



## 1. Project Data

**Project ID**  
P174112

**Project Name**  
Emergency Firm Support Project

**Country**  
Turkiye

**Practice Area(Lead)**  
Finance, Competitiveness and Innovation

**L/C/TF Number(s)**  
IBRD-91580,IBRD-91590

**Closing Date (Original)**  
30-Jun-2024

**Total Project Cost (USD)**  
500,000,000.00

**Bank Approval Date**  
28-Aug-2020

**Closing Date (Actual)**  
30-Jun-2025

|                     | <b>IBRD/IDA (USD)</b> | <b>Grants (USD)</b> |
|---------------------|-----------------------|---------------------|
| Original Commitment | 500,000,000.00        | 0.00                |
| Revised Commitment  | 500,000,000.00        | 0.00                |
| Actual              | 500,000,000.00        | 0.00                |

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## 2. Project Objectives and Components

### a. Objectives

According to the Project Appraisal Document (PAD) (page 2), the Loan Agreement with Turkiye Vakiflar Banksati T.A.O. (page 5), and the Loan Agreement with Turkiye Kalkınma ve Yatırım Bankası A.Ş. (page 4), the project development objective (PDO) of the Turkiye Emergency Firm Support Project was "to ensure access to finance for private small and medium enterprises (SMEs) affected by or adapting to the economic impact of COVID-19."



**b. Were the project objectives/key associated outcome targets revised during implementation?**

No

**c. Will a split evaluation be undertaken?**

No

**d. Components**

The project had two components.

**Credit Line to Turkiye Vakiflar Banksati T.A.O. (VakifBank) for Direct Lending to SMEs (US\$250 million estimated at appraisal and disbursed at closing)** – VakifBank, a development and investment bank of the Republic of Turkiye, would lend directly to two groups of eligible SMEs: (a) SMEs highly affected by the crisis, employing fewer than 250 workers, and experiencing at least a 20 percent decline in gross sales in Q2-2020 compared with Q2-2019 (Target Group 1); and (b) underserved and highly impacted SMEs in categories particularly vulnerable to credit rationing, namely women-inclusive enterprises, young enterprises, and firms in less developed regions, and that also experienced at least a 20 percent decline in gross sales over the same period (Target Group 2). The component would allocate at least 40 percent of the funds to Target Group 2, and a minimum 80 percent of total funds to Target Groups 1 and 2 combined.

**Credit Line to Turkiye Kalkınma ve Yatırım Bankası A.Ş. (TKYB) for Wholesale Lending to PFIs (US\$250 million estimated at appraisal and disbursed at closing)** – TKYB, a development and investment bank of the Republic of Turkiye, would on-lend funds to participating financial institutions (PFIs), including commercial banks, leasing companies, and factoring companies, through a wholesale lending structure to serve SMEs. In addition to financing SMEs in Target Groups 1 and 2, PFIs would also extend credit to firms adapting to COVID-19 conditions, such as SMEs introducing new resilience measures, products or services, marketing channels, or business solutions (Target Group 3). The credit line would operate under an open-door, first-come-first-served approach for eligible PFIs, selected based on jointly agreed criteria and subject to a “no-objection” clearance from the World Bank. This structure was designed to broaden participation among banks and leasing companies, foster competition, and manage exposure by limiting each PFI’s allocation to a maximum of US\$60 million. Under this arrangement, PFIs would bear the full credit risk for all sub-loans issued to SMEs. The component required that at least 30 percent of funds be allocated to Target Group 2 and at least 60 percent combined to Target Groups 1 and 2. To mobilize private capital, PFIs were also required to co-finance a minimum of 10 percent of each sub-loan provided to firms in Target Group 3.

**e. Comments on Project Cost, Financing, Borrower Contribution, and Dates**

**Project Cost.** The project was estimated to cost US\$500 million at appraisal.

**Financing.** The project was financed by an International Bank of Reconstruction and Development (IBRD) loan of US\$250 million to VakifBank, and a similar IBRD loan of US\$250 million to TKYB, both with the guarantee of the Republic of Turkiye.

**Borrower Contribution.** There were no contributions by VakifBank or TKYB to the project financing.



**Dates.** The project was approved on August 20, 2020, became effective on December 19, 2020, and closed as scheduled on June 30, 2025.

**Restructuring.** The project was restructured once, on December 21, 2023, with US\$409.4 million (81 percent) of the project funds disbursed, to extend the project closing date by one year, from June 30, 2024, to June 30, 2025, to allow for the full disbursement of credits to final beneficiaries under the TKYB loan. According to the Ministry of Treasury and Finance (MOTF) and TKYB, the extension was justified because demand from PFIs had fallen due to COVID-19, market and macro-financial conditions were volatile, the February 2023 earthquakes caused additional disruptions, and PFIs and SMEs were not yet fully prepared to meet the project's environmental and social requirements.

Although not formally processed through a restructuring, the Government and the Bank agreed to four additional changes to the project design during implementation.

- Adjustment to the Definition of Target Group 2 (February 2022). The requirement that Target Group 2 firms show a 20 percent drop in sales between Q2 2019 and Q2 2020 was removed, making it easier for women-inclusive enterprises, young firms, and businesses in less-developed regions to qualify. VakifBank and TKYB had difficulty finding firms that met all the original criteria, and the Bank agreed that these groups were disproportionately affected by COVID-19 regardless of documented sales declines. The criteria for determining whether firms were financially viable did not change with this redefinition. Banks still had to verify each firm's viability by confirming profitability in pre-COVID financial statements and applying their regular credit underwriting procedures. The Project Operations Manuals also required firms to meet specified financial obligation-to-equity ratios and debt-service coverage ratios to ensure they could repay loans without becoming overleveraged. The project's low non-performing loan (NPL) rate demonstrated that loans were not issued to firms unable to meet repayment obligations.
- Revision of the Environmental and Social Commitment Plan (2022). TKYB updated its Environmental and Social Commitment Plan (ESCP) to clarify roles and responsibilities for managing environmental and social issues, helping address implementation challenges and strengthen project performance.
- Inclusion of Earthquake-Affected SMEs (May 2023). Following the February 6, 2023, earthquake in southern Türkiye, which severely affected 11 provinces, SMEs in the impacted metropolitan areas were added as eligible beneficiaries under Target Group 2. This adjustment, made at the request of VakifBank and TKYB and in consultation with the Bank, responded to strong demand for financing from SMEs in the earthquake-affected regions.
- Streamlining of E&S Review Process (September 2024). Citizen engagement survey results indicated challenges with E&S compliance, with over 51 percent of respondents reporting that the requirements were demanding. In response, TKYB streamlined procedures to ease compliance and accelerate disbursements.

### 3. Relevance of Objectives

#### Rationale



The COVID-19 pandemic struck Türkiye's economy hard as it struggled to recover from a currency crisis in 2018 and a sizable downturn in 2019 (GDP growth fell to 1.3 percent in 2019 from 7.8 percent in 2017). Private consumption collapsed, the Turkish lira depreciated further, import costs soared, and the foreign-currency debt burden worsened. GDP was projected to contract by up to 3.8 percent in 2020, putting an estimated 3 million formal and 900,000 informal jobs at risk and leaving nearly 3 percent of the population vulnerable to falling into poverty.

The shock left many firms, already weakened from the prior recession, with urgent liquidity needs. SME lending had been declining even before the pandemic, and nearly 29 percent of firms identified access to finance as their main growth obstacle. The crisis worsened these constraints, pushing many SMEs toward insolvency and raising the risk of bankruptcies. Financial access challenges were especially acute for smaller businesses. Over 70 percent of small firms reported moderate to severe financing obstacles, and the SME sector faced an estimated US\$38 billion additional financing gap.

Underserved segments were hit hardest. Women-inclusive and young firms, already facing structural credit constraints, were even less likely to secure liquidity under tightened market conditions. In 2019, women-led firms were 10 percentage points less likely than male-led firms to have a loan or credit line (25 percent vs. 35 percent), faced stricter collateral requirements, and more frequently identified access to finance as their top barrier. Shorter credit histories, limited collateral, and both conscious and unconscious bias contributed significantly to the gender gap in SME lending in Türkiye. These vulnerabilities, coupled with SMEs' outsized contribution to employment (accounting for more than three-quarters of jobs in the services sector), highlighted the urgent need for targeted financial support during the crisis. A dedicated financing window for underserved SMEs, particularly women-led and women-inclusive firms, would help address and reduce gender bias in access to credit.

**Binding Constraint.** The credit lines to VakıfBank and TKYB for direct and wholesale lending to SMEs would not only address the immediate liquidity pressures created by the COVID-19 pandemic but also tackle longer-standing structural challenges in SME access to finance that predated the crisis. While Türkiye's financial sector had grown and improved in recent years, access to finance remained the single greatest barrier for private businesses, especially for SMEs and women-led companies. The World Bank Enterprise Survey (2024) revealed that one in four firms struggled to access finance, and that this was the top operational obstacle for growth. While the share of firms reporting severe financial constraints declined from 29 percent in 2019 to 25 percent in 2024, challenges remained for the most vulnerable segments, including SMEs and women-led firms. In 2024, over 30 percent of respondent SMEs were fully credit-constrained, a rate nearly three times higher than their counterparts in Poland or Croatia. The challenge intensified for women-led businesses, where 37 percent of respondent firms report access to finance as a major obstacle to growth.

**Country Priorities.** The project would provide clear additionality to the economic measures Türkiye introduced in response to the COVID-19 pandemic. At the onset of the crisis in March 2020, the total stock of outstanding loans held by the Turkish banking sector amounted to approximately Turkish lira (TL) 2.9 trillion (about US\$440 billion), equivalent to 66 percent of GDP. With this loan book as the lending base, the Government used the Credit Guarantee Fund (CGF) as a key mechanism to sustain credit flows to firms facing acute liquidity shortages. The Treasury initially allocated TL 25 billion in guarantees to the CGF, enabling banks to extend loans to borrowers lacking sufficient collateral by sharing the underlying credit risk. This ceiling was later doubled to TL 50 billion under the Economic Stability Shield Package as economic conditions deteriorated and financing needs intensified.



Against this backdrop, the project's US\$500 million credit line would complement national efforts by channeling resources specifically to SMEs and underserved firms that continued to face substantial financing constraints. By focusing on enterprises with fewer than 250 employees and structurally credit-constrained segments, the project would deliver critical liquidity for both immediate crisis response and Türkiye's longer-term SME recovery. As CGF support programs were expected to be gradually phased out, the importance of the VakifBank and TKYB credit lines would become even more pronounced, particularly given their targeted support for women-inclusive firms, young SMEs, and businesses in less developed regions.

**World Bank Group Country Strategy.** The project development objective was fully consistent with the World Bank Group's Türkiye Country Partnership Framework (CPF) at appraisal and closing.

- The CPF for FY18-FY21 recognized that job creation and growth depended critically on a well-functioning and inclusive financial sector. While SMEs played a vital role in the economy, they received less than 25 percent of bank loans, facing significant constraints in access to finance. The project was designed precisely to provide a targeted approach to tackle financial constraints among underserved segments, including women-led and younger SMEs and those firms operating in less developed regions.
- The CPF FY24-FY28 focused on three key development strategies – productivity growth, jobs and better public service delivery, and resilience against natural disasters. The project would help foster high and sustainable productivity growth by providing financial support to accelerate post-earthquake economic recovery and restore productive capacity, while also promoting inclusive services and jobs through targeted support to SMEs in underserved segments.

The PDO – to ensure access to finance for private SMEs affected by or adapting to the economic impact of COVID-19 – was framed at the output level, with output level indicators defined as the number of SMEs financed under the project and the volume of credit disbursed directly to SMEs or through PFIs. Increases in both the volume of credit disbursed and the number of SMEs supported relative to the baseline would demonstrate that access to finance was maintained following the crisis. This output level objective is considered appropriate given the post-COVID crisis situation.

## Rating

High

## 4. Achievement of Objectives (Efficacy)

### OBJECTIVE 1

#### Objective

To ensure access to finance for private SMEs affected by, or adapting to, the economic impact of COVID-19.

#### Rationale



**Theory of Change.** The results chain was logical.

Two complementary credit lines would sustain access to finance for SMEs, particularly in underserved and vulnerable segments, during the COVID-19 crisis and subsequent economic shocks. The target would be viable SMEs facing severe liquidity constraints, including women-inclusive enterprises and young firms, which were disproportionately affected by tightening credit conditions, market volatility, and heightened risk perceptions. To support these SMEs, the project would deploy two mutually reinforcing channels – direct lending to deliver rapid liquidity to firms in acute need, and wholesale lending through financial institutions, including banks, leasing companies, and factoring companies, to broaden outreach and support additional beneficiaries. SMEs were enterprises that employed fewer than 250 employees; women-inclusive enterprises were women-owned, women-managed, or employed a ratio of women higher than average; while young enterprises were those with less than five years of operation.

By also supporting SMEs adapting to new market conditions with crisis-related innovations, such as updated products, services, and business models, the project would help maintain the operations of viable firms, protect employment, and prevent bankruptcies. This support would not only mitigate immediate economic disruptions but also strengthen the foundations for long-term resilience and growth among beneficiary SMEs.

Later in implementation, an expansion of SME and sub-project eligibility to include provinces severely affected by the 2023 earthquakes would enable the financing to reach additional at-risk SMEs and safeguard jobs in devastated regions. These changes were consistent with the original theory of change, which was designed to prioritize underserved and vulnerable segments of the economy.

The efficacy of these interventions in meeting the project objective would be measured, at the output level, by the number of SMEs in underserved segments, the number of women-inclusive SMEs, and the number of SMEs introducing new products or services that were financed by the credit lines. On the part of the two development and investment banks operating the credit lines, the outputs of the intermediary lending would be measured by their return on assets and return on equity, relative to target benchmarks. At the outcome level, the efficacy would be evidenced by the number of SMEs financed, the volume of the credit lines disbursed, and two "multipliers" – the employment multiplier would measure the relative change (weighted average change) in employment among beneficiary SMEs compared to their sectoral peers, while the operating results multiplier would measure the relative change (weighted average change) in value among beneficiary SMEs also compared to their sectoral peers.

Overall, the project would play a key role in stabilizing SMEs, preserving jobs, and fostering more resilient and inclusive economic recovery across Türkiye from the COVID-19 pandemic and the Kahramanmaraş earthquakes.

**Outputs.** VakifBank met or exceeded all eight output targets for direct lending to SMEs.

- The number of SMEs financed in underserved segments by VakifBank reached 825 at closing (December 2024), exceeding the target of 200.
- The number of women-inclusive SMEs financed by VakifBank was 159 at closing, exceeding the target of 100.
- The number of SMEs financed by VakifBank, that introduced new products or services, was 69 at closing, exceeding the target of 20.



- The non-performing loan (NPL) ratio (loans in arrears for more than 90 days) under the project for VakifBank was 0.1 percent at closing, better than the target of 7 percent.
- VakifBank met the target to comply with prudential regulations. These regulations required banks to uphold minimum capital adequacy and Tier 1 ratios, as well as minimum liquidity ratios in both foreign and local currency. Compliance was verified through audited annual IFRS financial statements and rating agency reports.
- VakifBank's return on average assets (ROA) stood at 1.24 at closing, meeting the target of achieving a positive ROA.
- VakifBank's return on average equity (ROE) stood at 23.17 at closing, meeting the target of achieving a positive ROE.
- The proportion of firms that reported that project sub-financing by VakifBank reflected their needs was 98.06 percent at closing, exceeding the target of 90 percent.

TKYB partially achieved one but met or exceeded seven of the eight output targets for wholesale lending to PFIs and on-lending to SMEs.

- The number of SMEs financed in underserved segments through TKYB reached 171 at closing, exceeding the target of 150.
- The number of women-inclusive SMEs financed through TKYB was 168 at closing, exceeding the target of 75.
- The number of SMEs financed through TKYB, that introduced new products or services, was 31 at closing, exceeding the target of 20.
- The NPL ratio under the project for TKYB was 0.5 percent at closing, better than the target of 7 percent.
- TKYB met the target to comply with prudential regulations. These regulations required banks to uphold minimum capital adequacy and Tier 1 ratios, as well as minimum liquidity ratios in both foreign and local currency. Compliance was verified through audited annual IFRS financial statements and rating agency reports.
- TKYB's ROA stood at 4.84 at closing, meeting the target of achieving a positive ROA.
- TKYB's ROE stood at 34.51 at closing, meeting the target of achieving a positive ROE.
- The proportion of firms that reported that project sub-financing by VakifBank reflected their needs was 85 percent at closing, partially achieving the target of 90 percent.

**Outcomes.** The project achieved the targets for all four outcomes (PDO-level) defined for the objective to ensure access to finance for private SMEs affected by, or adapting to, the economic impact of COVID-19.

- The number of SMEs financed under the project was 1,175, exceeding the target of 1,000.
- The volume of credit line disbursed under the project was US\$500 million, meeting the target, with direct lending by Vakifbank at US\$250 million, and wholesale lending by TKYB to seven PFIs and on-lending by the PFIs to SMEs at US\$250 million.
- The employment multiplier reached 1.05, thereby meeting the target of a value greater than 1.0. This result means that firms supported by the project achieved slightly better employment outcomes than the sector average.



- The operating results multiplier reached 1.87, thereby meeting the target of a value greater than 1.0. This result means that the value added of firms supported by the project was better than the sector average.

Within the context of a credit results chain, where the output (intermediate-level) and outcome (PDO-level) indicators were adequate to measure the impact of both the direct and intermediary credit lines the project's efficacy in achieving its objective of ensuring access to finance for private SMEs affected by, or adapting to, the economic impact of COVID-19 is rated High. The full aggregate amount of US\$500 million was disbursed through direct lending by VakifBank and through lending via PFIs by TKYB, benefitting 1,175 SMEs that would otherwise have lacked access to finance or faced severely tightened financing conditions following the COVID-19 crisis.

**Rating**  
High

## **OVERALL EFFICACY**

### **Rationale**

All PDO indicators were achieved, the project delivered positive impacts, and all project funds were fully disbursed. The project ensured access to finance for private SMEs affected by, or adapting to, the economic impact of COVID-19.

### **Overall Efficacy Rating**

High

## **5. Efficiency**

**Economic Efficiency.** The ICR calculated an actual economic rate of return (ERR) of 43 percent at closing, well above the 21 percent estimated by the PAD at appraisal. Using the PAD methodology, the ICR reported the following details across lending components and by target group and firm size: (a) Target Groups 1 and 2, which accounted for 87 percent of disbursements, generated the highest returns of 47 percent; (b) Target Group 3, which focused on firms adapting to the pandemic, had a positive although lower ERR of 18 percent; (c) medium-sized firms (50-250 workers), receiving nearly two-thirds of project financing, contributed the largest share of benefits with an ERR of 68 percent.

The project is estimated to have helped save or retain about 24,200 jobs, more than double the original PAD projection of 11,000, based on beneficiary numbers, bankruptcy probabilities, and observed employment changes. Medium-sized firms accounted for roughly 19,400 of these jobs, small firms for about 3,700, and micro firms for around 1,040. This equates to an average cost of US\$20,600 per job retained, slightly above the



US\$19,200 average from comparable SME finance projects in Türkiye over 2015-2025, but still within an efficient range.

Assuming an average household size of four, these retained jobs may have prevented income loss for around 96,800 people. Using the WBG Corporate Scorecard methodology, the project contributed to more than 3,670 “new and better jobs,” combining both job retention and income-protection effects.

**Operational Efficiency.** The project funds were fully disbursed and within the extended timeline. Despite early delays, mainly related to reporting and allocation, implementation gaps were addressed through capacity improvements and the one-year time extension.

Overall efficiency is rated Substantial.

### Efficiency Rating

Substantial

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

|              | Rate Available? | Point value (%) | *Coverage/Scope (%)                          |
|--------------|-----------------|-----------------|--|
| Appraisal    | ✓               | 21.00           | 0<br><input type="checkbox"/> Not Applicable |
| ICR Estimate | ✓               | 43.00           | 0<br><input type="checkbox"/> Not Applicable |

\* Refers to percent of total project cost for which ERR/FRR was calculated.

### 6. Outcome

The PDO – expanding access to finance for SMEs affected by or adapting to COVID-19 – was well aligned with Türkiye’s national priorities during a period of acute economic stress. The relevance of the objectives is rated High.

The project met its objective by providing vulnerable SMEs with critical liquidity during a period of severe credit tightening. By helping viable firms remain operational, the credit lines contributed to job preservation, strengthened value-added growth, and improved performance among beneficiary SMEs relative to sector averages. The efficacy is rated High.

Strong aggregate economic returns and the low average cost of job retention demonstrate the project’s impact and value for money. The efficiency is rated Substantial.



Overall, the project made a meaningful contribution to economic recovery and inclusive growth by strengthening SME resilience during the unprecedented crises caused by the COVID-19 pandemic and the Kahramanmaras earthquakes. The project's overall outcome is rated Highly Satisfactory.

**a. Outcome Rating**  
Highly Satisfactory

## 7. Risk to Development Outcome

**Macroeconomic Risk.** Downside risks – stemming from any premature easing of monetary policy, pressures on the exchange rate, delays in substantial fiscal consolidation, slow progress on structural reforms, or increased global economic uncertainty – could jeopardize the country's growth prospects in the near to medium term, according to the Bank's *Turkiye Macro Poverty Outlook (October 2025)*. While slower growth will not negate the project's development outcomes, it could weaken its long-term sustainability.

Continued implementation of *Turkiye's* macroeconomic stabilization program would help mitigate the risks. Although disinflation policies had so far reduced macroeconomic imbalances, improved confidence, and preserved growth, inflation remained well above target, and the economy, still highly vulnerable to shocks, according to the International Monetary Fund (IMF) *Turkiye Article IV Consultation (February 2026)*. Consequently, the authorities would need to tighten the macroeconomic policy mix, pursue ambitious structural reforms to entrench disinflation, further strengthen external buffers, and support inclusive medium-term growth initiatives.

## 8. Assessment of Bank Performance

**a. Quality-at-Entry**

**Project Design.** The project was strategically well-aligned and approved quickly in response to the COVID-19 crisis: (a) the project design effectively targeted urgent SME financing needs; (b) the subsequent expansion to include earthquake-affected SMEs reinforced the project's continued relevance; (c) the two-channel design, involving direct lending by VakifBank and wholesale lending through TKYB, balanced rapid deployment with wider market reach and institutional strengthening using PFIs; (d) VakifBank and TKYB would follow their respective market-based pricing policies, with the ultimate cost of credit to beneficiary SME reflecting, at a minimum, the cost of IBRD funds to VakifBank and TKYB, the lender's administrative costs, a credit risk margin associated with the specific beneficiary, an expected profit margin, as well as a guarantee fee; (e) there were clear targets for women-inclusive, young, and regionally disadvantaged SMEs, aligned with priorities on inclusion and focused on support to underserved groups; and (f) VakifBank and TKYB were financially sound and compliant with regulations, supporting strong upfront selection and oversight.

The project design also provided for strong implementation arrangements: (a) the Bank, VakifBank, and TKYB would establish Project Implementation Units to ensure that the IBRD loan proceeds were on-lent to final beneficiaries in accordance with the terms and conditions set out in the Loan Agreements;



(b) VakifBank and TKYB would adopt Project Operations Manuals in form and substance acceptable to the Bank; (c) the Bank, VakifBank, and TKYB would define the SME eligibility criteria, sub-project eligibility criteria, terms and conditions of sub-loans, and sub-loan approval procedures, and record the agreed provisions in the Loan Agreements;

However, there were some shortcomings with the design: (a) the original definition of Target Group 2 was overly restrictive, creating bottlenecks in identifying eligible firms – this constraint was resolved after revisions, which improved loan uptake and accelerated implementation; and (b) the project underestimated the capacity-building required for E&S risk management – VakifBank, TKYB, and the PFIs needed substantial support, which slowed early implementation.

**Links to Other Bank Operations.** The project complemented concurrent Bank crisis-response efforts in Türkiye, supporting both firms severely affected by the pandemic and those adapting to new market conditions. The *Türkiye Rapid Support for Micro and Small Enterprises During the COVID-19 Crisis* (US\$300 million, 2020-2023) sought to avert the closure of viable MSEs and maintain employment levels. The program delivered performance-based reimbursable financial support to approximately 49,000 firms selected through four rounds of calls for applications between May 2021 and October 2022. The *Türkiye Long-Term Export Finance Guarantee Project* (US\$273.6 million, 2020-2024) aimed to improve access to longer-term finance for export-oriented SMEs and mid-cap enterprises. The operation leveraged guarantee instruments to mobilize EUR 487.2 million (net of fees) in private financing for 339 exporters.

**Operational Risks and Mitigation Measures.** The Bank rated the overall project risk as Moderate, reflecting Türkiye's strong record with Bank-financed credit lines and the mitigation measures in place. Given the acute shortage of long-term financing, and further intensified by the crisis, demand from beneficiary firms was expected to be high. Both VakifBank and TKYB had extensive experience implementing similar operations and were familiar with the Bank's requirements. The project's eligibility criteria and fiduciary arrangements were built on earlier SME credit lines in Türkiye, most of which were considered satisfactory. Moreover, both banks were well accustomed to managing the currency risks associated with Bank funding, further reducing implementation risk.

The project's highest risk category was macroeconomic risk, which was rated Substantial due to both structural and short-term vulnerabilities. Global and domestic shocks of uncertain duration were expected to cause a severe economic slowdown, posing particular risks for Türkiye given its reliance on trade and external financing. In a worst-case scenario, macroeconomic pressures could undermine financial-sector stability. At the project level, risks would be mitigated through rigorous financial soundness criteria for selecting borrowing banks, PFIs, and beneficiary enterprises. VakifBank, TKYB, and all PFIs were subject to supervision by the banking regulator and external audits under international standards. In the unlikely event of systemic instability, the Government was expected to provide timely capital and liquidity support to VakifBank and TKYB, given their majority state ownership and critical policy mandates.

**Quality-at-Entry Rating**  
Satisfactory



## b. Quality of supervision

**Implementation Support.** Bank supervision was regular and intensive, with semiannual missions and ongoing virtual and in-person engagement to troubleshoot issues in real time. The Bank provided significant technical and capacity-building support, particularly to strengthen E&S systems within VakifBank, TKYB, and PFIs, including updates to ESCP/ESAP requirements and simplified procedures for earthquake-affected firms. Fiduciary oversight was robust, with consistent financial reporting and close monitoring of PDO and intermediate indicators, allowing adjustments to reporting processes to maintain data quality and effective tracking of results.

**Adaptation.** The Bank team provided proactive and adaptive supervision, effectively navigating major external shocks, such as macroeconomic distortions and the Kahramanmaraş earthquakes. The team enabled key adjustments, including revising eligibility criteria and extending the project timeline, to maintain relevance and effectiveness. The team demonstrated strong responsiveness, helping revise the overly restrictive Target Group 2 definition in early 2022, adjusting the project to include earthquake-affected SMEs in 2023, and securing a one-year extension to ensure full disbursement.

Despite temporary setbacks and rating downgrades linked to external factors, the Bank's strong supervision, and flexibility during implementation justify an overall Satisfactory performance rating.

### Quality of Supervision Rating

Satisfactory

### Overall Bank Performance Rating

Satisfactory

## 9. M&E Design, Implementation, & Utilization

### a. M&E Design

The project established a clear and well-aligned results framework that supported systematic tracking of inputs, outputs, and outcomes across both lending channels – VakifBank's direct lending and TKYB's wholesale lending. The framework captured reach, performance, and detailed employment and operational indicators, enabling comparisons between beneficiary firms and sector peers. Two citizen engagement surveys further assessed how effectively the program responded to SMEs' financing needs. While the framework was robust, some indicators could have been more granular – such as distinguishing younger firms or capturing private capital mobilization – to strengthen overall monitoring and evaluation.

### b. M&E Implementation

Data collection and reporting were regular and timely, with semi-annual reporting across the full results framework and multiple publicly disclosed ISRs (10 over the five-year implementation period) that ensured transparency and accountability. VakifBank consistently provided comprehensive data on output



and outcome indicators, while TKYB's reporting, initially slowed by delays from PFIs, improved over time as additional PFIs were onboarded, and downstream reporting systems were strengthened.

The program supplemented routine reporting with implementation support missions, beneficiary visits, and E&S monitoring to verify compliance and guide corrective actions. VakifBank strengthened its E&S capacity by establishing a dedicated risk-assessment unit. At TKYB, complex E&S requirements initially slowed sub-loan processing and data consolidation, leading to the hiring of a specialist firm and the adoption of simplified procedures, particularly in earthquake-affected areas, to speed implementation and improve reporting, including on employment indicators.

### c. M&E Utilization

M&E evidence prompted several significant course corrections. Data on disbursement progress and beneficiary coverage supported the decision to extend the project by one year to June 2025. Geographic needs assessments and implementation challenges informed the May 2023 restructuring, which expanded Target Group 2 to include earthquake-affected metropolitan areas and introduced simplified E&S due diligence procedures. The changes were later reflected in the results indicators for financing in affected regions. Grievance-mechanism data were consistently monitored and resolved on time, with no systemic issues identified. The feedback helped refine procedures and uphold accountability throughout project implementation.

M&E was rated Satisfactory in the last ISR of January 18, 2024.

### M&E Quality Rating

Substantial

## 10. Other Issues

### a. Safeguards

**Environmental Safeguards.** The project's environmental and social (E&S) risk was rated Moderate at appraisal. The relevant policies triggered were: ESS1: Assessment and Management of Environmental and Social Risks and Impacts; ESS2: Labor and Working Conditions; ESS3: Resource Efficiency and Pollution Prevention and Management; ESS4: Community Health and Safety; ESS9: Financial Intermediaries; and ESS10: Stakeholder Engagement and Information Disclosure. These policies were triggered due to the credit line modality of the project, which excluded land acquisition and other high-risk activities, and had no cultural heritage impacts. The anticipated impacts were considered site-specific and temporary, such as occupational health and safety, dust/noise, energy use, and waste, which were manageable with standard measures and compliance with national laws."

E&S implementation proved challenging early on. Limited PIU and PFI capacity, complex internal procedures, and heavy documentation requirements for SMEs led to delays. The Bank consistently cited the need to strengthen PFI staffing and improve the quality of Environmental and Social Due Diligence



(ESDDs). Late and incomplete PFI submissions also delayed TKYB's semiannual E&S reporting and reduced the Bank's early-stage oversight effectiveness.

Both institutions significantly improved E&S implementation. VakifBank created a dedicated E&S Management System (ESMS), expanded internal E&S capacity, and delivered regular staff training. TKYB built on its prior safeguard experience by reinforcing its Sustainability Department and by partnering with the Bank to deliver hands-on PFI training and hiring Stantec to improve PFI due diligence, monitoring, and capacity building.

The capacity-building efforts strengthened beneficiary compliance. Both institutions developed new risk-assessment tools to streamline due diligence, including simplified processes for earthquake-affected SMEs. Where SMEs showed gaps, Environmental and Social Action Plans (ESAPs) were required, implemented, and monitored (e.g., by correcting fire-safety issues or improper chemical storage). One prospective sub-project associated with a fatal accident was removed from the pipeline before any financing. Subsequent supervision confirmed no accidents among active PFIs, and project E&S performance was maintained at Moderately Satisfactory.

**Social Safeguards.** Stakeholder engagement and grievance-handling mechanisms functioned effectively, with no major non-compliance reported. One grievance was submitted to the Bank's Grievance Redress Service on July 25, 2022, concerning VakifBank's disclosure and customer service related to loan terms. The issue was resolved after VakifBank implemented corrective actions, including new online training for branch staff on customer service, ethical conduct, and clear communication of loan conditions.

Environmental and Social Standards (ESS) was rated Satisfactory in the last ISR of January 18, 2024.

## b. Fiduciary Compliance

**Financial Management.** Fiduciary performance was satisfactory. Financial management systems functioned effectively, and all audit and financial reporting requirements were met on time, with no major issues identified during implementation. Financial Management was rated Satisfactory in the last ISR of January 18, 2024.

## c. Unintended impacts (Positive or Negative)

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## d. Other

**Poverty.** The project made a significant contribution to poverty reduction and shared prosperity by maintaining SME access to finance during the COVID-19 crisis and subsequent shocks. By prioritizing underserved groups (women-inclusive, youth-led, and disaster-affected firms), the project helped vulnerable businesses remain operational, protect jobs, and prevent deeper poverty. Supported SMEs showed employment multipliers above sector averages (see Section 4), reflecting strong job retention and income protection, particularly in areas hit hardest by the pandemic and the earthquakes. ICR estimates indicate that more than 24,200 jobs were retained and approximately 96,800 people were shielded from income



loss. Through its focus on financial inclusion and support to disadvantaged groups, the project safeguarded livelihoods, reduced the risk of households falling into poverty, and promoted a more equitable economic recovery.

**Gender.** The project was designed to reduce gender gaps in SME finance by explicitly targeting women-inclusive enterprises. Both lending components included minimum allocation requirements (40 percent for VakifBank and 30 percent for TKYB’s PFIs) along with results indicators tracking the number of women-inclusive SMEs reached. Implementation initially faced challenges, but after refining the Target Group 2 definition, lending to women-inclusive firms accelerated. Following the February 2023 earthquakes, the project further expanded eligibility, reaching many women-led SMEs in affected areas. VakifBank ultimately financed 159 women-inclusive firms, exceeding its target by more than 50 percent, while TKYB financed 168, over twice its target and a significant increase from just one firm early in implementation. Overall, at least 327 women-inclusive SMEs received financing, demonstrating strong gender-inclusive results.

**Institutional Development.** The project substantially strengthened institutional capacity across participating financial institutions, particularly in environmental and social (E&S) risk management. Both VakifBank and TKYB established dedicated E&S functions, formalized E&S management systems, and improved internal procedures. TKYB further extended capacity-building to PFIs through training and policy enhancements, while both banks maintained effective grievance mechanisms. Although early progress was slowed by capacity constraints and complex procedures, adaptive measures (e.g., simplifying E&S requirements) helped accelerate implementation. Overall, the project generated lasting improvements in in-house expertise, governance, and systems for E&S risk management across the financial sector.

## 11. Ratings

| Ratings          | ICR          | IEG                 | Reason for Disagreements/Comment   |
|------------------|--------------|---------------------|--|
| Outcome          | Satisfactory | Highly Satisfactory | The ICR should also rate the Outcome as Highly Satisfactory, considering that it rates Relevance of Objectives as High, Efficacy as High, and Efficiency as Substantial. |
| Bank Performance | Satisfactory | Satisfactory        |  |
| Quality of M&E   | High         | Substantial         | While the quality of M&E was good, there were minor shortcomings resulting in a Substantial rating.  |
| Quality of ICR   | ---          | Substantial         |  |

## 12. Lessons



Two lessons are drawn from the ICR, with some adaptation.

**A dual-channel credit line design for financial intermediary lending to SMEs can enhance both operational speed and overall reach, with each modality offering distinct strengths and trade-offs.** Retail lending through a large public bank can enable rapid loan disbursement, stronger fiduciary oversight, more robust data availability, and more consistent targeting of underserved SMEs, while also allowing quick redeployment of reflows. In contrast, wholesale on-lending through an apex institution can broaden geographic and institutional coverage and reduce administrative burden at the apex, although disbursements may be delayed depending on participating institutions' readiness for verification and environmental and social requirements. This crisis operation adopted a sequenced, blended approach, beginning with a retail window to deliver rapid early coverage where the implementing bank had strong branch capacity, and then introducing a wholesale channel once eligibility, E&S, and verification procedures were simplified and PFI capacity support was available. This sequencing preserved speed and fiduciary control while scaling access across a broader set of intermediaries.

**A clear and well-designed results framework can contribute to effective monitoring and adaptive management during project implementation.** In this operation, rigorous tracking of measurable indicators enabled timely, data-driven adjustments, such as refining the SME eligibility criteria and restructuring the project components, to improve loan uptake and ensure full implementation. Consistent reporting and comparable metrics across both lending channels strengthened decision-making by project participants and helped keep the project aligned with its objectives. In addition, systematically capturing core beneficiary characteristics was critical for assessing performance across SME sub-groups and verifying that support reached the intended targets.

### 13. Assessment Recommended?

No

### 14. Comments on Quality of ICR

The ICR adheres to OPCS guidelines for investment project financing. It provides a substantive analysis of the project's relevance, and its assessment of efficacy and efficiency is well-founded, drawing on hard data and empirical evidence. The review of the Bank's performance during design and implementation is appropriately detailed. The discussion of lessons learned from the series is insightful.

The parsing by the ICR (pages 10-11) of the PDO into two – "Objective 1. Ensuring access to finance for private SMEs affected by COVID-19" and "Objective 2. Ensuring access to finance for private SMEs adapting to the economic impact of COVID-19" – is unnecessary and confusing since none of the reported values of the outputs or the outcomes could be broken down and assigned to one or the other of the parsed objectives.



**a. Quality of ICR Rating**  
Substantial