefiting from private sector initiatives (CRI, Number)		0.00	50,000.00
Out of which are female-owned or led MSMEs (Number)		0.00	7,500.00
Percentage of beneficiary MSMEs reporting that the provided reimbursable support financing reflected their needs (Percentage)		0.00	70.00
Out of which are women-owned or led MSMEs (Percentage)		0.00	15.00

Monitoring & Evaluation Plan: PDO Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Share of beneficiary MSMEs that retained or increased their employment within 24 months of receiving reimbursable financing, compared to the average employment during the year before the earthquake	Employees retained should be equal to or more than the average number of employees in the year before the earthquake. Those are contract workers (not just the socially insured ones), so this should include part-time/seasonal/cyclical jobs but with contract.	Semiannual	Company reports and relevant official sources (social security) when applicable	KOSGEB M&E System	KOSGEB PIU/ M&E



Out of which are women-owned or led MSMEs	Employees retained should be equal to or more than the average number of employees in the year before the earthquake. Those are contract workers (not just the socially insured ones), so this should include part-time/seasonal/cyclical jobs but with contract.	Semiannual	Company reports and relevant official sources (social security) when applicable	KOSGEB M&E	KOSGEB PIU/ M&E
Share of beneficiary MSMEs that generated annual revenue that is equal or more than the average over the year before the earthquakes, within 24 months of receiving reimbursable financing	Revenue generated should be equal or more than average annual revenue generated in the year before the earthquake, taking into consideration inflation of currency	Semiannual	Company reports and other official sources	KOSGEB M&E system	KOSGEB PIU/ M&E
Out of which are women-owned or led MSMEs	Revenue generated should be equal or more than average annual revenue generated in the year before the earthquake, taking into consideration inflation of currency	Semiannual	Company reports and relevant official sources	KOSGEB M&E	KOSGEB PIU/ M&E

Monitoring & Evaluation Plan: Intermediate Results Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Firms benefiting from private sector initiatives					

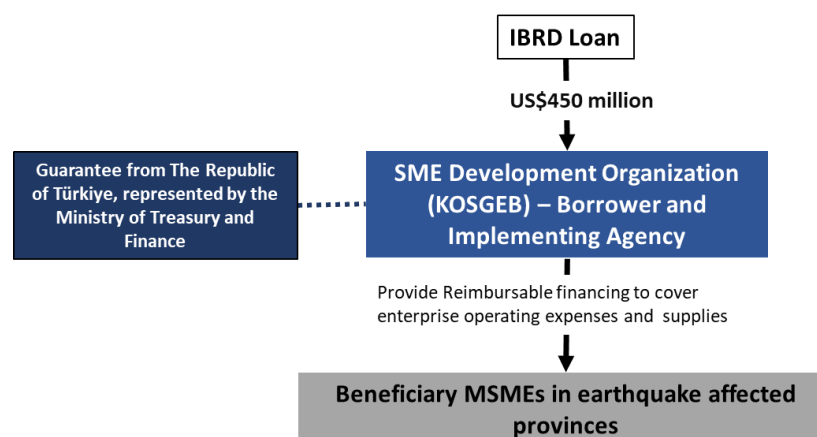


Out of which are female-owned or led MSMEs	Women-owned or led MSMEs benefiting from the project	Semiannual	KOSGEB database	Company reports and relevant government sources	KOSGEB PIU/ M&E
Percentage of beneficiary MSMEs reporting that the provided reimbursable support financing reflected their needs	Share of beneficiary MSMEs that reported satisfied or very satisfied from the provided reimbursable support financing	Once at the end of engagement with firms	MSME survey	MSME Survey	KOSGEB PIU/ M&E
Out of which are women-owned or led MSMEs	Percentage of women-owned or led beneficiary MSMEs reporting that the provided reimbursable support financing reflected their needs	Once at the end of MSME support	MSME Survey	MSME Survey	KOSGEB PIU/ M&E

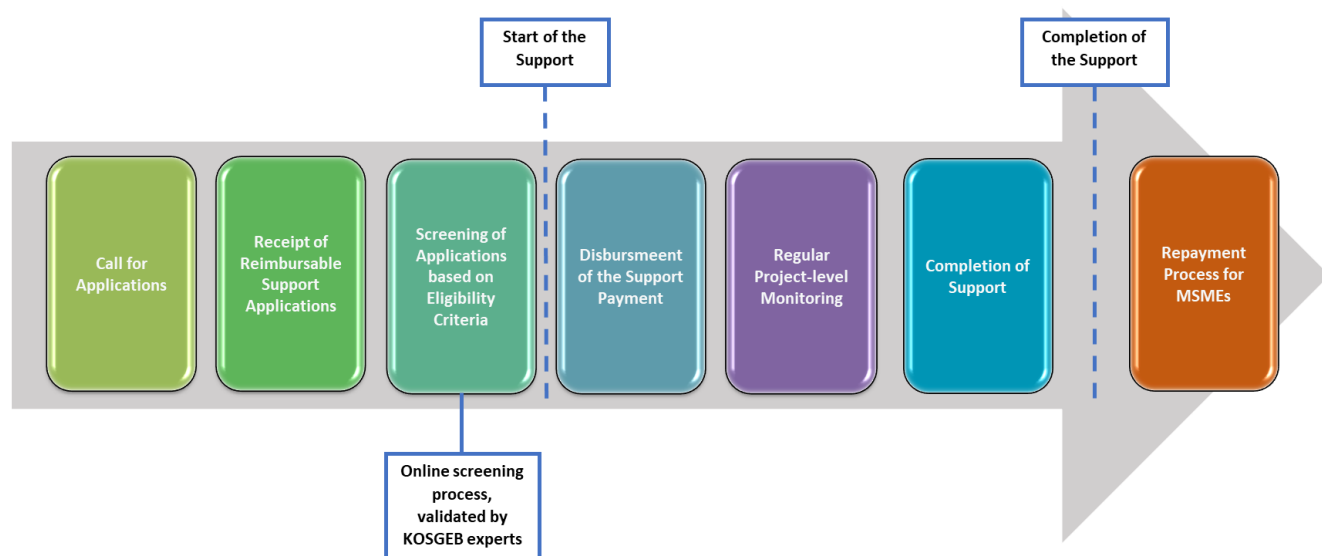


Annex 1: Implementation Arrangements

1. **The Borrower and Project Implementing Agency for the Project will be KOSGEB.** KOSGEB was selected based on its strong track record in supporting the enterprise sector. Additional criteria for selection include its sound financial position, adequate governance structure, and satisfactory performance. Centrally managed in the capital Ankara, KOSGEB has regional offices across 81 provinces of Türkiye. This enables KOSGEB to understand and reflect the needs of MSMEs in the Project. KOSGEB, together with other Government of Türkiye agencies, has also analyzed the needs of MSMEs in the earthquake-affected provinces and requested World Bank financial assistance in support of the most affected MSMEs.
2. **The IBRD will enter into a Loan Agreement with KOSGEB.** The Republic of Türkiye, represented by MoTF, will guarantee the repayment obligations of the Borrower with respect to the Loan Agreement. The funds will flow from IBRD to KOSGEB directly and then to beneficiary MSMEs, as illustrated in the diagram below, following eligibility criteria and implementation process specified in the POM.

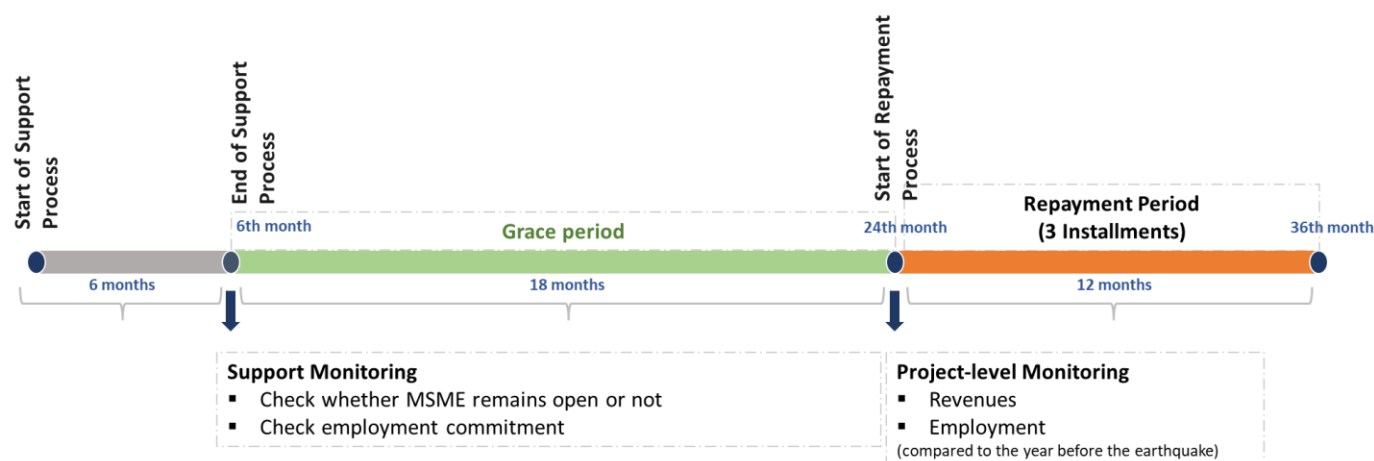


3. **KOSGEB has established a Project Implementation Unit (PIU) and will maintain it throughout Project implementation.** The PIU will be fully funded and staffed and will operate under the overall supervision of the KOSGEB management team. The PIU's responsibilities will include: (i) ensuring that the IBRD reimbursable financing is provided to final beneficiaries in accordance with the terms and conditions recorded in the Reimbursable Financing Agreements and Project Operations Manual; (ii) responsibility for adherence to all fiduciary and safeguard requirements of the World Bank; and (iii) monitoring and evaluation activities, based on the agreed results indicators.
4. **Project implementation will follow a transparent and clear process,** which will start with a public call for applications that describes eligibility criteria and selection process, followed by the receipt of applications during a specified time frame, and then a screening of applications using an online screening process. KOSGEB will notify selected beneficiaries and provide respective reimbursable financing. KOSGEB will monitor the results of the Project on a periodic basis against PDO-level and intermediate level indicators. The chart below illustrates the process.



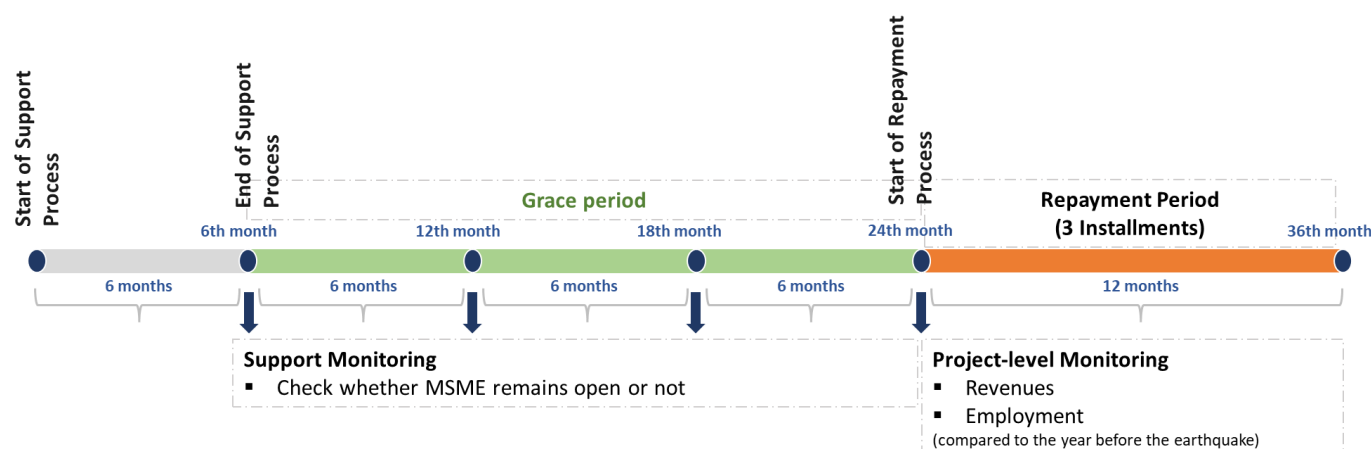
5. **The PIU will monitor the performance of beneficiary MSMEs throughout the support process.** For Group 1 beneficiaries, given the severity of the earthquake and damages to the firms, MSMEs will be expected to re-open or remain open and either restore or exceed the employment at the time of receiving the reimbursable financing for at least 6 months. For Group 2 beneficiaries, MSMEs will commit to re-open or remain open and either restore or exceed the average employment that was recorded in the 12-month period preceding the earthquake within 24 months of receiving the reimbursable financing. At any time during the implementation of the Project, KOSGEB and the Bank reserve the right to verify the use of the reimbursable financing by beneficiary MSMEs. The charts below illustrate the monitoring process from Group (1) and Group (2) beneficiaries.

Monitoring process for Group (1) beneficiaries.





Monitoring process for Group (2) beneficiaries.



Financial Management

6. **KOSGEB has financial management arrangements that are satisfactory to the Bank.** This assessment draws information from the financial management assessment and supervision reports of the Türkiye Rapid Support to Micro and Small Enterprises Project (P174144) under implementation by KOSGEB which has satisfactory financial management arrangements.

7. **KOSGEB is a special budget institution subject to the Public Financial Management and Control (PFMC) Law (2003) which provides the legal framework for the public financial management system in Türkiye.** The Law (i) defines the general government incorporating a comprehensive definition for public revenues and expenditures, ii) defines a medium-term approach to budget preparation in line with strategic planning, iii) provides a description of the accountability of ministers and heads of public administrations, iv) provides MOTF with clear legal authority to determine budget classifications, accounting and reporting standards for all government agencies, v) delegates financial control responsibilities to spending units, and vi) defines government accountability by extending the scope and mandate of the external audit. As a special budget institution subject to the PFMC Law, KOSGEB maintains institutional accounts through the centralized Public Financial Management Information System and prepares separate financial statements. KOSGEB is audited annually by the Turkish Court of Accounts, the supreme audit institution of Türkiye.

8. **External borrowing in Türkiye is regulated by “Law on regulating public finance and debt management” Law 4749.** The Ministry of Treasury and Finance can allocate loans received from foreign sources directly to general budget institutions listed in Annex 1 of the PFMC Law. KOSGEB is a special budget institution (included in Annex II of the PFMC Law) and is, therefore, not eligible for allocation of a loan that would be received from the World Bank. The options available to KOSGEB to utilize Project funds are (i) on-lending of the Loan by MoTF to KOSGEB or (ii) direct borrowing by KOSGEB with an MoTF guarantee. For this Project, KOSGEB will borrow directly from IBRD with a sovereign guarantee.

9. **The financial management responsibilities for the Project will be centralized at the PIU that is currently implementing the Rapid Support for Micro and Small Enterprises Project (P174144) established in the Directorate of Project Management.** The PIU, led by the PIU coordinator, will execute financial management, monitoring and evaluation, environment and social and IT functions. There is currently one staff assigned to work



on financial management under the existing project, who will be supported by an FM consultant during Project implementation. The FM staff will be responsible for compiling lists that would form the basis of payments to the firms, preparing the consolidated payment orders, liaising with KOSGEB's Central Accounting Department, processing payments from the Designated Account (DA) to the beneficiary MSMEs based on information received from Provincial Departments, keeping accounting for the Project in the loan currency as well as in Turkish Lira, preparing quarterly Interim Unaudited Financial Reports (IFRs), monitoring the compliance of the Project with its budget and ensuring that the internal control procedures are complied with. The regional offices of KOSGEB will be responsible for informing the MSMEs in their region about the Project and the requirements for applying to become a beneficiary.

10. **KOSGEB is a special budget institution which forms the part of the central government.** To utilize the Project funds, there should be an associated budget allocation in KOSGEB's annual budget. The expenditures under the Project, as in the Rapid Support for Micro and Small Enterprises Project, are considered current expenses and, therefore, the Project will not be associated with the Government's Annual Investment Plan. KOSGEB has received the confirmation from the Strategy and Budget Office regarding the inclusion of an allocation for the Project in KOSGEB's budget.

11. **The internal control procedures for the Project will be streamlined into KOSGEB's current systems with some minor modifications.** KOSGEB's current information systems will include modules that would enable MSMEs to apply directly through the e-government systems. KOSGEB will check MSME eligibility by checking relevant data from other government systems and will again process all approvals through its existing information system. Payments to the beneficiary firms will be processed centrally and will be made directly from the designated account to the bank accounts of the beneficiary MSMEs. The controls will be detailed in the Reimbursable Financing Manual that will be prepared for the Project. The internal control systems for Component 2 will be described in the Project Operations Manual (POM). Both the POM and the Reimbursable Financing Manual are conditions of Loan effectiveness.

12. **An MSME will become eligible to be included among the Project beneficiaries after KOSGEB ensures that the MSME meets all eligibility criteria defined in this PAD and in the POM through checking with the government systems, including the data that will be extracted from the information received from Ministry of Environment, Urbanization and Climate Change (MoEUCC) on the damage status of the firms.** A financing agreement will be automatically processed between KOSGEB and each beneficiary MSME. The payments to the firms will be processed by KOSGEB's Central Accounting Department through the lists that will be generated automatically by the module that will be developed for this purpose.

13. **Under the Rapid Support for Micro and Small Enterprises Project, KOSGEB has developed processes and controls for reimbursable financing and goods, consulting services, non-consulting services and operating expenditures that are satisfactory to the Bank.** These processes and controls as practiced under the Rapid Support for Micro and Small Enterprises Project will be simpler for this Project as there will be only one disbursement per beneficiary. KOSGEB will review continued compliance of the beneficiary with the eligibility criteria 6 months after the disbursement of the financing by reviewing relevant data that will be extracted from government information systems and also by reviewing the supporting documents and spot checks that will be conducted on a sample basis. These controls will be detailed in the POM.



14. Accounting records for the Project will be maintained by the financial management unit of the PIU. KOSGEB will integrate all transactions under the Project to its own IT system. Project sources and uses of funds will be recorded in Excel worksheets on a cash basis. KOSGEB will ensure that the transactions recorded in the Excel sheets are complete and agree with the Designated Account records. The Excel records will also be used for the preparation of Interim Unaudited Financial Reports (IFRs). KOSGEB is submitting IFRs on a timely basis under Rapid Support for Micro and Small Enterprises Project and they are satisfactory to the Bank. The same formats will be used for the Project.

15. **There will be one Designated Account for the Project at Ziraat Bank.** Payments to the beneficiary MSMEs will be made in one installment. KOSGEB's regional offices will prepare lists of pre-approved applications from MSMEs within their respective region and will share these lists with the PIU. The PIU will make final approval and authorize payments to be made directly to the bank accounts of the MSMEs from the Designated Account in Ziraat Bank.

16. **The Project will use traditional disbursement procedures of the Bank, such as advances, direct payments, special commitments, and reimbursement accompanied by appropriate supporting documentation.** There will be two categories of expenditures: reimbursable financing for Component 1 and consultancy services, goods and other services for Component 2.

17. **The PIU in KOSGEB will maintain records and will ensure appropriate accounting for the funds provided for the Project.** Interim unaudited financial reports (IFRs) will be prepared on a quarterly basis and will be submitted to the Bank no later than 45 days after the end of each quarter. The IFRs will include (i) Project sources and uses of funds, and (ii) a Designated Account statement.

18. **The Project financial statements will be audited by the Treasury Controllers in accordance with International Auditing Standards.** The Terms of Reference for the Audit will be attached to the Minutes of Negotiations. The audit reports would be publicly disclosed in a manner acceptable to the Bank. The following table identifies the audit reports and their due dates:

Audit Report	Due Date
Project financial statements (PFS) for KOSGEB	Within six months of the end of each calendar year and also at the closing of the Project



Annex 2: Reimbursable Financing Administration Arrangements

1. **Financing for MSMEs under the Project is designed to help those 132,092 MSMEs that have been affected by the February 6 earthquakes recover financially and continue their operations.** Two explicit purposes of the financial support are to cover MSME staff salaries and other operating costs (rent, utilities, supplies) to minimize economic disruptions associated with the earthquake that could, otherwise, lead to a more permanent loss in output. The Project is designed to complement the efforts of the Government of Türkiye to support firms affected by the earthquake and to restore essential public services, such as housing, schooling and access to healthcare. The challenge created by the earthquake is to bring back at least a portion of the 3.3 million people who have relocated to other parts of Türkiye, and this challenge would require a multi-pronged approach in restoring critical infrastructure, public services and economic opportunities.
2. **KOSGEB will have fiduciary responsibility for ensuring that only firms complying with the selection and payment criteria receive funds from Project proceeds.** This would be part of the overall Financial Management arrangements of the Project.

Table 1: Summary of Eligible Expenses

Eligible expenses	Objectives
I. Staff wages and salaries	Sustain employment at the level of base month
II. Enterprise operating expenses, supplies (including services), rent, and utilities. These will be further specified in the Reimbursable Financing Manual.	Minimize negative spillovers to other businesses and households affected by reduced cash flow

3. **Among the financial problems faced by MSMEs in the aftermath of the February 6 earthquakes, there are other expenses and potential losses, apart from regular expenses and in a much higher volume than this, such as:**
 - (a) Uncollectible receivables
 - (b) Canceled orders
 - (c) Potential gains lost due to stopping or slowing production/service delivery
 - (d) Losses and inventory costs arising from the products left in stock because no shipment can be made
 - (e) Losses arising from access to maintenance and repair services and similar activities, and
 - (f) Losses due to disruptions in banking, insurance and some other services.

4. **Taking into consideration of the above-mentioned factors, the Project support will be in the form of reimbursable financing that would relieve MSMEs' urgent liquidity needs.** The minimum operating expenses of MSMEs are given in Table 2 and the amounts of reimbursable financing for each firm category are shown in Table 3 below.

Table 2: Minimum operating expenses for MSMEs (TRY)

According to 2023 SME declaration		Monthly costs (TRY)			Total cost (for 6 months) (TRY)
Size	Number of Employees	Minimum rent	Minimum fixed costs	Minimum Salaries*	
Micro	0 (Self-employed)	15,000	15,000	11,452.36	248,714.16
	1-4	15,000	15,000	23,202.36	319,214.16
	5-9	18,000	18,000	70,202.36	637,214.16
Small	10-49	20,000	20,000	128,952.36	1,013,714.16



According to 2023 SME declaration		Monthly costs (TRY)			Total cost (for 6 months) (TRY)
Size	Number of Employees	Minimum rent	Minimum fixed costs	Minimum Salaries*	
Medium	50-249	30,000	30,000	598,952.36	3,953,714.16

*The cost of salaries to the employer is determined as TRY 11,452.36 for the owner/partner and TRY 11,750 for the employees of the MSME. While calculating these costs, the anticipated increase in the minimum wage in July 2023 was not taken into account. When calculating the minimum salary, the minimum number of employees in the size classifications is taken into account and the MSME's owner/partner is also included in the calculation.

Source: KOSGEB.

Table 3: Reimbursable Financing Framework: Upper Limits based on MSME Type and Level of Damage

Regions	Damage Status	Item	Size		
			Micro	Small	Medium
Group (1) Adıyaman, Hatay, Kahramanmaraş, Malatya, Nurdagi, and İslahiye	Income loss (non-physically damaged)	Amounts of Support (TRY)	120,000	180,000	240,000
	Slightly Damaged	Amounts of Support (TRY)	180,000	270,000	360,000
	Moderately Damaged	Amounts of Support (TRY)	200,000	300,000	400,000
	Heavily Damaged	Amounts of Support (TRY)	250,000	375,000	500,000
Group (2) Adana, Diyarbakır, Elazığ, Kilis, Osmaniye, Şanlıurfa, and Gaziantep (Except Nurdagi and İslahiye)	Slightly Damaged	Amounts of Support (TRY)	150,000	225,000	300,000
	Moderately Damaged	Amounts of Support (TRY)	180,000	270,000	360,000
	Heavily Damaged	Amounts of Support (TRY)	200,000	300,000	400,000

5. **Since a rapid, simple and secure way of supporting these MSMEs is required, KOSGEB will establish a new program and sub-regulation set apart from other KOSGEB programs.** MSMEs which meet the eligibility criteria will be able to apply over KOSGEB's web-based support infrastructure called KBS (KOSGEB SME Information System that is linked to National E-Government Gateway, Revenue Administration, Social Security Institution, the Ministry of Environment, Urbanization and Climate Change (MoEUCC), MERSIS and ESBIS national trade registry systems and some other national databases). Eligibility checks will be made by utilizing official data gathered from the Revenue Administration, the Social Security Institution and MoEUCC.

6. **The Program and sub-regulation set will be simple, easy to understand and suitable for rapid implementation.** Unlike other KOSGEB programs, there will not be an assessment committee. Following the application made by eligible MSMEs, disbursement will begin. Payments will be made in one installment as soon as the MSME is found to be eligible. After six months for Group 1 beneficiaries and 24 months for Group 2 beneficiaries, official records will be consulted to verify that the beneficiary MSME is active and meets the employment commitment made in the reimbursable financing agreement. The MSMEs will repay this financing to KOSGEB after a grace period of up to two years, in three instalments over 12 months. No interest will be paid by MSMEs under the terms of the financing; beneficiary MSMEs will only repay the principal amount to KOSGEB.



Project Implementation Process

Application

7. **After accessing the KBS through the E-Government Gateway, the enterprise must complete its registration on the KOSGEB database.** Then, the MSME's legal representative will fill the application form.

- (a) At this stage, sector criterion and last year's (2022) minimum revenue criterion (75.000 TRY) is checked automatically by the KBS system thanks to an online linkage to the Revenue Administration database. If the applicant MSME is not eligible, the system will not allow it to proceed unless documents for exemption (if they exist) are uploaded.
- (b) The earthquake damage status of the MSME is checked automatically by the KBS system thanks to an online link to Ministry of Environment, Urbanization and Climate Change (MoEUCC).

Payment Procedure

- (a) To receive KOSGEB's reimbursable financing disbursement, applicants must be active and have no overdue tax and social security contributions at the time of payment of the reimbursable financing.
- (b) Once KOSGEB has confirmed no overdue tax or social security obligations by the MSME, KOSGEB disburses the financing at the level applicable in each case to the beneficiary MSME's account.



Annex 3: Economic Contributions of SMEs to Turkish Economy

1. **In Türkiye, SMEs are defined as economic units that employ less than 250 people, have annual net sales revenue or financial balance-sheet less than TRY 500 million.** By the end of 2020, there were totally 3.2 million SMEs, constituting 99.8 percent of all enterprises of Türkiye. They make very important contributions to the economy, providing 73.8 percent (11.5 million) of the total jobs, 64.5 percent (TRY5.8 trillion) of the total enterprise turnover, and 56.3 percent (US\$101.8 billion) of the total exports of Türkiye.
2. **By the Turkish regulation, SMEs include micro-sized, small-sized, and medium-sized enterprises, and are classified by both the turnover and employment size:**
 - (a) Micro-sized enterprise: economic units that employ less than 10 people and have annual net sales revenue or financial balance-sheet less than TRY 10 million;
 - (b) Small-sized enterprise: economic units that employ less than 50 people and have annual net sales revenue or financial balance-sheet less than TRY 100 million; and
 - (c) Medium-sized enterprise: economic units that employ less than 250 people and have annual net sales revenue or financial balance-sheet less than TRY 500 million.
3. **Breaking down by sectors, they are mostly operating in the "Wholesale and retail trade; repair of motor vehicles and motorcycles" sectors, which accounted for 36.3 percentage of the SMEs in Türkiye in 2019 (table 01), and their shares increased by 2.5 percentage compared to 2018.**

Table 1: Sectoral Breakdown of Turkish SMEs

Sectors	Micro	Small	Medium	SME	Share of SMEs in the sector in Turkey (%)
Wholesale and retail trade; repair of motor vehicles and motorcycles	1,127,598	37,792	3,941	1,169,331	36.3
Transportation and storage	451,286	10,838	1,355	463,479	14.4
Manufacturing	352,358	38,797	9,811	400,966	12.4
Accommodation and food service activities	289,125	13,980	1,871	304,976	9.5
Professional, scientific and technical activities	216,486	8,296	691	225,473	7.0
Construction	198,806	22,355	3,240	224,401	7.0



Other service activities	170,574	2,232	106	172,912	5.4
Administrative and support service activities	49,695	5,326	1,840	56,861	1.8
Real estate activities	49,378	973	149	50,500	1.6
Human health and social service activities	41,064	4,462	715	46,241	1.4
Information and communication	37,076	2,480	482	40,038	1.2
Culture, arts, entertainment, recreation and sports	27,783	717	127	28,627	0.9
Training	18,535	5,451	1,012	24,998	0.8
Electricity, gas, vapor, air conditioning production and distribution	4,558	532	175	5,265	0.2
Mining and quarrying	3,651	1,058	294	5,003	0.2
Water supply, Sewage, waste management and treatment	3,855	466	99	4,420	0.1
Total	3,041,828	155,755	25,908	3,223,491	

Source: Annual Industry and Service Statistics, TURKSTAT.

In 2019, Turkish SMEs demonstrated the following trends:

4. **Employment decreased compared to the previous year.** Employment in SMEs fell to 11,548,000 thousand, decreasing by 13.3 percentage in 2019 compared to 2018. The sector with the highest employment in SMEs is "Wholesale and retail trade; repair of motor vehicles and motorcycles" sector. It is seen that the share of employment of SMEs in the sector was 27.5 percentage in 2019, decreasing 7 percentage from 2018. Figure 1 shows the overall employment trend of Türkiye from 2009-2019, and table 2 shows the sector breakdown of employment in SMEs.

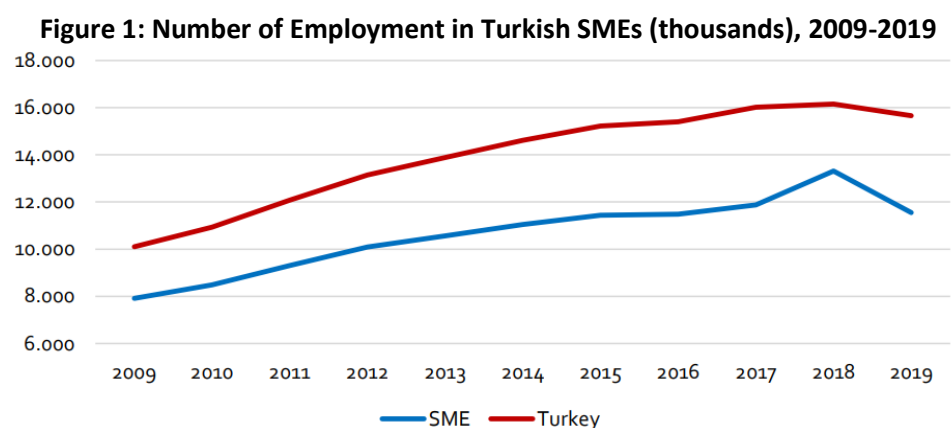




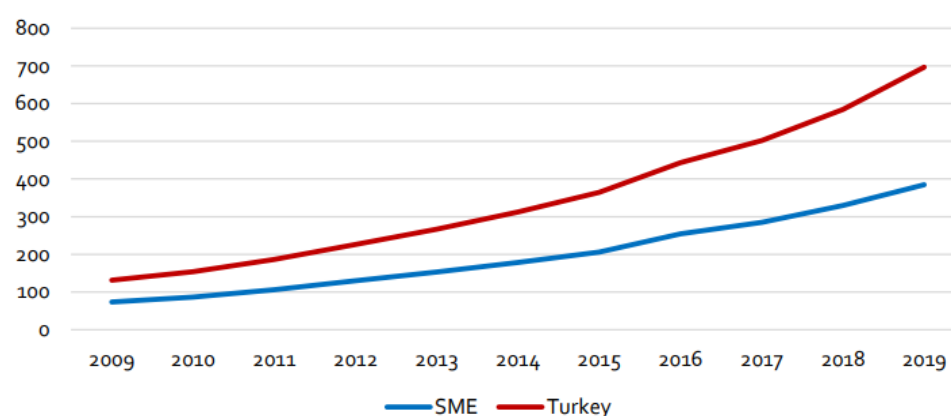
Table 2: Number of employees in SMEs by sector and size group (thousand), 2019

Sectors	Micro	Small	Medium	SME	Share of SMEs in the sector in Turkey (%)
Wholesale and retail trade; repair of motor vehicles and motorcycles	2,103	706	368	3,177	27.5
Manufacturing	822	815	1,026	2,663	23.1
Construction	479	434	303	1,216	10.5
Transportation and storage	744	210	130	1,084	9.4
Accommodation and food service activities	562	262	190	1,013	8.8
Professional, scientific and technical activities	448	149	66	664	5.7
Administrative and support service activities	105	115	193	413	3.6
Other service activities	255	39	10	304	2.6
Training	61	108	99	267	2.3
Human health and social service activities	86	91	80	258	2.2
Information and communication	70	49	49	168	1.5
Real estate activities	81	19	15	114	1.0
Culture, arts, entertainment, recreation and sports	49	14	13	76	0.7
Mining and quarrying	10	23	31	64	0.6
Electricity, gas, vapor, air conditioning production and distribution	9	11	19	38	0.3
Water supply, Sewage, waste management and treatment	9	10	10	29	0.3
Total	5,892	3,054	2,602	11,548	

Source: Annual Industry and Service Statistics, TURKSTAT.

5. **Labor costs increased compared to the previous year.** Whereas the labor cost was TRY 697 billion throughout Türkiye in 2019, the labor cost of SMEs was TRY 385 billion, a 16.5 percentage increase compared to 2018. Figure 2 shows the labor cost trends for Türkiye and SMEs from 2009-2019.

Figure 2: Labor cost in SMEs (billion TRY), 2009-2019



Source: Annual Industry and Service Statistics, TURKSTAT.



6. **The turnover increased by 14.5 percent compared to last year.** Whereas the annual turnover of all the enterprises in Türkiye was TRY 8,941 billion in 2019, increasing by 14.3 percentage than 2018, the total annual turnover of SMEs was TRY 5,766 billion, a 14.5 percentage increase than 2018. The "Wholesale and retail trade; repair of motor vehicles and motorcycles" sector accounted for the highest share of total SMEs turnover with 53.6 percentage, followed by the manufacturing sector with a share of 18.9 percentage. Table 3 shows the sector breakdown of SME turnovers.

Table 3: Turnover in SMEs by sector and size group (million TRY), 2019

Sectors	Micro	Small	Medium	SME	Share of SMEs in the sector in Turkey (%)
Wholesale and retail trade; repair of motor vehicles and motorcycles	1,452,613	956,634	682,179	3,091,426	53.6
Manufacturing	200,640	348,501	539,307	1,088,448	18.9
Construction	179,792	148,600	139,572	467,963	8.1
Transportation and storage	118,802	79,224	64,870	262,896	4.6
Electricity, gas, vapor, air conditioning production and distribution	43,210	38,274	111,072	192,555	3.3
Administrative and support service activities	40,322	40,883	54,828	136,032	2.4
Professional, scientific and technical activities	66,717	35,803	26,807	129,327	2.2
Accommodation and food service activities	45,586	37,299	33,489	116,375	2.0
Information and communication	22,924	27,869	25,126	75,918	1.3
Real estate activities	23,525	18,123	13,794	55,442	1.0
Human health and social service activities	10,644	9,363	9,412	29,419	0.5
Mining and quarrying	5,587	8,332	14,227	28,147	0.5
Water supply, Sewage, waste management and treatment	5,729	8,605	5,741	20,075	0.3
Training	3,952	6,687	9,195	19,834	0.3
Other service activities	9,885	4,040	*	13,925	0.2
Culture, arts, entertainment, recreation and sports	5,067	2,250	*	7,317	0.1
Total	2,234,992	1,770,486	1,760,961	5,766,439	

Source: Annual Industry and Service Statistics, TURKSTAT.

7. **Industrial value added increased compared to the previous year.** In 2019, whereas the total industrial value added of the companies operating in Türkiye was TRY5,306 billion, an increase of 12.2 percentage than 2018, the total industrial value added of SMEs was TRY2,921 billion (accounting for 55.1 percentage of the country total), a 9.9 percentage increase than 2018. Table 4 shows the sector breakdown of industrial value added of SMEs. It is seen that the sector with the highest industrial value added in SMEs is the "industrial" sector with TRY993 billion in 2019 (a 11.4 percentage increase than 2018), followed by the "Wholesale and retail trade; repair of motor vehicles and motorcycles" sector with TRY 440 billion, a 14.5 percentage increase than the last year. Industrial sector also has the highest share (27.5 percentage) of value added in terms of factor cost among SMEs.



Table 4: Sector Breakdown of Industrial Value Added of SMEs (million TRY, 2019)

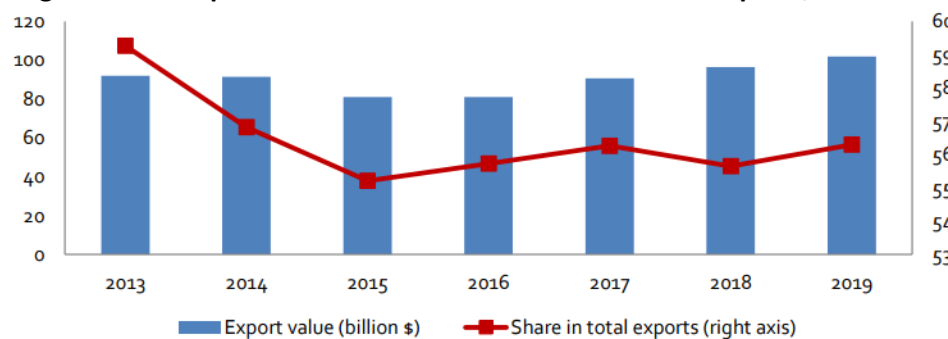
Sectors	Micro	Small	Medium	SME	Share of SMEs in the sector in Turkey (%)
Manufacturing	175,369	311,840	505,615	992,823	34.0
Wholesale and retail trade; repair of motor vehicles and motorcycles	171,270	156,129	112,258	439,657	15.1
Construction	152,071	138,025	136,936	427,033	14.6
Transportation and storage	106,398	73,123	63,737	243,259	8.3
Electricity, gas, vapor, air conditioning production and distribution	43,502	38,571	111,874	193,947	6.6
Professional, scientific and technical activities	63,053	34,639	27,752	125,444	4.3
Administrative and support service activities	36,608	38,443	49,797	124,848	4.3
Accommodation and food service activities	41,794	34,075	32,338	108,207	3.7
Information and communication	20,403	25,303	23,135	68,842	2.4
Real estate activities	23,622	17,269	13,125	54,016	1.8
Culture, arts, entertainment, recreation and sports	4,805	2,197	30,051	37,054	1.3
Human health and social service activities	10,515	9,100	9,435	29,050	1.0
Mining and quarrying	5,183	8,213	13,774	27,169	0.9
Training	3,803	6,594	9,081	19,478	0.7
Water supply, Sewage, waste management and treatment	5,087	6,128	5,363	16,578	0.6
Other service activities	9,017	3,529	1,048	13,594	0.5
Total	872,500	903,180	1,145,318	2,920,999	

Source: Annual Industry and Service Statistics, TURKSTAT.

8. **Exports of SMEs have increased.** In 2019, 43.7 percent of total export throughout Türkiye (US\$ 79 billion) was realized by the large- sized companies, and the rest 56.3 percentage was realized by SMEs with a total of US\$ 101.8 billion, an increase of 6 percent (figure 3). The export amounts of micro, small and medium enterprises were US\$ 34.8 billion, US\$ 34 billion, and US\$ 32.9 billion, with the medium-sized firms showing the lowest export share among all the enterprises (figure 4).

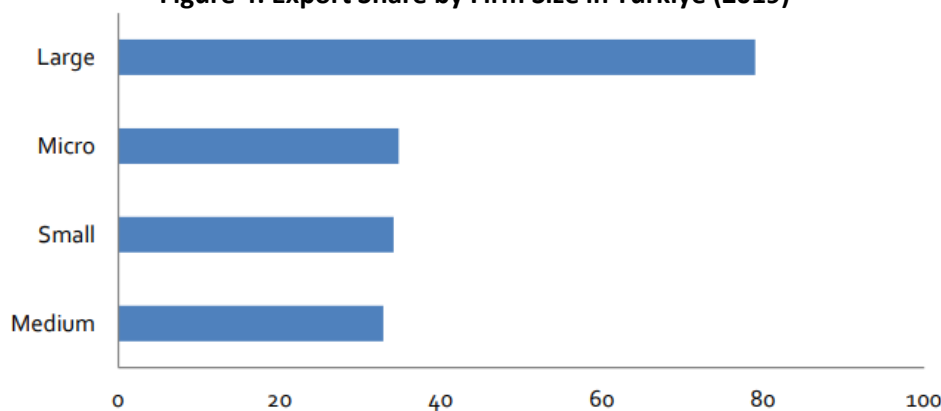


Figure 3: The Export Value of SMEs and Its Share in Total Exports, 2013-2019



Source: Foreign Trade Statistics by Enterprise Characteristics, TURKSTAT

Figure 4: Export Share by Firm Size in Türkiye (2019)



Source: Foreign Trade Statistics by Enterprise Characteristics, TURKSTAT



Annex 4: Economic and Financial Analysis

1. **An economic and financial analysis (EFA) has been conducted across the Project components to determine the value of the anticipated benefits relative to the costs associated with this Project.** The Project Net Present Value (NPV) is estimated at US\$154 million at a 12 percent discount rate¹⁴, and the Economic Rate of Return (ERR) at 25 percent based on the total Project investments.
2. **In reference to this Project valuation, several points are worth noting.** First, this calculation is indicative, using expected average parameters for the Project beneficiaries and the resulting impact of the Project components. While these assumptions are based on the Project team's discussions with potential beneficiaries along with results of other projects and economic literature, they are not precise representations of the impact that the Project will have. The exercise of financially modelling the Project helps to ensure that Project funds are being allocated to investments and activities that will provide a return to the country/society and local population, along with helping to identify key risks and thresholds for the Project to achieve its desired impact. Additionally, international development projects often target regions and sectors where the risk is high since these types of projects can specifically take on higher risk investments because of the social good that could result from them—as such, financial valuations of these investments may not be as high as those in other regions, but the social value of such investments could be considerably higher. Since the social return of investments is extremely difficult to estimate precisely, the analysis focuses on direct financial returns. That said, the analysis attempts to estimate these returns to better capture the overall impact of the Project.
3. **That said, our methodology (detailed below) accounts only for the Project's impact on direct beneficiaries rather than using a broader multiplier approach which would encompass positive externalities and spill-over effects.** Additionally, investments under this Project are expected to facilitate further investments from other donor funds, which could further amplify social returns. The value of such externalities is difficult to estimate; however, the social rate of return based on growth of the innovation ecosystem can be upwards of 60 percent. While this is not an exact estimate of the Project's value, this high value of broader social benefits from the Project is worth underscoring.

Component 1: Performance-based reimbursable financing for eligible MSMEs

4. **The analysis for this component is based on highly improved survival rates for beneficiaries, since many of the firms receiving financing under this component would be likely to go under otherwise.** The component NPV is estimated at US\$154 million at a 12 percent discount rate, and the ERR at 25 percent.
5. **We calculate our estimates based on the following parameters:**
 - (a) **Number of beneficiaries:** Clear data is available for the number of MSMEs impacted by the earthquake, as noted in Table 4 as part of the component description. The analysis assumes that the Project will provide support to 90 percent of heavily impacted firms, 40 percent of moderately impacted firms, and 20 percent of slightly impacted and income-loss only (no physical infrastructure damage) firms. Precise numbers are shown in the table below.
 - (b) **Channels of impact:** The primary assumption in this analysis is that the failure rate of beneficiaries would

¹⁴ We estimate a 12 percent discount rate as the risk-adjusted opportunity cost of capital. Additional NPV estimates at other discount rates have also been provided as a measure of the sensitivity of our analysis.



be significantly higher without the support provided by the Project. The analysis assumes that without the Project, failure rates would be 90 percent, 70 percent, and 50 percent for firms that are heavily, moderately, and slightly damaged, respectively. With the support of the Project, failure rates are assumed to be reduced to 20 percent of these beneficiaries, along with an additional 5 percent of growth. We estimate a steady state revenue growth rate of 1 percent for surviving firms without the Project investments.

- (c) **Timeframe of impact:** We estimate that impact of the component investments will occur one year following the actual support.

6. Additional assumptions are provided in the table below.

	Heavily damaged			Moderately damaged			Slightly damaged and income-loss only		
	Micro	Small	Medium	Micro	Small	Medium	Micro	Small	Medium
Number of beneficiaries	27,612	935	88	3,168	134	17	17,576	3,618	480
Failure rate w/o Project intervention	90 percent	90 percent	90 percent	70 percent	70 percent	70 percent	50 percent	50 percent	50 percent
Failure rate w/ Project intervention	20 percent	20 percent	20 percent	20 percent	20 percent	20 percent	20 percent	20 percent	20 percent
Average annual income (US\$)	23,400	35,100	46,800	23,400	35,100	46,800	23,400	35,100	46,800
Annual revenue growth (w/o Project)	1 percent	1 percent	1 percent	1 percent	1 percent	1 percent	1 percent	1 percent	1 percent
Additionality to growth rate	5 percent	5 percent	5 percent	5 percent	5 percent	5 percent	5 percent	5 percent	5 percent
Number of years that additionality applies	1	1	1	1	1	1	1	1	1

7. With the assumptions noted above, the component valuation and other key metrics are estimated as follows:

- (a) NPV at a 15 percent discount rate: US\$99 million
- (b) ERR: 25 percent
- (c) NPV at a 12 percent discount rate: US\$154 million
- (d) NPV at a 10 percent discount rate: US\$202 million

8. Sensitivity analysis:

- (a) Reducing the estimated number of beneficiaries by 20 percent reduces the ERR to 18 percent.
- (b) Increasing the estimated number of beneficiaries by 20 percent increases the ERR to 32 percent.
- (c) Increasing the assumed failure rates with the Project interventions reduces the component ERR to 23 percent.
- (d) Reducing the assumed failure rates with the Project interventions increases the component ERR to 28 percent.

Social returns

9. In addition to the financial benefits noted above, the Project is expected to result in wider social benefits. Most importantly, a higher survival rate for businesses in the regions impacted by the earthquake will



help improve the overall business ecosystem in these regions, enabling more widespread economic spillovers. These types of returns are difficult to precisely quantify, especially given the wide range of potential beneficiaries (from other businesses to local households). To develop an indicative estimate, this analysis uses a minimum threshold multiplier to demonstrate the wider potential impact. A number of social impact investment firms¹⁵ use a minimum threshold of US\$2.50 social return for every dollar invested. Using this threshold as an estimate for the additional social return, the Project Social Net Present Value (SNPV) is estimated at US\$201 million at a 12 percent discount rate and the Social Economic Rate of Return (SERR) at 29 percent. Given the emergency nature of this Project and the importance of MSMEs in the earthquake-impacted provinces, the social returns could be even higher as a large part of the economy could collapse without it.

10. The SNPV estimates at various discount rates are noted below:

- (a) NPV at a 15 percent discount rate: US\$137 million
- (b) NPV at a 12 percent discount rate: US\$210 million
- (c) NPV at a 10 percent discount rate: US\$255 million

11. Sensitivity analysis:

- (a) Reducing the estimated additional social returns to US\$1.50 per dollar invested reduces the Project SERR to 26 percent.
- (b) Increasing the estimated additional social returns to US\$3.50 per dollar invested increases the Project SERR to 31 percent.

¹⁵ Harvard Business Review 2019, *Calculation the Value of Impact Investing*. <https://hbr.org/2019/01/calculating-the-value-of-impact-investing>.



Annex 5: Damages to Firms in the Earthquake-Affected Provinces

1. On February 6, 2023, twin earthquakes in Kahramanmaraş, at Pazarcik and Elbistan, hit the southern and eastern parts of Türkiye where 11 cities were most affected that are Adana, Adıyaman, Diyarbakır, Elazığ, Gaziantep, Hatay, Kahramanmaraş, Kilis, Malatya, Osmaniye and Şanlıurfa. Besides being exposed to damages in different magnitudes, the 11 cities in the earthquake region also differ among each other in terms of their economic development levels prior to the disaster. According to the socio-economic development scores by the Ministry of Industry and Technology¹⁶ (MoIT), Adana and Gaziantep are in the 3rd category representing economically most developed cities in the earthquake-affected region. 3 cities, Adıyaman, Diyarbakır and Şanlıurfa are in the last category where Adıyaman is also one of the three cities that suffered most from the earthquake along with Hatay and Kahramanmaraş where some districts of Gaziantep such as Nurdağı ve İslahiye are among the most severely affected.

2. Table 1 displays the number of all types of micro, small and medium enterprises that are located in 11 cities prior to earthquake according to the KOSGEB database.

Table 1: number of SMEs in Earthquake-affected Provinces (KOSGEB Database)

Province	Micro	Small	Medium	Large	TOTAL
Adana	84,070	4,035	533	113	88,751
Adıyaman	20,759	596	64	9	21,428
Diyarbakır	37,718	2,340	346	39	40,443
Elazığ	21,259	928	95	15	22,297
Gaziantep	78,399	4,435	758	213	83,805
Hatay	63,037	2,355	276	72	65,740
Kahramanmaraş	37,696	1,462	213	75	39,446
Kilis	5,206	158	8	1	5,373
Malatya	28,213	983	151	22	29,369
Osmaniye	19,403	548	71	14	20,036
Şanlıurfa	54,352	2,011	275	28	56,666
Total	450,112	19,851	2,790	601	473,354

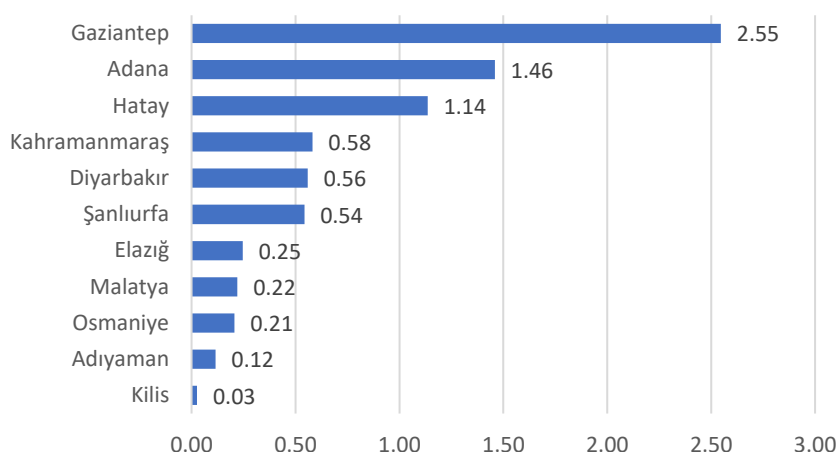
Source: KOSGEB Database, Turkish Revenue Administration

3. Among the 11 affected cities, Adana hosts the largest number of enterprises, while establishments in Gaziantep have the largest share in Türkiye's total sales of enterprises. According to the MoIT's Enterprise Information System (EIS), the annual sales of the average firm is the highest in Gaziantep, indicating that the city accommodates on average the largest firms in the region which may also imply that the degree of sophistication in production is higher in Gaziantep. Among the 3 most heavily affected cities, Hatay is in the 3rd place in terms of number of firms and total sales in 2020, while Kahramanmaraş is in the 4th place with a sales share of 0.6 percent in 2020 in the country total. Adıyaman has the lowest level of enterprise activity among the 3 most heavily affected cities. It is worth mentioning that the population of Adıyaman is around one fourth of that of Gaziantep, but the total sales of enterprises from Gaziantep is more than 20 times larger than the total sales of establishments from Adıyaman.

¹⁶ "İllerin Ve Bölgelerin Sosyo Ekonomik Gelişmişlik Sıralaması Araştırması Sege 2017". (2019) Ministry of Industry and Technology, https://www.bebka.org.tr/admin/datas/sayfas/89/sege-2017_1581687211.pdf, Accessed on 27/Feb/2023.



Figure 1: Share in Total Sales in 2020 (Enterprises, percent)



Source: Enterprise Information System, Ministry of Industry and Technology (<https://gbs.sanayi.gov.tr/>).

4. **Exports of the three cities in the earthquake region, Adana, Gaziantep and Hatay, constitute more than 7 percent of all exports of Türkiye in 2022.** In particular, Gaziantep has a share of 4.4 percent in the country's total exports which makes Gaziantep the 6th city that had the largest direct export volume in 2022 after İstanbul, İzmir, Kocaeli, Bursa and Ankara. Exporters in Hatay, which made the second largest contribution to the country's total exports from the region in 2022, suffers from the damage in the major harbor of the Hatay province in Iskenderun. The damage on the logistic infrastructure is likely to influence imports of inputs, shortage of which may constrain production in more import-dependent industries.

5. **According to KOSGEB's initial damage assessment, micro establishments suffered more from the earthquake.** Error! Not a valid bookmark self-reference. and

6. Table 3 separate the affected firms according to their size class, physical damage status and region that is grouped into two as the most heavily affected and other regions. Accordingly, vast majority of heavily damaged firms are in the most affected parts and are micro ones. Moreover, the total number of small and medium-sized heavily damaged firms in most affected regions is 10 times larger than the same number in other region's total. It is worth mentioning that Error! Not a valid bookmark self-reference. and

7. Table 3 consider only the damage to buildings, but firms in the region also suffer from employment loses (in terms of migration, injuries and casualties) as well as damage to infrastructure, supply chains, and to machinery and equipment. An assessment of these losses would be important to understand the overall impact of the disaster on the private sector.

Table 2: Number of damaged SMEs in most affected parts (Hatay, Kahramanmaraş, Adıyaman, Malatya, Nurdağı ve Islahiye Region)

	Slightly Damaged	Moderately Damaged	Heavily Damaged	The Overall Total
Micro	26,006	4,406	26,900	78,237
Small	981	197	944	2,898
Medium	141	31	91	392
The Overall Total	27,128	4,634	27,935	81,527



Table 3: Damaged SMEs in Adana, Diyarbakır, Elazığ, Gaziantep, Kilis, Osmaniye, Sanlıurfa Regions

Size	Slightly Damaged	Moderately Damaged	Heavily Damaged	The Overall Total
Micro	40,951	3,513	3,780	48,244
Small	1,861	137	95	2,093
Medium	210	11	7	228
The Overall Total	43,022	3,661	3,882	50,565