



Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 05-May-2023 | Report No: PIDA36058

**BASIC INFORMATION****A. Basic Project Data**

Country Türkiye	Project ID P181068	Project Name Türkiye: Post-Earthquake Micro, Small and Medium Enterprises (MSME) Recovery project	Parent Project ID (if any)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date 08-May-2023	Estimated Board Date 13-Jun-2023	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing	Borrower(s) The Small and Medium Enterprises (SME) Development Organization of Türkiye (KOSGEB)	Implementing Agency The Small and Medium Enterprises (SME) Development Organization of Türkiye (KOSGEB)	

Proposed Development Objective(s)

The PDO is to support the business continuity and recovery of MSMEs in the earthquake-affected areas

Components

Reimbursable Financing for Operating Expenses
Project Management

The processing of this project is applying the policy requirements exceptions for situations of urgent need of assistance or capacity constraints that are outlined in OP 10.00, paragraph 12.

Yes

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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Environmental and Social Risk Classification

Moderate

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Türkiye is a large, upper middle-income country with a record of strong growth; however, both internal and external developments have recently put its economic prospects at risk.** Fast economic growth tripled income per capita to a peak of USD 12,000 in 2015, making Türkiye the world's 19th largest economy. However, since 2016, macroeconomic shocks and adverse geopolitical events have slowed the country's development progress. Poverty rates under the upper-middle income line fell from 42.0 to 10.9 percent between 2003 and 2018 but increased to 12.6 in 2019. Unemployment has remained high—over 10 percent since 2015—and is compounded by low labor force participation, especially for women and youth. The incipient recovery starting in 2019 was then cut short by the Covid-19 crisis, with significant economic hardship, contraction of GDP, high job losses, and renewed pressure on macro-financial indicators. In 2021, Türkiye experienced an accelerating economic recovery with the economy growing 11.4%, external and fiscal balances improving, and unemployment falling to pre-pandemic levels.¹ However, Türkiye has continued to experience rising macro-financial volatility, including depreciation of the lira and high inflation. The war in Ukraine has also added to the inflationary and destabilizing pressures experienced by the country as well as significant geo-political tensions in the region. While gross general government debt to GDP fell to a low of 28 percent in 2016, currency depreciation, COVID-19 outlays, and growing borrowing costs drove it to 42 percent in 2021.²

2. **The impact of this economic volatility is likely to amplify existing income and labor disparities.** The poverty rate rose to an estimated 12.9 percent in 2020, and while expected to decline from this COVID related peak current conditions are putting pressure on poorer households. During the 2018-2019 economic turmoil, the largest increases in poverty were witnessed by the less developed regions of the country. Furthermore, during the Covid-19 crisis, female employment and labor force participation tended to decrease more than male employment and labor force participation. The impact on macro-financial conditions of two earthquakes of

¹ World Bank, 2022. Turkey Economic Monitor February 2022: Sailing against the Tide. Washington, DC.

² World Bank Group, 2022. Türkiye Country Climate and Development Report. Washington, DC.



magnitude 7.8 and 7.5 that struck southeast Türkiye and northwest Syria on February 6 is still unfolding, with implications for growth, labor markets and poverty, the financial sector, and fiscal and external balances.

Sectoral and Institutional Context

3. **There are 473,354 private enterprises registered in the earthquake-affected areas,³ most of them are micro enterprises (95 percent).** Most of 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). Most of the production activities in the region are carried out in the service, industry, and agriculture sectors.

4. **The 11 earthquake-affected provinces had an 8.6 percent share in exports in 2022.** Gaziantep stood out with a 4.4 percent share in total exports, while Adana, Hatay and Kahramanmaraş had a share of 1.6 percent, 1.2 percent and 0.6, respectively. Most of the exports, in terms of value, were generated from four provinces, which were: Gaziantep (35 percent), Hatay (25 percent), Osmaniye (17 percent), and Adana (16 percent). Manufacturing activities in the affected provinces were concentrated in five sectors (in terms of value) and contributed significantly to Türkiye's total exports of these sectors, accounting for 32.6 percent of textiles, 24.9 percent of beverages, 19.4 percent of basic metals, 16.3 percent of paper and paper products, and 14.7 percent of food products. The share of the 11 earthquake-affected provinces in the 2022 imports was 6.7 percent. Gaziantep and Hatay had a share of 2.3 percent and 2.1 percent in total imports, respectively. A negative impact is expected on exports due to interruptions in production and delivery because of damage to firms engaged in export-oriented production and facilities that produce intermediate goods for these firms. The gap to occur in the supply of certain products due to interrupted domestic production will be met by imports.

5. **According to the Small and Medium Enterprises Development (KOSGEB), about 110,000 MSMEs were slightly to severely damaged in the 11 provinces,** which is 23.3% of the total number of MSMEs in the provinces (472,753 MSMEs). SMEs play an important role in the Turkish economy. By the end of 2020, there were 3.2 million SMEs registered, which accounted for 99.8 percent of all enterprises in Türkiye. They make very important contributions to the economy, providing 73.8 percent (US\$11.5 million) of total jobs, 64.5 percent (TRY5.8 trillion) of total enterprise turnover and 56.3 percent (US\$101.8 billion) of total exports of Türkiye.

6. **The lack of employees constitutes a major challenge for the firms in the earthquake region.** The earthquake triggered the move of population on a large scale towards areas outside of the earthquake region. It is still unknown whether this move is temporary, or whether it could be considered a new migration wave. According to Türkiye Earthquakes Recovery and Reconstruction Assessment report (2023) published by the Strategy and Budget Presidency, an estimated 3.3 million people migrated to areas outside of the earthquake region. The region's workforce also diminished due to casualties (26.1 thousand employees) and injured (estimated 23.2 thousand people). The latter are not expected to return to the workforce over the next twelve months. Therefore, sustaining the pre-disaster employment levels is critical for the economic recovery of firms in the region, regardless of their suffering from physical damage or not. The report also underlines that labor-market policies, such as reforms in the employment protection legislation, are unlikely to be effective due to the widespread informal employment in the region, which is estimated to be around 700,000 people in the five most affected provinces.

³ KOSGEB database, based on Turkish Revenue Administration reports



C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

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

Key Results

1. Share of beneficiary MSMEs that retained or increased their employment, within 12 months of receiving reimbursable support financing, compared to the average employment recorded over the year before the earthquake. (Target: 60% of beneficiary MSMEs)
 - i. Out of which women-owned or led MSMEs (target: 15% of beneficiary MSMEs)
2. Share of beneficiary MSMEs that generated annual revenue that is equal or more than the pre-earthquake average, within 12 months of receiving reimbursable support financing. (Target: 70% of beneficiary MSMEs)
 - i. Out of which are women-owned or led MSMEs (target: 15% of beneficiary MSMEs)

D. Project Description

Legal Operational Policies

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

Summary of Assessment of Environmental and Social Risks and Impacts

7. **The Project will provide US\$450 million in the form of reimbursable financing to eligible MSMEs affected by the severe earthquakes of February 6, 2023.** 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.

8. **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 serve” basis within a one-year period or until the funds are fully disbursed, whichever comes first. This will ensure those firms which might not be ready for immediate reopening can benefit, provided they reopen at a later stage. 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 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,⁴ the share of women-owned or led MSMEs in the earthquake-affected areas is expected to be less than these. 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.

9. **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 other recent Bank-funded projects.** KOSGEB is responsible for confirming eligibility and verifying the use of the funds. 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.

10. **Component 2 (US\$1 million): Technical support to the PIU under KOSGEB.** 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, 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.

E. Implementation

Institutional and Implementation Arrangements

11. **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.⁵ 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.⁶ 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

⁴ World Bank Enterprise Survey, Türkiye (2019)

⁵ 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.

⁶ As determined in Presidential Decree No. 4.



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.

12. KOSGEB will manage this project, building on their staff experience in providing reimbursable financing to SMEs throughout Türkiye, under the ongoing Bank-funded Rapid Support to 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.

13. 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 support financing is on-lent to final beneficiaries in accordance with the terms and conditions recorded in the Reimbursable Support 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.

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APPROVAL

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