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R2016-0238/1

December 1, 2016

<p>Closing Date: Tuesday, December 20, 2016 at 6 p.m.</p>
--

FROM: Vice President and Corporate Secretary

Turkey

Turkey Sustainable Cities Project

Project Appraisal Document

Attached is the Project Appraisal Document regarding a proposed loan to Iller Bankasi Anonim Sirketi, with a sovereign guarantee from Turkey for the Turkey Sustainable Cities Project (R2016-0238), which is being processed on an absence-of-objection basis.

Distribution:

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Report No: PAD1123

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF EUR 121.2 MILLION
(US\$132.768 MILLION EQUIVALENT)

TO THE

ILLER BANKASI ANONIM SIRKETI

FOR A

TURKEY SUSTAINABLE CITIES PROJECT

NOVEMBER 28, 2016

Social, Urban, Rural and Resilience Global Practice
Europe and Central Asia Region

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CURRENCY EQUIVALENTS
(Exchange Rate Effective October 31, 2016)

Currency Unit	=	Turkish Lira (TL)
TL 3.07	=	US\$1
US\$0.33	=	TL 1
US\$1.095	=	EUR 1

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AA	Administrative Agreement
AF	Additional Financing
BOD	Biochemical Oxygen Demand
CIP	Capital Investment Plan
CPS	Country Partnership Strategy
DM	District Municipality
EC	European Commission
EIA	Environmental Impact Assessment
ESIA	Environmental and Social Impact Assessment
ESMF	Environmental and Social Management Framework
EU	European Union
FDI	Foreign Direct Investment
GC	Grievance Committee
GIS	Geographic Information System
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
ICB	International Competitive Bidding
IFC	International Finance Corporation
IFI	International Financing Institution
IFR	Interim Financial Report
IL_BIS	Iller Bank's web-based Information System
Ilbank	Iller Bank
IPA	Instrument for Pre-Accession Assistance
IPF	Investment Project Financing
KENTGES	Government's Integrated Urban Development Strategy and Action Plan
LARPF	Land Acquisition and Resettlement Policy Framework
M&E	Monitoring and Evaluation
MM	Metropolitan Municipality
MSP	Municipal Services Project
MSP-AF	Municipal Services Project Additional Financing
NCB	National Competitive Bidding
NPV	Net Present Value
O&M	Operation and Maintenance
OM	Operational Manual

PAD	Project Appraisal Document
PDO	Project Development Objective
PFS	Project Financial Statement
PIU	Project Implementation Unit
PMU	Project Management Unit
QCBS	Quality and Cost-Based Selection
SBD	Standard Bidding Document
SCALA	Sustainable Cities Approach for Local Administrations
SCP	Sustainable Cities Project
SOE	Statement of Expense
SOP	Series of Projects
TA	Technical Assistance
TOR	Terms of Reference
WWTP	Wastewater Treatment Plant

Regional Vice President:	Cyril Muller
Country Director:	Johannes C. M. Zutt
Senior Global Practice Director:	Ede Jorge Ijjasz-Vasquez
Practice Manager/Manager:	David N. Sislen
Task Team Leader:	Soraya Goga

TURKEY
Sustainable Cities Project
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PAD DATA SHEET

TURKEY

Sustainable Cities Project (P128605)

PROJECT APPRAISAL DOCUMENT

EUROPE AND CENTRAL ASIA

GSU09

Report No.: PAD1123

Basic Information					
Project ID P128605	EA Category F - Financial Intermediary Assessment	Team Leader(s) Soraya Goga			
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints []				
	Financial Intermediaries [X]				
	Series of Projects [X]				
Project Implementation Start Date 15-Jan-2017	Project Implementation End Date 31-Jan-2024				
Expected Effectiveness Date 15-Jan-2017	Expected Closing Date 31- July-2024				
Joint IFC No					
Practice Manager/Manager David N. Sislen	Senior Global Practice Director Ede Jorge Ijjasz-Vasquez	Country Director Johannes C.M. Zutt	Regional Vice President Cyril E Muller		
Borrower: ILLER BANKASI ANONIM SIRKETI					
Responsible Agency: ILLER Bankasi					
Contact: Telephone No.:	Necla Akca 903125087903	Title: Email:	Project Manager nakca@ilbank.gov.tr		
Project Financing Data(in US\$, millions)					
[X]	Loan	[]	IDA Grant	[]	Guarantee
[]	Credit	[]	Grant	[]	Other

Total Project Cost:		158.93				Total Bank Financing:		132.7		
Financing Gap:		0.00								
Financing Source								Amount		
Borrower								1.09		
International Bank for Reconstruction and Development								132.7		
Free-standing TFs for SURR								25.2		
Total								158.98		
Expected Disbursements (in US\$, millions)										
Fiscal Year	2017	2018	2019	2020	2021	2022	2023	2024	0000	0000
Annual	2.175	10.879	16.319	34.814	34.814	20.691	10.879	2.197	0.00	0.00
Cumulative	2.175	13.054	29.373	64.187	99.001	119.692	130.571	132.768	0.00	0.00
Institutional Data										
Practice Area (Lead)										
Social, Urban, Rural and Resilience Global Practice										
Contributing Practice Areas										
Energy & Extractives, Transport & ICT, Water										
Cross Cutting Topics										
[x]	Climate Change									
[]	Fragile, Conflict & Violence									
[]	Gender									
[]	Jobs									
[]	Public Private Partnership									
Sectors / Climate Change										
Sector (Maximum 5 and total % must equal 100)										
Major Sector				Sector		%	Adaptation Co-benefits %		Mitigation Co-benefits %	
Water, sanitation and flood protection				Wastewater Collection and Transportation		40				
Water, sanitation and flood protection				General water, sanitation and flood protection sector		45	70		20	
Public Administration, Law, and Justice				Sub-national government administration		15	20		20	
Total						100				

X I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.		
Themes		
Theme (Maximum 5 and total % must equal 100)		
Major theme	Theme	%
Urban development	City-wide Infrastructure and Service Delivery	50
Urban development	Urban Economic Development	30
Urban development	Municipal governance and institution building	20
Total		100
Proposed Development Objective(s)		
The Project Development Objective is to improve the planning capacity of and access to targeted municipal services in participating municipalities and utilities.		
Components		
Component Name	Cost (US\$, millions)	
Component A: Sustainable City Planning and Management Systems	25.2	
Component B: Municipal Investments	132.7	
Component C: Project Management	1.09	
Systematic Operations Risk- Rating Tool (SORT)		
Risk Category	Rating	
1. Political and Governance	Moderate	
2. Macroeconomic	Moderate	
3. Sector Strategies and Policies	Low	
4. Technical Design of Project or Program	Moderate	
5. Institutional Capacity for Implementation and Sustainability	Moderate	
6. Fiduciary	Moderate	
7. Environment and Social	Moderate	
8. Stakeholders	Substantial	
9. Other	—	
OVERALL	Moderate	
Compliance		
Policy		
Does the project depart from the Country Partnership Strategy in content or in other significant respects?	Yes []	No [X]

Does the project require any waivers of Bank policies?		Yes []	No [X]
Have these been approved by Bank management?		Yes []	No [X]
Is approval for any policy waiver sought from the Board?		Yes []	No [X]
Does the project meet the Regional criteria for readiness for implementation?		Yes [X]	No []
Safeguard Policies Triggered by the Project		Yes	No
Environmental Assessment OP/BP 4.01		X	
Natural Habitats OP/BP 4.04		X	
Forests OP/BP 4.36			X
Pest Management OP 4.09			X
Physical Cultural Resources OP/BP 4.11		X	
Indigenous Peoples OP/BP 4.10			X
Involuntary Resettlement OP/BP 4.12		X	
Safety of Dams OP/BP 4.37		X	
Projects on International Waterways OP/BP 7.50			X
Projects in Disputed Areas OP/BP 7.60			X
Legal Covenants			
Name	Recurrent	Due Date	Frequency
Safeguards	X		CONTINUOUS
Description of Covenant			
Borrower must comply with project ESMF and LARPF.			
Name	Recurrent	Due Date	Frequency
Selection of Municipalities/Utilities	X		CONTINUOUS
Description of Covenant			
Municipalities/utilities under Component A and B must be selected in accordance with criteria outlined in the Operational Manual.			
Name	Recurrent	Due Date	Frequency
Terms of Reference	X		CONTINUOUS
Description of Covenant			
Terms of Reference for Consultancy services must be satisfactory to the World Bank.			
Conditions			
Source Of Fund	Name	Type	
IBRD	Operational Manual	Effectiveness	
Description of Condition			

Adoption of Operational Manual.					
Team Composition					
Bank Staff					
Name		Role	Title	Specialization	Unit
Soraya Goga		Team Leader (ADM Responsible)	Lead Urban Specialist		GSU09
Salih Bugra Erdurmus		Procurement Specialist (ADM Responsible)	Procurement Specialist		GGO03
Ayse Seda Aroymak		Financial Management Specialist	Sr Financial Management Specialist		GGO21
Anna Gueorguieva		Team Member	Senior Economist		GSU09
Arzu Uraz		Safeguards Specialist	Social Development Specialist		GSU03
Ayse Yasemin Orucu		Team Member	Energy Specialist		GEE03
Canan Yildiz		Team Member	Consultant		GSU09
Delphine Alberta Hamilton		Team Member	Senior Program Assistant		GSU09
Esra Arikan		Safeguards Specialist	Senior Environmental Specialist		GEN03
Jasna Mestnik		Team Member	Finance Officer		WFALA
Jung Eun Oh		Team Member	Senior Transport Economist		GTI03
Margaret Png		Team Member	Lead Counsel		LEGLE
Ulker Karamullaoglu		Team Member	Program Assistant		ECCU6
Xavier Chauvot De Beauchene		Team Member	Sr Water & Sanitation Spec.		GWA05
Yarissa Lyngdoh Sommer		Team Member	Senior Operations Officer		GSU09
Extended Team					
Name		Title	Office Phone		Location
Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments

Consultants					
Consultants Required?	Consulting services to be determined				

I. STRATEGIC CONTEXT

A. Country Context

1. **Turkey's economic performance since 2000 has been impressive, both before and after the 2008–2009 global financial crisis.** Macroeconomic and fiscal stability was at the heart of its economic performance, enabling increased employment and labor incomes, making Turkey an upper-middle-income country as well as the world's 17th largest economy. Poverty incidence more than halved during the 2002–2012 period, from 44 percent to 21 percent, and this decrease was shared across both urban and rural areas. Extreme poverty fell even faster, from 13 percent to 4.5 percent. During this time, Turkey witnessed dramatic urbanization, opened up to foreign trade and finance, harmonized many of its laws and regulations with the European Union (EU) standards, and greatly expanded access to public services. It also recovered well from the global crisis of 2008–2009, with high economic growth during the 2010–2012 period.

2. **During 2012–2016, economic growth slowed, per capita income stagnated around US\$10,000 per year, and unemployment began to inch upwards.** These developments raise concerns about Turkey's progress toward reaching high income and reducing income inequality. In addition, slow growth in Europe and a deteriorating geopolitical environment in parts of Eastern Europe, Central Asia, and the Middle East have negatively affected exports, investment, and growth in Turkey. The influx of Syrians under Temporary Protection reached almost 3 million in 2016 and has created new social, economic, and political demands, particularly in urban centers where the majority of Syrians under Temporary Protection are living (less than 10 percent of them live in camps).

3. **Domestic political developments in 2015 and 2016 presented further challenges.** National elections in June and November 2015, a change in prime minister, a cabinet reshuffle in May 2016, an attempted coup in July 2016, and changes of public officials following the coup attempt have all affected the Government's reform momentum during that period. The Foreign Direct Investment (FDI) inflow to Turkey was US\$17 billion in 2015. The annualized FDI inflow for 2016 is estimated to be US\$10.4 billion as of August 2016. Security concerns may have contributed to a decline of FDI in 2016, which also reflected a decline of FDI to emerging markets overall. In addition, private investment was delayed, leading to slower economic growth. To counter these effects, the Government launched new reforms in 2016, focused on incentivizing research and development and enhancing labor market flexibility, to improve the investment and business climate in Turkey. The Government also continues to take action to promote savings, improve social security and the pension system, and establish a sovereign wealth fund, as well as housing and dowry account schemes. However, further reform measures will be needed to address continuing structural vulnerabilities, revitalize private investment, boost growth, and resume Turkey's convergence with Europe. Most notably, new reform momentum is needed to improve the quality of education and to upgrade skills. Only by boosting productivity growth and creating enough high-productivity jobs to accommodate a rapidly growing labor force will Turkey be able to continue to reduce poverty and boost share prosperity.

B. Sectoral and Institutional Context

4. **Cities and urbanization have played a key role in Turkey's economic achievements.** Over the course of the last 70 years, Turkey has experienced a dramatic and transformative urbanization experience. While the country's total population increased by 9.2 percent between 2007 and 2014, the urban population¹ increased by 15.4 percent during the same period. What distinguishes Turkey from many other developing countries is that it has harnessed the benefits of agglomeration and rural-urban migration during the peak period of urbanization (1960–2013). During that time, the industrial share contribution of gross domestic product rose from 17.6 percent to 27 percent, while the service sector contribution rose even more dramatically from just over 26 percent to nearly 64 percent. These structural shifts and productivity gains paid dividends for Turkish citizens over the last three decades, as per capita gross domestic product more than doubled from US\$5,986 (1980) to US\$10,515 (2014²).

5. **Turkey's urbanization process has also been inclusive, with a rising share of urban growth and job creation in the country's smaller cities.** Initially, Turkey's three primary cities of Istanbul, Izmir, and Ankara were the primary destination of rural migrants and were also the primary location of job creation. However, the period 2000–2012 witnessed a rising share of urban population growth in the country's secondary and smaller cities such as Bursa, Mersin, Kocaeli, Kayseri, and Gaziantep.³ These smaller cities have also created jobs at the same rate as the three biggest cities between 2010 and 2013. For example, 15.7 percent for Gaziantep, Balikesir, Malatya, and Aydin and 16.8 percent for Istanbul, Izmir, and Ankara. The subregions of Gaziantep, Balikesir, Malatya, and Aydin, for example, created over 406,000 jobs⁴ between 2010 and 2013, a close second to the combined increase of the Istanbul, Izmir, and Ankara subregions (15.7 percent versus 16.8 percent).

6. **As the urban population has increased, cities have sprawled, exceeding their mandated boundaries, and although access to services have increased significantly, quality of services and long-term financial and environmental sustainability remain challenges.** Turkey's built-up area increased by 53 percent from 2000 to 2013, with the growth of secondary cities contributing disproportionately. While Istanbul, Ankara, and Izmir grew at 74 percent, 82 percent, and 71 percent, respectively, Gaziantep, Diyarbakir, and Erzurum grew by 263 percent, 253 percent, and 277 percent, respectively.⁵ As cities have grown, they also responded to challenges in access to service delivery. Consequently, access to water is at 99 percent, access to sanitary landfills is at 60 percent, access to sanitation is at 91 percent, and kilometers of urban rail lines have increased from 292 to 477 from 2006 to 2012. However, quality and long-term financial and environmental sustainability of water and sanitation services remain a concern as identified in

¹ Defined as living in settlements with a population of over 20,000.

² Current U.S. dollars, *Source*: World Development Indicators.

³ An increase of about 1 percentage point for each city in its share of the urban population, *Source*: TUIK 2000 Census Data and ABPRS. 2012 in *Rise of the Anatolian Tigers: Turkey Urbanization Review*, World Bank 2015.

⁴ *Source*: LFS data. The figure includes both formal and informal jobs.

⁵ Analysis of the Global Human Settlements Layer developed by the European Commission (EC) indicates that Turkey's built-up area has grown by 53 percent between 2000 and 2013. For example, the Istanbul area grew by 74 percent, Ankara area grew by 82 percent, Izmir area grew by 71 percent, Gaziantep area grew by 263 percent, Diyarbakir area grew by 253 percent, and Erzurum area grew by 277 percent (data from the Geospatial Unit of the World Bank).

the 10th Development Plan. In the water sector, only 52 percent of potable water was treated in 2010, nonrevenue water is estimated at approximately 50 percent, and significant efficiency challenges remain in the wastewater sector as a result of operational and technological inefficiencies.⁶ In the urban transport sector, expansion of public transport services remains a concern. Even Istanbul and Ankara, which have the highest rates of mass public transit in Turkey, continue to rank at the bottom of the international distribution on mass transit. To address required expansion of coverage and improve quality of service, cities will continue to require large-scale infrastructure investments. However, coherent infrastructure planning and prioritization will be key in addressing the long-term environmental and financial sustainability of these investments and of the cities.

7. To address the challenges associated with sprawl and subsequent long-term financial and environmental sustainability of cities, Turkey has revised national policy frameworks and legislation. In December 2012, the Government amended the Metropolitan Municipality Law (#6360), elevating 14 cities to metropolitan status⁷ and expanding their territorial boundaries (and those of 16 existing metropolitan municipalities [MMs]) to their provincial limits, thus allowing these municipalities to extend the formulation of policies and planning to the municipality's respective regional and economic footprint. The Government's Integrated Urban Development Strategy and Action Plan (KENTGES) 2010–2023 provides guidance on a vision and strategy for policy and plan formulation for these and other municipalities. The KENTGES aims at improving livability in settlements through (a) restructuring the spatial planning system; (b) improving quality of space and life in settlements through encouraging an urban macro form, which decreases costs, uses resources efficiently, and prevents extensive growth; and (c) strengthening the economic and social structures of settlements through a combination of strategies that tackle within-city harmonization, accessibility of services, urban poverty, and urban culture through a participatory approach. Finally, the Sustainable Cities Approach for Local Administrations (SCALA) paper (March 2015) provides a framework for city sustainability (identifying environmental, economic/financial, and social sustainability as most relevant for Turkish cities) and also identifies several existing spatial and environmental planning instruments that could be used in planning for a more sustainable city.

8. Leveraging the existing frameworks and addressing planning gaps is the next step in operationalizing the sustainability agenda. Turkey has an extensive existing urban planning and regulatory framework. However, there are missing elements.⁸ Spatial plans often do not contain coherent transport planning principles and ecological dimensions, and energy efficiency considerations are missing from many plans, as is provisioning for green space, solid waste management planning, and effective geographic information systems (GISs) that help plan the delivery and operation/maintenance of critical infrastructure. As a result, many cities do not have well-developed, multiyear capital investment plans (CIPs) with a pipeline of prioritized investment projects. Ensuring comprehensive integrated planning linked to prioritized investments is a key element to long-term financial and environmental sustainability of cities.

⁶ Turkey 10th Development Plan. P 129.

⁷ To the existing 16 MMs created between 1984 and 2012.

⁸ Plans are not integrated, so several different plans may be produced each with its own prioritized investments. Plans are often not costed, thus reflecting a 'wishlist'. Identified planned investments are also rarely linked to an assessment of the municipal finances.

9. **Within this context, the Government of Turkey has requested financing from the World Bank and the EU for a Sustainable Cities Project (SCP).** The project is expected to assist cities in (a) planning for sustainable infrastructure service needs through more comprehensive and integrated municipal planning; (b) developing CIPs linked to urban plans in an effort to mobilize long-term financing that is essential in responding to investment priorities; and (c) financing infrastructure service requirements, particularly of the new Metropolitan Municipality Law of December 2012, to expand territorial service coverage.

10. **Both the EU and the World Bank are well placed to respond to this request.** The EU has a history of supporting Turkey to align with the EU environmental, climate change, energy, and transport acquis. The World Bank brings both Turkey sector-specific and international best practices to project implementation. It has had a long engagement in the municipal sector in Turkey, most recently through the Municipal Services Project (MSP), which financed municipal investments that improved the quality and coverage of water supply services, collection and treatment of wastewater, and collection and disposal of solid waste. In addition, the World Bank brings international experience in sustainable metropolitan management and planning through a combination of investments and technical assistance (TA).

C. Higher Level Objectives to which the Project Contributes

11. **The project is consistent with the completed World Bank Group Country Partnership Strategy (CPS) for Turkey (2012–2016), which has three main strategic objectives and pillars:** (a) enhanced competitiveness and employment; (b) improved equity and public services; and (c) deepened sustainable development. In particular, one of the 10 outcomes outlined in the CPS is the improved sustainability of Turkish cities and the SCP was proposed as a core part of the World Bank's program in the CPS. International Finance Corporation (IFC) is also involved in supporting the objective of sustainable cities through enhancing the municipal credit market and providing financing without a sovereign guarantee to bankable municipalities to help diversify their funding sources. The World Bank and IFC have undertaken a coordinated approach under the framework while recognizing that the timing and scope of some engagements by IFC will depend on market factors and private sector demand. Furthermore, the project will contribute toward other CPS outcomes of improved public services and governance and strengthened environmental management and adaptation to climate change. The project will also be included in the upcoming Country Partnership Framework.

12. **The proposed operation contributes to the EU Instrument for Pre-Accession Assistance (IPA) II 'Multi-annual Action Program for Turkey on Environment and Climate Action'** by strengthening institutional capacity of MMs/utilities to design, implement, and monitor environmental and socially sustainable planning and management practices. It is a cornerstone of the enhanced coordination between the World Bank and the EU in Turkey.

13. **The proposed project also aligns well with the 10th Development Plan (2014–2018), under the 'Livable Spaces/Sustainable Environment' pillar.** Specifically, the Government of Turkey sees the global trend of rapid urbanization as one of its continuing challenges. Going forward, the plan seeks to further reduce regional disparities by supporting development in the eastern regions of the country, noting that improving urban infrastructure will be a key priority. The plan calls for improvements in the structure and functioning of the development planning

system. Support to spatial planning, local administrations, and land and water resource management emerges as a key issue to be addressed. SCP design is particularly relevant to supporting these national initiatives and objectives.

II. PROGRAM AND PROJECT DEVELOPMENT OBJECTIVES

A. The Program

14. The Sustainable Cities Program aims at supporting improved sustainability of Turkish cities. The Sustainable Cities framework recognizes three dimensions of sustainability (environmental, economic/financial, and social) most relevant for Turkish cities and also identifies spatial, environmental, and financial planning instruments that are part of a comprehensive and integrated planning process that would move cities along a sustainability spectrum from planned to healthy, and finally to smart cities.⁹

15. The proposed program is designed as a series of projects (SOP). The SOP instrument is suitable as it will allow for the provision of financing to a single borrower (İller Bank [İlbank]) for subnational lending to a gradual number of municipalities/utilities that are interested in a sustainable cities approach to municipal development. The sustainable cities approach/design is premised on municipalities/utilities undertaking comprehensive and integrated planning (including spatial, social, environmental, and infrastructure planning) to identify investments for sustainable urban development and subsequently prioritize these investments through a CIP (as supported under Component A of this project). It also allows all municipalities/utilities to access financing for prioritized investments for sustainable urban development either under this first project in the SOP (under Component B) or under subsequent projects that may be supported by the World Bank, other international financing institutions (IFIs), or domestic financiers including İlbank. Conceptualizing the SCP as an SOP thus allows municipalities/utilities or a group of municipalities/utilities to enter the program and access investment financing on a phased-in basis and at a pace consistent with their readiness and ability to meet eligibility requirements (as elaborated under Component B) under the sustainable cities approach. It also allows İlbank and the World Bank to expand the sustainable cities approach both sectorally and spatially.

B. PDO

16. The Program and Project Development Objective (PDO) is to improve the planning capacity of and access to targeted municipal services in participating municipalities and utilities.

Project Beneficiaries

17. Beneficiaries under this project include users that will benefit from improved public service, including wastewater treatment and water and wastewater systems. Other beneficiaries will include participating municipalities/utilities. During preparation, the World Bank and İlbank identified a long list of potential candidate municipalities and investment subprojects which are expected to be financed under this first project in the SOP. Two cities—Denizli and Mugla—were identified as the most likely to be financed under this first project in the SOP and a program of anticipated investments was appraised, though the final inclusion of these cities and the selection

⁹ See paper on ‘Sustainable Cities Approach for Local Administrations’. April 2015.

of specific investments are subject to the signing of a subloan with Ilbank, the preparation of final detailed designs, and the preparation of Environment Impact Assessments and Resettlement Action Plans acceptable to the World Bank and consistent with the disclosed Environmental and Social Management Framework (ESMF) and Land Acquisition and Resettlement Policy Framework (LARPF).

PDO-Level Results Indicators

18. PDO indicators include the following:

- (a) Sectoral, spatial, and capital investment plan (CIP) developed under Component A
- (b) Volume (mass) of biochemical oxygen demand (BOD) pollution loads removed by the treatment plant supported under the project (tons/year)
- (c) People provided with access to ‘improved sanitation facilities’ under the project (#)

III. PROJECT DESCRIPTION

A. Project Components

19. The proposed project would be implemented through three components: Component A: Sustainable City Planning and Management Systems; Component B: Municipal Investments; and Component C: Project Management.

Component A: Sustainable City Planning and Management Systems (EUR 23.125¹⁰ million grant cofinanced by EU-IPA)

20. Component A aims to support reforms including policies and legislation that improve sustainable urban development planning and enhance urban sustainability. Component A would provide TA support (a) to municipalities/utilities for planning and management and for the preparation of feasibility studies, detailed engineering designs, and environmental assessments for municipal subprojects; and (b) to Ilbank for management of the grant and capacity building. This component would be funded in its entirety through an EU-IPA2 Recipient-Executed Trust Fund Grant.

21. **Subcomponent A.1: Technical Assistance Support to Municipalities/Utilities (EUR 20 million).** The subcomponent provides TA to municipalities/utilities to ensure comprehensive and integrated planning including support for spatial, social, environmental, and financial/capital investment planning and management. This would allow municipalities/utilities to improve each of their dimensions of sustainability (environmental, social, and financial/economic) as they move along the spectrum from a planned to a smart city.

22. An initial approach for TA that takes into account comprehensive and integrated planning, assuming a long-term framework, and tools for monitoring management and financing of proposed

¹⁰ Total EU financing is EUR 25million. World Bank Administrative Fee is EUR 1.875 million. This is 7.5 percent of the total EU grant and it is in accordance with the Financial Framework Agreement between the World Bank and the EU dated April 15, 2016.

plans has been developed for the project. Assistance in planning could include compulsory planning that integrates different levels of planning (including integrating provincial territorial planning with sub-plans). It could also include support for urban transport planning, environmental planning and protection, infrastructure planning, energy efficiency, and urban green space planning. Like most planning processes, it would be informed by demographic, business and commercial needs, housing and social amenities, among other factors, and could also provide a detailed outline of tasks and outputs. The planning processes will be data driven.¹¹ The TA will be selected through a consultative process with the municipalities/utilities taking into account a grant ceiling amount per municipality.

23. The project would also finance tools for infrastructure, spatial, and financial management of the municipality. This could include the development of GIS and other urban databases for the post-plan completion monitoring and management of the infrastructure network and a CIP spanning multiple years to assist municipalities/utilities in mobilizing financing for priority investments.

24. **Subcomponent A.2: Preparation of Feasibility Studies, Environmental Assessments, and Engineering Designs (EUR 1.875 million).** All municipalities/utilities would be eligible to access financing to prepare feasibility studies, environmental and social assessments, and engineering designs for sustainable infrastructure subproject investments. However, municipalities/utilities would only access these funds provided that they meet municipal eligibility requirements under Component B. The grants will be allocated on a first-come-first-served basis.

25. **Subcomponent A.3: Support to Ilbank in Grant Management and in Improving Capacity in Managing Sustainable City Systems (EUR 1.250 million).** This subcomponent will (a) support Ilbank with project management (including monitoring and evaluation [M&E] and audit); (b) enhance Ilbank's technical capacity in managing and implementing sustainable city investments; and (c) provide support to the Ilbank Project Management Unit (PMU) and municipalities/utilities in embedding city-level actions that link with EU policy directives on climate change, energy efficiency, water, urban transport, solid waste management, and urban planning and in building awareness on international best practices to promote and implement sustainable cities actions; (d) support provision of training and capacity building to municipalities; (e) support preparation of reports and studies that examine required reforms and propose changes with an aim to improving planning practices for integrated and comprehensive planning.

Component B: Municipal Investments (EUR 121.2 million)

26. This component will finance demand-driven municipal infrastructure investments. Sectors eligible for investment include but are not restricted to public transport, water and sanitation, solid waste management, and energy. In the water sector, it is anticipated that the sub-borrower will be the utility company, with a guarantee provided by the municipality. The component will finance goods, works, and consultant services. At the time of appraisal, it is expected that the cities of Denizli and Mugla will participate in this first project in the SOP, and an expected program of investments in these two cities has been identified based on preliminary feasibility studies prepared

¹¹ As with most planning process, it is expected that intensive surveys of infrastructure (condition assessments and network extension requirements), housing (formal and informal stock, provisioning for new housing needs in response to demand pressures), and so on will also be required.

by the cities and submitted to Ilbank and Ilbank's assessment of their eligibility to participate based on Turkey's public finance legal and regulatory framework.

27. **Municipal eligibility.** The Law on Regulating Public Finance and Debt Management (Law No. 4749) restricts borrowing by any institution if it has overdue payments to Treasury. Ilbank follows the same financial eligibility criteria for its on-lending to each municipality. Furthermore, Ilbank requires each municipality to prepare preliminary feasibility studies which demonstrate the technical and financial viability of the investment so that it can be included in the public investment program managed by the Ministry of Development. Municipalities/utilities are required to provide a Municipal Executive Board/Utility Board decision stating that SCP financing would be sought for the proposed subprojects. Where the sub-borrower is a utility, a guarantee from the municipality is also required.

28. **Subproject investment eligibility.** Eligible investments should advance the environmental, economic/financial, and social dimensions of sustainable city development as outlined in the paper 'Sustainable Cities Approach for Local Administrations' (March 2015). Subprojects should also meet a set of eligibility criteria to ensure that all investments supported under the program are financially, economically, and technically viable. They should also meet all safeguards requirements under the project. Subprojects included for financing under the program would be screened by Ilbank to ensure they meet the eligibility criteria before being presented to the World Bank for review. After entering into a subloan arrangement between the subproject beneficiary municipality/utility, each municipality/utility will undertake the preparation of detailed engineering designs for the proposed subproject, following which each investment will be subsequently appraised by the World Bank implementation support team to ensure that they meet the criteria established in the eligibility screening framework¹² as well as comply with the applicable environmental and social safeguards.

Component C: Project Management (EUR 1 million - Borrower Financed)

29. For this first project in the SOP, Ilbank will not utilize loan funds for this component. This component will be financed by Ilbank in its entirety. In addition to the allocation for its staff, Ilbank will finance goods and consultancy services for project management, M&E, outreach and communication, and hiring of local technical consultants for the engineering supervision of Component B.

B. Project Financing

30. Component A will be financed by an EU-IPA2 grant through a World Bank administered Trust Fund that will be established. It is anticipated that the Trust Fund will be established by January 2017.

31. The proposed financing instrument for Component B is an Investment Project Financing (IPF) loan. The instrument has proven effective in the implementation of previously financed World Bank projects in the municipal sector.

¹² This includes financial, technical, and safeguards criteria.

32. Component C will be financed fully by Ilbank.

Project Cost and Financing

Project Components	Project Cost (Euro, millions)	Source	% Financing
Component A: Sustainable City Planning and Management Systems	23.125	EU	100
Component B: Municipal Investments	121.200	IBRD	100
Component C: Project Management	1.000	Ilbank	100
Total Costs			
Total Project Costs	145.325		
Front-End Fees ^a (0.25%)	0.303		
Total Financing Required	145.628		

Note: a. Front-end fee applies to Component B.

C. Series of Project Objective and Phases

33. The proposed project is expected to be the first in an SOP. The SOP approach has been determined to be the best instrument to support the Government's program as it allows for the provision of financing to a single borrower (Ilbank) for subnational lending to municipalities/utilities as sub-borrowers in a phased manner but within a consistent framework. The proposed approach allows municipalities or a group of municipalities/utilities to access investment financing on a phased-in and demand-driven basis and at a pace consistent with their readiness and ability to meet eligibility requirements (as outlined in this Project Appraisal Document [PAD]).

34. Each subsequent project in the series would target individual or groups of municipalities/utilities in ensuring improved efficiency and sustainability of service delivery. Consequently, the PDO for the program and for each subsequent project would be the same as the one presented for this project, though future project specific indicators would change based on the types of investments supported under the subsequent projects in the series. The flexible nature of the SOP approach allows for the possibility that there is no subsequent demand for additional projects in the series. Policies and procedures applicable to individual IPF apply to each IPF in an SOP. Consequently, each project will have a PAD and will be appraised and negotiated and presented to the World Bank's Board of Directors for approval. As such, each project may have different loan terms, conditions, grace periods, implementation periods, and closing dates.

35. The SCP SOP approach is sufficiently flexible to expand sectorally and spatially and the scope of the SOP can be scaled up in accordance with client demand. (Note that Component A of this first project in the SOP is expected to help identify a pipeline of investments for future projects in the series). It is anticipated that a potential total of US\$300 million of IBRD financing for the SOP would be brought forth for approval, though specific lending volumes beyond this first phase will be determined only during preparation of subsequent phases. The SOP will be included in the Country Partnership Framework which is under preparation.

36. The timeline for completion of the SOP is anticipated at 15 years. However, this could be extended should the SCP approach continue to remain relevant to Ilbank, municipalities/utilities, and other IFIs.

D. Lessons Learned and Reflected in the Project Design

37. The project benefits from the preparation and implementation experience of Ilbank gained through a decade of the ongoing MSP and its Additional Financing (AF) as well as experience internationally. Lessons learned that are reflected in project design are described below.

38. **International experience demonstrates that project design should be embedded in existing Government policies and strategies to ensure ownership and validation of the project.** Consequently, this operation is guided by the Government's emphasis on sustainable delivery of local services as articulated in its 10th Development Plan, KENTGES, the SCALA, and the Metropolitan Municipality Law even while seeking to use and expand the implementation of these instruments to ensure comprehensive integrated planning linking spatial and infrastructure plans to investment plans.

39. **Lessons learned in other parts of the World Bank confirm that sustained engagement in a sector can foster a developmental approach that moves beyond a focus only on infrastructure financing,; but this requires each engagement to build on its predecessor.** The SCP builds on the MSP and its AF, especially through the proposed SOP approach. However, it expands the World Bank engagement sectorally and spatially in that it will assist in building planning and financing capacity at the municipal level. The SOP approach further supports the concept of sustained engagement as it envisages a 15-year horizon for the approach.

40. **Clear investment selection tools and clear rules of the game allow for successful project implementation and facilitate spatial expansion of the project.** Urban projects in the World Bank often focus on a few municipalities because of the complexity of supervision. The SCP has been designed as an SOP with clear rules of accessing loans through subsequent projects, allowing municipalities/utilities to access investment financing on a phased-in basis and at a pace consistent with their readiness, with regard to financial sustainability, detailed designs, and availability of multiyear operation and maintenance (O&M) estimates and plans. Gradual entry of municipalities/utilities into the SCP ensures manageable supervision by Ilbank and the World Bank.

41. **Multiyear customized institutional development and TA support for utilities and MMs are required to ensure improved service delivery, O&M performance, and sustainability of investments.** Lessons from the MSP and its AF show that institutional development should be embedded in a TA program that supports the development of a comprehensive and integrated planning approach to spatial, social, environmental, and financial/capital investment planning and management.

42. **Having a strong pre-identified investment pipeline ensures project readiness that is critical for successful implementation.** Loans to financial intermediaries often run the risk of delayed disbursements, insufficient demand for World Bank funds, and/or lack of subproject readiness to ensure timely implementation during the life of the project.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

43. Institutional and implementation arrangements build on existing arrangement under the ongoing Municipal Services Project Additional Financing (MSP-AF). Consequently, Ilbank, which is a development and investment bank that on-lends IFI loans for municipal investments, will be the implementing agency for the project. Ilbank has demonstrated its capacity for managing World Bank loans through the MSP and the MSP-AF.

44. **Project management.** A PMU was established under the International Relations Department of Ilbank for the implementation of the MSP and the MSP-AF and this PMU will continue to implement SCP. The PMU is led by the project director and has staff capacity in procurement, financial management, and technical sectors particularly for water and wastewater and transport.

45. The PMU will be supported by several specialized departments within Ilbank. This includes a Project Department responsible for control and approval of feasibility studies under the project, an Investment Appraisal Department responsible for evaluating the financial capacity of a municipality, an Infrastructure Implementation Department that can also provide support to review technical specifications as needed, a Spatial Planning Department that coordinates input for Component A of the project, and several other administrative departments such as Accounting and Financial Affairs, IT, and Banking Services. The institution also has 18 regional directorates that can monitor subproject implementation.

46. **Legal relationships, fund flow, and the control of funds.** For Component A, upon the establishment of the Trust Fund, the World Bank and Ilbank will sign a Trust Fund Grant Agreement for the financing of Component A activities. Ilbank will use the proceeds of the Grant to carry out procurement for activities or support municipalities/utilities to carry out procurement activities under Component A and without transferring any notional allocated amounts to the participating municipalities/utilities. Legal arrangements for Component B will include the following: (a) a Loan Agreement between the World Bank and Ilbank; (b) a Guarantee Agreement between Treasury and the World Bank; (c) a Guarantee Protocol between Treasury and Ilbank; and (d) Subloan Agreements between Ilbank and the participating municipalities/water and wastewater utilities.

47. Funds flow under the project will be overseen by the PMU. Within the scope of the project, the PMU is also responsible for ensuring World Bank compliance of procurement for goods, works and services.

48. **Role of municipalities/utilities.** Municipalities/utilities that have been selected to participate in Component B will have to meet the sub-borrower eligibility criteria and this will be monitored by Ilbank. These municipalities/utilities will be responsible for subproject investment implementation and will set up municipal project implementation units (PIUs) to ensure adequate subproject implementation.

B. Results Monitoring and Evaluation

49. The PDO focuses on improving the planning capacity of municipalities/utilities and the sustainability of targeted services. Long-term financial sustainability requires improved municipal capacity for comprehensive planning (including integrating spatial and sectoral plans) and linking these to financing through CIPs. This is measured through the first PDO indicator. The second and third PDO indicators reflect measures to improve environmental sustainability. Intermediate indicators on grievances and beneficiaries provide a measure of social sustainability within the project.

50. The Ilbank PMU will collect data for results indicators from the participating municipalities/utilities, monitor the quality of municipal data collection, and evaluate results. Consequently, the Ilbank PMU will review and verify the data and evaluate results before including these results in reports to be sent to the World Bank. The PMU has experience in results data collection through the ongoing MSP.

51. A guideline on collecting and evaluating indicators and appropriate reporting templates is under preparation for inclusion in the Operational Manual (OM). The progress on meeting these indicators and the evaluation of the data will be provided in the project progress reports, which will be submitted semiannually by Ilbank. The incremental costs for the project M&E arrangements will be part of Component C: Project Management and Component A: Sustainable City Planning and Management Systems.

52. In addition, all participating municipalities/utilities have been evaluated against a series of sustainability indicators contained in the Diagnostic Assessment. A baseline report for each municipality will be available at the start of the project implementation. The Diagnostic Assessment will be repeated during year 3 and year 5 of the project, financed through Component A. This will allow the municipal/utility administrations and Ilbank to monitor progress beyond the project-specific results framework.

C. Sustainability

53. The Government is emphasizing the sustainable delivery of local services as articulated in the 10th Development Plan, KENTGES, the SCALA, and the Metropolitan Municipality Law not only to address internal challenges but also with an intent to meet EU directives. Challenges toward long-term municipal sustainability have been identified to include sprawl and the concomitant costs associated with service delivery. Consequently, addressing sprawl through spatial and infrastructure planning, municipal management, and financial management have been identified as key interventions toward supporting a more sustainable city.

54. Provision of TA under Component A is envisaged to contribute toward ensuring sustainability of the municipality/city and also Component B investments. Component A will support (a) financial sustainability by strengthening financial management functions including support to the establishment of a capital investment program that ensures long-term fiduciary improvements so that service providers have the capacity to access long-term financing and maintain, operate, and cover depreciation of investments by improving service quality and delivery over time and (b) social and environmental sustainability by strengthening participating

municipalities in improving their spatial planning and city management functions that take into account environmental concerns and social inclusion mandates.

55. The project supports investments in basic services such as provision of water supply, wastewater treatment, transport, and energy under Component B. The municipal eligibility criteria ensure that only municipalities/utilities that meet the borrowing criteria are able to access the proposed loan financing. In addition, proposed investments must meet subproject investment criteria that include economic and financial, technical and environmental, and social criteria. Before the initial review of the subproject by Ilbank, each municipality will submit a legally mandated subproject preliminary feasibility study which includes analyses of alternatives (technology, sites, and so on); economic and financial feasibility; and an initial environmental analysis. These initial analyses would be complemented by the preparation of an environmental impact assessment ([EIA] and, as appropriate, Resettlement Action Plan) once detailed engineering designs have been completed and the investment has been screened using the ESMF. This approach aims to contribute toward ensuring that investments are right-sized, using appropriate technology, and are not over-dimensioned to ensure sustainability.

V. KEY RISKS AND MITIGATION MEASURES

Systematic Operations Risk-Rating Tool (SORT)

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

56. The overall project risk is rated as Moderate.

57. **Stakeholder risk rating.** This reflects history where municipalities/utilities have withdrawn from similar projects either immediately before negotiations or after loan signing because of internal political and financial considerations. To mitigate this risk, municipalities/utilities are required to provide Municipal Executive Board/Utility Executive Board Decisions in support of their participation in the project and are also required to prepare feasibility studies that include a financial assessment of the subproject and the municipality. The risk rating also reflects possible community resistance to certain investments (such as wastewater treatment plant [WWTP] and their outfalls). To mitigate this risk, required Environmental and Social Impact Assessments (ESIAs) and Environmental and Social Management Plans will be prepared for each subproject investment and a grievance redress mechanism (GRM) will be set up within the project.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

58. At appraisal, the economic and financial eligibility criteria developed during preparation were applied to the principle investments expected to be included under this first project in the SOP based on the expectation that Denizli and Mugla will enter into subloan arrangements with Ilbank for a proposed package of investments for which preliminary feasibility studies have been submitted to Ilbank. These include construction and rehabilitation of wastewater treatment plants; construction and rehabilitation of sewerage network in Mugla; and the construction of water, sewerage, and storm water networks in Denizli. Methodologies for the evaluation of investments are detailed in the ‘Guidelines for the Financial Feasibility Preparation’ which is included as an annex to the OM. The guideline outlines the expected scope and methodology of the analysis by type and size of investments, including the quantifiable benefits to be assessed and the baseline monitoring indicators to be established. Ilbank and the Ministry of Development request discount rates of 8–10 percent, and this will be included in all feasibility studies. The social discount rate (opportunity cost of capital) of 6 percent can also be calculated, as recommended by the World Bank as a result of recent analytical work in this respect. Economic sensitivity analysis under a wide range of different discount rates will be performed. Investments with a positive net present value (NPV), even for very high discount rates (say 15–20 percent), are expected to deliver high social benefits exceeding the social discount rate of 6 percent.

59. An aggregate economic rate of return has not been calculated for the project as a whole. However, economic and financial analysis was undertaken on the expected investments using best estimates of costs. These studies indicate positive economic net present value and economic rate of return exceeding 6 percent:

- (a) In Mugla, for the proposed investments, financial net present value (F-NPV) is positive, with a discount rate of 10 percent. Internal rate of return is 24.4 percent.
- (b) In Denizli, for the proposed investments, the NPV is positive, with a discount rate of 10 percent and the internal rate of return is estimated at 22 percent.

60. Because the investments will be implemented under municipalities or affiliated utilities, which are revenue-generating entities, a baseline assessment of the financial position of the municipalities/utilities has been carried out as part of the preparation of the feasibility study, to ensure financial sustainability based on 2015 data. Results indicate that the financial positions of the implementing and affiliated public water utility (MUSKI¹³ and DESKI¹⁴) are projected to achieve financial sustainability over the life of the proposed projects. This means that those entities are (a) projected to report positive operating balances (recurring operating revenues – recurring operating expenditures > 0); (b) able to fund at least part of their capital expenditure from their own funds (positive operating balance as explained above); and (c) able to close the financial year with break-even or positive overall budget results after capital expenditure and net borrowing.

¹³ MUSKI - Mugla Su ve Kanalizasyon Idaresi.

¹⁴ DESKI – Denizli Su ve Kanalizasyon Idaresi.

B. Technical

61. Under Component A, possible municipalities targeted for participation have been identified. An initial approach for TA that takes into account long-term comprehensive and integrated planning and tools for monitoring management and financing of proposed plans has been developed for the project. Engagement has commenced with several municipalities to determine prioritized TA needs. Draft terms of reference (TOR) for prioritized TA are currently being developed. Finally, an allocation formula to determine grant allocations to municipalities has been agreed between the World Bank and Ilbank.

62. For Component B, municipal and subproject eligibility criteria have been designed. The municipal eligibility criteria proposed for the project are applied by Ilbank to all municipalities/utilities accessing financing from an IFI loan and complies with the Government of Turkey's legal requirements. The subproject investment eligibility assumes compliance with economic and financial requirements of Ilbank and these are acceptable to the World Bank; compliance with the World Bank's environmental and social safeguards; and technical criteria that include consideration of alternative technologies and sites. This will contribute toward ensuring that investments are right-sized, using appropriate technology, and are not over-dimensioned to ensure sustainability. To be considered for financing by Ilbank, each city is required to submit a preliminary feasibility study that includes an analysis of alternative technologies, a financial and economic analysis, and a preliminary environmental and social analysis so that it can be included in the public investment program managed by the Ministry of Development. The latter would be complemented by ESIA's and plans consistent with the World Bank's safeguard policies in conjunction with the preparation of detailed engineering designs after the city or utility enters into a sub-loan arrangement with Ilbank.

63. The municipal and subproject eligibility criteria were reviewed during appraisal and have also been applied to the expected subproject investments that would be financed under this first project in the SOP. Results demonstrate that (a) the screening criteria are robust to allow appropriate due diligence; (b) Ilbank has the capacity to review municipal and subprojects on eligibility criteria; and (c) the indicative subprojects screened are also robust. The anticipated investments to be included under this first project in the SOP—namely water and sanitation infrastructure in Mugla and water, sanitation, and drainage infrastructure in Denizli—have been appraised to be appropriate investments with clear service delivery benefits.

C. Financial Management

64. The PMU established under the International Relations Department of Ilbank will be responsible for project financial management arrangements. The PMU has satisfactory financial management arrangements for the MSP and the same arrangements will be adopted for this project. As such, the project financial management systems at Ilbank are Satisfactory.

65. Ilbank will on-lend to the qualifying municipalities/utilities and will provide technical support to these municipalities/utilities in identifying and appraising investments. Municipalities/utilities will be responsible for the procurement of civil work investments with full support from Ilbank under Component B of the project. Payments to the suppliers will be registered directly by Ilbank upon submission of acceptable approval documents. The PMU in Ilbank will be

responsible for the management of the designated account and project accounting and reporting. The project accounts will be subject to independent audit on an annual basis by Government of Turkey Treasury Controllers. The project audit report will be made publicly available as per the Access to Information Policy of the World Bank.

D. Procurement

66. An initial procurement assessment has been carried out. The SCP will build on the existing procurement implementation arrangements of the ongoing MSP-AF and will be implemented by the participating municipalities/utilities under the coordination and support of the Ilbank PMU for Component B. The PMU will manage its own procurement activities for Component C and will manage and support procurement under Component A of the project. The past procurement performance in the MSP-AF was assessed as moderately satisfactory and Ilbank is considered to be an experienced borrower, familiar with the World Bank procurement procedures. It is expected that no gap will occur between the closing date of the MSP-AF and SCP, so existing procurement staff capacity of the Ilbank PMU can be maintained during the transition without any interruption.

67. As noted in the procurement post-review reports for the ongoing MSP-AF and based on the assessment appraisal mission, major project procurement-related risks are (a) different levels of experience of the participating municipalities/utilities (Mugla/MUSKI, Denizli/DESKI) on World Bank-financed projects for handling procurement procedures and contract administration and (b) limited fiduciary capacity of the participating municipalities/utilities to handle high-value contracts..

68. The proposed mitigating measures are (a) ensuring that regular support/advice is provided by the Ilbank PMU to the participating municipalities/utilities, provided that procurement staff capacity is maintained/improved for the Ilbank PMU and capacity is improved for the participating municipalities/utilities as they will procure high-value Quality and Cost-based Selection (QCBS) and International Competitive Bidding (ICB) contracts, (b) initiating the preparation of standard bidding document/request for proposal documents for high-value contracts in the first year of project implementation, and (c) providing continuous hands-on support from the World Bank through supervisory missions and training activities when needed. The procurements not previously reviewed by the World Bank will be subject to ex post review on a random basis in accordance with the procedures set forth in Appendix 1 of the Procurement and Consultant Guidelines.

69. The Procurement Plan covering the first 18 months of project implementation was prepared by the participating municipalities/utilities and shared by the Ilbank PMU during appraisal. This plan would be subject to regular review as the investment program is finalized through the signing of Sub-loan Agreements and the final designs of investments. The details of the risk assessment and relevant mitigation measures for procurement are provided in annex 3.

E. Environmental Impacts (including Safeguards)

70. In accordance with the World Bank's environmental and social safeguards policies, Ilbank has prepared an ESMF, integrated with the Regulation on EIA (henceforth, 'EIA Regulation') and the World Bank's Operational Policy for Environmental Assessment (OP 4.01) for the project.

Ilbank disclosed the draft ESMF's executive summary on its website on August 25, 2014, and it was submitted to the World Bank's Board on September 17, 2014. The final ESMF has been disclosed on the client's website on March 28, 2016 (Ilbank) and at the World Bank's InfoShop on March 29, 2016. Because the precise footprint of the investments and the final designs of the subprojects will only be completed subsequent to sub-loan signing, the ESMF and LARPF are the key safeguards documents which have been appraised.

71. The ESMF outlines the scope of a comprehensive environmental and social management approach for acknowledging the potential environmental and social impacts of the project. It provides technical inputs and guidance for the project from an environmental and social management perspective. It also guides the sub-borrowers on the requirements for meeting the World Bank's safeguards standards which were triggered during the appraisal stage. Consequently, the application and implementation of the ESMF will guide the integration of social and environmental aspects into the decision-making process of all stages related to planning, design, execution, and O&M of subprojects, by identifying, preventing, and/or minimizing adverse social and environmental impacts early in the project cycle.

72. The World Bank Operational Policies triggered for the project include Environmental Assessment (OP 4.01), Physical Cultural Resources (OP 4.11), Involuntary Resettlement (OP 4.12), Safety of Dams (OP 4.37), and Natural Habitats (OP 4.04). The latter is triggered to allow the World Bank the opportunity to assess the biodiversity and proposed activities in proximity to or in natural habitats. The ESMF states that activities will be ineligible if they are assessed to have any impact on critical natural habitats. With regard to the policy Projects on International Waterways (OP 7.50), Ilbank is responsible for ensuring that the subprojects financed are located and dependent on national waterways only. The waterways identified as not international waterways (do not trigger OP 7.50) in Turkey are the following: Susurluk, North Aegean, Gediz, Kuçuk Menderes, Buyuk Menderes, Western Mediterranean, Antalya, Sakarya, Western Black Sea, Yesilirmak, Kizilirmak, Konya Kapali, Eastern Mediterranean, Seyhan, Ceyhan, Eastern Black Sea, Burdur, Afyon, Orta, Anadolu, and Van. For the policy on Involuntary Resettlement (OP 4.12), Ilbank prepared a separate document (LARPF) for which the details are provided in the section on Social Impacts.

F. Social Impacts (including Safeguards)

73. **Social impacts.** Anticipated social impacts include temporary and permanent land acquisition and temporary and permanent potential resettlement under Component B infrastructure investments. During appraisal, a range of potential subproject-specific social impacts were identified for the types of investments expected under the project, particularly about land acquisition, resettlement, and nuisance related to odors and discharge of treated wastewater. Subject to the final detailed engineering designs and the preparation of ESIA's and social safeguard documents (including LARAPs as may be required), municipalities/utilities will address these issues promptly and take measures to minimize potential negative impacts in compliance with the World Bank's safeguards policies.

74. **Safeguard policies.** The project may involve land acquisition and related impacts which trigger OP/BP 4.12 - Involuntary Resettlement. The relevant Turkish legislation and World Bank

OP 4.12 will both be followed. In cases where there are gaps between the legal regimes, measures will be taken to meet the standards set in OP 4.12.

75. In accordance with World Bank's Operational Policy OP 4.12, a LARPF has been prepared by Ilbank. The LARPF outlines the expropriation procedures for land acquisition in Turkey, the World Bank's OP 4.12 policy on involuntary resettlement, a gap analysis, and steps to bridge these gaps and institutional responsibilities. The final LARPF has been disclosed on the client's website on March 29, 2016 (Ilbank) and at the World Bank's InfoShop on March 29, 2016. Relevant stakeholders will be consulted for all site-specific environmental and social documents prepared for each subproject according to the process defined in the ESMF and LARPF.

76. **Citizen engagement and GRM.** The project tackles core municipal investments and services such as water and sanitation that citizens expect municipalities to provide. A grievance redressal and feedback mechanism for the SCP will be set up to ensure that beneficiary feedback and grievances are addressed by a three-level in-country mechanism consisted of municipalities/utilities, Ilbank and its PMU, and Responsible Court of First Instance and that the actions taken are reported publically to ensure transparency and accountability. Based on a Diagnostic Assessment, all the municipalities/utilities have 'White Tables' which are active GRMs for tracking grievances, both online and through a toll-free number. In Mugla, when a complaint is submitted through the call center, citizens receive a tracking number on their cell phones. Actions can be followed by using this number on the Internet.

77. The SCP aims to improve the current 'White Table' mechanism in the municipalities/utilities by identifying grievances/feedback related to the sub-investments under SCP. Any grievance related to a sub-investment financed under the SCP will be first logged at the municipality/utility level and will be addressed by the PIU satisfactorily within a certain period. If the complainant is not satisfied with the complaint resolution, then the case will be submitted to further levels. There will be a toll-free number and online and SMS channels available for citizens to submit grievances through the 'White Table' system regarding the SCP-related grievances.

78. To comply with OP 4.12 and to reduce the cases of litigation, the municipalities and municipal water and wastewater utilities will establish a Grievance Committee (GC) if there is a Land Acquisition and Resettlement Action Plan according to the disclosed LARPF. The GC is not a legal entity and can only address issues related to compensation amount, entitlement issues, and problems which may come up during the processes of land acquisition and resettlement, among other things. The GCs will include representatives from the municipalities/utilities and representatives of the affected people. The representative will be chosen from the community that will be affected by the project in a participatory, accessible, and transparent manner. The GC would try to work with the affected party to solve the issues brought to the committee through negotiation and reaching an agreement with the affected parties to avoid or minimize, to the extent possible, the need for involvement of the formal channels such as courts for dispute resolution. Information on the GC will be included in the Land Acquisition and Resettlement Action Plans.

79. **Gender.** Internationally, women and men experience cities differently because of their gender-based roles and responsibilities, including the nature of their participation in the labor market as well as domestic tasks. The lack of basic services and infrastructure in cities affects women more than men because women are the primary collectors, transporters, and managers of

domestic water and fuel, as well as the promoters of home and community sanitation activities. Women also play a primary role in waste disposal and environmental management. Women in cities depend more heavily on public transport than men and use transport in different ways, such as off-peak travel and trip chaining to multiple destinations. Thus, male and female priorities are often not the same for basic services such as urban housing, water and sanitation, solid waste management, and public transport.¹⁵ Consequently, gender-disaggregated data will be collected at all levels. Because there is no standardized data management system for municipalities/utilities and their capacity may diverge from each other, gender-based data collection could be supported under the TA studies financed through Component A. Regarding land and compensation issues, although land ownership is mostly in favor of men in Turkey, women landowners will be given extra attention to ensure they receive fair amount of compensation.

80. The World Bank environmental and social safeguard policies also apply to TA studies and will apply to Component A of the project. The safeguards requirements should be part of the TOR for consultancy services financed under the project. With respect to the TA outputs, in the event that the World Bank finances the implementation of the outputs, World Bank safeguards policies would apply to the implementation. In the event that the World Bank and Ilbank do not finance implementation of the TA outputs, the World Bank and Ilbank would not be responsible for the use or nonuse of the outputs.

G. World Bank Grievance Redress

81. Communities and individuals who believe that they are adversely affected by a World Bank-supported project may submit complaints to existing project-level grievance redress 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 complaints to the Bank's independent Inspection Panel, which determines whether harm occurred or could occur as a result of the Bank's non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the Bank's attention and Bank management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

¹⁵ World Bank. 2010. "Making Urban Development Work for Men and Women." Tools for Task Team.

Annex 1: Results Framework and Monitoring

Country: Turkey

Project Name: Sustainable Cities Project (P128605)

Results Framework

Project Development Objectives

PDO Statement

The PDO is to improve the planning capacity of and access to targeted municipal services in, participating municipalities and utilities.

These results are at | Project Level

Project Development Objective Indicators

Indicator Name	Baseline	Cumulative Target Values									
		YR1 (2017)	YR2	YR3	YR4	YR5	YR6	YR7	YR8	YR9	End Target
Sectoral, spatial, and CIPs developed under Component A (Number)	0.00	0.00	1.00	3.00	8.00	13.00	13.00	13.00			13.00
Volume (mass) of BOD pollution load removed by treatment plant under the project (Tons/year) - (Core)	0.00	0.00	0.00	6.900	7.400	8.000	8.500	9.100			9.600
People provided with access to 'improved sanitation	0.00	0.00	220,000	250,000	260,000	270,000	275,000	280,000			285,000

facilities' under the project (Number) - (Core)											
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Intermediate Results Indicators

Indicator Name	Baseline	Cumulative Target Values									
		YR1	YR2	YR3	YR4	YR5	YR6	YR7	YR8	YR9	End Target
Financial management tools and/or CIPs developed under the project - Component A municipalities (Number)	0.00	0.00	2.00	3.00	6.00	8.00	8.00	8.00			8.00
Feasibility studies financed under Component A of the project (Number)	0.00	0.00	1.00	3.00	5.00	6.00	6.00	6.00			6.00
Length of sewerage pipes laid under the project (progress indicator) (kilometers)	0.00	0.00	125	160	220	260	270	280			280
Number of people in urban areas provided with access to improved water sources under the project (Number) - (Core)	0.00	0.00	30,000	72,000	85,000	90,000	91,000	92,000			92,000

Number of water utilities that the project is supporting (Number) - (Core)	0.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00			2.00
Direct project beneficiaries (Number) - (Core)	0.00	0.00	706,000	1,100,000	1,150,000	1,200,000	1,250,000	1,280,000			1,300,000
Female beneficiaries (Number - Subtype: Supplemental) - (Core)	0.00	0.00	353,000	550,000	575,000	600,000	625,000	640,000			650,00
Grievances registered related to delivery of project benefits addressed (%) (Percentage) - (Core)			80	80	90	90	90	90			90

Indicator Description

Project Development Objective Indicators

Indicator Name	Description (indicator definition and so on)	Frequency	Data Source/Methodology	Responsibility for Data Collection
Sectoral, spatial, and CIPs developed under Component A	Comprehensive planning assumes that sectoral and spatial plans are developed and integrated and these are linked to CIPs.	Annual	Project reports	Ilbank PMU
Volume (mass) of BOD pollution load removed by	This indicator measures the cumulative volume (mass) of BOD pollution loads	Annual	Project reports	Municipal PIUs and Ilbank PMU

treatment plant under the project	removed by the treatment plant supported under the project.			
People provided with access to 'improved sanitation facilities' under the project	This indicator measures the cumulative number of people who benefited from improved sanitation facilities that have been constructed under the project. The baseline value is expected to be zero.	Yearly	Reports from PIU	Municipal PIUs and Ilbank

Intermediate Results Indicators

Indicator Name	Description (indicator definition and so on)	Frequency	Data Source/Methodology	Responsibility for Data Collection
Financial management tools and/or CIPs developed under the project - Component A Municipalities	Financial tools and plans would likely include municipal capital investment planning linked to comprehensive planning, revenue analysis, developing internal control systems, upgrading software and hardware, tariff studies, and payment database	Annual	Reports	Ilbank PMU
Feasibility studies financed under Component A of the project	No description provided.	Annual	Reports	Ilbank PMU
Length of sewerage pipes laid under the project (progress indicator)	No description provided.	Annual	Reports	Ilbank PMU
Number of people in urban areas provided with access to improved water sources under the project	This indicator measures the actual number of people in urban areas who benefited from improved water supply services that have been constructed under the project.	No description provided.	Reports	No description provided.
Number of water utilities that the project is supporting	Total number of utilities providing water supply with which the World Bank is working under the project.	No description provided.	Project reports	PIU
Direct project beneficiaries	Direct beneficiaries are people or groups who directly derive benefits from an intervention. This indicator is calculated as a number.	No description provided.	No description provided.	No description provided

Female beneficiaries	Based on the assessment and definition of direct project beneficiaries, specify the number of beneficiaries who are female.	Midterm and subsequent implementation support missions	Reports	Ilbank PMU
Grievances registered related to delivery of project benefits addressed (%)	This indicator measures the transparency and accountability mechanisms established by the project so the target beneficiaries have trust in the process and are willing to participate, and they feel that their grievances are attended to promptly. Grievance system will track all grievances. However, the indicator will exclude the grievances that require third-party assessment and seasonality.	Biannual	Reports	Ilbank PMU

Annex 2: Detailed Project Description

TURKEY: Sustainable Cities Project

Project Components

1. The proposed project is expected to be the first project in an SOP within an overall sustainable cities framework. The SOP instrument is suitable as it will allow for the provision of financing to a single borrower (Ilbank) for subnational lending to municipalities/utilities that are interested in a sustainable cities approach to municipal development. The sustainable cities approach is premised on municipalities/utilities undertaking comprehensive and integrated planning (including spatial, social, environmental, and infrastructure planning) to identify investments for sustainable urban development and subsequently prioritize these investments through a CIP (as supported under Component A). It also allows all municipalities/utilities to access financing for prioritized investments for sustainable urban development either under this first project in the SOP (through Component B) or under subsequent projects that may be supported by the World Bank, other IFIs, or domestic financiers including Ilbank. Conceptualizing the SCP as an SOP thus allows municipalities/utilities or a group of municipalities/utilities to access investment financing on a phased-in basis and at a pace consistent with their readiness and ability to meet eligibility requirements under the sustainable cities approach. It also allows Ilbank and the World Bank to expand the sustainable cities approach both sectorally and spatially.
2. The preparation of the SCP was guided by international best practice on sustainable cities, which was then integrated with Turkish Policy/Legislation. Internationally, sustainable development has been defined by the Brundtland Commission as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” Consequently, a sustainable city is one that makes choices wisely with the aim of using natural resources in the most efficient ways. Sustainable cities typically feature three essential traits, namely (a) the city takes a **forward-looking** approach to city development so that in addition to problem solving and ‘reacting’ to challenges as they arise, a sustainable city is equipped with information, analysis, and a strategy for responding to changes that are inevitable over time; (b) it takes a **long-term** approach to planning and investing in its services to citizens to avoid random urban land expansion, urban sprawl, and the costly provision of infrastructure in areas that are not planned for expansion; and (c) it has ready access to **information, data, and analysis** to effectively plan and make informed policy and investment decisions in an integrated and holistic way.
3. The SCP was also guided by a methodological understanding of integration, that is, integration is a practice of municipal management that should occur through an interdisciplinary approach to planning and integrating the three pillars of sustainable development, aligning and integrating larger-scale plans with lower-level plans, strengthening MM and District Municipality (DM) cooperation and governance, engaging civil society in developing plans and strategies, outlining the fiscal implications of plans and incorporating into Capital Investment Processes, and developing meaningful and practical indicators to monitor progress toward sustainable development practices.
4. Finally, the design of the project components was guided by Turkish Government policy and legislation, including the following:

- (a) The **KENTGES Integrated Urban Development Strategy (2010–2023)** which outlines urbanization strategies and action plans regarding ‘planning system, transportation and infrastructure, housing, transformation, disaster preventions, protection of natural and cultural properties, climate change, energy efficiency and renewable resources, settlements and ecology, migration and social politics, economic consolidation and participation’.¹⁶
- (b) A paper on ‘**Sustainable Cities Approach for Local Administrations**’ which recognizes three dimensions of sustainability (environmental, economic/financial, and social) most relevant for Turkish cities and also identifies spatial, environmental, and financial planning instruments that are part of a comprehensive and integrated planning process that would move cities along a sustainability spectrum from planned to healthy and finally to smart cities¹⁷ (see table 2.1).
- (c) **Turkish Legislation on Territorial Planning.** Including spatial planning, with its emphasis on integrating economic, social, and environmental factors offers a strategic approach for shaping territorial development at the metropolitan scale (1/25,000). Development planning through Master Development Plans (1/5,000) and control of building development and land uses through Application Development Plans (1/1,000) will continue to play a role in shaping the built environment.

5. The SCP is thus designed to support MMs pursue these aims to promote **forward-looking, long-term, and informed city planning and development** through the three different dimensions—environmental sustainability, financial sustainability, and social sustainability—identified as important for Turkish cities. A five-stage methodological approach supports this process, including (a) ensuring a baseline study; (b) strategy formulation; (c) structural plans (land use, energy efficiency, solid waste management, strategic environmental impact assessment (SEIA), urban/rural interface; (d) transportation planning; and (e) capital investment programming.

Table 2.1. SCALA General Framework for Sustainable Cities Approach

	Planned Cities	Healthy Cities	Smart Cities
Instruments	<ul style="list-style-type: none"> • Province-wide Master Plan (1/25,000) • Master Development Plan (1/5,000) • Application Develop. Plan (1/1,000) • Geological and Geotechnical Surveys • Transport Master Plan 	<ul style="list-style-type: none"> • Water, stormwater, sewerage networks • Water and WWTPs • Urban Green Area Strategy • Strategic EIA • Energy Efficiency and Renewable Energy Resources Strategy • Recycling Strategy 	<ul style="list-style-type: none"> • Urban Information System, using information and communication technology systems • Management Information System • Transport Information System including Intelligent Transport Systems • Disaster Information System

¹⁶ Minister Mustafa Demir Foreword, P iii, KENTGES.

¹⁷ Prepared by a working group established under the Undersecretary of Ministry of Environment and Urbanization and consisting of representatives of Undersecretariat of Treasury, Ministry of Development, Ministry of Environment and Urbanization (DG Spatial Planning, DG Infrastructure and Urban Transformation Services, DG Environmental Management), and Ilbank.

	Planned Cities	Healthy Cities	Smart Cities
	<ul style="list-style-type: none"> • Infrastructure Master Plan • Solid Waste Management Plan • Institutional Strategic Plan • Land Development Application • Spatial Management Plan • CIP 	<ul style="list-style-type: none"> • Historical and Cultural Assets Inventory • Climate Change Plan • Clean air act equivalent (or air quality assessment) 	<ul style="list-style-type: none"> • Infrastructure Information System • Urban Databases, including GIS • Sustainability Indicators • M&E systems for improved service delivery and transparency • Sector analysis such as demographic, housing, and so on • Open data, big data initiative
Economic Sustainability	<ul style="list-style-type: none"> • Efficient resource use through planned growth • Compact, mixed-use, urban macro form • Capital investment programs for efficient financial resource use • Investment prioritization through aligning sectoral and spatial plans • Management of O&M 	<ul style="list-style-type: none"> • Adopt integrated approach in infrastructure projects within provincial boundaries • Use of technologies and systems to reduce operating costs in infrastructure facilities • Reduction of energy costs through energy-efficient practices and buildings • Provision of cost-effective services to reduce pollution 	<ul style="list-style-type: none"> • Reduction of all types of technical and nontechnical losses • Raising revenues through efficient use of information systems • Creation of more transparent, accountable, and easily auditable budget management • Establishing expenditure management system for efficient and equitable financing of service provision
Social Sustainability	<ul style="list-style-type: none"> • Consultation in preparation and implementation of plans • Creation of inclusive public space • Implementation of land development application ensuring equality and social justice 	<ul style="list-style-type: none"> • Development of urban identity, resident awareness, and culture • Creation of safe living spaces • Creation of neighborhood social/technical facilities • Equitable and affordable access to urban services 	<ul style="list-style-type: none"> • Anticipation of urban problems and solutions • Provide timely, transparent, and accessible information • Create accessible citizen feedback • Execution of social assistance activities using urban databases • Development of Urban Guides
Environment Sustainability	<ul style="list-style-type: none"> • Land use decisions guided by environmental concerns • Protect urban/rural land • Conservation of urban, history, and cultural texture through planning • Link land use and disaster risk management 	<ul style="list-style-type: none"> • Conservation of green areas, ecologically and culturally sensitive areas • Efficient public transportation • Encourage pedestrian and bicycle transportation • Mandatory construction of wastewater and stormwater network and revise site selection criteria • Efficient use of urban land to prevent heat islands 	<ul style="list-style-type: none"> • Creating and updating databases for continuous monitoring of environmental sustainability indicators including water, air, and soil pollution measurements and greenhouse gases • Modern systems for O&M of water and wastewater or urban infrastructure facilities

	Planned Cities	Healthy Cities	Smart Cities
	<ul style="list-style-type: none"> • Creation of appropriate post-disaster response • Consider urban infrastructure needs of new settlement areas 	<ul style="list-style-type: none"> • Implementing climate change mitigation/adaptation measures • Use of renewable energy 	

6. Twelve municipalities have indicated interest in participating in the SCP. Two municipalities have expressed interest in participating in both Components A and B (Mugla and Denizli) and projects in this first project in the SOP. Ten additional MMs have indicated their interest in participating in Component A of the project with a possible participation in future projects in the SOP, namely Kahramanmaraş, Tekirdağ, Hatay, Samsun, Ordu, Balıkesir, Malatya, Gaziantep, Antalya, and Erzurum.

Component A: Sustainable City Planning and Management Systems (cofinanced EUR 23.125 million EU-IPA2)

7. Component A would be financed through an EU-IPA2 Recipient-Executed Trust Fund Grant in its entirety and would finance consultant services and goods. Component A would provide TA support (a) to municipalities and their affiliated utilities for urban sustainability planning and integrated management and for the preparation of feasibility studies, environmental assessments, and engineering designs for municipal subprojects and (b) to Ilbank for management of the grant and capacity building.

8. **Subcomponent A.1: Technical Assistance Support to Municipalities/Utilities (EUR 20.0 million)** provides TA to municipalities and their affiliated utilities to ensure comprehensive and integrated planning, including support for spatial, social, environmental, and financial/capital investment planning and management. This would allow municipalities/utilities to improve each of their dimensions of sustainability (environment, social, and financial/economic) as they move along the spectrum from a planned to a smart city.

9. **Subcomponent preparation.** An initial sustainability Diagnostic Assessment was undertaken as part of project preparation. It included (a) a baseline Diagnostic Assessment of the existing technical capacities, availability of compulsory plans (including territorial, infrastructure, and other plans), data availability, and sustainability indicators, all of which are required for comprehensive and integrated planning and (b) a series of consultative workshops with four MMs and their DMs to identify their needs and demands for planning and municipal and financial/capital investment management tools that could be financed under this component. The diagnostic found that municipalities varied significantly in the types of compulsory plans, data availability, and technical capacity.

10. **Broad areas of support.** Based on this, an initial approach for TA that takes into account comprehensive and integrated planning and tools for monitoring management and financing of proposed plans has been developed for the project. (See table 2.2 that outlines some of the instruments/tools that are required for municipal comprehensive and integrated planning).

However, the assistance would be tailored for each municipality based on current availability of plans and tools.

11. Based on municipal needs, assistance on planning could include compulsory planning that integrates different levels of planning (including provincial territorial planning with sub-plans) toward ensuring a long-term development framework. Based on the needs of municipalities/utilities, it could also include support for sustainable urban mobility planning, environmental planning and protection, infrastructure planning, energy efficiency strategy, urban green space provisioning, and climate resilience, among other elements. Like most planning processes, it would be informed by natural, demographic, business, and commercial needs and housing and social amenities, among other factors, and could also provide a detailed outline of tasks and outputs. Finally, as with most planning process, it will be data driven and could include intensive surveys of infrastructure (condition assessments and network extension requirements) and housing (formal and informal stock, provisioning for new housing needs in response to demand pressures).

12. The project would also finance tools for infrastructure, spatial, and financial management of the municipality. This could include the development of a GIS and other urban databases for the post-plan completion monitoring and management of the sustainable urban development plans and infrastructure network. It could also include a CIP spanning multiple years into the future to assist municipalities/utilities in mobilizing financing for priority investments. The CIP would be based on priorities developed under the planning process supported under the project.

Table 2.2. Indicative Support Options

Sustainable City Approach for Metropolitan Municipalities—Key Themes & Instruments (c) : Legally Mandatory Support; (o) : Optional Support							
No	SC Instruments/TA	Priority	Sustainability Area			Type	
			Environmental	Financial	Social	Spatial	Non-Spatial
1.	Development / Land Use Plans <ul style="list-style-type: none"> 1/25.000 Master Plan 1/5.000 Master Plan 1/1.000 Implementation Plan 	Compulsory	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2.	Transportation Master Plan	Compulsory	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3.	Infrastructure Master Plan	Compulsory	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
4.	Solid Waste Master Plan	Compulsory	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
5.	Urban Aesthetic & Design Strategy	Optional	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
6.	Institutional Strategic Plan	Optional	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
7.	Urban Green and Public Space Strategy	Optional	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
8.	Renewable Energy and Energy Efficiency Strategy	Optional	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
9.	Historical and Cultural Heritage Inventory	Optional	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
10.	Strategic Environmental Assessment	Optional	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
11.	Geographic Information System (GIS) and Urban Data Base	Optional	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
12.	Financial Management	Compulsory	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
13.	Capital Investment Plan	Compulsory	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

13. However, to take into account the variance in availability of plans, data and tools in each municipality support for municipalities/utilities would be tailored. Support would be guided by the initial diagnostic assessment carried out as a baseline for each participating municipality, a

consultative process between Ilbank and the municipalities/utilities and requirements for comprehensive integrated planning (positive list above).

14. Possible process to ensure comprehensive and integrated planning could include:

- (a) development of an SCP profile for the MM including SCP indicators that the MMs will track over the life of the project;
- (b) development of a more detailed baseline study for each specific proposed intervention and how it will promote an integrated planning approach within the MM based on legislation and good practice. This includes consideration of fiscal implications, economic impacts, social inclusion and community outreach, environmental impacts, and the promotion of sustainable development. In addition, it would outline how the proposed plan or study is within the MM's existing strategic plan or will be adopted as a formal municipal policy. Finally, it could also highlight how it will contribute to meeting national policy goals in the SCP (see 10th Development Plan, KENTGES, and SCALA);
- (c) the undertaking of the plan(s) or study through an agreed upon process that promotes integrated planning. This can include, on an institutional level, a recommendation that the MM appoints an interdisciplinary team or an SCP working/steering committee to oversee the plan or study and ensure policy and practice linkages are made to other plans, and so on;
- (d) the financial or economic impacts of proposed activities including MM revenue and expenditure are estimated;
- (e) how the intervention will affect other spatial or sectoral plans and will align or amend existing regulatory plans; and
- (f) identification of catalyst projects to demonstrate new approaches.

TA Allocation Criteria for Participating Municipalities/Utilities

15. The allocation amount would be determined through a transfer formula consisting of performance population (50 percent) and area (50 percent) by using data from Turkish Statistical Institute—projected population 2015. Municipalities/utilities could allocate up to 50 percent of their entitlements to municipal entities such as water or transport companies identified as borrowers or final beneficiaries of the SCP investments.

16. The allocation amounts are subject to a ceiling to avoid fund capture by only couple of larger municipalities/utilities. This will be determined on identification of participating municipalities/utilities. However, the intention is that additional municipalities/utilities that commit to borrowing for investments under Component B will receive a higher ceiling.

17. **Grant management.** Ilbank will manage these grants without transferring the notional amounts to the participating municipalities/utilities. Ilbank and the participating municipalities/utilities will discuss and select priority TA to be financed through Component A.

Ilbank will procure consultants' services and goods and support the municipalities/utilities to procure consultants' services and goods as may be deemed necessary and to manage the implementation. Some actions may be implemented in a joint and unified (training) program for several municipalities/utilities; other actions will be specific for each beneficiary entity.

18. **TA Grant absorption criteria.** Participating municipalities/utilities would be expected to commit their financing allocation by the end of the second year of fund availability. Funds not committed by this time could revert to Ilbank to be accessed by other municipalities/utilities that can guarantee funds commitment for consulting services or eligible goods by the end of grant implementation should Ilbank, together with the World Bank, take a decision that adequate progress has been made within the implementation of the TA by the concerned municipality.

19. **Subcomponent A.2: Preparation of Feasibility Studies, Environmental Assessments, and Engineering Designs (EUR 1.875 million).** All participating municipalities/utilities would be eligible to access financing for the preparation of feasibility studies, environmental and social assessments, and engineering designs for subprojects that could be financed under Component B of the project. However, municipalities/utilities would only access these funds provided that they meet requirements for financing under Component B. The grants will be allocated on a first-come-first-served basis.

20. **Subcomponent A.3: Support to Ilbank in Grant Management and in Improving Capacity in Managing Sustainable City Systems (EUR 1.250 million).** This subcomponent will support:

- (a) project management including hiring consultants for preparation of TOR and technical support;
- (b) contract management including hiring consultants who would provide input on bidding document, implementation supervision, and design;
- (c) preparation of a study that examines required reforms that guide the municipal planning in line with sustainable cities approach and to propose necessary changes to the relevant legislation with an aim to improve the planning practices toward integrated and comprehensive planning;
- (d) training to design and deliver a structured capacity-building program through multiple MM training sessions and other customized support;
- (e) enhancement of Ilbank's technical capacity in managing and implementing sustainable city projects;
- (f) embedding city-level actions that link with EU policy directives on climate change, energy efficiency, water, urban transport, solid waste management, urban planning, and in building awareness on international practices to promote and implement sustainable cities actions; and

- (g) capacity building of the MMs using (i) awareness-raising workshops, (ii) diagnostics, (iii) peer learning, and (iv) implementation of the TA.¹⁸

Table 2.3. EU Grant Financing Cost Table

Grant Activities	Financing (EUR, millions)
Subcomponent A.1: Technical Assistance Support to Municipalities/Utilities	20.000
Subcomponent A.2: Preparation of Feasibility Studies, Environmental Assessments and Engineering Designs	1.875
Subcomponent A.3: Support to Ilbank in Grant Management and in Improving Capacity in Managing Sustainable City Systems	1.250
Subtotal	23.125
World Bank Fees 7.5%	1.875
Total Financing EU IPA Grant Financing	25.000

Component B: Municipal Investments (EUR 121.2 million)

21. This component will finance goods, works, and consultancy services for targeted infrastructure investments in participating municipalities/utilities. Sectors eligible for investments include public transport, water and sanitation, solid waste management, and energy. In the water sector, it is anticipated that the sub-borrower will be the utility company, with a guarantee provided by the municipality. Under this first project in the SOPs, identified investments are ‘no regret’ investments that demonstrate financial, environmental, and/or social sustainability. For subsequent projects in the SOP, it is expected that investments could also be identified through the TA under Component A.

22. **Municipal eligibility and selection.** Law on Regulating Public Finance and Debt Management (Law No. 4749) restricts borrowing by any institution if it has overdue payments to Treasury. Ilbank follows the same financial eligibility criteria for its onlending to each municipality. Furthermore, Ilbank requires each municipality to prepare feasibility studies which are technically and financially viable. In addition, municipalities/utilities are required to provide a Municipal Executive Board/Utility Board decision stating that SCP financing would be sought for the proposed subprojects. Where the sub-borrower is a utility, a guarantee from the municipality is also required.

23. **Subproject eligibility.** Eligible investments should advance the environmental, economic/financial, and social dimensions of sustainable city development as outlined in the paper on ‘Sustainable Cities Approach for Local Administrations’ (March 2015). During preparation, the World Bank worked closely with Ilbank to develop a set of eligibility criteria to ensure that all investments supported under the program are financially, economically, and technically viable.

24. A subproject will be eligible to receive loans provided that it (a) offers an environmental benefit; (b) meets the economic feasibility as outlined in this PAD; (c) uses a technology choice that is appropriate and that responds to beneficiary need; and (d) offers water and wastewater, household bills at an affordable level for the services provided.

¹⁸ This is an applied knowledge framework approach.

25. Initial subproject technical, financial, and economic viability is demonstrated through a preliminary feasibility study, submitted to Ilbank as a legal requirement in Turkey or inclusion in the public investment plan, which outlines the overarching viability of the investment. After the feasibility review by Ilbank and the World Bank and entering into a sub-loan arrangement, each subproject will be evaluated to ensure compliance with the World Bank social and environmental safeguards based on detailed engineering designs. Subprojects brought forth for financing under the program would be screened by Ilbank to ensure that they meet the eligibility criteria and subsequently appraised by the World Bank to ensure that they meet the criteria established in the eligibility screening framework as well as comply with applicable environmental and social safeguards.

26. To solicit demand toward ensuring a pool of municipalities/utilities and subprojects and to test eligibility criteria, Ilbank undertook the following actions to solicit for the SOP:

- (a) An initial demand survey was sent to the 14 new MMs/utilities on May 27, 2014.
- (b) A workshop for the 14 new MMs/utilities was held on June 11, 2014, to explain the project and the MMs were requested to respond with proposed subprojects by June 16, 2014.
- (c) A second demand survey was sent to all MMs/utilities on September 26, 2014, to widen the pool of participants, with a response deadline of October 31, 2014.
- (d) Financial capacity of municipalities/utilities that had requested participation in the project subsequently occurred and a list of proposed municipalities/utilities was presented to the World Bank on November 7, 2014.
- (e) In November and December 2014, the World Bank and Ilbank undertook joint visits to several municipalities/utilities to assess eligibility of subprojects.
- (f) A proposed list of possible municipalities/utilities was agreed by the World Bank and Ilbank on January 28, 2015.
- (g) On January, Ilbank sent letters to these municipalities/utilities asking for an Executive Council decision for participation in the SCP. These were received in late March and early April 2015.

27. Currently, two utilities have met municipal eligibility criteria. Furthermore, their proposed subprojects (a) were assessed positively in terms of contribution to sustainability of services in the sector; (b) included an acceptable preliminary feasibility study or other strategic framework to support proposed investment; (c) included a preliminary assessment of the city's proposed investment in terms of technical appropriateness, need for investment, forecast demand, cost, and financial sustainability; and (d) met initial screening requirements for environmental and social aspects, subject to the future review and appraisal of environmental and social safeguards documents consistent with the ESMF and the LARPF.

28. Possible proposed investments are provided in table 2.4 and further discussed below.

Table 2.4. Possible Proposed Investments (EUR, millions)

Mugla (MUSKI) Total: EUR 67.45 millions	Construction of Turgutreis WWTP	12.05
	Construction of Akyarlar WWTP	4.77
	Rehabilitation of a subset of 28 treatment plants	7.19
	Construction of Marmaris WWTP and rehabilitation of sea outfall	16.28
	Construction of Sewerage Network in Bodrum (Turgutreis-Akyarlar-Gümüşlük)	9.44
	Construction of Sewerage Network in Fethiye (Ovacık-Hisarönü)	9.11
	Procurement of goods	2.17
	Consultancy	6.44
Denizli (DESKI) Total: EUR 53.75 millions	Construction of Water, Wastewater and Stormwater Networks for Sümer, Sevindik, Karşıyaka, and Aktepe districts (Package 1)	27.00
	Construction of Water, Wastewater and Stormwater Networks for Dokuzkavaklar, Anafartalar, and Deliktaş districts (Package 2)	24.00
	Total Consultants Services	2.75

29. **Mugla.** Proposed indicative subprojects supports, in the immediate term, improved environmental sustainability support to Mugla Metropolitan Municipality, primarily for wastewater investments. Subprojects will be implemented by MUSKI, Mugla Metro Municipality Water and Wastewater Utility. Investments in Mugla (MUSKI) focus on increasing collection and treatment of wastewater in the Bodrum, Marmaris, and Fethiye municipalities. In the medium term and long term, the proposed investments support the MM's economic and financial sustainability as Bodrum is an important coastal tourism asset in Turkey.

30. **Denizli.** Proposed subprojects support the construction of water distribution and sewerage/storm water networks, thus supporting improved environmental sustainability. It is also anticipated that the investments will reduce the rate of nonrevenue water from approximately 40 percent currently to approximately 10 percent. Finally, the investments are proposed for some of the poorer neighborhoods of the city.

Component C: Project Management (EUR 1 million - Borrower financed)

31. For this first project in the SOP, Ilbank will not utilize loan funds for this component. This component under this first project in the SOP will be financed by Ilbank in its entirety. It will finance goods and consultants services for M&E, outreach and communication, and local technical consultants for the engineering implementation support of Component B.

Appendix to Annex 2: Summary of Baseline Diagnostic Findings for Component A

32. An initial Diagnostic Assessment was undertaken as part of project preparation. It included (a) a baseline Diagnostic Assessment of the existing technical capacities, availability of compulsory plans (including territorial, infrastructure, and other plans) and data availability all of which are required for comprehensive and integrated planning and (b) a series of consultative workshops with each of the four MMs and their DM to identify their gaps and needs for planning and municipal and financial/capital investment management tools that could be financed under this component. The diagnostic found that municipalities varied significantly in the types of compulsory plans, data availability, and technical capacity. The following issues and challenges emerged:

- (a) **Managing rural-urban development and linkages.** As part of their new responsibility, the MM's legal obligations to provide services have expanded to rural settlements. This requires geotechnical studies, new development plans, and a strategy for providing infrastructure services to former villages that are now designated as 'neighborhoods' within the MM. In Gaziantep, there are 670 former villages; in Malatya, there are 494; and in Mugla, 396 villages that are now designated as neighborhoods, a daunting and expensive task of preparing the spatial and comprehensive plans required by law. Protecting agricultural land from urban encroachment is a common concern across all MMs. In Mugla, the emerging priority is to limit the pressures of tourism development on agricultural land. In Malatya, the development of a landscape/green area strategy for urban and rural districts is a growing need. Gaziantep has already started a project called 'Eco-village' in Şahinbey to limit the growth on agricultural land and give directions/limitation for future developments; however, these efforts are fragmented and do not include a comprehensive look at the interlinkages across other neighborhoods. Developing local economic development opportunities for rural districts was a common theme for the MMs.
- (b) **Aligning transportation master plans with territorial plans to guide development.** With Law No: 6360, the MMs' assigned responsibility was extended to the provincial borders. This creates an enormous amount of additional workload for managing integrated urban planning. Concordantly, all four MMs studies noted the importance of developing their transportation master plans, a new responsibility for the MMs.
- (c) **Integrated larger-scale spatial plans and local development plans.** Planning methods are changing in Turkey about who is undertaking the planning, and there is a new emphasis on developing an integrated approach to promote sustainable development. Sector-based strategic documents are key elements to guide comprehensive city development with a perspective of minimizing the negative effects of urban growth. A key challenge identified during the baseline diagnostic was to build the capacity of MMs to align special area plans, such as wildlife protection areas, urban conservation areas, archeological sites, and special environmental protection area plans (often developed under the auspicious of the Central Government or a special agency) with the spatial and land use plans developed by the

MM. The consultation workshops identified the following as priorities areas for support:

- Spatial plans at different scales, which include updating and revising the environmental plans (1/100,000 and 1/50,000) to more effectively guide development throughout the MM; physical development plans at 1/25,000 and 1/5000; and 1/1000 implementation plans. For example, the need to update the 1/100,000 plan in Gaziantep is due to the unexpected increase in population because of the refugee crisis and the expanded territorial area that the Gaziantep MM is now responsible for planning.
 - Coastal development plans or frameworks were seen as important for Balikesir and Mugla.
 - Natural and cultural heritage strategies and related studies and development plans in Malatya and Mugla.
 - Urban regeneration and upgrading public spaces and streetscapes in urban districts in Malatya, Mugla, and Gaziantep.
 - Rural development plans to promote conservation and protection of rural land and natural assets in Balikesir and Mugla.
 - Plans for industrial regions in Gaziantep.
- (d) **Spatial information and analysis.** Evidence-informed planning has become an essential planning and management tool for understanding key trends that are influencing the economic, environmental, and social development of municipalities. Indicators are increasingly being used at different spatial scales to measure progress toward national development goals, measuring regional growth and/or disparities, and the impact of specific programs often at the local level. Each MM/utility needs some level of assistance in developing its GIS's capabilities for different purposes such as improving the efficiency of planning between the MM and the districts; raising local revenue through the identification of taxable properties; inventorying and mapping cultural heritage sites and monuments; and mapping poverty within the MM to better understand how to target services for lower-income neighborhoods and vulnerable communities.
- (e) **Financial sustainability.** In April 2014, several new MMs were formed. With metropolitan status, they assumed jurisdiction over numerous towns and hundreds of villages within their provincial perimeter with drastic changes in revenues, expenditures, service responsibilities, assets, and liabilities. The transformation has induced financial challenges, such as less-than-expected revenues and more expenditure responsibilities, because the MMs now must provide municipal services including transport, water, solid waste system development and provision in the vast areas outside of the core urban centers. A review of selected performance indicators and field discussions highlighted the weaknesses in financial management, revenue,

and expenditure projections and in some cases the financial sustainability challenges. Among these, the most significant is that the MMs are faced with weaknesses in projecting and realizing revenues because of the low-budget realizations that are far below international benchmarks (95 percent), many are about or below 50 percent. Discussions confirm that MMs are aware of their low technical and staff capacity in managing revenues; collecting and enforcing own-source revenues; and controlling expenditures. Many are facing additional challenges of low revenue and expenditure management capacities in their local service entities/utilities (water, solid waste, or public transport), primarily because the recent establishment of water entities has inherited huge debts and contingent liabilities while lacking adequate corporate-based financial management systems and procedures. In short, the review underlined the urgent need for TA and establishment of adequate municipal finance management capacities in both MMs and the affiliated entities.

- (f) **Social sustainability.** Citizen inputs, when integrated into improvement plans, services, municipal policy, governance, and investments have a more sustainable communitywide impact. Leveraging community knowledge and assets can also ensure a constructive dialogue that will align public investments with citizen priorities, strengthen accountability, and enhance social inclusion through explicit recognition of the particular challenges faced by marginalized communities. Investigating and tracking social sustainability of municipalities/utilities aims to support partners in deepening their understanding of and the management of social aspects of their operations and activities. Pending further development, the latest social sustainability framework for SCP partner cities are based on (a) opportunities for participation, (b) levels of engagement, (c) transparency about the availability of information, (d) transparency in terms of access to information, and (e) feedback.

Annex 3: Implementation Arrangements

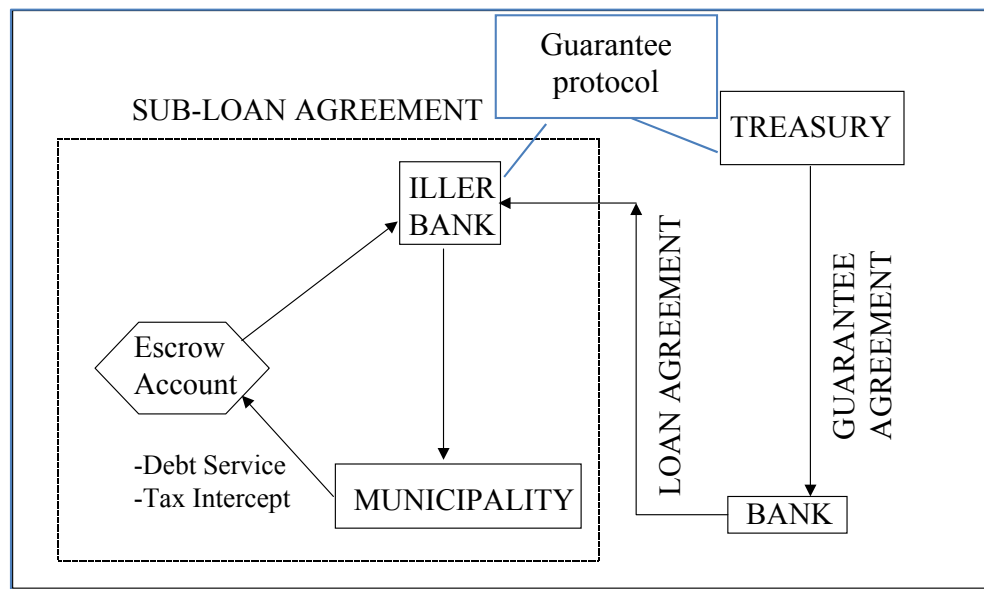
TURKEY: Sustainable Cities Project

Project Institutional and Implementation Arrangements

Project Administration Mechanisms

1. Institutional and implementation arrangements build on existing arrangements under the ongoing MSP-AF. Consequently, Ilbank, which is a development and investment bank with a mandate of onlending IFI loans for municipal investments, will be the implementing agency for the project. Ilbank has demonstrated its capacity for managing World Bank loans through the MSP and its AF.
2. **Project management.** A PMU was established under the International Relations Department of Ilbank for the implementation of the MSP and this PMU will continue to support the SCP. The PMU is led by the project director and has staff capacity in procurement, financial management, and technical sectors, particularly for water and wastewater and transport.
3. The PMU will be supported by several specialized departments within Ilbank. This includes a Projects Department responsible for control and approval of designs; an Investment Appraisal Department responsible for evaluating the financial capacity of a municipality; an Infrastructure Implementation Department which has the capacity to prepare technical specifications and bidding documents, complete tender documents, and provide consultancy services to the municipalities; a Spatial Planning Department that coordinates input for Component A of the project; and several other administrative department such as Accounting and Financial Affairs, IT, and Banking Services. The institution also has 18 regional directorates that can monitor subproject implementation.
4. **For Component A,** the World Bank and Ilbank will sign a Trust Fund Grant Agreement for the Recipient-Executed Trust Fund. Ilbank will manage the Grant without transferring any notional allocated amounts to the participating municipalities/utilities. Instead, Ilbank and the participating municipalities/utilities will jointly discuss and select priority TA to be financed through Component A. Ilbank will procure or support municipalities/utilities to procure TA services and goods as required and will manage the implementation of the component.
5. The implementation arrangement of Component B is presented in figure 3.1. Legal arrangements for Component B will include the following: (a) a Loan Agreement between the World Bank and Ilbank; (b) a Guarantee Agreement between Treasury and the World Bank; and (c) Sub-loan Agreements between Ilbank and the participating municipalities/utilities. The project OM will provide guidance to Ilbank on the use of loan funds and reporting arrangements.

Figure 3.1. Project Scheme



6. For Component B, to secure debt service, as per the law on Regulating Public Finance and Debt Management (Law No. 4749), Ilbank will require municipalities/utilities to deposit the interest and principal repayments into an escrow account. Ilbank will monitor the funds in the escrow account to service the World Bank loan. As per the law, Ilbank is authorized to also use the tax intercept as a collateral for a sub-loan.

7. **Feasibility studies, designs, and construction supervision under Component B.** The feasibility reports of the proposed investments will be reviewed and approved by Ilbank and the Ministry of Development. However, MMs/utilities are authorized to approve the design of their respective subproject investments according to the existing regulations, though all financing is contingent upon the World Bank's review of safeguards documents (ESIAs, Environmental and Social Management Plan, and LARAPs, as appropriate) consistent with the provisions of the ESMF. To avoid conflict of interest, Ilbank will not carry out the construction supervision of contracts between the municipalities/utilities and the contractors. Rather, construction supervision will be performed by independent consultancy firms/independent consultants as needed. Ilbank's regional offices¹⁹ will monitor the subproject progress monthly and will prepare monitoring reports. Consequently, Regional Directorates will support the PMU by providing relevant information on time and coordinating with the municipalities/ utilities.

8. Ilbank will provide project implementation support for the Sub-loan Agreements. In accordance with the Sub-loan Agreement, the municipalities/utilities will carry out the following:

- Manage and implement the subproject in a sound technical and financial manner, including management of the procurement process, certification of payments from

¹⁹ Ilbank has an extensive regional representation through its 18 Regional Directorates where 55 percent of its staff is located.

consultants and contractors, and construction supervision with the assistance of construction supervision consultants where required.

- Implement the ESMF in a satisfactory manner including environmental activities during project preparation and implementation involving appropriate level of public consultation and information disclosure.
- Implement the LARPF in a satisfactory manner.
- Provide necessary technical and financial information, including collection and monitoring of results data, to Ilbank on time
- Set up an escrow account in which amounts that correspond to six months of debt service will be deposited 15 days before their due date to repay Ilbank and the latter will have the right to intercept tax transfers to make the repayment of the sub-borrower if the escrow account balance is insufficient.

9. To assist in undertaking these responsibilities, the PIUs will be set up at the municipal/utility level to manage subproject implementation. The PIUs will be staffed by municipal employees. However, the PIUs could be supplemented by individual consultants as deemed necessary. In general, municipalities/utilities have staff on hand who can manage all aspects of subproject implementation

Financial Management, Disbursements, and Procurement

Financial Management

10. The PMU established under the International Relations Department of Ilbank will be responsible for financial management arrangements for the project. The PMU has satisfactory financial management arrangements for the MSP and its AF, and the same arrangements will be adopted for the SCP.

11. For Component A, Ilbank will be responsible for the procurement of goods and services and will support participating municipalities/utilities in the procurement of goods and services. Ilbank will enter into contracts with the suppliers and will also register all payments upon acceptable approval documents of the municipalities/utilities. The roles and responsibilities of different departments in Ilbank as well as the municipalities/utilities are defined in the project OM.

12. For Component B, Ilbank will onlend to the qualifying municipalities/utilities, and will provide technical support to these municipalities/utilities in identifying and appraising investments. Municipalities/utilities will be responsible for the procurement of civil work investments with full support from Ilbank. Payments to the suppliers will be registered directly by Ilbank upon submission of acceptable approval documents. The PMU will be responsible for the management of the designated account and project accounting and reporting.

13. **Staffing.** The PMU at Ilbank has a dedicated financial management unit. It is currently staffed with four persons, whose qualifications and experience are satisfactory to the World Bank.

The PMU staff have worked on the implementation of the original MSP and its AF, and this experience will be utilized in the implementation of the SCP.

14. **Accounting policies and procedures.** Ilbank has a web-based information system (IL_BIS) that links all departments of the institution, allowing them to execute, monitor, and report using the same data source. All the regional offices are also connected to the central IL_BIS system. Project accounting for the MSP and the MSP-AF were integrated into this system through the use of subaccounts that were created under Ilbank's main chart of accounts. The PMU staff prepares the payment orders, and the entries into Ilbank's main accounting system are made by the staff of the Accounting Department. The quarterly Unaudited Interim Financial Reports (IFRs) are also generated automatically through the system. The SCP will rely on the same systems as the MSP and the MSP-AF and the accounting and reporting for the project will be fully integrated into the IL_BIS system. Ilbank will make the necessary modifications/additions to the IL_BIS system and these arrangements are expected to be in place before project effectiveness.

15. Ilbank has robust systems, manuals, and guidelines regulating the internal control environment. The accounting and reporting systems at Ilbank are geared toward producing statements and information as required by Turkish laws and regulations. However, Ilbank has also developed and executed specific internal control procedures for the implementation of the MSP and the MSP-AF and these will be adopted for the SCP. These procedures are clearly outlined in the OM, which is available on Ilbank's website.

16. For Component B, the SCP will disburse through Sub-loan Agreements between Ilbank and qualifying municipalities/utilities. The municipalities/utilities will be responsible for the tendering of all works; however, Ilbank will supervise and monitor the overall process through the PMU. The procurement department of the PMU will receive copies of all bidding documents. The regional offices of Ilbank will provide technical monitoring support for civil works construction. The municipalities/utilities will submit payment requests prepared by consultancy companies, contractors, or suppliers to the PMU in accordance with the Sub-loan Agreements. After verifying that all documentation is complete, the financial management unit of the PMU will prepare the payment order, following which the payment will be made from the designated account to the contractor's bank account. The allocated sub-loan will be used only for expenditures incurred under the subproject.

17. The PMU uses detailed checklists that are completed and signed by the relevant staff before processing payments. The checklists include financial controls on advance payments made for works in progress, financial controls on payments to individual consultants and corporate consultants, financial controls on works progress payments, and financial controls on goods purchases. These checklists will also be used for the SCP, with a few modifications, as needed.

18. **Internal audit.** Ilbank has an Inspection Department and an Internal Control Department. The Inspection Department conducts an annual audit of every department's transactions including those of the International Relations Department. The Internal Control Department also conducts a review of the systems regularly. There have not been any serious issues related to the MSP and the MSP-AF transactions.

19. **External audit.** Annual project financial statements (PFSs) for the project as well as Ilbank financial statements will be subject to independent audit by auditors that are acceptable to the World Bank. Ilbank has been submitting audited entity PFSs to the World Bank for the MSP and the MSP-AF. Ilbank's entity financial statements prepared in accordance with International Financial Reporting Standard have been audited by private sector auditors in accordance with International Auditing Standards. The audited entity financial statements had unqualified (clean) audit opinions for the last three years. Ilbank additionally prepares financial statements for the project, which are audited by the Treasury Controllers who are government auditors responsible for the audit of the World Bank—financed projects implemented by government institutions. The PFSs for the MSP and the MSP-AF were received on time and include unqualified (clean) audit opinions as well. No material issues were identified in the management letter.

20. Under the SCP, Ilbank will be required to submit its audited entity financial statements prepared in accordance with International Financial Reporting Standards. Ilbank will be the borrower for the loan and will onlend to municipalities/utilities. The municipalities/utilities are required as per their Loan Agreements with Ilbank to repay the loans to Ilbank; however, Ilbank is responsible for the repayment of the loan to the World Bank irrespective of the repayments made by the municipalities/utilities. The viability of Ilbank financial statements therefore will be monitored annually through the audited entity financial statements. Ilbank will also submit PFSs to the World Bank, together with the entity financial statements, within six months following the year end.

21. The PFSs are required to be made publicly available in accordance with the World Bank guidelines. The PFSs, together with the auditor opinion, would be publicly disclosed in a manner acceptable to the World Bank.

22. Table 3.1 identifies the audit reports and their due dates:

Table 3.1. Audit Reports and Due Dates

Audit Report	Due Date
Entity financial statements	Within six months after the end of each calendar year and also at the closing of the project.
PFSs including statement of expenses (SOEs) and the designated account	Within six months after the end of each calendar year and also at the closing of the project.

23. Currently, the financial statements prepared by the municipalities/utilities are not subject to any independent external audit apart from the annual audit conducted by the Turkish Court of Accounts, the highest audit institution in Turkey.

24. **Reporting and monitoring:** Every six months, Ilbank will provide a status report to the World Bank through a project progress report that will include the following.

- **Project summary:** (a) status of physical investments in each subproject; (b) status of improvements in service quality and institutional arrangements in each subproject; and (c) reporting of the Outcome and Results Indicators for each subproject
- **Fiduciary/safeguard.** Summary information on (a) procurement progress, including an updated Procurement Plan; (b) disbursements, including committed loan amounts

and actual disbursements; (c) financial management; (d) status of implementing the ESMF; and (e) status of implementing the LARPF

- **Comments.** Any special concerns or suggestions to streamline project implementation

25. Every three months, Ilbank will provide unaudited IFRs and a procurement plan to the World Bank. The formats of the IFRs will be agreed upon during the negotiations. Ilbank will also submit the audited PFSs annually within six months following the year end.

Disbursements

Funds Flow and Disbursement Procedures

26. The project will use the traditional disbursement method through the use of a designated account that will be opened at a public commercial bank. All payments to the contractors, suppliers, and consultants will be made directly, either from the loan account or from the designated account.

27. The minimum application size for payments directly from the loan account for the issuance of special commitments, as well as the SOE limits, will be described in the disbursement letter. Full documentation in support of SOEs, including completion reports and certificates, would be retained by Ilbank for at least two years after the World Bank has received the audit report for the fiscal year in which the last withdrawal from the loan account was made. This information will be made available for review during supervision visits by the World Bank staff and for annual audits. Disbursements for expenditures above the SOE thresholds will be made against presentation of full documentation of the expenditures.

Procurement

28. **Procurement arrangements and risk assessment.** The past procurement performance in the ongoing MSP-AF is rated moderately satisfactory. Ilbank is considered to be an experienced borrower and is familiar with the World Bank procurement procedures. The SCP will build on the existing procurement implementation arrangements of the ongoing MSP-AF for Component B and procurement will be implemented by the participating municipalities/utilities (Mugla/MUSKI and Denizli/DESKI) for their respective subloans under the coordination and support of the Ilbank PMU. The Ilbank PMU will manage its own procurement activities for Component A to be financed by EU-IPA.

29. Procurement arrangements for MUSKI's and DESKI's activities under the SCP, are expected to be similar to MSP-AF's municipal infrastructure investments, in terms of complexity and procurement methods; these mainly include construction works for water distribution, stormwater and sewerage networks, and WWTPs.

30. During the implementation of the MSP-AF, it was noted that staff turnover and procurement capacity constraints in some municipalities/utilities caused delays in the bidding processes, particularly in consultancy services. At the same time, participating municipalities/utilities had varying levels of capacity in handling contract administration.

Moreover, planning delays and subsequent changes in scheduling procurement activities during the final year of the MSP affected the timely completion of activities.

31. **Staffing.** The Ilbank PMU currently has sufficient procurement capacity. Its procurement team consists of two Ilbank staff with considerable and valuable experience in the World Bank's procurement processes and in providing support to municipalities/utilities from the MSP and the MSP-AF projects. Because no gap is expected to occur between the closing date of the MSP-AF and the SCP, the existing procurement staff capacity of the PMU is deemed sufficient. For the participating municipalities/utilities, MUSKI and DESKI have previous implementation experience with the World Bank during the original MSP and AF, respectively.

32. **Risk mitigation measures.** Overall project risk for procurement is rated as moderate. After mitigation measures are implemented, the residual risk would be low. To mitigate the identified procurement-related risks, the mitigation actions listed in table 3.2 are to be taken.

Table 3.2. Risk Mitigation Measures

Mitigation Actions		Deadline/Status
1	The PIUs will be established and maintained by participating municipalities/utilities during project implementation. The PIUs must assign fiduciary staff fully engaged with the project and with qualifications and experience deemed adequate and acceptable to the World Bank.	The Ilbank PMU adequately staffed, focal points for municipalities/utilities identified during appraisal. The PIUs are established.
2	Prepare and approve a project OM with a detailed chapter on procurement that includes (a) the PMU's role on procurement support including internal prior and post reviews and training for the participating municipalities/utilities, (b) a brief information sheet for municipalities/utilities on the steps subject to prior review of Ilbank/the World Bank.	Initial version of the POM shared by Ilbank during appraisal/to be adopted by effectiveness.
3	Initiate the preparation of TOR/technical specifications for QCBS and ICB contracts planned in the first year of project implementation well in advance to facilitate their implementation as per the agreed Procurement Plan.	MUSKI advertised request for expressions of interest on March 17, 2016. DESKI advertised REOI on August 9, 2016. MUSKI prepared short-list evaluation report by October 20, 2016
4	Ensure that existing procurement capacity is maintained/improved for the PMU.	During/throughout project implementation
5	Update Procurement Plans on a semiannual basis.	During/throughout project implementation
6	Provide regular hands-on joint Ilbank/the World Bank procurement support to municipalities/utilities, including support missions and training activities.	During/throughout project implementation

33. **Applicable guidelines.** Procurement of goods, works, and non-consulting services for the proposed project will be carried out in accordance with the World Bank's 'Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by the World Bank Borrowers', dated January 2011 (revised in July 2014) (Procurement Guidelines). Procurement of consultant services will be carried out in accordance with the World Bank's 'Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers', dated January 2011 (revised in July 2014) (Consultant Guidelines), and the provisions stipulated in the Loan Agreement. The World Bank's 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD

Loans and IDA Credits and Grants’, dated October 15, 2006, and revised in January 2011 (Anticorruption Guidelines), will also apply to the project. A General Procurement Notice was published on the World Bank’s external website and United Nations Development Business online on January 29, 2016.

34. **Goods, works, and non-consulting services.** MUSKI plans to procure works related to construction and rehabilitation of WWTPs and relevant facilities, construction of sewerage network and rehabilitation of pressure mains, and goods related to operations of municipalities/utilities in the sectors financed by the project through the use of National Competitive Bidding (NCB) and ICB methods, as relevant. DESKI plans to procure works related to water, sewerage, and stormwater networks through the use of NCB and ICB methods as relevant. The methods and relevant thresholds defined in the Procurement Plan will be followed for the procurement of goods, works, and non-consulting services (including logistical and organizational services for trainings and workshops), which would include, at a minimum (a) ICB procedures including supply and install (S&I), (b) NCB procedures in accordance with the provisions of paragraph 3.3 of the Procurement Guidelines; and (c) shopping procedures in accordance with the provisions of paragraph 3.5 of the Procurement Guidelines, as appropriate. There will be no preference for domestic goods or services in the procurements.

35. **Selection of consultants.** MUSKI and DESKI are planning to select consultants for design/design review and supervision of the works, goods, and S&I contracts. The methods and thresholds defined in the Procurement Plan will be followed for the selection of the consultant firms that would include, at a minimum (a) the QCBS method as the default method and (b) the Selection Based on Consultant’s Qualifications method, in accordance with paragraph 3.7 of the Consultant Guidelines for contracts below US\$300,000 equivalent. The short lists may entirely comprise national consultants if the contracts with the firms are below US\$500,000 equivalent. For the employment of experts, the selection of individual consultants may be used in accordance with the provisions of Section V of the Consultant Guidelines. Subject to justification in terms of economy, efficiency, and equal opportunity to all qualified eligible consultants, the Single-Source Selection method for consultant firms and individuals may be used. The TOR and selection processes for financial management, audit, procurement, or legal contracts financed by the project, even those that are below the prior review threshold, shall be subject to the World Bank’s prior review.

36. **Standard documents.** The World Bank’s standard bidding documents will be used for the procurement of goods, works, S&I, and non-consulting services, together with the World Bank’s standard request for proposal documents for the selection of consultants. These will be tailored to the respective method to be used, including the standard evaluation reports.

37. All ICB, QCBS, Direct Contracts, Single-Source Selection contracts, and the first contracts of each municipality completed by other methods will be subject to the World Bank’s prior review.

38. **Special procurement arrangements.** No special procurement arrangements are envisaged for the project.

39. **Procurement Plan.** The draft Procurement Plan for the first 18 months of implementation of the project was prepared and shared with the World Bank during the appraisal stage and provides

the basis for the procurement packages, methods, and the World Bank's review thresholds. The initial version of the Procurement Plan discussed and agreed during appraisal for the first 18 months of the project is attached below. The Procurement Plan primarily includes investments and consulting services under Component B of the project. The Procurement Plan will be updated at least semiannually in agreement with the World Bank team or as required to reflect actual project implementation needs and improvements.

40. **Procurement implementation support frequency.** The World Bank will review the procurement arrangements performed by the participating municipalities/utilities and the PMU, including contract packaging, applicable procedures, and the scheduling of the procurement processes, for their conformity with the World Bank's Procurement and Consultant Guidelines, the proposed implementation program, and the disbursement schedule. (The World Bank's prior review thresholds are provided in the agreed Procurement Plan.) The procurements not previously reviewed by the World Bank will be subject to the World Bank's ex post review in accordance with the procedures set forth in paragraph 5 of Appendix 1 in the Procurement and Consultant Guidelines, on a random basis. A sampling of one in five contracts will be used for post reviews. This ratio may be adjusted during project implementation based on the performance and risk rating of the project. A post review of the procurement documents will normally be undertaken during the World Bank's implementation support missions, or the World Bank may request to review any particular contracts at any time. In such cases, the PMU and participating municipalities/utilities shall provide the World Bank the relevant supporting documentation.

PROCUREMENT PLAN
TURKEY - SUSTAINABLE CITIES PROJECT (P128605)

Initial Release V.0-October 2016

I. General

1. Project Information

Country : Turkey
Borrower : IBank
Project Name : Sustainable Cities Project
Loan No :
Implementing Agencies : MUSKIDESKI

2. Bank's Approval Date of the Procurement Plan : XX/XX/2016

3. Date of General Procurement Notice : 29-Jan-2016

4. Period Covered with this procurement plan : 2017-2020

5. Loan Closing Date : 7/31/2024

6. Applicable Guidelines : Applicable Guidelines: Procurement for the proposed Project will be carried out in accordance with the World Bank Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers, published in January 2011 and revised in July 2014; Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers, published in January 2011 and revised in July 2014.

III. Selection of Consultants

1. **Prior Review Threshold:** Selection decisions subject to Prior Review by the Bank as stated in Appendix 1 to the Consultant Guidelines

Selection Method	Selection Method Threshold	Prior Review Threshold
Quality and Cost Based Selection (QCBS)	Default Method (No selection method threshold)	Contracts valued ≥ US\$ 500,000 and Irrespective of contract amount first contract of each selection method is subject to prior review
Selection Based on Consultants Qualification (CQS)	Contracts valued < US\$300,000	
Least Cost Selection	Contracts valued < US\$300,000	
Single Source Selection of Firms (SSS)	No selection method threshold	All contracts are subject to prior review
Individual Consultants (IC)	No selection method threshold	Contracts valued ≥ US\$ 200,000 and, the first individual consultant contract and all single source individual contracts are subject to Bank's prior review irrespective of contract amount. ToRs for individual consultant contracts are all subject to prior review by the Bank.

2. **Shortlist comprising entirely of national consultants:** Short list of consultants for services estimated to cost less than US\$ 500,000 equivalent per contract, may comprise entirely of national consultants in accordance with provisions of paragraph 2.7 of the Consultant Guidelines.

III. Goods, Works and Non-consulting Services

1. **Prior Review Threshold:** Procurement decisions subject to Prior Review by the Bank as stated in Appendix 1 to the Procurement Guidelines.

Procurement Method	Procurement Method Threshold	Prior Review Threshold
International Competitive Bidding (ICB)	Default Method (No procurement method threshold)	All contracts
National Competitive Bidding (NCB)	Contracts valued < US\$ 30M for Works and US\$ 2M for goods	First contract of the project
Shopping	Contracts valued < US\$100,000 - Goods and Non-consulting Services	First contract of each municipality

IV. Any Other Special Procurement Arrangements:
None.

V. Procurement Packages with Methods and Time Schedule

The estimated costs in the attached table (sheet) include VAT.

(8a) The Total Costs are inclusive of all physical and office contingencies.

Applicable Selection Methods:

Applicable selection methods:
 International Competitive Bidding (ICB)
 Quality and Cost Based Selection (QCBS)
 Selection Based on Consultants' Classification (C-CB) for contracts estimated cost less than US\$ 200,000 equivalent
 Single Source Selection of Firms (SSS)
 Selection of Individual Consultants (IND) including Single Source employment of IND
 Shopping (S)

1. *Journal of the American Medical Association*, 1997; 277: 1001-1005.

Abbreviations and Acronyms
CS: Consultants Services
G: Goods
NCS: Non-Consulting Services
W: Works
M: Multiple

TR: Training
RQO: Request for quotation of interest
NA: Not Applicable
SD: Bidding Documents
RFP: Request for Proposal
SPN: Special Procurement Notice

DE 8K1-11al release-V 1-October 2015

(#a): The Total Costs are inclusive of all physical and price contingencies.

Applicable Selection Methods:

Approximate selection methods:
 International Competitive Bidding (ICB)
 Quality and Cost Based Selection (CQCS)
 Selection Based on Consultants Qualification (CQS) for contracts estimated cost less than US\$ 200,000
 Single Source Selection of Firms (SSS)
 Selection of Individual Consultants (IND) including Single Source employment of IND
 Shopping (S)

Abbreviations and Acronyms:

CS: Consultants Services
G: Goods
NCS: Non-Consulting Services
W: Works
PBC (PPRC): Performance Based Contract

TR: Training
REQI: Request for expression of interest
NA: Not Applicable
EO: Bidding Documents
RFP: Request for Proposal
SPN: Special Procurement Notice

41. Key actors in the implementation of this framework are the PMU and the participating municipalities/utilities.

43. The PMU will also include social safeguard staff to ensure that municipalities/utilities adhere to the World Bank's safeguard requirements, implement the LARPF, and monitor the comments and concerns of the affected groups.

44. Most municipalities/utilities have the capacity to properly implement the ESMFs and the LARPF during the construction and operational phases. Where such capacity is lacking, the municipalities/utilities will be assisted by environmental staff and social staff of the PMU to supervise the works carried out by the contractor and ensure that the ESMF and the LARPF is adequately followed.

Monitoring & Evaluation

45. Ilbank will share updated versions of the project results framework in the project progress report (due every six months) and also conduct an annual assessment of the results.

Annex 4: Implementation Support Plan

TURKEY: Sustainable Cities Project

Strategy and Approach for Implementation Support

1. **Implementation support missions.** The project would be supervised at least twice a year and the recommendations of such supervisions would be presented to Ilbank and recorded in an Aide Memoire. The World Bank would be represented by a task team leader. The goal would be to (a) undertake required policy dialogue with Ilbank and local governments related to the project and the sector and (b) coordinate with other donors.
2. **SOP.** In addition, the implementation support missions, particularly as they relate to Component A TA to the additional municipalities/utilities and to the preparation of feasibility studies, provide an opportunity for the preparation of subsequent projects, as per the SOP approach.
3. **Provision of key technical skills.** Key technical skills required are identified below. The table below outlines the expected skills, based on the experience of MSP. These may change over time. However, all required skills would be covered for the duration of the project.

Implementation Support Plan

4. **Key technical skills** would include energy specialist, water and wastewater engineers, transport specialists, an environmental safeguards specialist, a social specialist (with safeguards experience), a municipal finance specialist, urban specialists, an economist, and procurement and financial management specialists.
 - (a) Municipal finance specialist would be responsible for evaluating municipal finance aspects for future projects under this SOP.
 - (b) Engineers/specialists in the relevant sectors (water, transport, energy) would be responsible for ensuring the quality of the subproject design and civil works implementation under Component B, for innovations in service delivery under Component B, and for capacity-building package on O&M under Component A. One national specialist will also be responsible for M&E under the project.
 - (c) Environmental specialist would ensure that all environmental safeguards are adequately implemented in the project.
 - (d) Social specialist would be responsible for (i) ensuring that social accountability mechanisms are adequately addressed in the project for all components and (ii) monitoring and addressing any concern that may arise on social safeguard.
 - (e) Urban specialists would provide supervision assistance for the implementation of Component A as well as any other physical planning issues that may affect the project.

- (f) Economist would perform the economic and financial analysis for the subprojects and for the project as a whole.
- (g) Procurement specialist would ensure procurement compliance for the project.
- (h) Financial management specialist would ensure financial management compliance for the project.

What would be the main focus in terms of support to implementation during:

Time	Focus	Skills Needed	Resource Estimate	Partner Role
First 12 months	(a) Support to the successful start of the selected subprojects (b) Preparation of additional subprojects	(a) Engineers; urban planners (b) All skills	—	EC financing of Component A
12–48 months	(a) Ensure adequate implementation support of all aspects of project. (b) Ensure M&E measures undertaken in accordance with planned activities. (c) Preparation of additional subprojects.	All skills	—	EC financing of Component A
Other	—	—	—	—

Skills Mix Required

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Task Team Leader	56	14	International staff
Municipal Finance Specialist	14	14	International staff
Engineer - Water and Sanitation	28	14	International staff
Transport Specialist	14	7	International and local staff
Energy Specialist	14	7	Field-based staff
Environmental Specialist	28	—	Field-based staff
Social Specialist	28	—	Field-based staff
Urban Planner	14	7	International staff
Urban Planner	14	7	Field-based staff
M&E	14	7	International or field-based staff
Procurement Specialist	28	—	Field-based staff
Financial Management Specialist	28	7	Field-based staff

Partners

Name	Institution/Country	Role
EC	EU	Parallel Cofinancier

Role of Partners

5. The EC will be cofinancing the project through an EU-IPA2 Grant.

6. **EU IPA Grant Operation Structure:** As proposed in the Government of Turkey EU-IPA2 Environmental Sector Operational Plan prepared by the Ministry of Environment and Urbanization (MOEU), the World Bank would enter into an Administrative Agreement (AA) with the European Union Delegation to set up a Recipient-Executed Trust Fund for the World Bank–financed SCP. The AA would provide for the establishment of a trust fund to be administered by the World Bank and in the amount of EUR 23.125 million which the World Bank will provide as a grant to Ilbank as the sole source of financing for Component A of the SCP. This arrangement would be underpinned by this PAD as required by the EU and as prepared, discussed, and agreed with Ilbank.

7. After the AA is signed, the World Bank would enter into a Trust Fund Grant Agreement with Ilbank, which will be the recipient of the funds. Ilbank will be responsible for implementing the funds in accordance with overall SCP design, including fiduciary and safeguard arrangements, as set out in the PAD and in the project OM. The procedures applied under Component A would be consistent with all other aspects of the project. Ilbank will procure or support municipalities/utilities to procure TA services and goods as required and will manage the implementation of the component. Participating municipalities/utilities will be the beneficiary of the grant fund proceeds in the form of TA provided under Component A.

8. **Contribution to the achievement of the EU IPA Operational Program.** The proposed operation under Component A of the SCP contributes to the EU IPA2 ‘Multi-annual Action Program for Turkey on Environment and Climate Action’ by strengthening institutional capacity of the MMs/utilities to design, implement, and monitor environmental and socially sustainable planning and management practices.

9. **Purpose of the EU IPA Grant Support.** The purpose of the activities under Component A is to provide TA to municipalities/utilities participating in the World Bank—financed SCP in helping embed city-level actions that both link with EU policy directives and international sustainable cities indicators on climate change, energy efficiency, water, urban transport, solid waste management, and urban planning. The activities would also assist the implementing agency (Ilbank) in managing such a program.

10. **Duration.** The implementation time frame of the EU grant is determined by the Multi-Annual Action Program for Turkey on Environment and Climate Change EU IPA Budgetary Commitment 2016 which indicates that funds must be spent by December 31, 2021. The SCP implementation time frame is seven years; however, the EU grant is available for five years. If the EU funds are not used within the five-year time frame, these funds do not roll over to the next EU IPA Budgetary Commitment tranche.