

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

**Report No.:** PIDISDSA17859

**Date Prepared/Updated:** 12-Apr-2016

**I. BASIC INFORMATION**

**A. Basic Project Data**

|  |  |                                    |                              |
|--|--|------------------------------------|------------------------------|
| <b>Country:</b>  | Turkey   | <b>Project ID:</b>                 | P156252                      |
|  |  | <b>Parent Project ID (if any):</b> |                              |
| <b>Project Name:</b>                                   | Long Term Export Finance (P156252)   |                                    |                              |
| <b>Region:</b>   | EUROPE AND CENTRAL ASIA  |                                    |                              |
| <b>Estimated Appraisal Date:</b>                       | 19-Apr-2016  | <b>Estimated Board Date:</b>       | 15-Jul-2016                  |
| <b>Practice Area (Lead):</b>                           | Finance & Markets  | <b>Lending Instrument:</b>         | Investment Project Financing |
| <b>Sector(s):</b>                                      | Banking (50%), SME Finance (50%)   |                                    |                              |
| <b>Theme(s):</b>                                       | Micro, Small and Medium Enterprise support (50%), Other Financial Sector Development (50%) |                                    |                              |
| <b>Borrower(s):</b>                                    | Turkiye Ihracat Kredi Bankasi (Turk Eximbank)  |                                    |                              |
| <b>Implementing Agency:</b>                            | Turkiye Ihracat Kredi Bankasi (Turk Eximbank)  |                                    |                              |
| <b>Financing (in USD Million)</b>                      |  |                                    |                              |
|  | <b>Financing Source</b>  | <b>Amount</b>                      |                              |
|  | Borrower   | 0.00                               |                              |
|  | International Bank for Reconstruction and Development                                      | 300.00                             |                              |
|  | Total Project Cost   | 300.00                             |                              |
| <b>Environmental Category:</b>                         | F - Financial Intermediary Assessment  |                                    |                              |
| <b>Appraisal Review Decision (from Decision Note):</b> |  |                                    |                              |
| <b>Other Decision:</b>                                 |  |                                    |                              |
| <b>Is this a Repeater project?</b>                     | No   |                                    |                              |

## **B. Introduction and Context**

### **Country Context**

Turkey's post-2001 economic development has resulted in impressive economic achievements. These achievements have recently been challenged by a less favorable economic and political outlook, and a large current account deficit in deteriorating financing conditions. Turkey's growth outlook remains cautious, with a need for structural reforms for Turkey to achieve its full growth potential.

### **Sectoral and institutional Context**

The authorities have set an ambitious development vision for 2023 that will require significant efforts to catalyze export growth. A shift to diversify market reach and provide more capital intensive and sophisticated products presents unique challenges, placing the emphasis on the provision of longer term finance.

The bank-dominated financial sector has limited ability to provide the maturity required to support recent export trends. Medium and large exporting enterprises are particularly constrained by the lack of long-term finance, indirectly impacting SMEs integrated into their local supplier chains. In addition, the banking sector has been increasingly experiencing performance headwinds, impacting credit growth and SMEs in particular, which are the most affected by financing pressures during a deceleration. Meanwhile, non-bank financial intermediaries can play an increasingly important role to support exporters and SMEs.

## **C. Proposed Development Objective(s)**

### **Development Objective(s)**

The Project Development Objective (PDO) is to improve access to longer term finance for export oriented small, medium and large enterprises.

### **Key Results**

Key PDO indicators include the following: (a) Ratio of the average maturity of SME and LE sub-financing (separately) under the project, over the average maturity of the PFIs' SME portfolio not financed under the project; (b) Number of SME and LE beneficiaries (separately) financed under the project; (c) Volume of Bank support.

Key intermediate indicators (e.g. export multiplier, financial performance and prudential compliance indicators) and additional indicators, monitored for analytical purposes and aimed to help improve SME and export related policies and projects, will also be included.

## **D. Project Description**

Two project components will provide a total of USD300 million to be intermediated by Eximbank through on-lending to banks and leasing companies and by direct lending targeting export oriented LEs and SMEs. The credit line, guaranteed by the Turkish government, will be intermediated by Eximbank, which will be the Borrower and implementing agency for this project.

Under Component 1 (USD240 million), Eximbank will on-lend funds through PFIs to SMEs and LEs. Eximbank will select PFIs according to criteria agreed upon with the World Bank, and subject to the no objection of the World Bank. PFIs can be banks (including participation banks, i.

e. Islamic finance) and leasing companies. The selected PFIs will, in turn, provide sub-finance to private export oriented LEs and SMEs, the sub-beneficiaries of the credit line. The PFIs will assume the credit risk of the sub-beneficiaries that will be selected based on agreed upon eligibility criteria. Eximbank will have exposure only to the selected PFIs and will assume the credit risk for on-lending funds to PFIs. In the case of Islamic finance, the Subsidiary Financing Agreement (SFA) will be Islamic finance compatible, and sub-financing will be mostly for Murabahah and Ijarah.

Under Component 2 (USD60 million), Eximbank will act as a PFI and lend directly to export oriented SMEs only. Eximbank will assume the credit risk of sub-finance to the final beneficiaries. The eligibility criteria of sub-finance and for sub-beneficiaries will be different under Component 1 and 2 to reflect the differences in financing models. Eximbank direct lending will be more targeted, including being exclusively for SMEs, subject to longer maturity requirements compared to other PFIs, and with at least 15 percent of all sub-finance provided for new exporters.

**Component Name**

The establishment and operation of a credit facility by Eximbank for the provision of subsidiary-finance to PFIs for the provision of sub-finance to SMEs and LEs to finance the Sub-projects.

**Comments (optional)**

**Component Name**

The establishment and operation of a credit facility by Eximbank for the provision of sub-finance to SMEs to finance the Sub-projects.

**Comments (optional)**

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

Eximbank and PFIs will provide sub-finance to SMEs and Large Enterprises (LEs) throughout Turkey, so the project locations are unclear at this moment. The client therefore prepared an umbrella framework (environmental management framework-EMF) to discuss the process of sub-project screening, impact assessment and due-diligence analysis as per national environmental requirements and safeguard policies of the Bank. There is no sector specific limitation regarding the type of SMEs or LEs to be financed.

**F. Environmental and Social Safeguards Specialists**

Arzu Uraz (GSU03)

Esra Arikan (GEN03)

**II. Implementation**

**Institutional and Implementation Arrangements**

Eximbank will be responsible for the implementation of the project and was selected based on its experience with exporters and with World Bank projects. Eximbank, Turkey's sole official export financing institution with a lending portfolio of over USD20 billion, has extensive experience in the

export sector (its loans accounting for 49 percent of all export loans in Turkey), as well as in direct lending and on-lending through PFIs. Eximbank's current strategy is to increase the share of long-term finance in its loan portfolio. Additional criteria for selecting Eximbank include the bank's financial soundness, performance of its credit portfolio, and its good performance as one of the Borrowers in the completed EFIL IV (P096858, as direct lender) and EFIL I (P065188, as on-lender to PFIs) projects financed by the World Bank.

The Project Implementation Unit (PIU) in Eximbank is staffed with capable and qualified personnel for the implementation of the project. The Implementation Completion Report of the EFIL IV (P096858) and EFIL I (P065188) projects rated the Outcome and Borrower's performance as Satisfactory. The PIU responsibilities will include: (i) selection of and on-lending to PFIs; (ii) monitoring of PFIs to ensure compliance with project criteria; (iii) coordination of Eximbank's direct lending; (iv) responsibility for adherence to all fiduciary and safeguard requirements of the World Bank for final borrowers; and (v) monitoring and evaluation based on key indicators.

PFIs will be selected by Eximbank (subject to the World Bank's no objection) based on their financial health, as well as their capacity to implement sub-projects. Eximbank takes the credit risk of PFIs and therefore has a strong incentive to carefully assess their financial health and operational capabilities. The PFI selection is also subject to a no-objection process by the World Bank, while Subsidiary Finance Agreement covenants between Eximbank and PFIs require compliance with local regulations thereby supporting the continued financial health of the PFIs. If PFIs do not effectively implement the project, they may be denied their eligibility status under the first come first serve design.

### III. Safeguard Policies that might apply

| Safeguard Policies                     | Triggered? | Explanation (Optional)  |
|--|------------|---|
| Environmental Assessment<br>OP/BP 4.01 | Yes        | <p>The Environmental Category of the project is FI, since it'll be conducted via a Financial Intermediary Bank. Since it'll be an on-lending and direct lending project to SMEs and LEs, the investments (sub-projects) will not be identified until project implementation. Environmental issues of the sub-projects will be addressed through the sub-finance environmental eligibility assessments. Environmental review process will be carried out in accordance with both Government of Turkey's environmental legislation and World Bank OP 4.01 requirements.</p> <p>Due to the nature of the project, working capital or investment loan applications are expected. Working capital loans are generally targeted to the purchase of raw material. Investment finance is expected to mainly focus on equipment purchase/replacement. To be on the safe side, the Environmental Management FW (EMF) also addresses small scale construction works and its review and assessment process although it is not expected that there will be</p> |

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|  |    | <p>a focus on construction involved sub-finance agreements. It is expected that there will be no large scale significant and/or irreversible impacts. Sub-projects in environmental Category A will not be eligible for funding.</p> <p>The environmental assessment (including environmental due diligence) procedures will be conducted according to the environmental review/management framework (EMF) that was prepared by Eximbank and approved by WB. The EMF also includes evaluation forms for assessing the environmental due-diligence of the existing facilities that will be applying for working capital or investment finance.</p> <p>While on-lending the PFIs, Eximbank will include the EMF as part of the sub-finance agreement and will be responsible for monitoring and ensuring the satisfactory performance of PFIs to comply with the EMF.</p> <p>None of the safeguards policies other than OP 4.01 is being triggered, with the understanding that: 1) any sub-projects that could trigger the other safeguards policies will not be eligible for financing, 2) the EMF will include a checklist to ensure that sub-projects are screened according to this criteria, 3) the Bank will conduct relevant training and capacity building for the FI to screen sub-projects and to monitor the PFIs to successfully screen sub-projects, and 4) the Bank will conduct prior review for an initial set of sub-projects and from then after conduct supervision spot checks for a number of sub-projects.</p> |
| Natural Habitats OP/BP 4.04            | No | Most of the sub-finance will not involve construction works. For the cases where small scale construction works are involved, projects in natural habitats will not be eligible for financing.  |
| Forests OP/BP 4.36                     | No |   |
| Pest Management OP 4.09                | No |   |
| Physical Cultural Resources OP/BP 4.11 | No |   |
| Indigenous Peoples OP/BP 4.10          | No |   |
| Involuntary Resettlement OP/BP 4.12    | No | Any sub-project that involves involuntary land acquisition that will trigger OP 4.12 will not be  |

|  |    |  |
|--|----|--|
|  |    | eligible for financing. The Bank will conduct relevant training and capacity building for the FI (Exim) to screen sub-projects. The Bank will monitor the PFIs to successfully screen sub-projects, and the Bank will conduct prior review for an initial set of sub-projects and from then after conduct supervision spot checks for a number of sub-projects. Eximbank should not fund projects that have also recently acquired land involuntarily in anticipation of use for the project to be funded by Eximbank. The EMF clearly guides the PFIs about ensuring that all civil construction works planned will be executed on existing land plots that are already in the possession of the respective factory/production buildings and/or industrial zones, and assessment of the investments will confirm that the locations are not occupied or being used for economic activities. |
| Safety of Dams OP/BP 4.37                      | No |  |
| Projects on International Waterways OP/BP 7.50 | No | Eximbank will screen sub-projects to ensure that the investments (if related to water sources) are located in the basins listed as national waterways (positive list of basins of Turkey). The full list of national waterways is provided in the EMF document.  |
| Projects in Disputed Areas OP/BP 7.60          | No |  |

#### IV. Key Safeguard Policy Issues and Their Management

##### A. Summary of Key Safeguard Issues

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| <p><b>1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:</b></p> <p>The Environmental Category of the project is FI, and the safeguards policy triggered is only OP 4.01. The sub-projects will be subject to environmental assessment and the assessments will be carried out in accordance with both Government of Turkey Regulation on Environmental Impact Assessment and World Bank OP 4.01 requirements. National laws and regulations under environmental law will also be monitored while conducting the due-diligence studies for the existing facilities applying for sub-finance. No large scale significant and/or irreversible impacts are anticipated within the scope of the project. Sub-projects in environmental category A will not be eligible for funding. The procedures and institutional responsibilities are all delineated in the Environmental Review/Management FW (EMF) Document of the Borrower. The project may include small scale construction works. The possible environmental impacts associated with these small scale rehabilitation or reconstruction works are minor, short-term and mainly during the construction phase (including temporary emissions of particulate matter/dust to the air, noise pollutions, etc.).</p> |
| <p><b>2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:</b></p> <p>No long term impacts are anticipated, and, in any case, this will be evaluated in individual sub-</p>   |

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| finance environmental assessment (EA) documents as needed.   |
| <b>3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.</b>  |
| This will be evaluated in individual sub-finance EAs as needed.  |
| <b>4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.</b>   |
| As part of the Operations Manual, the Borrower -EximBank- has prepared the Environmental Review Procedures that serve as the EMF document and define the environmental assessment procedures for the project. EximBank will review and assess the sub-projects in line with the disclosed EMF document. The sub-borrowers will be responsible for carrying out any environmental analysis and for confirming that the proposed sub-projects comply with national environmental guidelines, and for obtaining the necessary clearance from the appropriate licensing authorities. Once the analysis is performed and recommendations incorporated into the sub project, EximBank will appraise the proposed sub-finance package which would include, where appropriate, an environmental mitigation plan. The implementation of the mitigation plan will be monitored by EximBank as well. EximBank is familiar with WB safeguard policies since they have participated in previous EFIL Project with the WB. Still, to enhance their institutional capacity, safeguards training will be conducted in future for all PIUs and EximBank will send their relevant staff for improving their knowledge on OP 4.01. In case of on-lending to PFIs, the PFI will conduct the environmental and social review as detailed in the EMF. EximBank will be the main responsible body for providing overall guidance and compliance check in the PFI on-lending activities. |
| <b>5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.</b>  |
| The EMF was disclosed in country through the website of EximBank. In the case of sub-finance applications that are categorized as 'B' and public consultation is necessary, these will be conducted while the sub-project EMPs are being prepared.   |

### **B. Disclosure Requirements**

| <b>Environmental Assessment/Audit/Management Plan/Other</b>   |             |
|---|-------------|
| Date of receipt by the Bank   | 11-Apr-2016 |
| Date of submission to InfoShop  | 12-Apr-2016 |
| For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors  |             |
| "In country" Disclosure   |             |
| Turkey  | 11-Apr-2016 |
| <i>Comments:</i>  |             |
| <b>If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.</b> |             |
| <b>If in-country disclosure of any of the above documents is not expected, please explain why:</b>  |             |
|   |             |

### C. Compliance Monitoring Indicators at the Corporate Level

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

### V. Contact point

#### **World Bank**

Contact: Ilias Skamnelos

Title: Lead Financial Sector Speciali

Contact: Alper Ahmet Oguz

Title: Sr Financial Sector Spec.

#### **Borrower/Client/Recipient**

Name: Turkiye Ihracat Kredi Bankasi (Turk Eximbank)

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#### **Implementing Agencies**

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**VI. For more information contact:**

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**VII. Approval**

|                               |   |                   |
|-------------------------------|---|-------------------|
| Task Team Leader(s):          | Name: Ilias Skannelos, Alper Ahmet Oguz |                   |
| <b><i>Approved By</i></b>     |   |                   |
| Practice Manager/<br>Manager: | Name:                                   | Date:             |
| Country Director:             | Name: Johannes C.M. Zutt (CD)           | Date: 19-Apr-2016 |