Independent Evaluation Group (IEG)
Long Term Export Finance (P156252)

Implementation Completion Report (ICR) Review

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1. Project Data

Project ID P156252	**Project Name** Long Term Export Finance
Country Turkey	**Practice Area(Lead)** Finance, Competitiveness and Innovation

L/C/TF Number(s) IBRD-86300	**Closing Date (Original)**	**Total Project Cost (USD)** 300,000,000.00
Bank Approval Date 18-Jul-2016	**Closing Date (Actual)** 31-Jan-2021	
	IBRD/IDA (USD)	**Grants (USD)**
Original Commitment	0.00	0.00
Revised Commitment	300,000,000.00	0.00
Actual	300,000,000.00	0.00

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2. Project Objectives and Components

a. Objectives

According to the Loan Agreement (paragraph 9), the project development objective of the Turkey Long-Term Export Finance Project was "to improve access to longer term finance for export-oriented small, medium and large enterprises."

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.

   On-Lending through Participating Financial Institution to Small and Medium Enterprises (SMEs) and Large Enterprises (US$243 million estimated at appraisal, US$239.25 million actual at closing). This component supported the establishment and operation of a credit facility at Turkiye Thracat Kredi Bankasi A. S. (Turk Eximbank), the country' s official export finance institution, for the provision of financing (subsidiary financing) to participating financial institutions (deposit money banks, participation banks, and leasing companies) that would provide financing (sub-financing) to SMEs (with less than 250 workers) and large enterprises (with 250 to less than 1,500 workers) for investment sub-projects.

   Direct Lending to SMEs (US$60 million estimated at appraisal and actual at closing). This component supported the establishment and operation of a credit facility at the Turk Eximbank for the provision of sub-loans to SMEs for investment sub-projects.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates
   Project Cost. The project was estimated to cost US$300 million at appraisal.

   Financing. The project was financed with a US$300 million loan from the World Bank to the Turk Eximbank. The loan was guaranteed by the Republic of Turkey.

   Borrower Contribution. There was no financial contribution to the project from the borrower or from the guarantor.

   Dates. The project was approved on July 18, 2016, became effective on February 21, 2017, and closed on January 21, 2021.

3. Relevance of Objectives

Rationale

Relevance to Country Challenges. The project development objective was relevant to development challenges faced by large, medium, and small-scale exporters in accessing long-term financing..

- Large and medium export enterprises, which accounted for a combined 61 percent of the country's goods exports, faced business constraints due to a lack of long-term finance. The exporters faced credit rollover risks with short-term finance. They faced difficulty procuring capital goods and starting capital for investment projects with short-term credit.
- The financing constraints experienced by large and medium exporters adversely affected SMEs, which were integrated into the supply chains of large and medium exporters.
- The banking sector, which dominated the financial system, faced constraints extending long-term credit to exporters and SMEs because banks relied principally on deposits of under three months maturity, which created negative liquidity gaps in the one- to five-year maturity, and increasingly, on external funding, which was volatile.

Relevance to Government Priorities. The project objective was consistent with the priorities of the government, with SME exporters, and with export financiers.

- The *Tenth Development Plan 2014-2018* aimed to achieve "higher average increase in real exports," greater "diversity of products and services in financial markets," and improved "access to finance for SMEs." The plan set an export target of US$277 billion by 2018.
- The *Strategy and Action Plan for Small and Medium-sized Enterprises for 2015-18* aimed to increase the number of SME exporters to 60,000 and the value of SME exports by US$150 billion over 2015-2018 by, among others, improving SME exporters' access to bank finance as well as to alternative financial resources. The plan listed "facilitating SMEs access to finance" as one of five strategic targets for the country's SME sector.
- The *Turkish Exports Strategy for 2023,* drawn by the Ministry of Economy and the Turkey Exporters Assembly, aimed to raise exports from US$143 billion in 2015 to US$500 billion by 2023 by, among others, upgrading current and developing new export finance mechanisms.

Relevance to World Bank Strategy. The project objective was aligned with the World Bank Group strategy in Turkey.

- At appraisal, the *Country Partnership Strategy for the Republic of Turkey for the Period FY2012_FY2015* (CPS) committed World Bank Group support to three strategic objectives: enhanced competitiveness and employment, improved equity and public services, and deepened sustainable development. The project objective was aligned with the first CPS strategic objective, specifically with the outcomes for "strengthened exports," and "broadened access to finance."
- At closing, the *Country Partnership Framework for the Republic of Turkey for the Period FY18-21* (CPF) committed World Bank Group support to three focus areas: growth, inclusion, and sustainability. The project objective was aligned with the first CPF focus area, specifically with the objective to "enhance access to finance for underserved segments" and the associated results indicator "people, micro, small and medium enterprises (MSMEs), and exporters reached with financial services" The CPF specifically cited this project as aligned with the CPF: "In this context, a

new operation – Long Term Export Finance – was delivered in early FY17 to help address lack of long-term finance: this operation targets support specifically to exporters and MSMEs."

Rating

High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective
To improve access to longer term finance for export-oriented small, medium and large enterprises.

Rationale
Theory of Change. The provision of long-term funds to a financial intermediary for direct lending to export enterprises or for on-lending through commercial banks and leasing companies would raise the amount of long-term finance available to SMEs and large export enterprises. Long term finance would allow these export enterprises to reduce their exposure to the debt rollover risk associated with short-term credit, purchase capital goods for continuing operations, and undertake long-term investment projects that would upgrade their competitiveness and expand their markets (ICR, paragraph 7).

Outputs. The project exceeded three of four output targets defined for the objective to improve access to longer term finance for export-oriented small, medium and large enterprises. There was no target set for the fourth output.

- The number of active participating financial institutions under the project (cumulative) was 9 by the project closing date (December 2020), exceeding the target of 6.
- The percent of SMEs receiving sub-finance from the Turk Eximbank that were new exporters was 11.8 percent by the project closing date, exceeding the target of 10 percent.
- The percent of SME and LE beneficiaries financed under the project with at least 15 percent female participation in their workforce was 30 percent. There was no target for this indicator.
- The ratio of the export growth of SMEs and large enterprises under the project relative to the export growth of their equivalent sector reached 1.49 by the project closing date, meeting the target that the ratio exceed 1.0.

Outcomes. The project partially met one, fully achieved three, exceeded one of the five outcome targets defined for the objective to improve access to longer term finance for export-oriented small, medium and large enterprises

- The volume of World Bank support (cumulative) was US$300 million by the project closing date, meeting the target of US$300 million.

- The number of SME beneficiaries financed by participating financial institutions under the project (cumulative) reached 205 by the project closing date, partially meeting the target of 260.
- The number of large enterprise beneficiaries financed by participating financial institutions under the project (cumulative) reached 46 by the project closing date, exceeding the target of 30.
- The ratio of the average maturity of SME sub-financing under the project to the average maturity of the participating financial institutions' SME portfolio that were not financed under the project rose from 1.0 in the baseline (2016) to 2.24 by the project closing date (2020), meeting the target that the ratio exceed 1.0.
- The ratio of the average maturity of large enterprise sub-financing under the project to the average maturity of the participating financial institutions' large enterprise portfolio that were not financed under the project rose from 1.0 in the baseline to 1.46 by the project closing date, meeting the target that the ratio exceed 1.0.

Rating
Substantial

OVERALL EFFICACY
Rationale
The project achieved three of the four output targets and four of the five outcome targets defined for the objective to improve access to longer term finance for export-oriented small, medium and large enterprises. The degree of achievement of the project objective is assessed as substantial.

Overall Efficacy Rating

Substantial

5. Efficiency

Economic Efficiency. The Project Appraisal Document did not calculate an economic rate of the return for the project. The ICR (paragraph 23) did not calculate an ERR either but stated that, following the conditions of the Loan Agreement and based on information from the Turk Eximbank: (a) the eligibility criteria for SMEs and for large enterprises subscribed to market principles; (b) interest rates, mark-ups, and other charges and fees under the project reflected the cost of funds, the cost of intermediation, and an appropriate risk margin and were consistent with market prices; and (c) economic efficiency would be enhanced by rounds of lending of reflows from the project (repayments from sub-loans), which the Loan Agreement required from the Turk Eximbank on a "best efforts" basis.

These attributes of the long-term financing arrangements in support of exports by enterprises using the financial support of this project reflected: (a) efficient choices of beneficiaries; (b) efficient stewardship of the World Bank

funds; and (c) efficient long-term use of reflows from the first round of lending. This ICR Review, therefore, concludes that this project generated considerable value for the money invested by the World Bank and also provided an institutional model for the future long-term financing of exports in Turkey.

Despite the arguably efficient management of funds provided to the Turk Eximbank by this project for the long-term financing of Turkey's exports, the ICR provides no information on the benefits to exporters who have access to long-term finance compared to those who do not. Nor is there any analysis of the efficiency with which the funds were used by participating financial institutions or by SMEs. The project's efficiency is therefore rated modest.

Efficiency Rating

Modest

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		0	0 ☐ Not Applicable
ICR Estimate		0	0 ☐ Not Applicable

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

6. Outcome

The project development objective was highly relevant to the development challenges faced by Turkey with export finance. The project objective was consistent with the government priorities and the World Bank Group strategy. The efficacy of the project was substantial, with three of the four output targets and four of the five outcome targets met. The efficiency of the project was modest. There was little evidence in the ICR to assess economic efficiency with which the funds were used, although the project arguably followed the efficient processes leading to the approval of assistance for export financing.

There were moderate shortcomings in the project's efficiency; the overall outcome of the project is therefore rated moderately satisfactory.

a. **Outcome Rating**
   Moderately Satisfactory

7. Risk to Development Outcome

The risks to the ability of the financial system to sustain the provision of long-term credit to the export sector is assessed as moderate.

Banking Sector Risk. Although the massive expansion of credit in 2020 may have raised the risks to banking stability, banks in Turkey remain well-capitalized and have low non-performing loan ratios. However, firms are highly indebted in foreign currency and the ability of the banks to roll over the corporate debt faces risks from the recent weakness and volatility of the Turkish lira – the domestic currency depreciated by around 20 percent against the US dollar and the euro in 2020 and remains susceptible to high inflation and to geopolitical risks.

COVID-19 Risk. The human and economic toll of the COVID-19 pandemic on Turkey had been severe, with many lives lost and livelihoods destroyed. Direct fiscal support to workers and households was relatively modest with the fiscal deficit widening only marginally. However, the monetary and macro-financial response was substantial with large interest rate cuts, rapid credit provision by state-owned banks, administrative and regulatory credit incentives, and extensive liquidity support. Consequently, Turkey was one of the few countries that posted positive economic growth for 2020 after initially experiencing a severe economic downturn early in the pandemic. Still, the COVID-19 risk persists in Turkey, as it does elsewhere globally.

Macroeconomic Risk. Although the monetary and macro-financial measures helped Turkey recover strongly from the initial collapse in economic activity in 2020, these support policies have also fueled inflation, widened external imbalances, and exacerbated pre-pandemic vulnerabilities, including low international reserves, large external financing needs, and increased dollarization, according to the International Monetary Fund. The government will need to adopt policies to reduce these vulnerabilities while also responding to pandemic-related public health and fiscal support requirements in the short term. Over the medium to long term, to improve its prospects for durable growth, Turkey will need to continue with structural reforms to address its dependence on externally funded credit and demand stimulus.

8. Assessment of Bank Performance

a. Quality-at-Entry

Analytical Foundations. This project's strategy was informed by the *Turkey Country Economic Memorandum - Trading up to High Income* (2014) which recommended four broad policies to help Turkey "export its way out of middle-income," one of which was "to improve access to finance, particularly long-term, with a view to unlock the potential of the dynamic small and medium enterprise (SME) sector."

Lessons from Past Operations. Over the 15-year period from 1999 to 2016, the World Bank had provided lines of credit for exporters and for SMEs in Turkey "as a bridge until financial infrastructure constraints are lifted and alternative sources of long-term finance are developed, which can be a long-term process." The design for this project was informed by lessons learned from these preceding financial intermediation operations, which included the Export Financial Intermediation Loan I (EFIL I) (P065188), EFIL II (P082801), EFIL III (P093568), and EFIL IV (P096858). According to the PAD (paragraph 25), the ICRs for these projects emphasized: (a) adoption of a simple and flexible project design that allowed for operational adjustments and avoided sectoral or regional targets; (b) conduct

of intensive monitoring of key indicators to measure the quality of the loan portfolio; (c) use of quantitative eligibility criteria for selecting participating financial institutions; (d) use of reliable data and sound analysis of the financial performance of participating financial institutions; and (e) conduct of external audits for performance verification. Moreover, one key lesson from EFIL IV, according to the PAD (Box 3), was that "on-lending is, generally, preferable to direct lending." The project design was also informed by lessons learned from the Tukey Access to Finance for Small and Medium Enterprises Project I (SME I) (P082822), SME II (P118308), and SME III (P130864).

Operational Plans. Operational plans for the implementation of the project were adequate.

- The Turk Eximbank would maintain a Project Implementation Unit with staff and resources to implement the project.
- The PAD (Annex 1), Loan Agreement (pages 6-17), Operations Manual, the standard Subsidiary Financing Agreement (between the Turk Eximbank and a participating financial institution), the standard Sub-financing Agreement (between a participating financial institution and an SME and large enterprise), and the standard Sub-loan Agreement (between the Turk Eximbank and an SME) provided the basic framework for the implementation of this project.
- The PAD (Annex 4), Loan Agreement (pages 18-22), and Operations Manual provided the implementation support arrangements for: (a) monitoring and evaluation; (b) procurement; (c) disbursement and financial management; (d) technical support; and (e) safeguards.

Risk Assessment and Mitigation Measures. The World Bank judged the operational risks to the project to be moderate.

- Institutional Risk – The due diligence assessment of the Turk Eximbank, the country's official export financing institution, concluded that the bank's financial condition was sound and its corporate governance structure was credible, according to the PAD (paragraphs 14-19 and Annex 6).
- Market Risk – The demand for long-term funds for exporters was assessed as high. However, global uncertainty could negatively affect the demand for Turkish exports.

Readiness for Implementation. It took seven months after the Board approval for the project to meet its effectiveness conditions. This went well beyond the effectiveness deadline of four months from project signing and was 16 percent of the total implementation period of 3.5 years. The ICR does not provide an explanation for this delay, not does it assess or comment on the impact of the delay.

Quality-at-Entry Rating
Moderately Satisfactory

b. **Quality of supervision**

The World Bank provided regular implementation support to the project.

The World Bank filed 11 Implementation Status and Results Reports (ISRs) over the four-year duration of the project (only one ISR was prepared in 2018), or about two per year, the average for investment project

financing operations. The ISRs rated the development outcome and the implementation performance of the project as satisfactory, until the last report which rated both as moderately satisfactory.

According to the ICR (paragraph 47), during supervision missions, the World Bank:

- focused on ensuring full disbursement of the project funds;
- regularly reviewed the financials of the participating financial institutions and regularly verified their compliance with the legal covenants of the project;
- collected information pertaining to SME and large enterprise borrowers;
- monitored the output and outcome indicators of the project following the results framework and M&E plan; and,
- raised issues with the Turk Eximbank on breaches of the agreed lending parameters and discussed an action plan to address these issues.

Quality of Supervision Rating
Satisfactory

Overall Bank Performance Rating
Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design
The PAD (Annex 4 - paragraph 30) defined four output indicators and five outcome indicators to measure the achievement of the project objective to improve access to longer term finance for export-oriented small, medium and large enterprises. These results indicators were well-defined; had credible targets (except for one output indicator); were measurable; and had available sources of data.

The PAD (Annex 4 - paragraph 31) also stated that the project would report data for nine "core indicators" required for Bank financial sector operations and seven "additional indicators" – these indicators did not have any targets and would be collected "for analytical purposes only" (they were not to be used for judging the efficacy of the project) but would "serve as useful inputs to define policies and projects aimed at further improving SMEs' and large enterprises' access to finance in Turkey."

The Loan Agreement (page 18) called for the Project Implementation Unit at the Turk Eximbank to conduct the M&E for the project. The Turk Eximbank would prepare bi-annual progress reports, which it would submit to the World Bank within forty five days from the end of each calendar semester.

b. M&E Implementation
The M&E was implemented according to plan although there were some shortcomings, according to the ICR (paragraph 38). Toward the end of the project, when all the project funds were disbursed, the

participating financial institutions had not yet provided employment, loan-by-loan information, and company data. At that stage, they had little incentive to provide M&E data to the Turk Eximbank. In addition, "several iterations on indicator definitions, issues that are generally not expected towards the end of project implementation" needed to be resolved. Consequently, it took the Turk Eximbank one month to collect the final M&E data. It was because of these missing data that the rating for M&E in the final ISR (October 2020) was downgraded to moderately satisfactory from satisfactory in the previous ISR.

Despite the prospect offered in the ICR (paragraph 37) of some analysis of the broader impact of the project, it turned out to be no more than plausible generalizations without evidence. The collection of data on employment, loans, and companies was inadequate to provide the basis for an evaluation of the efficiency by which exporters used the long-term financing provided by the project. There was also no evaluation of the net benefits that access to long term credit generated for Turkey's exporters compared to the net benefits for exporters with no access to long term credit. Arguably, these and other questions, such as the impact on profits of the extension of loan maturities for SMEs, were missed opportunities to learn from this project.

c. M&E Utilization

The M&E data reported by the Project Implementation Unit were used in the World Bank ISRs and in the project mid-term review in April 2019.

The M&E data were useful for the following purposes:

- Where the data showed breaches in exposure limits and debt sustainability requirements for some credits, the breaches were brought to the attention of the Turk Eximbank, which rectified them, according to the ICR (paragraph 38).
- The data were not used in any adjustment or restructuring of the project, however, as no project adjustment or restructuring was proposed or implemented.

M&E Quality Rating
Modest

10. Other Issues

a. Safeguards

Environmental Safeguards. The project was classified as an environmental assessment category FI project at appraisal and triggered safeguard policy *OP 4.01 - Environmental Assessment*. The Turk Eximbank prepared an Environmental Review Framework, which was disclosed in the Turk Eximbank's website and in the World Bank's *Infoshop* in April 2016. According to the ICR, the procedures for environmental assessment and due diligence and the requirements for environmental

mitigation measures that were defined in the Environmental Review Framework complied with the requirements of both the World Bank's OP 4.01 and the government's environmental regulations. No compliance issues were raised during project implementation and environmental safeguards were rated satisfactory in the last ISR.

Social Safeguards. The project did not trigger any social safeguards policy at appraisal. Overall performance on safeguards was rated satisfactory in the last ISR.

b. Fiduciary Compliance

Procurement. The Loan Agreement (page 19) required the Turk Eximbank to conduct procurement activities consistent with *Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers* of January 2011 as revised in July 2014 and *Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers* of January 2011 as revised in July 2014. According to the ICR (paragraph 43), the Turk Eximbank maintained adequate oversight and monitoring of procurement, including supervision of sub-project implementation through regular project site visits, reviews, and audits. Procurement was rated satisfactory in the last ISR.

Financial Management. The Loan Agreement required the Turk Eximbank to follow financial management, financial reporting, and audit arrangements consistent with *International Bank for Reconstruction and Development General Conditions for Loans* of March 2012. According to the ICR (paragraph 42), the Turk Eximbank: (a) maintained adequate financial management systems and procedures to manage the on-lending and direct lending operations supported by the project; (b) maintained appropriate records and ensured the appropriate accounting and documentation of the project funds; (c) prepared semi-annual interim unaudited financial reports and submitted the reports to the World Bank at the end of each semester; and (d) complied with the country's banking prudential regulations. However, there were problems in meeting reporting requirements late during project in implementation because of reporting deficiencies by participating financial institutions. Financial management was rated moderately satisfactory in the last ISR, a downgrade from previous satisfactory ratings.

c. Unintended impacts (Positive or Negative)
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d. Other
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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment

Outcome	Moderately Satisfactory	Moderately Satisfactory
Bank Performance	Moderately Satisfactory	Moderately Satisfactory
Quality of M&E	Modest	Modest
Quality of ICR	---	Substantial

12. Lessons

The first two lessons are drawn from the ICR (paragraphs 52-53), with some adaptation, and the third is offered by this Review. which takes a different position to that proposed by the ICR

Technical assistance, capacity building, advisory services, policy dialogue, and structural reform programs would complement line of credit operations in expanding the supply of, and access to, long-term finance. This project forms part of a long series of World Bank financial intermediary operations targeting the export and SME sectors in Turkey over about two decades. The continuing series has been justified "as a bridge until financial infrastructure constraints are lifted and alternative sources of long-term finance are developed, which can be a long-term process." Within this framework, programmatic advisory services and development policy operations focused on bank and non-bank financial services and on capital markets will begin to address structural impediments to developing a long-term finance market for exports and other economic activities.

The co-financing of sub-loans would strengthen the economic impact of line of credit operations. This project did not require the intermediary, the Turk Eximbank, or the participating financial institutions to co-finance the first round of sub-lending to SME and large enterprise exporters. Yet, a co-financing mandate would have magnified the economic impact of this operation beyond the original US$300 million project fund. Even the utilization of the sub-loan reflows was subject only to a "best efforts" clause – for the Turk Eximbank use its "best efforts" to utilize repayments "to finance additional development projects to further the development of exporters."

The World Bank's leverage to require participating financial institutions to report on their lending activities in line of credit operations needs to be exercised with caution and courtesy. In this project, the M&E design required a load of data from participating financial institutions – including employment, loan-by-loan information, and company data – the value for evaluation of which turned out to be questionable after the World Bank did not conduct an evaluation of the net benefits of long term finance to exporters using the data collected from the lenders. Approaches that the World Bank could use in collecting data from private entities engaged in projects include: (a) an assurance to the private entities that the results of any analysis of the data will be made available to them.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR complied with OPCS guidelines.

The ICR was comprehensive, presenting a theory of change (paragraphs 7-8) tracing the project's links to other World Bank-funded financial intermediation operations in Turkey (paragraph 44), and discussing nuances of project implementation including the use of the "open doors" and "first come-first served models (paragraph 46). Yet, the document was concise (at 21 pages, excluding the annexes).

The assessment of efficacy was outcome-oriented. The ICR assessed the efficacy of the project based on results of the four output and five outcome indicators defined at appraisal. In addition, the ICR (Annex 1) reported on the nine "core indicators" required for Bank financial sector operations.

Most of the analysis was substantial and candid. In the section on quality of entry, the ICR (paragraph 45) questioned the use of direct lending (by the Turk Eximbank) when, based on lessons from previous World Bank-assisted projects, subsidiary lending through participating financial institutions was likely to be more advantageous – since it fostered competition among financial institutions, widened the reach to a greater number of SMEs, offered the participating financial institutions the opportunity to build business relationships with SMEs. On the other hand there were some shortcomings in the analysis of the project's efficiency as noted in this review.

The lessons were also evidence-based (paragraphs 52-54) and could be useful to future financial intermediation operations in Turkey and elsewhere, although there was one lesson on the obligations of institutions to provide data to the Bank with which this review disagreed.

   a. Quality of ICR Rating
   Substantial