Report Number : ICRR14210

IEG **ICR Review**
Independent Evaluation Group

1. Project Data:		Date Posted :	12/16/2013	
Country:	Turkey			
Project ID :	P082822		Appraisal	Actual
Project Name :	Access To Finance For Smes	Project Costs (US$M):	180.2	726.6
L/C Number:	L7389; L7390; L7462; L7606	Loan/Credit (US$M):	180.2	696.1
Sector Board :		Cofinancing (US$M):		
Cofinanciers :		Board Approval Date :		06/08/2006
		Closing Date :	08/20/2010	04/30/2012
Sector(s):	Micro- and SME finance (70%); General finance sector (15%); General industry and trade sector (10%); Banking (5%)			
Theme(s):	Micro; Small and Medium Enterprise support (67% - P); Other financial and private sector development (33% - S)			

Prepared by :	Reviewed by :	ICR Review Coordinator :	Group:
Iradj A. Alikhani	Kristin Hallberg	Christopher D. Gerrard	IEGPS2

2. Project Objectives and Components:

a. Objectives:

Initial project objectives were set-out in the Project Appraisal Document (PAD, dated May 12, 2006), which was restructured in 2007 prior to the signing of Loan Agreement. There is therefore no Loan Agreement corresponding to the PAD. The Technical Annex (dated May 20, 2007) amended the PAD and provided the basis for the restructured project. The Loan Agreements with two participating financial institutions as well as the related guarantee agreements corresponding to the restructured project are dated June 22, 2007.

The PAD, the Technical Annex and the Loan Agreements define the following identical Project Development Objective (PDO): The objective of the Project is to increase Turkish small and medium size enterprises ' access to medium term finance. The project intended to target subborrowers in underserved regions of the country .

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

No

c. Components:

The project financed two credit lines targeting SMEs, to be intermediated (on-lent to subborrowers) by Turkish Sinai Kalkinma Bankasi (TSKB, a private bank) and Halkbank (a publicly owned bank). The credit lines funded subloans for investment and working capital and leasing to firms with majority private ownership with less than 250 employees. The original project was composed of two components :

- The first component was a Euro 100 million equivalent wholesale credit line to TSKB to be intermediated through retail banks to SMEs in Turkey.
- The second component consisted of a Euro 50 million equivalent credit line to be intermediated through

Halkbank as a retail bank directly to SMEs in regions in Turkey where credit is less developed .

Both components were revised prior to effectiveness . TSKB became an intermediary at retail level and Halkbank's line of credit was increased in order to expand the coverage of the project .

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

Project funding was through a series of IBRD loans . Original funding in the PAD amounted to €150 million (equivalent to US$190 million) The restructuring of the project prior to effectiveness increased the loan amounts to €160 million and US$48 million (equivalent to US$240 million or €200 million) and TSKB intermediated the funds directly. Two additional financings were approved in 2008 and 2009 and respectively increased the loan amounts by €109.1 million and US$60 million (equivalent to US$200 million), and by €101.1 million and US$100 million (equivalent to US$250 million). At closing, the fully disbursed loan amount was equivalent to US$ 727 million. The difference between the cumulative loans of US$ 690 million (using exchange rates applicable at time of approval) and disbursement amounts is due to $ /€ fluctuations. Bank funding and project documents and the Implementation Completion Report (ICR) do not take into account any cofunding of the subloan by banks and /or subborowers, as well as reflows (estimated at US$180 million for Halkbank alone) which results in the reported project cost being identical to the IBRD funding .

The project was approved by the Board on June 8, 2006. Its restructuring was approved by the Board on June 19, 2007 and the loan became effective on July 26, 2007. The first additional financing was approved by the Board on December 9, 2008, and the second on December 15, 2009. The original closing date of August 20, 2010 was extended to April 30, 2012, at the time of project restructuring, which also corresponds to the project 's actual closing date.

3. Relevance of Objectives & Design:

a. Relevance of Objectives:

Substantial. There is limited discussion of therelevance of objectives in the ICR (para. 46). The project was consistent with the country assistance strategy at time of appraisal and remained fully consistent with subsequent Country Partnership Strategies (CPSs) thereafter, including the current one covering the 2012-15 period. Lines of credit have been an integral part of World Bank support throughout the past decade and remain relevant to date, as evidenced by the two follow-on projects to the operations reviewed here. Specifically, under the CPS's (para. vi) first objective, "Enhanced Competitiveness and Employment," planned CPS activities include the provision of medium and long-term funding to SMEs and exporters. These activities are in line with Government strategy (CPS para. 25). Finally, project objectives seem appropriate, even if stated in terms of an intermediate outcome (expanded access to finance for SMEs) given that donors play an incremental role in this middle-income country.

b. Relevance of Design:

Substantial . The project's design was fully consistent with important recommendations emerging from the 2006 IEG evaluation of lines of credit (see executive summary pp. x-xi), which are also germane to quality at entry; https://openknowledge.worldbank.org/bitstream/handle/10986/7109/366160PAPER0Li1BLIC10see0also031131.pdf?sequence=1. Specifically, the project included a conservative estimate of the demand for funds and sized the line of credit to be a modest fraction of that demand to help reduce the probability of poor disbursements; as evidenced by two additional financing being approved during project implementation . Furthermore, the design considered the following factors: (i) a stable macroeconomic framework; (ii) a strong financial sector; (iii) use of quantified eligibility criteria for selecting financial intermediaries; (iv) sound analysis by the Bank, as well as reasonably reliable data on financial performance and portfolio quality from the intermediaries and an external audit to verify the data. The IEG report mentions need for a cautious approach with respect to the eligibility of public banks (the eligibility of which in practice proved to be a positive aspect of the project).

The PDO were clearly defined and there was a strong link between the project component and objective . Similarly, the indicators were formulated appropriately with a good logical link to activities and objectives, and measured project results. These indicators did not attempt to measure subproject impact, but this was partly addressed through the evaluation mentioned under M&E . The robustness of the project design is also reflected in the fact that it did not have to be significantly revised through neither its initial restructuring nor the additional financings, which could be provided when needed . The project originally responded to the low availability of term funding for SMEs, which was further exacerbated during the financial crisis (ICR, paras. 4-5)

The single component design of the project for each bank, while avoiding excessive complexity, differed from the typical design of some SME projects, which also include an investment climate and a business development services (BDS)/capacity building component. Given that investment climate was being addressed through programmatic lending, such a component might have led to unnecessary complexity with limited additionality. Similarly, while the absence of BDS may have affected some SMEs, this does not appear to have been a major constraint and/or shortcoming in project design. Finally, the revised design was affected by certain choices and trade-offs, which overall reflect minor deficiencies: (i) there were drawbacks of using TSKB as a first-tier bank, such as the failure to involve leasing companies and some questions about the additionality of resources (ICR, pp. 6-7 and 17); (ii) targeting was implemented through quotas that could be distortionary; and (iii) there were initial weaknesses in the environmental assessment framework (ICR, para. 31.)

4. Achievement of Objectives (Efficacy):

Substantial. The objective of the project was to increase the access of Turkish SMEs to medium - and long-term finance. This objective was fully achieved in a number of ways: (i) the loans were fully disbursed and the original amount had to be increased by 250% in order to meet demand and, while noting reservations expressed in the QAG review, the ICR concludes with the benefit of hindsight that lending appears to have been additional to what it would have been without the project (ICR, paras. 67-68); (ii) the project was able to provide needed resources during the financial crisis; (iii) the project provided a demonstration effect needed to attract the entry of other international financial institutions' (IFIs) into this segment of the market (ICR, para. 32 and Table 1); (iv) the banks were better positioned to mobilize term resources from the financial markets - as evidenced by Halkbank's issuance of Eurobonds amounting to US$ 1.5 billion (ICR, p. 8); and (v) outreach to the eastern and central regions of the country appears to have been achieved (intermediate result ICR Table A2.1).

An area implicit within the PDO is that the project would contribute to improved performance. At the level of the banks, this is reflected in the enhancement of their fiduciary systems and the adoption of a new environmental assessment framework (after an initially difficult start with the participating banks' procedures not being in line with Bank standards), as well as the soundness of the loan portfolio (as reflected in the low level on non-performing loans). Furthermore, the project's development impact is reflected in its economic and financial performance. The evidence from the evaluation described in the ICR (paras. 50-54) suggests notable results in terms of employment generation and sales growth: when compared with a control group, the beneficiary survey indicates that beneficiary firms generated more employment and higher sales (ICR, p. 27), leaving aside the methodological issues highlighted in the ICR including selection bias and presumption of causality,

5. Efficiency:

Substantial. The efficiency of the operation was affected by the initial delay in effectiveness, due to the need to restructure the project to align it with the positioning of one of the financial institutions as a retailer instead of wholesaler of credit. Even though this led to a year's delay in effectiveness and the project had to be extended by 20 months, this did not impact the overall efficiency of the project, as disbursements were much faster than planned and were three and half times what had been initially envisaged as the loan was topped-up twice.

A contributor to project efficiency from the Bank's and Borrower's standpoint was that the project could be scaled up quickly. As a result, two additional financings were processed to enhance the SME sector's access to finance at a time when international financial markets were in crisis.

Even though no ERR or FRR was calculated for the project, the beneficiary survey is indicative of economic and financial benefits.

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

	Rate Available?	Point Value	Coverage/Scope*
Appraisal	No		
ICR estimate	No		

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

6. Outcome:

The various dimensions of outcome reflect strong performance and exhibit minor deficiencies . The project's relevance and design were substantial because of alignment with Bank and government priorities . The project contributed to improved access by SMEs to medium - to long-term finance, put in place an approach that was replicated by other IFIs, and the beneficiary survey cautiously suggests there was significant impact on borrowing enterprises. The attribution of results to the project is credible and strengthened by the impact assessment undertaken towards the end of the project . Finally, the project closed on time despite initial delays and was implemented efficiently: disbursements were three and half times initial estimates . The evidence and analysis presented in the ICR appears consistent with a satisfactory outcome .

a. Outcome Rating : Satisfactory

7. Rationale for Risk to Development Outcome Rating:

At appraisal (PAD p. 16) overall risk ratings and many sub-ratings were deemed negligible. Identified risks to the PDO were macroeconomic and government commitment to reforms . They were rated moderate and considered adequately mitigated. Moderate project risks included possible lack of price competitiveness of the IBRD line of credit and Halkbank's ability to meet expected environmental safeguards .

An unforeseen risk was the 2009 financial crisis, which participating banks weathered well, in part thanks to the project and timely additional financing (ICR, paras. 26, 47 and 54). The most recent (2012) joint IMF-World Bank Financial System Stability Assessment provides up-to-date information on Turkey's financial sector and risks, which are taken into account in this review; http://www.imf.org/external/pubs/ft/scr/2012/cr12261.pdf. The assessment notes that the SME loan portfolio as a whole has improved since 2009. It recommends further measures to address the risk of worsening lending standards in SME segments because while more profitable such loans are also riskier.

The ICR rates risk to development outcomes as low. It bases its assessment (para. 60) on the robustness of the approach, which is being replicated by the Bank and other IFIs, as well as continued robust demand from SMEs . Halkbank recent entry into the Eurobond market is also noted as an important step towards sustainability (ICR, para. 32). Nevertheless, the report also notes that sustaining continued development impact depends of leveraging IFI resources with local savings, satisfying the demand of riskier market segments, and expanding demand through an improved investment climate, which may decrease the cost of doing business for SME and ultimately help sustain their access to finance. These risks relate to broader outcomes and not to the development objectives of the project.

The ICR does not mention two specific risks: (a) non-repayment of the loan by either bank, precipitated by a future deterioration in their balance sheet due to macroeconomic or other factors; (b) the recommendation by Halkbank's auditors whereby it increases its provisioning . This recommendation, while manageable, was made in the audit report for end-2012 accounts, which was not available when the ICR was issued . According to latest information, adequate provisioning has now been made, but will have to be sustained in the future as needed . In view of these issues, it appears that a moderate rating best describes prevailing risks to development outcome .

a. Risk to Development Outcome Rating : Moderate

8. Assessment of Bank Performance:

a. Quality at entry:

As noted above, the project benefitted from a sound design, which was in line with IEG recommendations concerning good practice in the design of lines of credit . M&E design was similarly consistent with those recommendations, even though there was no provision for conducting impact assessments at the beneficiary level. Furthermore, knowledge and learning from past operations in Turkey and other countries, as well as relevant analytical work (PAD pp. 13-14) wasintegrated into the operation. Alternative designs, including broader support to the SME sector, were considered before proceeding with the project . Another option would have been the inclusion of another bank, which was abandoned following due diligence by the Bank team.

Drawing on the 2008 assessment of the project by the Quality Assurance Group (QAG) the ICR (para. 63) notes the following weaknesses in quality at entry which are the main drivers of its moderately satisfactory rating: (i) the absence of a wholesale facility as originally envisaged; and (ii) insufficient facilitation of local currency lending. The ICR notes that the second issue was resolved at the end of the project . On the first point, the analysis has to be nuanced by the fact that there were other sources of SME financing, from the bank's own resources and/or extended by other donors/IFIs. The ICR also notes the absence of an impact assessment of subloans, which should have been part of the project at entry and was addressed in part through the evaluation discussed under the M&E section . Furthermore, the banks' environmental assessment framework had to be revised due to weaknesses in this area at appraisal (ICR, para. 31).

A last aspect of quality at entry that needs to be taken into account concerns the two additional financing loans which (post QAG) increased the original loan amount by 250%. In extending these loans, the Bank was being responsive at a critical time during the financial crisis .

On balance, quality at entry was affected by minor to moderate shortcomings that were mostly temporary and could be largely addressed during project implementation .

Quality-at-Entry Rating : Moderately Satisfactory

b. Quality of supervision:

The ICR (para. 65) lists strong aspects of Bank supervision, including : permanent field presence; frequency and scope (field visits) of implementation support missions; and quality of supervision output . This included identification and timely resolution of minor safeguards and fiduciary issues . There were two additional key contributions which reflect proactivity during supervision : (a) timely preparation of two additional financing loans; and (b) recognition that the M&E framework needed to be enhanced through an impact assessment .

The ICR (para. 67) is candid about possible shortcomings in supervision and refers to areas highlighted as potential weaknesses by the 2008 QAG (which does not cover the last three years of project implementation and the events during and after the financial crisis). These include: (i) exchange rate risks borne by subborrowers and Halkbank; and (ii) whether the rapid expansion of lending was due to unsustainable subsidized credit and/or inappropriate pricing of loans. The ICR notes that one of QAG's proposed solutions was to expand local currency lending -- as was the case for Halkbank. The report (para. 68) also credibly argues that the increasing share of SME lending reflects the economic situation and countercyclical policies implemented at the time.

It should also be noted that the Bank team was led by experienced senior staff, which reflects the attention given to this project and who are likely to have brought to bear considerable tacit knowledge . Another point concerns the Mid-Term Review (PAD Annex 11), which was not undertaken as it was preempted and replaced by the preparation of the additional financing . There is no reference to this review in the loan agreement, and it was therefore not legally required . Finally, the Bank team collaborated with the IFC, which provided a complementary US$50 million loan to TSKB.

Quality of Supervision Rating : Satisfactory

Overall Bank Performance Rating : Moderately Satisfactory

9. Assessment of Borrower Performance:

a. Government Performance:

Government's direct role was limited to providing a guarantee on the IBRD loans . Its indirect role was to ensure good governance within Halkbank and its financial soundness pending its privatization -- these would have been undermined if caps on interest rates and directed credit had been instituted . Furthermore, it helped ensure continued macroeconomic stability and implemented investment climate reforms essential for the growth of SMEs and the economy as a whole .

Government Performance Rating Satisfactory

b. Implementing Agency Performance:

The ICR (para. 74) bases its assessment of the performance of the implementing agency (the two participating banks) on (a) the effectiveness of oversight of the loan portfolio; (b) compliance with sound fiduciary standards; (c) willingness to enhance their environmental framework mid-course; and (d) good competence and proactivity shown by the staff of the banks. As a result, the lines of credit were rapidly committed and disbursed. The soundness (so far) of the portfolio is also an indicator of good performance through the selection and funding of sound subprojects. The ICR does not discuss whether performance among participating banks differed in any way. Nevertheless, in its discussion of institutional strengthening, the ICR (para. 58) notes that both banks strengthened their internal procedures.

The late decision by TSKB not to act as wholesaler for the line of credit delayed the project by a year and resulted in a segment of the demand (e.g., leasing) not being served. This decision impacted overall agency performance, which was less than fully satisfactory at the outset of the project. Nevertheless, in view of good subsequent performance, and considering the fact that TSKB accounted for less than 20% of disbursements and performed well during implementation, shortcomings in agency performance seem minor overall.

Implementing Agency Performance Rating : Satisfactory

Overall Borrower Performance Rating : Satisfactory

10. M&E Design, Implementation, & Utilization:

a. M&E Design:

In its 2006 evaluation of lines of credit IEG recommended (p. x) that "a minimum set of key indicators should be established during appraisal and monitored during supervision, including a measure of the quality of the loan portfolio, with clear definitions, and other key ratios (such as capital adequacy) established by the prudential norms in the country." The project's M&E design was broadly in line with this recommendation and included one PDO and four intermediate outcomes indicators (ICR, para. 35). Some targets were revised at restructuring to reflect the increased loan amounts.

Furthermore, there was recognition during implementation that the project's ultimate development impact would be measured through how subloans impacted SMEs. To this effect, the M&E design was enhanced by an ad hoc survey/assessment of beneficiaries.

b. M&E Implementation:

Indicators were monitored on a regular basis and progress was reported during each supervision mission and summarized in the ICR (e.g., Annex 2). However, the second set of indicators was not collected (ICR, pp. 3 and 9). The beneficiary (subloan recipients) survey undertaken in 2011 (ICR, para. 37 and Annex 3) constituted an important aspect of M&E implementation. The ICR appropriately acknowledged certain shortcomings in the methodological approach used, including the one-time nature of the exercise, which also did not evaluate the impact of the lines of credit on lending practices of participating banks.

c. M&E Utilization:

The M&E was used in a number of ways. The most readily apparent was that the rapid pace of commitments triggered the two additional financings. The quantitative indicators helped monitor whether loan dispersion and portfolio-at-risk objectives were being met. There were 2 indicators without any target (currency of subloans and geographic coverage), which provided useful insights into implementation and structure of demand. Finally, notwithstanding some shortcomings, the beneficiary survey helped confirm the development impact on SMEs in terms of job creation and sales growth (ICR, p. 26).

M&E Quality Rating : Substantial

11. Other Issues

a. Safeguards:

Based on supervision reports, it appears that there was good compliance with safeguards (ICR, para. 39). Both banks revised their environmental assessment framework to align them with the Bank 's safeguards policies (ICR, para. 31). However, this resulted in the substitution of investment demand by lines of credit from other IFIs, with different environmental requirements, and the draw-down of the IBRD loan mainly for working capital More generally, the ICR (para. 40) notes that borrowers had to devote significant resources in order to meet the project's safeguard and fiduciary requirements.

b. Fiduciary Compliance:

Fiduciary compliance is discussed in the ICR (para. 41) and appeared to have been generally satisfactory. In January 2010, the Bank team identified a number of ineligible expenditures and /or invoices and corrective action to improve this aspect of financial management was taken.

Procurement under the project was largely governed (PAD Annex 8) by private commercial practices, as provided by Bank guidelines and typically applicable to financial intermediary lending operations . Both banks generally followed appropriate procurement procedures. A few ineligible expenditures identified during procurement reviews were rapidly addressed. The ICR (para. 33) notes one such ineligible expenditure related to purchase of second-hand equipment.

c. Unintended Impacts (positive or negative):

The project had two positive unintended impacts: (i) it helped strengthen the credibility of the two banks in the area of SME finance which resulted in their mobilization of additional lines of credit from IFIs; and (ii) the project may have helped alleviate certain aspects of the financial crisis, which were not foreseen at appraisal .

d. Other:

The ICR (section 3.5) identifies additional likely project impact in terms of poverty alleviation through employment generation and capacity building within participating banks .

12. Ratings:	ICR	IEG Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Risk to Development Outcome:	Negligible to Low	Moderate	An economic downturn, while not very likely, could affect sustainability. The loan has yet to be repaid and this could be affected by future problems in participating banks -- probably a modest medium- to long-term risk. The latest Halkbank audit (unavailable when ICR was issued) recommends additional provisioning, which has now been addressed in conformity with requirements.
Bank Performance :	Satisfactory	Moderately Satisfactory	This review has the same sub-ratings as the ICR. The difference is that these average to the lower rating, as per the harmonized approach.
Borrower Performance :	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

NOTES:
- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons:

The ICR includes a series of lessons learnt from this project, including : (i) flexibility in design and ability to adapt quickly to new circumstances is a key to successful outcomes; (ii) implementation support missions should include field visits to branches and beneficiaries; (iii) leveraging IBRD funds should be encouraged; (iv) lending quotas for financing underserved regions are inefficient; and (v) fiduciary and safeguards system should be set-up from the outset and adequate training provided up -front; a point reiterated in Halkbank's feedback (ICR, p. 32). A further issue by TSKB concerns the cap on annual sales, which limits flexibility - the lesson learnt being that flexibility is important and the employee cap is sufficient .

The following additional lessons emerge from the present review :

- The project provides an example of a successful line of credit through a public bank . However, this experience cannot necessarily be generalized without better understanding of factors (such as corporate governance) that contributed to success .
- The simple approach of only providing investment finance resources was probably successful because other relevant issues, notably those pertaining to the investment climate, were being tackled elsewhere .
- The ICR mentions the importance of ensuring impact assessments at the level of banks and subborrowers being included as part of M&E . This requires up-front design and implementation of an appropriate evidenced-based system with provisions for periodic impact assessments . Such a system needs to be fully funded and migjht be costly . This approach has broader applicability to other activities such as business development services, community -driven development projects, etc .

An assessment of the project and related activities supported by the Bank may bring out other important lessons with broader applicability . Such an assessment is not recommended at this time because there are two other IBRD lines of credit under implementation . However, it might be considered in a few years and should it proceed consideration might be given to making it joint with other donors who have been implementing similar schemes in Turkey .

14. Assessment Recommended?

○ Yes ● No

15. Comments on Quality of ICR:

The ICR presents a candid, well written and argued self-assessment of implementation experience . Minor deficiencies noted include small mistakes with dates in the cover sheet, a few typos, some repetition in the main text, and some omission in the analysis - for instance reference to the current Country Partnership Strategy . Overall, the ICR provides a good description of project implementation and a fair assessment of project performance. Its quality is in the upper range of the satisfactory rating .

a.Quality of ICR Rating : Satisfactory