



Partnership for Economic Inclusion

IE Collaborative

Technical Workshop

October 11-12, 2022



Impact of firms access to finance and skills on formal employment creation in Türkiye

Country: Türkiye

Name of Project: Formal Employment Creation Project

Research Team:

- Sirma Demir Seker, Mattia Makovec, Daniel Garrote Sanchez, Aysenur Acar.

Operational Team:

- Sirma Demir Seker, Mattia Makovec, Daniel Garrote Sanchez, Aysenur Acar, Bilgen Kahraman

Government agencies involved: TKYB (Development and Investment Bank of Turkey- Kalkinma)

Background and context

- Stagnation of the Turkish labor market since 2014 after a decade of robust growth.
- Insufficient formal job creation to absorb labor supply, raising unemployment, in particular among the youth.
- The influx of 3.6 million Syrian refugees since 2011 added pressures on the local labor markets, with a higher concentration in more disadvantaged provinces.
- High informality rates in the Turkish economy, in particular among refugees (factors like social assistance requirements disincentivize formalization).
- Main barriers to formal job creation include access to finance, in particular longer-term instruments, and shortages of certain skills demanded by firms.
- The project objective is to support the conditions for formal job creation by firms operating in 24 provinces with high incidence of refugees. In particular, it aims at:
 - Supporting firms' access to longer-term financing through grants and loans
 - Increasing skills: provision of management capacity-building activities to loan beneficiary firms and training activities for employees of grant beneficiary firms.

Project design

The project design consists of three components:

- I. Loans to firms with an already consolidated record of sustained job creation and greater capacity to expand business and generate markets (€314.6 million in total)
 - Direct lending (€ 125.8 million): TKYB provides loans to large enterprises (LEs) directly
 - Apex lending (€ 188.7 million): Loans to SMEs through Participating Financial Institutions (PFIs)
- II. Grants conditional on job creation to firms with high job creation potential (€75.96 million from the EU under the FRIT Program)
 - Applications require an employment and business plan.
 - Applications are evaluated by a grant evaluation committee (TKYB + independent evaluators).
 - Firms receive a score according to an evaluation grid which takes into account the financial capacity, the number of expected jobs created, cost-effectiveness and sustainability of job creation.
- III. Technical and institutional support.
 - Skills building for loan beneficiary firms (to managers) and grant beneficiary firms (to new workers)
 - Capacity building for the implementation of sub-loans (to TKYB and PFIs) and sub-grants (TKYB)

Project innovation and scale

- Most previous employment programs for refugees in the region focus on labor supply
- Demand-side interventions are mostly small scale (e.g., supporting micro-entrepreneurship or public works).
- This project is one of the first to provide financing to firms to support jobs for refugees.
- Unique features: combining loans, grants, capacity building and training to firms.
- The project provides an opportunity to evaluate the effectiveness of giving access to finance as a policy tool to support refugee employment:
 - It can shed light on the appropriateness of combining financing and skill training, and on the sustainability of job creation for vulnerable groups once financial incentives are removed.
- Room for scalability from the current 24 targeted provinces.
- Given its pioneer nature, it can inform other projects to provide access to finances to create employment in areas with a high influx of refugees.

Motivation for the impact evaluation

- Key policy issues that motivate the impact evaluation:
 - Is firms' access to finance a key binding constraint to refugee employment?
- Knowledge gaps that the study aims at addressing:
 - Bundling: Is the combination of financing and skill provision more effective in creating and retaining jobs, in particular for vulnerable groups like refugees?
 - Spillovers: Are there significant spillovers of financing to certain firms other non-beneficiary neighboring firms? Does training to certain workers spillover to other non-beneficiary workers in the same firm?
 - Time dynamics: How do impacts vary over time? Are they sustained once financial incentives are removed? We will evaluate short term impacts (18 months that the program last) and potentially longer-term ones if data allows
 - Resilience: Given the current weak economic conditions in Türkiye, the program evaluation can provide lessons to understand the impact of providing access to finance on firms' and jobs' resilience, for example on their survival rates

Main Policy Research Questions

- Does access to financing instruments increase formal employment of both refugees and Turkish citizens?
- Is that impact sustainable in the long term once the financial stimuli are removed?
- Does access to long term financing instruments increase average maturity and firms' survival in a context of weak economic activity?
- Do skill training to newly hired workers increase their likelihood of remaining employed once financial incentives for hiring are removed?

Methodology (1): Impact of the grant

- Evaluation of the grant component can be done with a Regression Discontinuity (RD) given the characteristics of the program design:
 - Evaluation committee (including independent assessors) give scores to each application based on an evaluation grid.
 - Applications are ranked based on the evaluation of proposals.
 - The treatment follows a deterministic rule: $T_i = T(x) = \begin{cases} 1, & \text{score}_i \geq \text{Cutoff}_g \\ 0, & \text{score}_i < \text{Cutoff}_g \end{cases}$
 - ~770 firms expected to be selected (€14 mill to SE, €22 to ME and €34 to LE)
 - Over-subscription (1,145 applications) necessary to use this methodology
 - The impact can be assessed with the following regression: $Y_i = \alpha_i + \delta T_i + \beta \text{score}_i + \gamma X_i + \varepsilon_i$
 - Y_i is the outcomes of interest; δ measures the impact of the grant; X_i is a set of firm level characteristics (such as firm size, or year when it started operating); and ε_i is the error term.

Methodology (2): Impact of skill training

- About 1/2 of newly hired workers of grant beneficiary firms (~4,500) are expected to participate in face-to-face and distant learning trainings
- The design and content of the skill development has not yet been developed, but it is expected to include modules that enhance socio-emotional and technical skills.
- A proposed design (to be agreed with TKYB):
 - Double randomization:
 - i. Random set of beneficiary firms participate in the training program (T1)
 - ii. Random set of workers in selected firms participate (E1)
 - This framework allows assessing the direct impact of the training and the indirect (spillover) effects which can be substantial (Angelucci and De Maro, 2016)
 - Average Treatment Effect (ATE) = $E(Y1-Y0|T=1,E=1) = E(Y|T=1,E=1) - E(Y|T=0)$
 - Indirect or spillover Effect (ITE) = $E(Y1-Y0|T=1,E=0) = E(Y|T=1,E=0) - E(Y|T=0)$

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Key Outcomes

Outcome	Level	Source
Number of formal employees	Firm	Administrative source (social security institution SGK)
Number of newly created jobs	Firm	Administrative source (social security institution SGK)
Number of layouts	Firm	Administrative source (social security institution SGK)
Sales, revenues and profits	Firm	Administrative source
Employees skills	Individual	Baseline and endline survey
Firms' survival rates	Firm	Administrative source
Perceptions of Syrian workers	Individual	Baseline and endline survey

Open questions on IE design/ implementation

- Is the grant program uptake large enough (1,145) given that about 770 firms are expected to be selected?
- A key assumption for the validity of the RD design is that firms cannot manipulate their score to obtain the grant. How feasible is that independent evaluators are not influenced? (2 to 3 assessors evaluate each application and WB supervises)
- Key challenge to design the training. Can trainings across firms and workers be randomized? (depending on implementing partners' buy-in)? What type and duration of trainings are more effective and what are their costs?
- The grant rules create discontinuities across firm size in both the amount of grant (€15,000 - 45,000 for SEs, €25,000 - 125,000 for MEs, €40,000 - 300,000 for LEs) and stringency of employment conditionality (min 2 jobs for SE, 3 for ME & 5 for LE)
- Can these discontinuities be used to assess the impact of exogenous changes in grant size and conditionality on the different outcomes?

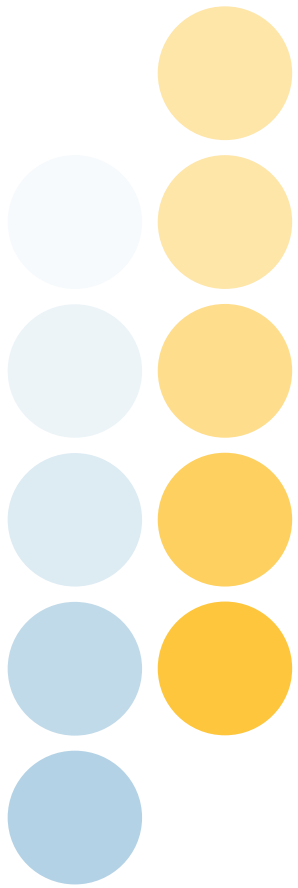
Program implementation challenges

- Challenges derived from the COVID-19 pandemic and the weak economic activity (depreciation of the Turkish Lira (50% during the last year) and 20% inflation rate) limited the program uptake.
- E&S requirements exert a strong fixed cost for firms, PFIs and TKYB, resulting in delays and potentially lower demand.
 - Strong investment in E&S capacity building
- Potential challenges linking beneficiary firms to a pool of qualified refugees given information asymmetries.
 - Collaboration with NGOs like Turkish Red Crescent (Kizilay) with refugee skill passports to facilitate the matching process
- Sustainability of the program: Can firms sustain employment, in particular of refugees, once the 18-month conditional period of employment is over? (e.g., in 3 years).

Timeline and next steps

- August 2022 - January 2023: Evaluation of sub-grant applications
- February 2023: Contract signing
- March 2023 - September 2024: Project implementation, monitoring and disbursement
- March 2023 - June 2023: Skill development trainings

Process	2022																				2023											
	August				September				October				November				December				January				February				March			
	Week-1	Week-2	Week-3	Week-4	Week-5	Week-6	Week-7	Week-8	Week-9	Week-10	Week-11	Week-12	Week-13	Week-14	Week-15	Week-16	Week-17	Week-18	Week-19	Week-20	Week-21	Week-22	Week-23	Week-24	Week-25	Week-26	Week-27	Week-28	Week-29	Week-30	Week-31	Week-32
Evaluation Process and Contract Signing	Administrative Check and Eligibility Controls				Technical and Financial Evaluation by Independent Assessors				Grant Evaluation Committee		Budget Revision		World Bank The 1 st No Objection		Environmental and Social Assessment				World Bank The 2 nd No Objection		Notification Decision of Awarding		Contract Signing				First Monitoring Visits				First Disbursement	
Consultant	Administrative Check and Technical Evaluation Consultant - WEGLOBAL												E&S Consultant				WEGLOBAL				M&E Consultant											



Daniel Garrote Sanchez
Extended Term Contract
Social Protection & Jobs - ECA

Thank you!



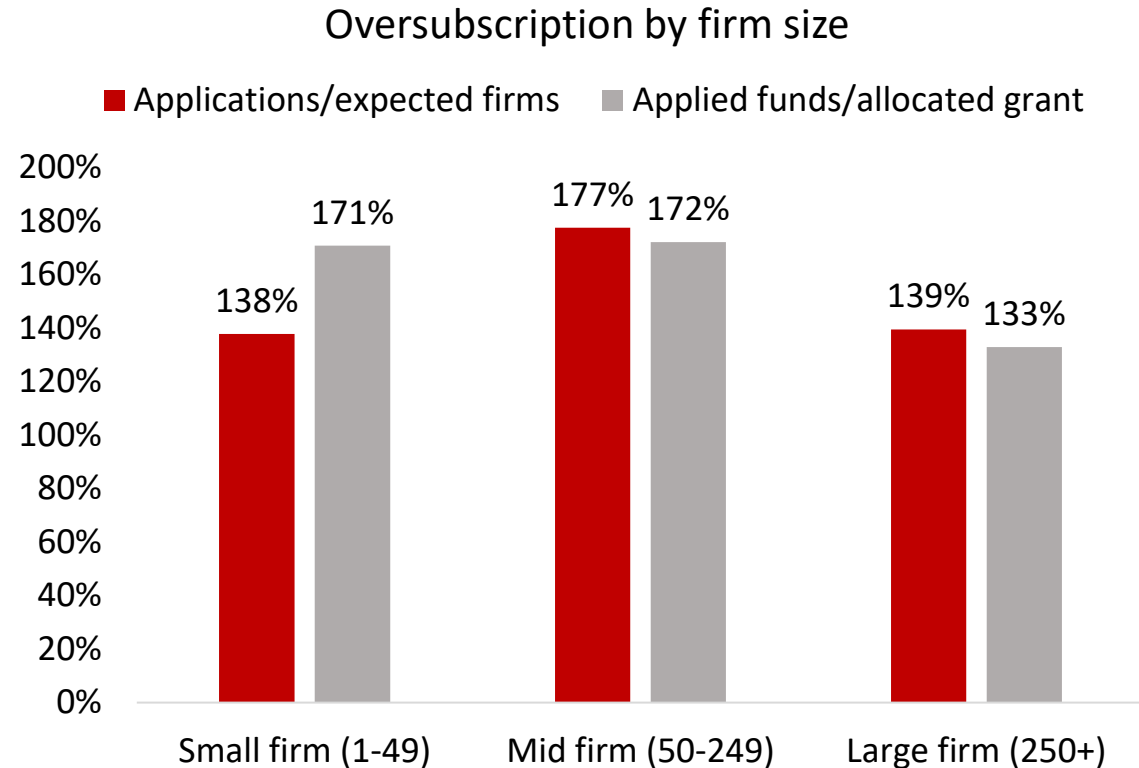
PEI FUNDING PARTNERS



Implemented by



Methodology (1): Impact of the grant



Evaluation grid

<u>SUB-GRANT EVALUATION GRID</u>		
Enterprise size of the applicant firm (Small/Medium/Large)	Small/Medium/Large	
Section		Maximum Score
1. Relevance		10
2. Financial and Operational Capacity		15
3. Methodology (Formal Employment): Number and type of jobs created		45
4. Cost-effectiveness		15
5. Sustainability		15
Maximum total score		100