



**ASIAN INFRASTRUCTURE
INVESTMENT BANK**

PD000424-TUR
August 27, 2020

**Project Document
of the Asian Infrastructure Investment Bank
Sovereign-backed Financings
Republic of Turkey
COVID-19 Medical Emergency Response Project
(under the Covid-19 crisis Recovery Facility)**

Currency Equivalents

(As of August 4, 2020)

Currency Unit – Turkish LIRA (TRY)

TRY1.00 = USD0.14

USD1.00 = TRY6.96

Euro (EUR)

EUR1.00 = USD1.18

USD1.00 = EUR0.85

Borrower's Fiscal year

January 1 to December 31

Abbreviations

AIIB, Bank	Asian Infrastructure Investment Bank
COVID-19	Coronavirus Disease 2019
CRF	COVID-19 crisis Recovery Facility
EBRD	European Bank for Reconstruction and Development
ES	Environmental and Social
ESP	Environmental and Social Policy
ESCP	Environmental and Social Commitment Plan
ESMF	Environmental and Social Management Framework
EUR	Euro
FM	Financial Management
FX	Foreign Exchange
GD	General Directorate
GDP	Gross Domestic Product
GoT	Government of Turkey
HSSSP	Health Systems Strengthening and Support Project
ICU	Intensive Care Unit
MoH	Ministry of Health, Republic of Turkey
PIU	Project Implementation Unit
PMSU	Project Management and Support Unit, Ministry of Health
PPM	Project-affected People's Mechanism
SEP	Stakeholder Engagement Plan
SME	Small and Medium Enterprises
WHO	World Health Organization

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1. Summary Sheet

Republic of Turkey
COVID-19 Medical Emergency Response Project

Project No.	000424-TUR
Borrower	Republic of Turkey
Project Implementation Entity	Ministry of Health (MoH)
Sector	Social
Subsector	Public Health Infrastructure
Project Objective	To support the Government of Turkey in strengthening its healthcare emergency response in public hospitals against the COVID-19 pandemic.
Project Description	<p>The Project is proposed under the COVID-19 Crisis Recovery Facility of the Bank and co-financed with the European Bank for Reconstruction and Development (EBRD) as lead co-financier.</p> <p>The Project will have the following two components.</p> <p>Component 1. Strengthening National Health system for Emergency COVID-19 Response by upgrading designated pandemic hospitals in Istanbul and public hospitals across Turkey through procurement of medical equipment (Part A, co-financed)</p> <p>Component 2. Project Management Support as well as Gender and Economic Inclusion (Part B and C, financed by EBRD)</p> <ul style="list-style-type: none"> (i) Project Implementation Unit Support (ii) Gender and economic inclusion
Implementation Period	Start Date: August 27, 2020 End Date: October 30, 2021
Expected Loan Closing Date	December 31, 2021
Cost and Financing Plan	<p>Project cost: EUR 200.5 million</p> <p><u>Financing Plan:</u></p> <p>Component 1. Procurement of Goods AIIB loan: EUR 70 million (USD 82.6 million equivalent) EBRD loan: EUR 130 million (USD 153.4 million equivalent)</p> <p>Component 2. Consultancy services (EBRD): EUR 0.5 million (USD 0.6 million equivalent)</p>
Size and Terms of AIIB Loan	<p>EUR 70 million (USD 82.6 million).</p> <p>Final maturity of 10 years, including a grace period of 3 years for each semester's group of disbursements</p>

	with level payment at the AIB's standard interest rate for sovereign-backed loans.
Cofinancing (Size and Terms)	EBRD (Lead Co-Financier): Up to EUR 130 million. Final maturity of 10 years, including a grace period of 3 years at the EBRD's standard interest rate for sovereign-backed loans.
Environmental and Social Category	Category B under the EBRD Environmental and Social Policy (equivalent to Category B if AIB's ESP were applicable)
Risk (Low/Medium/High)	Medium
Conditions of Effectiveness	<ol style="list-style-type: none"> 1. Loan Agreement between the Borrower and EBRD has been executed and all conditions precedent to its effectiveness have been fulfilled. 2. Co-Lenders' Agreement has been executed.
Key Covenants/Conditions for Disbursement	<ol style="list-style-type: none"> 1. Consultants acceptable to the Bank and the Co-financier, required to be employed in accordance with Loan Agreement (Section I.B. of Schedule 2) have been contracted.
Retroactive Financing (Loan % and dates)	N/A
Policy Assurance	The Vice President, Policy and Strategy, confirms an overall assurance that the Bank is in compliance with the policies applicable to the project.

President	Jin Liqun
Vice President	Konstantin Limitovskiy
Director General	Supee Teravaninthorn
Manager	Gregory Liu
Project Team Leader	Woo-Hyun Kwon, Senior Investment Operations Specialist
Team Members	<p>Ildiko Almasi, Social Development Specialist Olga Dyakova, Senior Treasury Officer Yi Geng, Senior Financial Management Specialist Yunlong Liu, Procurement Specialist Bekzat Oishynov, Young Professional Gerardo Pio Parco, Senior Environmental Specialist Bernardita Saez, Senior Counsel Haiyan Wang, Senior Finance Officer Abigail Wright, Senior Secretariat Officer Shiyao Chao, Public Health Specialist (Consultant) Jiasi Liu, Project Assistant</p>

2. Project Description

A. Project Fit under the Covid-19 crisis Recovery Facility

1. **Background.** An outbreak of Coronavirus Disease 2019 (COVID-19) has been rapidly evolving since December 2019, when it was first identified. The World Health Organization (WHO) declared a global pandemic on March 11, 2020. According to WHO COVID-19 has been detected in 216 countries, with a total number of 14,562,550 cases and 607,781 deaths, including 221,500 confirmed cases and 5,526 deaths in Turkey as of July 21, 2020.¹ 60 per- cent of the cases were reported to be in Istanbul, with high numbers also observed in the surrounding industrial area (Kocaeli, Sakarya, Bursa). The pandemic presents an unprecedented global challenge and has widespread and severe negative social, economic, and financial impacts.

2. **Turkey's response.** Since Turkey's first COVID-19 case was detected, on March 11, 2020, the Government has gradually introduced a range of public health measures in line with WHO guidance, from hygiene guidance to the closure of major events, social venues, schools, and all major commercial outlets, and recommending physical distancing to curb transmission. Furthermore, the country has implemented testing, contact tracing, and the isolation of cases in line with the WHO guidance.

3. The Minister of Health (MoH) established a scientific advisory that provides evidence and guidance to policy makers. The MoH is leading the Turkish Government's COVID-19 pandemic response for the health sector.

4. Turkey has been successful in rapidly increasing testing capacity with the number of tests per day reaching 40,000 in by early May and remains one of the countries with the highest levels of testing globally. Currently there are 6,000 teams across the country, which are conducting contact tracing.

5. In addition to testing, which is key to identifying the COVID-19 cases, availability of equipment for diagnosis and treatment in public hospitals is essential to adequately address the ongoing pandemic as well as prepare for an expected second wave as the country reopens its economic activities and international travel.

6. Hospital infrastructure capacity in Turkey has been used to a significant extent. Many of Turkey's public hospitals are needed to be upgraded to tackle the COVID-19 pandemic. On March 20, 2020, all state and private health institutions meeting criteria set by the MoH were recategorized as 'Pandemic Hospitals', to increase capacity of the health system to respond to the epidemic. All hospitals that have departments related to infectious diseases and microbiology, pulmonary diseases, and internal medicine, and that have at least two specialist physicians, have been recategorized.

7. Having reclassified several facilities as 'Pandemic Hospitals', Turkey needs to increase its ICU capacity² for COVID-19 response in line with international and national guidance³. As of April 16, 2020, Turkey has 26,718 adult ICU beds, of which 13,182 belong to MoH. There are around 32 ICU beds per 100,000 population in Turkey. Countries like

¹<https://covid19.who.int/> as of July 21, 2020

² Level-2 and 3 Intensive Care Units require invasive hemodynamic monitors and ventilators for each ICU bed. <https://www.saglik.gov.tr/TR,10979/yogun-bakim-unitelerinin-standartlari-genelgesi-200853.html>

³ <https://www.nice.org.uk/guidance/ng159/resources/covid19-rapid-guideline-critical-care-in-adults-pdf-66141848681413> and http://www.istanbulsaglik.gov.tr/w/sb/ozeltdk/belge/8_ek_madde.pdf

Germany, which has better ICU bed capacity (33.9 ICU beds per 100,000 population⁴), are increasing their existing supply of ventilators by 50 percent (from 20,000 to 30,000). Turkey needs to mobilize additional mechanical ventilators and other equipment to increase the number of ICU beds, especially in bigger cities like Istanbul (which has almost 60 percent of the total cases in Turkey), where there are only 28.7 ICU beds per 100,000 population.

8. Current laboratory capacity in Turkey's hospitals need to be upgraded for safe, accessible, and timely diagnosis and management of COVID-19. Hospital laboratory upgrades to improve diagnosis and management would include: 1) Mobile digital radiography (DR) systems for initial screening of pneumonia, a secondary and more progressive stage of COVID-19 in severe cases. Mobile DR systems allow for flexibility in location of diagnosis and are used to track patient progression over time. 2) PCR (Polymerase Chain Reaction) devices are the gold standard used to confirm COVID-19 cases. Currently the majority of COVID-19 samples are processed at the Ankara National Biology Lab; however, through allocation of Real-time PCR Devices, COVID-19 diagnostic tests could be carried out at major public hospitals. 3) PCR cabins and negative pressure rooms are essential to ensure both the protection of laboratory workers and to prevent the cross contamination of samples.

9. **Emergency Response Program for public hospitals** has been identified by the Government of Turkey to fight the COVID-19 pandemic. This includes the construction of new pandemic public hospitals, as well as equipping existing public hospitals with critical hospital equipment to scale up the hospital infrastructure capacity and provide a sufficient response. The ICU bed capacity in Turkey will be supplemented with an additional 2,000 beds, of which 1,000 are in Istanbul pandemic hospitals. These pandemic hospitals will remain in service to be ready for future waves of the pandemic cases as well as increased risk of earthquake in Istanbul.

10. **Impact on the Turkey's economy.** The impact of COVID-19 on Turkey's economy is expected to last well beyond the immediate pandemic. The IMF forecasts that the GDP will contract by 5.0% in 2020, with a rebound by 5.0% in 2021 and a moderate growth of 3% in year 2022. Annex 3 provides an overview of the macroeconomic situation and the potential impact of the crisis on the Turkish economy.

11. While COVID-19 affects the country's healthcare system and the GoT is taking steps to contain its spread, an economic slowdown is threatening the financial and social security of many citizens. The further decline in economic activity will result in significant job losses. Low income households are most impacted, as they are mostly employed in agriculture, construction and tourism sectors that saw the biggest negative impact of crisis. The pandemic has also severely impacted the financial markets, with tighter liquidity in global financial markets, including the impact of lockdowns and the businesses shutdown due to COVID-19.

12. Turkey's Government has also announced a TRY 100 billion (USD 15 billion) stimulus package as the initial step to cushion the economic downturn, additional to other measures relating to Fiscal Policy, including:

- (i) A three-month deferral of loan payments by companies and additional financial support to affected businesses.
- (ii) A reduction of VAT on domestic air travel from 18 percent to 1 percent for three months.
- (iii) Accommodation tax cancellation.

⁴ https://www.destatis.de/EN/Press/2020/04/PE20_119_231.html and <http://www.oecd.org/coronavirus/en/data-insights/intensive-care-beds-capacity>

- (iv) Social security premiums deferral by six months for retail, iron and steel industries, shopping malls, automotive, entertainment and hospitality sectors, food and beverage businesses, textiles as well as event organization sectors.
- (v) Payroll tax deferral, increasing the minimum pension, increasing allocation for social packages, and unspecified provisions for strengthening social services for older persons.
- (vi) Stock financing assistance to importers who are affected by the global pandemic.

13. The Turkish Central Bank has also cut interest rates (by 250 basis points since March 17) and injected liquidity into financial markets to support economic activity and lending.

14. The World Bank approved a USD 100 million loan on April 24, 2020 for Turkey to finance emergency medical equipment, supplies, testing, and consulting services including training and capacity building for the existing hospitals nationwide. The World Bank is also planning to reallocate USD 30 million under an existing healthcare loan as part of its emergency response

15. On June 8, 2020, the GoT, represented by the Ministry of Treasury and Finance (MoTF), requested AIIB to provide of up to USD 100 million to support the country's medical emergency response program to COVID-19, in the form of co-financing with European Bank for Reconstruction and Development (EBRD).

16. The proposed co-financing by the EBRD and AIIB will not only be critical in reducing the funding gap in the Turkish Government's Emergency Response Program, but will also promote skills development and gender equality in the healthcare sector, which will be managed by the EBRD's grant, to further increase the productivity of hospital staff and ensure an effective and safe response to the crisis. The Project will ensure the county's preparedness for a possible second wave of COVID-19 by strengthening public hospital infrastructure capacity as part of the National COVID-19 Response Strategy and Pandemic Action Plan. The mobilization of additional critical hospital equipment is extremely important to increase the capacity of public hospital infrastructure, particularly in bigger cities like Istanbul.

17. The GoT has requested other International Financial Institutions (IFIs) active in Turkey to provide credit lines via selected state-owned banks or state entities to provide emergency support particularly to SMEs. In relation to this request:

- (i) The World Bank is providing up to USD 1.2 billion crisis response program also supporting remote learning, SMEs and export finance and its health sector.
- (ii) AIIB signed a USD 500 million of sovereign guaranteed credit lines to two of Turkey's development banks, Türkiye Sınai Kalkınma Bankası (TSKB) and Türkiye Kalkınmave Yatırım Bankası (TKYB) to be used as liquidity lines for SMEs and infrastructure-related companies, which would be in addition to hospital equipment support to be provided in parallel to this project.
- (iii) IsDB signed a USD 100 million Murabaha financing agreement with Turk Eximbank to support Turkish exporters to help alleviate COVID-19 impacts. In addition, IsDB provided EUR 158 million to MoTF for the financing of construction of the Okmeydani hospital, which is operational and now helping COVID-19 patients, and is considering a second phase financing of EUR 50 million for the increase of the bed capacity and health service provision of Okmeydani hospital.

- (iv) Council of Europe Development Bank will provide EUR 200 million for budget finance to support health sector expenditures.
- (v) Additionally, ECO Trade and Development Bank plans to provide EUR 15 million in terms of budget finance for health expenditures.
- (vi) Japan Bank for International Cooperation (JBIC) is also considering extending EUR 300 million of sovereign guaranteed credit lines to TSKB and TKYB, who are already existing JBIC clients, serving key infrastructure providers.

18. **Alignment with AIIB's Articles of Agreement and COVID-19 Crisis Recovery Facility.** AIIB has announced a COVID-19 crisis Recovery Facility (the Facility), with a size of up to USD 10 billion to respond effectively to the existing challenges faced by the member countries. The Project is aligned with the AIIB's Articles of Agreement as well as its commitment to support its members in responding to the COVID-19 crisis under the Facility, as approved by the Board on April 16, 2020, which aims to respond to the pressing need for support to the client countries in dealing with the COVID-19 pandemic. Specifically, the Facility aims to support:

Financing of immediate health sector responses, including "the development of health system capacity, and provision of essential medical equipment and supplies to combat COVID-19, and well as the long-term sustainable development of the health sector of the member".

19. The objective of the proposed project is fully aligned with the above stated objective of the Facility. The Bank is coordinating closely with EBRD to ensure that proposed project is complementary to other financing agencies and filling in the funding gap of the GoT's COVID-19 emergency healthcare response program.

20. **Value addition by AIIB.** AIIB's assistance is needed to close the financing gap of the Emergency Response Program for public hospitals by the MoH. Under the program, (i) AIIB and EBRD are providing complementary loan (EUR 200 million) to strengthen the emergency response capacity of public hospitals with preferable terms and conditions, ten years door to door tenor with three-year grace period, which is not available from commercial banks; (ii) the World Bank's intervention (EUR 90 million) is mainly on enhancing testing and ICU capacity with policy engagement while (iii) IsDB is investing (EUR 200 million) in the construction of one public hospital in Istanbul.

21. **Lessons learned from previous projects.** The Project will build on the experience of the Bank's previous CRF-supported projects, especially medical emergency response projects in other counties as well as World Bank's parallel Turkey Emergency COVID-19 project. This experience will allow the Bank to overcome critical due diligence issues, address co-financing arrangements, and build on the substantial work and lessons learned on the management of similar projects.

22. Some initial lessons learned from the early operations that can shed light on what works and where attention is needed to deliver both an immediate and a long-term response to the current crisis⁵. These lessons include:

- (i) Flexible procurement practice will allow timely response, such as simplified procurement methods including Direct Contracting and Request for Quotations, which WB has established in the emergency response approach.

⁵ www.worldbank.org: IEG Lesson Library

- (ii) Flexible financial response mechanisms are critical for providing timely support and additional funds to address the impacts of a crisis.
- (iii) Adapting existing operations and reacting quickly to new information can contribute to reducing project design time and to enhancing performance.
- (iv) Partnerships contribute to mitigating risks related to rapid project preparation.
- (v) Cooperation and coalition building among countries can strengthen response performance and address longer-term needs.
- (vi) Investments in technology and equipment need to be balanced with capacity building of health workers and knowledge to support laboratory diagnostics.
- (vii) Operations in response to COVID-19 need to go beyond the immediate emergency, creating opportunities for projects that also help countries address long-term risk reduction.
- (viii) Effective logistics will be critical for both the current and future public health crises. If a vaccine or efficacious antivirus for coronavirus becomes available, purchasing it for use by health workers or other vulnerable persons could be valuable, but logistics issues are key.
- (ix) Preparedness of the health system is the first line of defense. Better staffed health services, protective equipment, laboratory diagnostics, clinical management, surveillance systems, and rapid contact tracing skills can all allow countries to mount more effective responses.

B. Project Objective and Expected Results

23. **Project Objective.** To support the Government of Turkey in strengthening its healthcare emergency response in public hospitals against the COVID-19 pandemic.

24. **Expected Results.** The project will be monitored through the following key result indicators:

- (i) Upgrading of the quality of physical infrastructure in designated Istanbul pandemic hospitals and selected public hospitals; and
- (ii) Net increase in access to health infrastructure (2,000 beds in Istanbul pandemic hospitals as well as public hospitals across the country as per changing conditions)

25. **Expected Beneficiaries.** The expected project beneficiaries will be the population at large given the nature of the disease, but more importantly the infected people and at-risk populations, particularly the elderly and people with chronic conditions, medical and emergency personnel, medical and testing facilities, and public health agencies engaged in the response.

C. Description and Components⁶

⁶ The lead co-financier (EBRD) have categorized the Project into three parts in the Loan Agreement as below.

26. **Overview.** The project will have two main components, as outlined below, which will help to address the emergency healthcare needs.

27. **Component 1. Strengthening National Health System for Emergency COVID-19 Response** (Part A, co-financed). This component will include financing the purchase of medical equipment for public hospitals across Turkey, such as ventilators, ICU monitors, CT Scanners, X-ray equipment, endoscopy equipment and other critical equipment.

28. **Component 2. Project Management Support as well as Gender and Economic Inclusion** (Part B and C, financed by EBRD). This component will support (1) the project implementation, especially to the Project Implementation Unit (PIU), and (2) gender and economic inclusion. Gender and Economic Inclusion aimed at developing action plans to provide a training program to healthcare workers and engage in policy dialogue to support the MoH in fostering an inclusive healthcare workforce. It will be funded by the EBRD loan and a grant.

A detailed description of the proposed components is presented in Annex 2.

D. Cost and Financing Plan

Table 1. Project Cost and Financing Plan (EUR million)

Item	Project Cost	Financing plan	
		AiIB	EBRD
	<i>EUR million</i>		
Component 1. Strengthening National Health system for Emergency COVID-19 Response (Part A)	200 (Medical Equipment for designated Istanbul pandemic hospitals and selected Public Hospitals across Turkey)	70	130
Component 2. Project Management Support as well as Gender and Economic Inclusion (Part B and C)	0.5	-	0.5
Grand Total	200.5	70	130.5

E. Implementation Arrangements

29. **Implementation period.** The proposed Project implementation period is 14 months, from August 27, 2020 to October 30, 2021.

Part A – Capital expenditures: Financing the purchase of medical equipment
 Part B – Consultancy services: Financing consultants to support the PIU (procurement specialists) and the MoH (Gender and Economic Inclusion)
 Part C – Technical Co-operation: Financing consultants to support the MoH in addressing its Gender and Economic Inclusion agenda

30. **Implementation Management.** The project will be implemented by the MoH through the Project Implementation Unit (PIU). In order to coordinate, manage, monitor and evaluate all aspects of Project implementation, including the procurement of goods and services for the Project, the MoH shall establish and operate a Project Implementation Unit (PIU) acceptable to the Bank with adequate resources and suitably qualified personnel during execution of the Project⁷.

31. To address the need for complementary technical expertise to effectively implement the COVID-19 Emergency Response Project, the PIU will be supported by technical specialists of the MoH and technical consultants. The PIU will be supported by the existing Project Management Support Unit (PMSU) that implements the ongoing World Bank-financed Turkey Emergency COVID-19 Health project with the General Directorate of Public Hospitals and the General Directorate (GD) of Public Health.

32. The EBRD is proposing to complement this capacity with an additional two procurement specialists and one medical/health expert to the PIU. A medical/health expert will be recruited to verify and confirm the accuracy of the grounds for direct contracting as well as compliance with the specific requirements when proceeding to direct contracting in terms of selection of the supplier and price for the identified goods.

33. **Monitoring and Evaluation.** The PIU will be responsible for Monitoring and Evaluation activities, overseeing progress related to project activities, outcomes, and results. Through the PIU, the MoH will be responsible for: (i) collecting and consolidating all data related to their specific suite of indicators; (ii) evaluating results; and (iii) reporting results to AIIB and EBRD regularly and before each implementation support mission.

34. **AIIB's Implementation Support.** EBRD will play a leading role in supervising and monitoring the project and provide the coordination activities identified in the corresponding Project Co-Lenders' Agreement to be signed between AIIB and EBRD, in accordance with EBRD's applicable policies and procedures.

35. AIIB will jointly supervise the project with the EBRD and participate in all implementation support missions once the prevailing travel restrictions are relaxed. Proper resources will be made available within AIIB to match the frequency of EBRD's implementation support missions. This joint collaborative approach has been successfully implemented in other ongoing co-financed projects with other banks.

36. **Procurement.** The procurement of goods, works and services co-financed by the loans of AIIB and EBRD under the project will be carried out in accordance with the EBRD Procurement Policies and Rules (PP&R) dated November 1, 2017. The EBRD Procurement Policies and Rules are materially consistent with the Core Procurement Principles of AIIB Procurement Policy, and the EBRD PP&R, like AIIB's Procurement Policy, provides for universal procurement eligibility as that of AIIB. EBRD, as project lead co-financier, will carry out the procurement supervision and due diligence for the whole project under joint co-financing modality.

37. The project activities to be jointly financed by AIIB and EBRD include supply of urgent medical equipment for Istanbul pandemic hospitals and medical equipment for the public hospitals. The procurement of those equipment will be carried out by the PIU in

⁷Establishment of the PIU satisfactory to the Bank is one of the Conditions Precedent to the effectiveness of the loan agreement of the lead co-financier.

collaboration with GD of Public Health and GD of Public Hospital as well as with support of PMSU.

38. The MoH has prepared a preliminary procurement plan covering the whole project implementation period. The Procurement Plan (PP) will be further updated and submitted for review and concurrence by AIIB and EBRD before commencement of any project procurement. The procurement plan shall reflect specific procurement arrangements in accordance with the EBRD PP&R, including, but not limited to, cost estimates, procurement methods, review methods and timelines, etc.

39. The procurement methods to be applied for the supply of medical equipment will include open tendering procedure and direct contracting when duly justified, in accordance with the requirements of EBRD PP&R. Direct contracting will be applied for procurement of urgently needed medical equipment for public hospitals. To ensure that direct contracting is proceeded as per EBRD PP&R, the independent medical expert will verify and need to confirm the accuracy of the grounds for direct contracting as well as compliance with the specific requirements when proceeding to direct contracting in terms of selection of the supplier and price for the identified goods. Procurement of equipment and supplies for public hospitals will be conducted via open tendering procedure by using EBRD's standard documents for Open Tender, Goods. All specific procurement arrangements will be reflected in the PP.

40. All goods contracts to be procured through either direct contracting or open tendering procedure will be subject to prior review by EBRD. Procurement desk review will be applied when field supervision is not practical due to the existing pandemic outbreak. EBRD/AIIB will also provide strengthened procurement support to the client, if needed. When the conditions permit, EBRD and AIIB will carry out regular and normal field supervision missions.

41. **Financial Management.** Project financial management work will be centralized in the PIU of MoH with the support of the existing PMSU⁸, which have implemented several MDB financed projects and gained experience in general fiduciary requirement procedures. Project financial statements in the format agreed with AIIB and EBRD will be prepared and submitted on semi-annual basis, and annual project financial statements will be audited by auditors acceptable to both AIIB and EBRD and submitted to both co-financiers within 6 months after the end of the year.

⁸The PMSU is currently staffed with 26 personnel including three FM specialists and assistants who are all independent accounting and financial advisor license holders with a certificate of proficiency in financial matters in Turkey.

3. Project Assessment

A. Technical

42. **Project Design and Operational sustainability.** The COVID-19 pandemic is unprecedented and evolving rapidly. Scientists are still seeking to understand and assess the epidemiology and clinical presentation of COVID-19. As on July 21, 2020, it is estimated that 4.2% of confirmed cases worldwide had a fatal outcome. However, the mortality rates have not been confirmed by WHO as yet, as the situation is unfolding, and testing and reporting constraints have inhibited an accurate understanding of the incidence and prevalence of the disease since it was first identified in late 2019.

43. Initial data from many affected countries indicate that COVID-19 is more likely to cause severe respiratory distress, which necessitates intensive care and hospitalization in patients with underlying health conditions. High risk groups include those who have or are immune suppressed, suffering from respiratory diseases, over the age of 70, with specific cancers, severe respiratory conditions, metabolic disorders, pregnant and have a significant congenital heart disease.

44. The design of the project is flexible to accommodate changing needs in the face of a rapidly changing epidemic and evolving knowledge. Since the entire response to the COVID-19 epidemic is assigned to a single component with a single expense category, activities can easily be adjusted in response to a changing epidemiological situation without the need for restructuring.

B. Economic and Financial Analysis

45. **Economic situation in Turkey.** The country's public finance position is relatively strong with an external debt to GDP ratio of 61.3% in 2019. The global financial crisis sparked by the spread of the COVID-19 virus triggered Turkish lira losses. External debt to GDP ratio is expected to increase to 64% in 2020 partly due to a weakening Turkish lira. Foreign-currency reserves provide more than three months of import coverage, and the government's total and external debt positions remain less worrying. The country's public finance position could be affected under the prolonged pandemic.

46. **Economic impact of proposed investment.** There is a solid rationale for the Project's investment to strengthen the Government's response to the COVID-19 pandemic. By strengthening capacity for early detection and confirmation of cases, as well as for diseases surveillance and treatment of patients, it will help in controlling the spread of the virus. By this, it will contribute to (i) limiting loss of life, and (ii) limiting economic disruption. In fact, the duration and severity of the COVID-19-related economic recession is widely believed to be dependent on how quickly the virus is contained, and confidence restored. Many benefits are not quantifiable and/or extend across borders - for example control measures in Turkey also reduce pandemic risks in neighboring countries, and countries with tourists coming to the country.

C. Fiduciary and Governance

47. **Procurement.** A procurement risk and capacity assessment has been conducted based on the information available from EBRD, MoH, as well as the related World Bank project documents disclosed on its website for the ongoing Turkey Emergency COVID-19 Health Project and another ongoing Health Systems Strengthening

and Support Project (HSSSP), which have been prepared by and are being implemented by the PMSU. Based on the available information, the PIU can be supported by MoH together with two participating GDs and the PMSU have been adequately staffed and have accumulated relatively rich experiences with implementation of MDB financed projects.

48. Irrespective of the above strengths of the MoH, and given the emergency nature of the project, the project procurement may face the following potential risks:

- (i) the global outbreak of COVID-19 pandemic could create shortage of supply and services which results in increased prices and costs, particularly for medical equipment and supplies at high demand globally;
- (ii) border closures and restrictions of shipment can cause supply chain risks which will affect timely delivery of goods;
- (iii) potential procurement deviation from EBRD procurement policy due to misinterpretation or lack of prior review of procurement processes;
- (iv) procurement staff may be overloaded due to parallel implementation of multiple ongoing projects; and
- (v) potentially delayed decision-making process within MoH.

49. In response to the above-mentioned risks, the following mitigation measures will be properly put in place:

- (i) strengthening the supply chain management through close business relationship with the local suppliers and international suppliers' market and establishing informed updated market prices;
- (ii) mobilizing sufficient number of procurement and contract management specialists to the project team in a timely manner as required;
- (iii) conducting prior review of all contracts by EBRD;
- (iv) intensified communication among the PIU, participating GDs, and high-level management of MoH; and
- (v) necessary and timely procurement support and guidance from EBRD and AIIB.

50. Based on the above risks assessment as well as implementation of proper risk mitigation measures, the project procurement risk is rated as Medium.

51. **Financial Management.** The rapid assessment for this emergency operation is based on a desk review of existing projects implemented by PMSU and virtual discussion and documents review provided by PMSU. The FM risk for the project is Substantial for the following reasons:

- (i) the operation is of an emergency nature and is carried out during a time of greater uncertainty, and requires internal coordination between the PIU and implementing GDs within MoH;
- (ii) there is no budget allocation for the project in the MoH, as it was not foreseen at the beginning of the year when budget allocations were determined; and
- (iii) large volume of assets procurement exposed to higher fiduciary risks.

52. Mitigations measures are:

- (i) the designated FM staff in the PIU has strong financial qualifications and experience; they are capable of managing the FM aspects of the project and will be able to provide back-up for each other;
- (ii) the project will be inserted into the annual investment program by the Strategy and Budget Presidency (SBB); and
- (iii) preparation of simplified Project Operational Manual to standardize project procedures and enhance internal control in assets management;

With the mitigation measures, the overall project financial management system is acceptable to the Bank.

53. Budget. The proposed Project forms part of an institutions investment budget and must be approved by the SBB Presidency. As the Project is an emergency operation, its entire preparation has taken place following the approval of the 2020 budget. The MoH is discussing the inclusion of a satisfactory budget allocation in its 2020 budget for the implementation of the Project and the project will be inserted into the annual investment program by SBB.

54. Staffing. The designated FM staff will be responsible for coordinating the FM of the project and providing support to the implementing GDs. Three staff in the finance unit of the PMSU have satisfactory qualifications and experience.

55. Accounting and financial reporting. The PIU will tailor the accounting system it currently uses to monitor the fund flows on a cash basis in Euros and to produce the data necessary to prepare the Interim Unaudited Financial Reports (IFRs) in the format agreed with the Bank, in a manner to adequately reflect the sources and usage of project funds.

56. Internal Control. The PIU, with implementing GDs, is responsible for all stages of procurement. The PIU is subject to the Public Financial Management and Control Law (Law no: 5018), which stipulates adequate internal controls over expenditures. Following the current practice, the inspection and control of goods in terms their completeness is conducted by three officers and the goods are accepted with an official report. And such information is included in the state system with a Tangible Goods Registration Form and all stages are followed through this system.

57. There is a clear segregation of duties between the procurement function and the payment function. Segregation of duties in reviewing and approvals is applicable for all payments. The accounting entries to the system maintained by the PIU will be made on the basis of the payment confirmation of the Central Bank, where the designated account will be held. The PIU will also use an integrated payment monitoring system, which follows all stages of the procurement processes.

58. External Audit. As part of the Bank's auditing requirements, the financial statements of the Project will be subject to external auditing by the Board of Treasury Controllers. The first set of audit reports will be submitted to AIIB and EBRD before June 30 of the year following the calendar year in which the first disbursement from the loan has been made. The project financial statements will be audited by the Treasury Controllers in accordance with International Auditing Standards. The Treasury Controllers are the external auditors for all projects implemented by the ministries in Turkey. No significant issues or weakness are identified in the projects currently implemented by PMSU.

59. **Disbursements**. All the disbursement methods will be available to the project, including advances, direct payments, special commitments, and reimbursement accompanied by appropriate supporting documentation (summary sheets with records

and/or statement of expenditures (SoEs) in accordance with the procedures described in the Bank's Disbursement Guidelines). The borrower will open a designated account in Euros at the Central Bank of Turkey. Detailed requirements will be set out in the Disbursement Letter. There will be no retroactive financing for the project.

60. **Governance and Anti-corruption.** EBRD will take the lead in any inquiry or investigation of allegations or indications in accordance with its policies and procedures on Prohibited Practices, and in accordance with its own decision-making process regarding whether to pursue an investigation or not.

61. AIIB is committed to preventing fraud and corruption in the projects it finances and will ensure strict compliance with AIIB's Policy on Prohibited Practices (2016). The Bank reserves the right to investigate, directly or indirectly through its agents, any alleged corrupt, fraudulent, collusive, coercive or obstructive practices, and misuse of resources and theft or coercive practices relating to the project and to take necessary measures to prevent and redress any issues in a timely manner, as appropriate.

62. **Institutional Capacity.** The Project includes the necessary implementation arrangements, technical assistance, and institutional capacity building activities to attain and sustain Project objectives. The Project will strengthen the MoH's capacity to effectively respond to future pandemics and to address current challenges in outbreaks of other infectious and vaccine-preventable diseases. By investing in strengthening public hospital's equipment capacity and enhancing monitoring systems, the Project will contribute to strengthening Turkey's health system and ensure preparedness.

63. **Reporting and Monitoring.** EBRD and AIIB will conduct regular monitoring and supervision of the project implementation. EBRD will monitor the project through reviews of annual environmental & social reports and periodic lender supervisor reports as well as site visits, as necessary. AIIB will jointly supervise the project with the EBRD and participate in all implementation support missions once the prevailing travel restrictions are relaxed. Proper resources will be made available within AIIB to match the frequency of EBRD's implementation support missions

64. The PIU, with the consultants' support, will perform monitoring, evaluation, and reporting activities, and track progress toward Project outcomes and objectives against the Results Monitoring Framework.

D. Environmental and Social

65. **Environmental and Social Policy and Categorization.** The project will be co-financed with the EBRD as lead co-financier, and the project's environmental and social (ES) risks and impacts have been assessed in accordance with EBRD's Environmental and Social Policy (EBRD's ESP) and related Performance Requirements (PRs). To ensure a harmonized approach to addressing the ES risks and impacts of the project, and as permitted under AIIB's Environmental and Social Policy (AIIB's ESP), the EBRD's ESP and relevant PRs will apply to the project in lieu of AIIB's ESP. AIIB has reviewed the EBRD's ESP and PRs and is satisfied that: (i) they are consistent with AIIB's Articles of Agreement and materially consistent with the provisions of AIIB's ESP; and (ii) the monitoring procedures that are in place are appropriate for the project.

66. EBRD has assigned a category B under its ESP, which is equivalent to Category B under AIIB's ESP. The key ES risks and impacts are infection management, health and safety risks for patients, medical staff, laboratory staff and communities adjacent to health care facilities. These risks occur during the conduct of diagnostic tests and handling of medical waste. The project does not include any construction or refurbishments; however,

it will finance a substantial portion of the equipment needed for newly built pandemic hospitals in Istanbul.

67. **Environmental and social risks and impacts.** The Project is expected to have overall positive environmental and social impacts through the strengthening of the country's treatment capacity for current and future patients who suffer from COVID-19. The project activities are mostly confined to procuring goods and supplies for health facilities and laboratories. Key environmental issues associated with the project are medical waste management. The project might also cause environmental and health and safety risks because of the dangerous nature of the pathogen and reagents and other materials to be used in the project-supported ICUs, laboratories, and quarantine facilities which will be mitigated through the use of WHO guidelines and relevant international best practice. The main social risks result from insufficiently equipped healthcare facilities in the country that cannot contain the spread of the disease and provide the necessary treatment without additional support. There is a serious health risk for both health workers and the community at large. Land acquisition, economic and physical displacement, impacts on cultural heritage and sensitive habitats are not expected.

68. **Environmental and social instruments.** An Environmental and Social Commitment Plan (ESCP) has been developed for the Project and was disclosed on the MoH website on 16 April 2020⁹. The ESCP was prepared for another similar project financed by the World Bank and serves as an action plan/framework to identify and manage ES related risks and impacts. ES risks are also addressed through the Project's Environmental and Social Management Framework (ESMF), which is being prepared pursuant to the ESCP. The ESMF includes (i) an Infection Control and Waste Management Plan (ICWMP); (ii) Labor management procedures (LMP) addressing labor risks associated with the project including specific occupational health and safety (OHS) for healthcare workers (including facility management workers) to protect themselves and prevent infection while providing treatment in line with the World Health Organization (WHO) guidelines; (iii) mitigation measures during collection of samples and laboratory testing for COVID-19 or during the transport of potentially affected samples or persons in line with WHO guidance (iv) mitigation measures for water, sanitation, hygiene and waste management for COVID-19 in line with WHO guidance; (v) measures to prevent the wider community from exposure to the virus, with a particular focus on high-risk individuals. ES due diligence will be undertaken by AIIB building on the latest ES documentation and assessments that were undertaken by MoH and its consultants for the WB financed project. AIIB will cooperate with the EBRD to adapt the existing ES instruments and address any gaps that might be identified during the ES due diligence.

69. **Medical waste management.** Turkey has systems for ensuring appropriate medical waste management at the facility level, complementary to a countrywide medical waste management system. There is a National Pandemic Plan in addition to Guidance Note on COVID-19 released by MoH addressing waste management and occupational health and safety measures to be taken, which are detailed in the respective regulations. The capacity of MoH to handle medical waste and implement occupational health and safety practices, including Personal Protective Equipment (PPE) for health workers, has been established in accordance with good international practices and WHO guidelines, and found to be sufficient for regular (non-pandemic) circumstances. The usual medical waste treatment and disposal technologies used in Turkey are sterilization (autoclave) and subsequent disposal in landfills, and incineration. MoH confirmed that there are no capacity issues with respect to waste treatment and disposal. The healthcare facilities are also responsible for preparation of medical waste management plans (adopting waste minimization, segregation at the source, safe storage and collection and disposal) in line

⁹<https://pydb.saglik.gov.tr/TR,65063/environmental-and-social-commitment-plan-escp.html>

with the regulation. Healthcare employees also receive regular trainings on medical waste management practices. MoH ensures appropriate management of medical wastes and occupational health and safety risks through periodic audits within the scope of quality management standards set forth for the healthcare facilities. Wastewater is discharged into municipal wastewater collection systems to be treated in a wastewater treatment plant in compliance with Turkish law. The MoH has confirmed that the country's medical waste treatment capacities are still sufficient under the COVID-19 situation.

70. **Stakeholder engagement, consultation, and information disclosure.** A Stakeholder Engagement Plan (SEP) was developed for the project and it was disclosed on the MoH website in April 2020¹⁰. This is a living document and is expected to be updated to reflect the latest information on the Project. Stakeholder engagement and consultation activities are taking place in line with relevant COVID-19 guidelines related to social distancing issued by the Government. The SEP covers both the preparation and implementation phase and provides for meaningful and inclusive consultation activities where the participation of women, elderly and vulnerable groups are encouraged. A grievance redress mechanism (GRM) is also included in the SEP. The MoH has a free hotline through a call center which is available 24/7 and accessible from everywhere in the country. The MoH has also been using this as a GRM for people to raise concerns. It serves both health workers as well as the wider public on questions, health emergency situation, grievances and other requests related with health services. An email address has also been set specifically to receive concerns from MoH employees.

71. The ES documentation in English and summary in Turkish has been disclosed by the MoH on its website (see footnotes 9 and 10) and in hard copies in the Project areas. This documentation has also been disclosed on the AIIB's website thru links to the documentation on the MoH website. The ESMF will likewise be disclosed once this is completed.

72. **Gender aspects.** EBRD will provide technical assistance for Gender and Economic Inclusion through a post-signing Technical Cooperation aimed at developing action plans to provide a training program to healthcare workers and engage in policy dialogue to support the MoH in fostering an inclusive healthcare workforce. AIIB will coordinate with EBRD to provide technical input to the Terms of Reference (ToR) and support the work of the consultants as appropriate.

73. **Independent Accountability Mechanism (IAM).** The Project has been prepared in accordance with the EBRD Environment and Social Policy (EBRD ESP) and related EBRD Performance Requirements (EBRD PRs). In order to ensure a harmonized approach, and as permitted by the Bank's Environmental and Social Policy (AIIB ESP) and related Environmental and Social Standards (AIIB ESSs), the EBRD ESP and EBRD PRs will apply to this Project instead of the AIIB ESP and AIIB ESSs. The Bank intends to rely on EBRD's Independent Project Accountability Mechanism (IPAM), in lieu of the Bank's Project-affected People's Mechanism (PPM), to handle submissions by project-affected people relating to environmental and social issues that may arise under the Project. For this purpose, the Bank is currently discussing a framework agreement with the EBRD. Should the agreement not materialize within a reasonable time, the Bank would rely on the Bank's PPM to handle submissions brought to it relating to environmental and social issues under the Project.

For information on the AIIB PPM, please visit: <https://www.aiib.org/en/policies-strategies/operational-policies/policy-on-the-project-affected-mechanism.html>

¹⁰<https://pydb.saglik.gov.tr/TR.65062/covid-19-saglikta-acil-durum-projesi.html>

E. Risks and Mitigation Measures

Table 2: Summary of Risks and Mitigating Measures

Risk Description	Assessment Ratings (High, Medium, Low)	Mitigation Measures
<p>Macroeconomic Risk</p> <p>1) Risk of a severe macroeconomic downturn induced by the COVID-19 pandemic.</p> <p>2) The outlook for the Turkish economy in the short term is largely dictated by the biological trajectory of the virus, and the response by authorities.</p>	Medium	<p>1) Despite the short-term negative outlook, Turkey has strengths, including favorable GDP per capita, moderate public debt level, a young growing population, favorable demographics, vibrant private sector, and resilient banking sector.</p> <p>2) The extent of COVID-19's negative impact is currently unclear. The country is engaging in a substantial fiscal and monetary stimulus to offset the impact of the COVID-19 pandemic. Turkey is a net energy importer and the low oil price environment is beneficial. The most recent IMF projection is negative 5% GDP growth in line with global expectations for recession due to COVID-19. Turkey is expected to recover in 2021.</p> <p>3) Turkey has never defaulted on any IFI loans.</p>
<p>Procurement Risks</p> <p>1) Potential procurement deviation from EBRD procurement policy due to misinterpretation or lack of prior review of procurement processes.</p> <p>2) Procurement staff are overloaded due to parallel implementation of multiple ongoing projects.</p> <p>3) Delayed decision-making process within MoH.</p>	Medium	<p>1) Two procurement specialists and one medical expert will be mobilized to the project team in a timely manner.</p> <p>2) EBRD conducting prior review of all the contracts.</p> <p>3) Intensified communication among the PIU, participating GDs, and high-level management of MoH.</p> <p>4) Necessary and timely procurement support and guidance from EBRD and AIIB.</p>

<p>Environmental and Social Risks</p> <p>1) Limited capacity of the MoH to implement ES management framework and plans.</p> <p>2) The Project is associated with specific environmental and social issues related to the generation of medical waste (including wastewater) and increased infection risk due to the nature of the COVID pathogen.</p>	Medium	As a result of the due diligence, an Environmental and Social Commitment Plan (ESCP) which prescribes an Environmental and Social Management Framework (ESMF) has been agreed with the government to ensure the Project is structured to meet the Bank's requirements.
<p>Implementation Risk</p> <p>1) The purchase of hospital equipment under the Project will be partly through direct contracting by the Government due to the emergency nature of the situation.</p> <p>2) The Project will be implemented by the PIU without previous experience with EBRD PP&R</p>	Medium	<p>1) Direct contracting will not exceed 25% of the loan proceeds.</p> <p>2) The TA assignment funded by the EBRD will provide two procurement experts and one medical expert to support MoH in the implementation and monitoring of the Project.</p>
<p>Financial Management Risk</p> <p>Large volume of assets procurement exposed to higher fiduciary risks</p>	Medium	The PIU, with implementing GDs, which are responsible for all stages of procurement, is subject to the Public Financial Management and Control Law, which stipulates adequate internal controls over expenditures. Proper documentation and timely system processing will further enhance the control.

Annex 1: Results Monitoring Framework

Project Objective:	To support the Government of Turkey in strengthening its healthcare emergency response in public hospitals against the COVID-19 pandemic.				
Indicator Name	Unit of measure	Base-line Data Year (2020)	End Target (2021)	Frequency	Responsibility
Project Objective Indicators¹:					
1. Upgrading of the quality of physical infrastructure in designated Istanbul pandemic hospitals and selected public hospitals.	-	N	Y	annual	MoH
2. Net increase in access to Health infrastructure (2,000 beds in Istanbul Pandemic Hospitals as well as public hospitals across the country as per changing conditions).	No. of beds	0	2,000	annual	MoH

¹ POIs were adopted from the lead co-financier (EBRD)'s Monitoring indicators

Annex 2: Detailed Project Description

The Government of Turkey (GoT) has mounted a comprehensive COVID-19 response strategy and Pandemic Action Plan that includes prevention, detection, and response measures. The Minister of Health (MoH) established a science committee that serves as an advisory body providing scientific evidence and guidance to policy makers. International financial institutions, including AIIB, have undertaken initial concerted efforts to provide strong, coordinated support to countries and private sector entities affected by COVID-19. Several multilateral development banks have announced emergency response packages to support their members and clients who are affected by the crisis. The World Bank has approved an emergency project of US\$100 million to support the Turkey's COVID-19 emergency healthcare response program. Given the rapidly expanding pandemic globally and in Turkey, it is indicated that the funds allocated are likely to be insufficient for the activities planned. Based on the request from the GoT, EBRD and AIIB are joining forces to fill in the financing gaps and support the Government's COVID-19 Response Strategy and Pandemic Action Plan.

The proposed project has two components¹: (1) strengthening National Health system for Emergency COVID-19 Response by upgrading designated pandemic hospitals in Istanbul and public hospitals across Turkey through procurement of medical equipment and (2) Project Management Support as well as Gender and Economic Inclusion.

Component 1. Strengthening National Health system for Emergency COVID-19 Response (Part A, co-financed)

Sub-component 1.1 Strengthen diagnostic and treatment capacity for designated pandemic hospitals in Istanbul

This component will support the government to procure diagnostic and treatment equipment for the hospitals that has been recategorized and reorganized to ramp up response to COVID-19. The equipment procured under the project will enhance the epidemiological capacity for early detection and confirmation of cases.

Sub-component 1.2 Strengthen diagnostic and treatment capacity for public hospitals across Turkey

¹ The lead co-financier (EBRD) have categorized the Project into three parts in the Loan Agreement as below.

- (i) Part A (Component 1): Capital expenditures: Financing the purchase of medical equipment
- (ii) Part B (Component 2): Consultancy services: Financing consultants to support the PIU (procurement specialists) and the MoH (Gender and Economic Inclusion)
- (iii) Part C (Sub-component 2.2): Technical Co-operation: Financing consultants to support the MoH in addressing its Gender and Economic Inclusion agenda

This component will enable Turkey to procure essential diagnostic and treatment equipment to manage COVID-19 patients in public hospitals nationwide. It will assist in fortification of disease detection capacities through strengthened laboratory and diagnostic systems to ensure prompt case finding and local containment. Enhanced capacity for detect and case management will not only forge a strong response to current COVID-19, but also increase Turkey's resilience to future disease outbreaks.

Component 2. Project Management Support as well as Gender and Economic Inclusion (Part B and C, financed by EBRD)

Sub-component 2.1 Strengthen management of project implementation

This component will support the administrative and human resources, especially procurement specialists, needed to implement the project and monitor and evaluate implementation progress.

It will finance two procurement specialists' costs. The Project Implementation Unit (PIU) under MoH will be responsible for support the overall coordination, monitoring, and evaluation of the Project activities. The PIU will be supported by PMSU that is already implementing the ongoing World Bank-financed Turkey Medical Emergency project.

Sub-component 2.2 Gender and Economic Inclusion

This component focuses on gender and economic inclusion. It will support the government's programs reach to high risk groups including the poor and elderly. It will pay attention to women's access to services as well as women's participation to the workforce.

Component 2 (Part B and C) will be fully managed by the lead co-financier (EBRD). It will be funded by the EBRD loan and a grant.

Annex 3: Sovereign Credit Fact Sheet¹

Background

Turkey is an upper-middle-income country with income per capita of about USD10,400 and a population of 82 million as of 2018. It is the 18th largest economy in the world.

When the COVID-19 pandemic hit in early 2020, Turkey was recovering from a downturn that started in 2018. The slump was precipitated by large macroeconomic imbalances due to earlier expansionary policies—namely, a large fiscal stimulus package (including sizable public-private partnership investments) and a policy-driven credit program. Growth was high, above 7 percent in 2017, but at a price of large and widening twin deficits. In late 2018, as the US Federal Reserve was tightening monetary policy, the market sentiment deteriorated abruptly, leading to large capital outflows, large lira depreciation, a surge in inflation, and an economic recession. Growth slowed to 2.8 percent in 2018 and further to 0.9 percent in 2019.

During 2019, market sentiment recovered, and economic conditions started to improve, supported by another coordinated fiscal and monetary stimulus. The fiscal deficit widened to over 5 percent of GDP and the central bank (CBRT) cut interest rates several times. The banking sector resumed fast credit growth—led by major state banks, the share of which in the lira loan market reached almost 50 (most recent data), up from 32 percent in early 2016. A 15 percent hike in the minimum wage further stimulated private consumption.

As imports contracted due to recession and depreciation, Turkey recorded its first current account surplus in 15 years in 2019. This, and the returning capital flows, helped rebuild international reserves, which increased to USD106 billion by end-2019. As a result of the fiscal expansion, the public-debt-to-GDP ratio climbed to 32 percent of GDP in December 2019.

Turkey: Selected Macro Indicators 1/	2017	2018	2019	2020*	2021*	2022*
Real GDP growth 2/	7.5	2.8	0.9	-5.0	5.0	3.0
Inflation (average) 2/	11.1	16.3	15.2	12.0	12.0	11.0
Current account balance	-4.8	-2.7	1.1	0.4	-0.2	-1.7
General government balance 3/	-2.2	-3.7	-5.3	-7.5	-6.7	-5.7
Nominal gross public debt	28.2	30.1	32.2	36.0	38.1	39.8
Public gross financing needs	5.0	6.5	7.5	11.8	11.6	10.8
Gross external debt	53.4	57.6	61.3	64.0	58.4	55.9
Gross external financing needs	25.0	26.8	23.5	24.8	23.0	21.7
Gross international reserves (USD billion)	107.7	93.0	106.3	87.6	92.3	101.7
Broad money growth 2/	16.4	18.4	--	--	--	--
Exchange rate (TRY/USD) 4/	3.79	5.29	5.95	6.85	--	--

Source: CBRT, Ministry of Trade and Finance, IMF Report 19/395, and World Economic Outlook 2020, AIIB staff projections.
Notes: 1/ In percent of GDP, except where noted; * 2020-22 are projections; 2/ percent change, year-on-year; 3/ IMF definition (excluding one-offs); 4/ TRY=Turkish lira, data is end of period; for 2020 as of June 29

¹Updated as of June 30, 2020. All figures in this factsheet are based on the IMF report for Turkey (CR19/395), the IMF's World Economic Outlook April 2020 and AIIB staff estimations and projections.

Recent Economic Developments

COVID-19 will impact the entire economy, with a decline in tourist arrivals, falling domestic activity due to social distancing measures, lower external demand on export, and constrained liquidity—all contributing to the downturn. The most recent IMF projections see Turkey's economy contracting by 5 percent in 2020. Inflation is projected to remain stable, but in double digits, until 2022, which is well above the central bank's target.

Policy reaction to the pandemic was a generically appropriate monetary easing, liquidity provision, and fiscal support. However, Turkey is not coming to the pandemic from the position of strength, and such policies may be less affordable than otherwise.

Deterioration in external demand pushed Turkey's current account into a USD4.9 billion deficit in March 2020, the widest in almost two years. Large capital outflows have led to a decline in international reserves, as CBRT has been intervening to prevent a disorderly depreciation of the lira. Gross reserves fell by almost 20 percent to USD85.8 billion and remain some 30 percent below the minimum level recommended by IMF's adequacy metrics. Net reserves, excluding foreign liabilities and off-balance sheet swap positions, are reportedly close to zero or negative. To mitigate capital outflows, the Banking Regulation and Supervision Authority (BRSA) capped banks' swap positions to discourage the shorting of the lira in the offshore market.

That said, so far the CBRT has had some success in securing foreign exchange (FX) swaps with foreign central banks, domestic banks have been able to tap their robust banking relationships to rollover maturing obligations, and the lira has found a temporary respite.

Economic Outlook and Risks

The current calm remains fragile, and vulnerabilities persist, including low reserve buffers, large external financing needs, and stressed bank and corporate balance sheets. The IMF expects the Turkish economy to rebound by 5 percent in 2021. This outlook is conditional on COVID-19 being contained in the second half of the year, financing conditions easing as well as private consumption and investment recovering.

Going forward, Turkey's public debt is projected to increase in 2020 to about 36 percent, due to a higher fiscal deficit resulting from the economic shock and is not expected to come down over the medium term. Large quasi-fiscal operations in recent years, as well as ongoing financial stress, increase Turkey's exposure to a contingent liability shock, but this should be manageable. External debt is projected to temporarily increase to 64 percent in 2020 (from 61.3 percent in 2019) due to depreciation and a lower increase in nominal GDP.

Debt Sustainability

Regarding longer-term debt sustainability, there are two strong points to Turkey's position:

- (i) A large diversified economy with a young population and entrepreneurial spirit indicating a lot of growth potential; and
- (ii) Relatively low public debt thanks to a fiscally conservative mindset that has originated from the experience of the 2001 crisis.

These two strengths had earned Turkey an investment-grade status from Moody's in 2013. However, since mid-2016, Turkey's creditworthiness has deteriorated, and its credit rating is now at B+. Some of the most cited internal and external reasons behind this deterioration were:

- (i) Increasing reliance on short-term stimulus directed credit, external and short-term debt and unorthodox policies, and a weakening fiscal discipline
- (ii) Rising vulnerability to external shock, both real and financial
- (iii) Rising global uncertainty and volatility; rising geopolitical risk, as well as the general regional instability

In the short and medium term, key debt vulnerabilities are related to:

- (i) Very high external gross financing needs—every year Turkey needs to roll over external debt equivalent to almost a quarter of GDP
- (ii) Low foreign exchange reserves (in relation to the needs)—effectively usable FX reserves (i.e., net of gold and commercial banks swaps/deposits) could be as low as 20 percent of short-term debt, which exposes Turkey to the destabilizing effect of capital outflows. It also reduces confidence in the stability of the economy.
- (iii) Private sector vulnerabilities which can morph into contingent liabilities (and ultimately government debt). First, the external debt of corporations is high, which exposes their balance sheets to the risks of depreciation. Second, the banking sector's vulnerabilities include rising nonperforming loans (due to depreciation's effect on corporate performance) and dependence on wholesale FX funding and short-term deposits. Given the discretion in recognizing loan impairments, the IMF recommended a third-party asset review in order to further strengthen confidence in banks' asset quality. On the positive side, capitalization remains adequate (in both Government owned and private banks), and profitability is high.

Depending on the severity of the impending recession and global conditions, one cannot rule out that the COVID-19 pandemic will push Turkey into balance of payment difficulties. Capital outflows have been large, the lira has depreciated by more than 15 percent by mid-May 2020, despite the CBRT interventions to defend the currency, which led to a decline in reserves.

That notwithstanding, the government's strong balance sheet, low debt (only about 30 percent of GDP), and continued access to financial markets seem to trump sustainability concerns so far. Over longer horizons, Turkey's economy is expected to grow but remain vulnerable to swings in confidence and external conditions. The IMF notes that Turkey's public debt remains below vulnerability thresholds under the baseline and most shock scenarios and, similarly, Turkey's external debt remains sustainable under the baseline (although it is vulnerable to currency depreciation). At the same time, IMF warns that public debt is on an upwards trajectory and is not expected to stabilize over the medium term.

Deliberately blank