

**COMBINED PROJECT INFORMATION DOCUMENTS / INTEGRATED
SAFEGUARDS DATA SHEET (PID/ISDS)
APPRAISAL STAGE**

Report No.: PIDISDSA15623

Date Prepared/Updated: 19-Oct-2015

I. BASIC INFORMATION

A. Basic Project Data

Country:	Turkey	Project ID:	P157691
		Parent Project ID (if any):	
Project Name:	Micro Small and Medium Enterprise Project (P157691)		
Region:	EUROPE AND CENTRAL ASIA		
Estimated Appraisal Date:	19-Oct-2015	Estimated Board Date:	21-Dec-2015
Practice Area (Lead):	Finance & Markets	Lending Instrument:	Investment Project Financing
Sector(s):	SME Finance (75%), Banking (25%)		
Theme(s):	Micro, Small and Medium Enterprise support (75%), Other Financial Sector Development (25%)		
Borrower(s):	Türkiye Halk Bankası A.Ş. (Halkbank)		
Implementing Agency:	Türkiye Halk Bankası A.Ş. (Halkbank)		
Financing (in USD Million)			
	Financing Source	Amount	
	Borrower	0.00	
	International Bank for Reconstruction and Development	200.00	
	Total Project Cost	200.00	
Environmental Category:	F - Financial Intermediary Assessment		
Appraisal Review Decision (from Decision Note):			
Other Decision:			
Is this a Repeater project?	No		

B. Introduction and Context

Country Context

Turkey's achievements have recently been challenged by an uncertain economic and political outlook, and a large current account deficit in deteriorating financing conditions. After a swift rebound from the recession of the global crisis of 2008-09, economic growth slowed significantly since 2012. Despite strong exports and supportive government spending, real GDP growth dropped to 2.9 percent in 2014. Exchange rate pass-through and higher food prices pushed inflation to 8.2 percent by end 2014, much higher than the Central Bank's target rate. Moderate growth and exchange rate depreciation reduced external imbalances, and the current account deficit (CAD) narrowed to below 6 percent of GDP in 2014, from close to 10 percent in 2011. Nevertheless, the CAD remains large, while financing becomes difficult. The hoped-for external adjustment fueled by a weaker lira and significantly lower oil prices has not materialized. Despite a significantly lower energy deficit, Turkey's CAD widened to USD45 billion in the 12 months through July 2015 (gold adjusted). The deterioration is mainly due to weaknesses in trading partners, particularly slow growth in the EU, difficulties in MENA and Russia, and a fall in tourism revenues over the summer of 2015. On the financing side, domestic political concerns and global financial market jitters dried up short-term inflows.

Growth outlook remains subdued, despite stronger than expected growth in the first half of 2015. Economic growth surprised positively with 3.4 percent in the first half of 2015, up from 2.9 percent in 2014, despite political uncertainty in the run-up to the June parliamentary election. The election resulted in a hung parliament. With another election scheduled for November 1, 2015, uncertainties continue. Against this backdrop, economic activity is expected to slow sharply in the second half of 2015. Consumer confidence hit the lowest level since January 2009, and business confidence dropped notably in August and September. Moreover, credit growth momentum fell below the Central Bank's target of 15 percent by mid-September. In addition, businesses are likely to cut investment spending from the second quarter and postpone investment decisions until a new stable political equilibrium is reached. On the external side, considering the deterioration in the gold and energy adjusted current account balance, the positive impact of lower oil prices on the current account will be very limited. Against this backdrop, we see growth slightly rising to 3.2 percent, from 2.9 percent in 2014, CAD easing to 5.5 percent of GDP, and inflation remaining well above Central Bank's target in 2015. Over the medium-term, Turkey's growth prospects depend on the recovery of private investment, structural reforms and stronger economic institutions.

Sectoral and institutional Context

Micro, Small and Medium Enterprises (MSMEs) are the most affected by access to finance constraints, despite playing a critical role in employment and growth. MSMEs are estimated to account for 99.9 percent of all enterprises, 76 percent of employment, 54 percent of investments, and 60 percent of exports. The last Investment Climate Assessment -From Crisis to Private Sector Led Growth (May 2010)- found strong evidence that MSMEs face disproportionately severe constraints in accessing finance. Overall, they receive only 27 percent of total loans and grow slower relative to both large enterprises in Turkey and MSMEs in peer comparison countries. Micro enterprises are particularly affected, receiving only 25 percent of MSME loans in volume, while accounting for over 75 percent of MSME borrowers. The IFC Enterprise Finance Gap Database estimates a significant SME credit gap of over USD72 billion.

The banking sector is increasingly experiencing performance headwinds, impacting credit growth

and MSMEs that are the first casualties of financing pressures during a slowdown. The banking sector's profitability has decreased in recent years (compared to ROA and ROE of 1.6 and 14.2 percent, respectively, in 2013, and even higher rates prior to the global financial crisis). As the sector's loan to deposit ratio has increased to 121 percent, and in the face of external funding volatility due to global market uncertainty, credit growth has slowed down, dropping to 24 percent as of end 2014, about nine percentage points slower than the average of past years. Notably, the MSME share in total credit declined in the aftermath of the global crisis by about five percentage points to just over 20 percent in 2009, the sharp fall demonstrating how MSMEs are among the first and most affected casualties of a financing crunch. During economic downturns, working capital becomes a priority for MSMEs as they typically experience delays in the payments for goods sold and services provided.

The banking sector is also suffering from limited access to long-term finance. The banking system is funded mostly by stable customer deposits, backing 53 percent of total assets. However, about 87 percent of the sector's deposits had maturity below three months, while 77 percent of the lending was concentrated above three months. The result is a negative liquidity gap (i.e. more liquid liabilities than assets, also known as the liquidity mismatch risk) that peaks in the one to five year maturity.

Medium and large enterprises are particularly constrained by the lack of long-term finance, indirectly impacting MSMEs integrated into their local supplier value chains. Long term finance reduces firms' exposure to rollover and interest rate risks, enabling them to undertake longer term fixed investments. Medium and large enterprises, many times exporting firms, frequently undertake lumpy purchases of physical investment to remain competitive or explore new markets. The banking sector is the largest provider of long term finance in Turkey, and is characteristically suffering from limited access to long-term finance. In addition, banks and large enterprises (that are typically able to tap financial markets directly), have been negatively affected from the recent volatility on international markets. Ultimately, MSMEs participating into value chains, whereby smaller enterprises are integrated as local suppliers of larger enterprises, are further impacted by the effect of the economic uncertainty on the buyers of their goods and services.

Halkbank's strategy is to increase the share of MSMEs in its loan portfolio, by ramping up recently launched programs focused on smaller enterprises and the value chain. Halkbank has traditionally focused on the MSME segment as a core business line. It had about 1.2 million MSME clients in 2014, accounting for over half of its total non-retail client base, with significant penetration in rural areas. It has the largest share of MSME loans in its loan portfolio among state-owned banks, at 39 percent, above the sector average of 27 percent.

Halkbank, similar to the overall banking sector, faces limited access to long term funding. Overall, almost 82 percent of the bank's liabilities had remaining maturities of one year or less, while over 47 percent of the bank's assets had remaining maturities of over a year. As a result, Halkbank had a negative liquidity gap spiking at the one to five year maturity.

C. Proposed Development Objective(s)

Development Objective(s)

The Project Development Objective (PDO) is to improve access to finance for micro, small and medium enterprises, and longer term finance to large enterprises involved in domestic value

chains.

Key Results

Key PDO indicators include the following:

- (a) Ratio of the average portfolio maturity of MSME and LE sub-loans under the project, over the average portfolio maturity of Halkbank's MSME and LE portfolio not financed under the project.
- (b) Number of MSME and LE beneficiaries financed under the project.
- (c) Volume of Bank support.

D. Project Description

For the purpose of this project, MSMEs will be defined as firms employing fewer than 250 people, and Large Enterprises (LEs) as firms employing fewer than 1,000 people. Halkbank will directly lend to MSMEs and LEs, the final beneficiaries. Sub-loans to MSMEs may be made longer term investment financing and for short term working capital financing (to accommodate potential delays in the payments for goods sold and services provided in an uncertain macro-financial environment, and provide, more generally, flexibility to smaller size enterprises). Sub-loans to LEs may be made only for longer term investment financing (a primary concern towards undertaking lumpy purchases of physical investment to remain competitive or explore new markets), and only if the LEs are involved in domestic MSME value chains (whereby MSMEs benefit by their integration as local suppliers of or distributors for larger enterprises). The definition of a LE involved in domestic value chains will be LEs with payables or receivables against MSMEs of at least 25 percent of sales or purchases. The value chain linkage stems when: (i) MSMEs sell inputs to LEs, and LEs generate payables against MSMEs (i.e. MSMEs have receivables against LEs), (ii) MSMEs distribute outputs of LEs, and LEs have receivables against MSMEs (i.e. MSMEs generate payables against LEs). At least 60 percent of the Loan will be used to fund MSMEs. Although micro enterprises will be supported by the project, it is expected that the majority of the sub-loans will be to small and medium enterprises.

Component Name

A credit line to Halkbank to finance directly MSMEs and LEs.

Comments (optional)

E. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

Halkbank will provide sub-loans to MSMEs and LEs throughout Turkey, so the project locations are unclear at this moment.

F. Environmental and Social Safeguards Specialists

Arzu Uraz (GSURR)

Esra Arikan (GENDR)

II. Implementation

Institutional and Implementation Arrangements

Halkbank will be responsible for the implementation of the project and was selected based on its experience with MSMEs and with World Bank projects. Halkbank, a public sector bank with a

lending portfolio of almost USD35 billion, has extensive experience in offering credit to MSMEs in all regions of Turkey, thanks to a strong branch presence and a historic focus on the MSME sector. Halkbank's strategy is to increase the share of MSMEs in its loan portfolio, by ramping up recently launched programs focused on smaller enterprises and the value chain. Additional criteria for selecting Halkbank include the bank's financial soundness, performance of its credit portfolio, and its good performance as one of the Borrowers in the recently closed SME I project (P082822) financed by the World Bank. Annex 3 provides background information on Halkbank, while Annex 6 provides a summary evaluation of Halkbank, including an analysis of its financial soundness, implementation capacity (also assessed in Annex 4) and specific considerations on the bank's ability to meet the World Bank requirements.

The Project Implementation Unit (PIU) in Halkbank is staffed with capable and qualified personnel for the implementation of the project (see Annex 4). The Implementation Completion Report and the Independent Evaluation Group Review of the SME I project (P082822, implemented by Halkbank) rated the Outcome and Borrower's performance as Satisfactory. The PIU responsibilities will include: (i) monitoring of the direct lending to final beneficiaries; (ii) responsibility for adherence to all fiduciary and safeguard requirements of the World Bank for final beneficiaries; and (iii) monitoring and evaluation based on key project development indicators.

III. Safeguard Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	<p>The Environmental Category of the project is FI, as all the investments under the project will not be identified until project implementation. Environmental issues of sub-borrowers and their sub-projects will be addressed through the sub-loan environmental eligibility assessments. Environmental assessments will be carried out in accordance with both Government of Turkey Environmental Assessment (Regulation on Environmental Impact Assessment, from the Ministry of Environment and Urbanization-MoEU) and World Bank EA (OP 4.01) requirements.</p> <p>Due to the nature of the project, working capital or investment loan applications are expected that will include machinery purchase/replacement or small scale construction works. Therefore, it is expected that there will be no large scale significant and/or irreversible impacts. Sub-projects in environmental Category A will not be eligible for funding.</p> <p>The environmental assessment (including environmental due diligence) procedures will be conducted according to the environmental review/management framework (EMF) which was prepared by Halk Bank and approved by WB. The EMF also</p>

		includes evaluation forms for assessing the environmental due-diligence of the existing facilities (SMEs) which will be applying for working capital or investment loans. The framework will provide guidance for additional requirements if the investment loan includes activities which will then lead to a classification of 'Category B' of the sub-projects. The framework also includes a methodology for 'implementation support missions'. It is expected to have a prior review for an initial set of projects whereby WB will review all safeguard documentation, and then it is planned to have a sampling system where WB's environmental and social safeguard specialists will conduct site visits and safeguard documentation assessment for randomly selected sub-projects.
Natural Habitats OP/BP 4.04	No	Most of the sub-loans will not involve construction works. For the cases where small scale construction works are involved, projects in natural habitats will not be eligible for financing.
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	Land acquisition is not eligible under the proposed project so OP 4.12 is not triggered. Halkbank will screen the sub-projects to identify those that could generate land acquisition or associated involuntary resettlement, and that would trigger the OP 4.12, and these sub-projects will not be eligible for financing. Halkbank should not fund projects that have also recently acquired land involuntarily (through expropriation) in anticipation of use for the project to be funded by Halkbank.
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	Halkbank will screen sub-projects to ensure that the investments (if related to water sources) are located in the basins listed as national waterways (positive list of basins of Turkey). The full list of national waterways are provided in the EMF document.
Projects in Disputed Areas OP/BP 7.60	No	

IV. Key Safeguard Policy Issues and Their Management

A. Summary of Key Safeguard Issues

<p>1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:</p>
<p>The project is subject to environmental assessment (OP/BP/GP 4.01). The Environmental Category of the project is FI, as all the investments under the project will not be identified until project implementation. Environmental issues of sub-borrowers and their sub-projects will be addressed through the sub-loan environmental eligibility assessments. Environmental assessments will be carried out in accordance with both Government of Turkey Regulation on Environmental Impact Assessment and World Bank EA (OP 4.01) requirements. National laws and regulations under environmental law will also be monitored while conducting the due-diligence studies for the existing facilities applying for sub-loans. No large scale significant and/or irreversible impacts are anticipated within the scope of the project. Sub-projects in environmental category A will not be eligible for funding. The procedures and institutional responsibilities are all delineated in the Environmental Review/Management FW (EMF) Documents of the borrower. The project may include small scale construction works. The possible environmental impacts associated with these small scale rehabilitation or reconstruction works are minor, short-term and mainly during the construction phase (including temporary emissions of particulate matter/dust to the air, noise pollutions, etc.).</p>
<p>2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:</p>
<p>No long term impacts are anticipated, and, in any case, these will be evaluated in individual sub-loan environmental assessment (EA) documents as needed.</p>
<p>3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.</p>
<p>These will be evaluated in individual sub-loan EAs as needed.</p>
<p>4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.</p>
<p>As part of the Operations Manual, the Borrower Halkbank has prepared the Environmental Review Procedures that serve as the EMF document and define the environmental assessment procedures for the project. Halkbank will review and assess the sub-projects in line with the disclosed EMF document. The sub-borrowers will be responsible for carrying out any environmental analysis and for confirming that the proposed sub-projects comply with national environmental guidelines, and for obtaining the necessary clearance from the appropriate licensing authorities. Once the analysis is performed and recommendations incorporated into the sub project, Halkbank will appraise the proposed sub-loan package that would include, where appropriate, an environmental mitigation plan. The implementation of the mitigation plan will be monitored by Halkbank as well. Halkbank is familiar with WB safeguard policies since it has participated in previous SME lines including the recent SME Energy Efficiency Project with the WB. Still, to enhance their institutional capacity, safeguards training will be conducted in future for all PIUs and Halkbank will send its relevant staff for improving their knowledge on OP 4.01.</p>
<p>5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.</p>
<p>The EMF was disclosed in country in Turkish and in English through the website of Halkbank. In case sub-loan applications are categorized as 'B' and public consultation is necessary, these will be conducted while the sub-project EMPs are being prepared.</p>

B. Disclosure Requirements

Environmental Assessment/Audit/Management Plan/Other	
Date of receipt by the Bank	09-Oct-2015
Date of submission to InfoShop	12-Oct-2015
For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors	00000000
"In country" Disclosure	
Turkey	12-Oct-2015
<i>Comments:</i> Document has been disclosed in Turkish and English on the official website of Halk Bank.	
If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.	
If in-country disclosure of any of the above documents is not expected, please explain why:	

C. Compliance Monitoring Indicators at the Corporate Level

OP/BP/GP 4.01 - Environment Assessment	
Does the project require a stand-alone EA (including EMP) report?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Are the cost and the accountabilities for the EMP incorporated in the credit/loan?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
The World Bank Policy on Disclosure of Information	
Have relevant safeguard policies documents been sent to the World Bank's Infoshop?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
All Safeguard Policies	
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Have costs related to safeguard policy measures been included in the project cost?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]

the project legal documents?	
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V. Contact point

World Bank

Contact: Ilias Skamnelos
Title: Lead Financial Sector Speciali

Contact: Alper Ahmet Oguz
Title: Sr Financial Sector Spec.

Borrower/Client/Recipient

Name: Türkiye Halk Bankası A.Ş. (Halkbank)
Contact: Ali Fuat Taşkesenlioğlu
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Implementing Agencies

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VI. For more information contact:

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VII. Approval

Task Team Leader(s):	Name: Ilias Skamnelos, Alper Ahmet Oguz	
Approved By		
Practice Manager/ Manager:	Name:	Date:
Country Director:	Name: Mariam J. Sherman (CD)	Date: 19-Oct-2015