



Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: December 6, 2023 | Report No:



BASIC INFORMATION

A. Basic Project Data

Country Türkiye	Project ID P181436	Project Name Green Export Project	Parent Project ID
Region Europe and Central Asia	Estimated Appraisal Date December 6, 2023	Estimated Board Date February 27, 2024	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing	Borrower(s) TÜRKİYE İHRACAT KREDİ BANKASI A.Ş. (TURK EXIMBANK)	Implementing Agency TÜRKİYE İHRACAT KREDİ BANKASI A.Ş. (TURK EXIMBANK)	

Proposed Development Objective(s)

The development objective is to support Turkish exporters in their green transition and to expand green exports through longer-term financing.

Financing (in EUR Million)

Financing Source	Amount
Total Project Cost	1,000,000,000
Total Financing	1,000,000,000
Of Which Commercial Financing	1,000,000,000
Of Which IBRD Guarantee (maximum)	600,000,000
Financing Gap	0.00

Environmental Assessment Category

FI-2

Decision

The review meeting authorized the team to appraise and negotiate

Other Decision (as needed)

For Official Use Only



B. Introduction and Context

Country Context

Türkiye's development achievements over the past two decades have been remarkable, but at the expense of elevated macro-financial vulnerabilities. Real GDP growth averaged 5.4 percent between 2002 and 2022 resulting in income per capita (in real terms) more than doubling over the same period. Moreover, growth was accompanied by rapid poverty reduction with the poverty rate (\$6.85 2017 PPP poverty line) halving from above 20 percent in 2007 to around 10 percent in 2020. As in other countries, the COVID-19 pandemic had a negative impact on growth in 2020, but the country was one of the few that did not register a GDP contraction that year, instead growing by 1.9 percent. This performance was due to a large extent to the government's economic policy response to the pandemic focusing on loosening monetary policy and rapid credit expansion. Moreover, supported by domestic and external demand, Türkiye achieved double-digit GDP growth in 2021 (11.4 percent) and maintained significant momentum in 2022 (5.5 percent). However, the policy framework that ensured a strong economic performance during and in the aftermath of the pandemic compounded by the effects of the war in Ukraine also heightened macroeconomic risks, including rising inflation (with annual inflation reaching 61.4 percent in October 2023 after having peaked at 85.5 percent in October 2022), currency depreciation (77 percent against the US\$ between January 2020 and October 2023), corporate and banking sector vulnerabilities, and a decline in reserve buffers. Following the May 2023 elections there have been positive steps aimed at the normalization of Türkiye's macroeconomic situation, but large imbalances from the previous over-accommodative policy stance persist.

The proposed project builds upon the findings of the CCDR and directly supports the country's green transition. The CCDR recognizes the risks to exports posed by the EU's CBAM but also the opportunity to progress towards the country's climate commitments. Türkiye's updated Nationally Determined Contribution (NDC) targets set at a 41 percent reduction in GHG emissions from the Business as Usual (BaU) level by 2030. The new National Development Plan, updates of the Climate Action and Energy Efficiency Plans, and the Green Deal Action Plan are expected to update commitments and further policy guidance. The CCDR emphasizes the need to mobilize private capital for the significant investments required to achieve Türkiye's climate ambitions and address climate vulnerability. The proposed Project builds on these findings and is directly linked to Türkiye's NDC and the CCDR's recommendations while supporting mitigation and adaptation efforts in country-specific contexts by (i) supporting exporters' decarbonization and green and climate-resilient investments; (ii) crowding in private capital through an IBRD loan guarantee; and (iii) promoting climate-resilient investments, hence addressing identified climate vulnerabilities and supporting adaptation in the country-specific context of Türkiye.

Sectoral and Institutional Context

Türkiye's export sector has been a key driver of growth and employment and is vital to the country's macroeconomic stability. The reduction of trade barriers in the mid-1980s followed by the establishment of the EU-Türkiye Customs Union in 1995 catapulted Türkiye's integration into the global economy in the late-1990s and early-2000s. As a share of GDP, exports of goods and services increased from 20 percent in 2000 to 38 percent by 2022. Exports of goods and services have contributed close to a quarter of GDP growth since 2000 and export firms employ about 37 percent of Türkiye's formal employment in 2021.¹

As part of its ongoing commitment to mitigating climate change, the European Commission has launched the CBAM that imposes a carbon tariff on carbon intensive products. The objective of the CBAM is to ensure that the price of

¹ World Bank staff calculations using data from EIS.



imports of certain goods into the EU reflects the carbon content and thus preserves the competitiveness of domestic production as well as reducing the risk of carbon leakage. The CBAM will be fully operational in 2026, with reporting starting in its transitional phase from 1 October 2023,² covering scope 1 emissions from cement, electricity, aluminum, iron and steel, and fertilizers. The EU has signaled that the CBAM is likely to expand over time to cover more products, e.g., from chemicals, petroleum products, and glass, and include scope 2 emissions and eventually scope 3 emissions.

The CBAM’s impact on its trading partners will depend on emissions intensity of production as well as trade exposure and dependence, including relative importance of the EU market and opportunities to divert exports to other markets.

This is the case especially in emissions-intensive industries in Türkiye with a high trade exposure to the EU market such as iron and steel, cement, and aluminum in the first phase and chemical products in the extended phase. The global transition to a low-carbon future also presents important opportunities that can be captured if the appropriate enabling environment including financing is in place.

Long-term investments will be required for exporters to adapt to CBAM and to accelerate green exports, hence requiring accessible and affordable long-term financing.

Long-term finance contributes to faster growth, greater welfare, shared prosperity, and stability in two important ways: by reducing rollover risks for borrowers, thereby lengthening the horizon of investments and improving performance; and by allowing for longer-term investments, which are needed particularly for the green transition, building climate resilience, and job creation. Given their short-term funding structure (72 percent of liabilities are up to 3 months maturity, primarily customer deposits), commercial banks in Türkiye are reluctant to lend long-term. About 62 percent of loans have maturities up to 1 year, 27 percent have maturities between 1-5 years and only 11 percent of loans have maturities above 5 years.³ For export loans, commercial banks largely provide short-term trade finance to exporters (usually less than six months maturity). On the side of exporters, trade finance constitutes the largest share of debt funding (about 36 percent based on an analysis of a large-scale firm-level dataset) while long-term bank loans make up only 3 percent of total debt. Considering the long-term investment needs of exporters, this funding structure is not conducive to exporters’ green transition. This statement is supported by empirical evidence that suggests that access to longer-term bank finance leads to more exports and investment, but that access to finance is a major constraint for exporters.

Relevance to Higher Level Objectives

The proposed operation is aligned with the focus areas identified in the Country Partnership Framework (CPF) for Türkiye and complements ongoing WBG operations in helping to achieve the overall objectives of the CPF. The Türkiye CPF was approved in July 2017 and extended through the Program and Learning Review (PLR) in 2020 with the overall objective to help Türkiye to achieve more sustainable and inclusive growth. This project will contribute to the achievement of CPF/PLR objectives under Focus Areas I (growth) and Focus Area III (sustainability) by improving competitiveness and employment in selected industries, notably by providing financing to exporters that are either exposed to CBAM or produce green export products, thereby improving their resource efficiency, sustainability, and green transition. The proposed operation is similarly aligned with the upcoming SCD for Türkiye currently being finalized and structured around growth, inclusiveness, and sustainability. Export competitiveness and growth, external balance and macroeconomic sustainability, the financial sector, and the green transition are embedded in all three pillars and the project will therefore be directly linked with these SCD themes.

² The CBAM regulation officially entered into force the day following its publication in the Official Journal of the EU on 16 May 2023.

³ Turkish Bank Association data, March 2023.



C. Proposed Development Objective(s)

The development objective is to support Turkish exporters in their green transition and to expand green exports through longer-term financing.

Key Results

The following proposed PDO indicators are considered to measure the results of the project: (i) Annual GHG emission avoided or reduced; (ii) Ratio of green export growth of Project beneficiaries relative to export growth of their equivalent sector; and (iii) Ratio of the average maturity of sub-loans financed under the Project, over the average maturity of Eximbank's representative loan portfolio.

D. Concept Description

The proposed financing instrument is an up to EUR 600 million or US\$ equivalent of IBRD Loan Guarantee to Eximbank to enable raising up to EUR 1 billion in aggregate in approximately 10-year commercial loan structures from the international markets.⁴ A guarantee coverage of 50 percent will be pursued, but coverage up to 60 percent will be possible to ensure successful execution, subject to market conditions at the time. The IBRD guarantee may cover multiple loans with legal agreements executed over 24 months following Board approval. Indicatively, the first loan could be committed by commercial banks and disbursed to Eximbank in the first quarter of CY2024. Türkiye will provide a sovereign counter-guarantee to IBRD, in line with the standard requirement for IBRD guarantee projects. The proposed guarantee is the second only in Türkiye, following the successful EUR 250 million Long-Term Finance Guarantee (P171448) with Eximbank, approved by the Board in 2020, which successfully mobilized EUR 500 million in commercial loans, and is in the late stage of implementation. It is also the World Bank's first loan guarantee aimed at mobilizing funding for greening exports, with potential for replication in other countries.

The Project is proposed to have one component that will utilize the commercial financing raised by Eximbank with the support of the IBRD guarantee to directly extend sub-loans to eligible exporters exclusively for greening purposes. Eligible exporters will include export-oriented SMEs (EOSMEs) and export-oriented MCEs (EOMCEs) that are adapting to climate transition risks, arising from CBAM, the EU Green Deal, and others, by greening their operations or expanding green exports.⁵ The entire loan proceeds to be raised from the market (less any fees related to the IBRD guarantee) will be used for exporters' green investments. Adaptation finance activities will also be eligible. Supporting these exporters will help them maintain and expand their export competitiveness, particularly with regard to exports to the EU, which will be a key target export market for beneficiary exporters. The eligibility criteria will be detailed in the Project Appraisal Document and managed through the Project Operations Manual (POM).

The Project's focus is aligned with Eximbank's new strategy that emphasizes sustainability as a key focus for itself and for the exporters it supports. Eximbank has already begun working on the potential pipeline of exporters that could be supported through this Project, identifying about 1,600 exporters that will be affected by CBAM Stage 1 and 2, making up about 11 percent of total 2022 exports of Türkiye. While the exact types of investments will only be determined during implementation, beneficiary exporters will use the financing from Eximbank to replace machinery with more energy-efficient products or purchase equipment to produce solar energy to become greener, among others, with the entire loan proceeds to be raised from the market (less any fees related to the IBRD guarantee) to be used for exporters' green

⁴ Eximbank's overall borrowings and debt securities issued totaled TL 401.8 billion at end June 2023 (or about EUR 14.2 billion).

⁵ Eligible exporters will include export-oriented SMEs (EOSMEs) and export-oriented mid-caps (EOMCEs). In line with Government policy and Eximbank's practice, EOSMEs will be defined as firms employing fewer than 250 people, and EOMCEs will be defined as firms employing from 250 to 3,000 people.



transition and mitigation and adaptation investments. Beneficiary exporters will commit to reduce direct and indirect GHG emissions resulting from their operations through these investments.

Eximbank has been identified as the most conducive channel to achieve the objectives of the proposed Project for the following reasons. First, Eximbank has a specific mandate to help increase Turkish exports as the sole export credit agency of Türkiye. To ensure this, Eximbank only provides loans against actual exports (verified through custom declaration forms). Within the financial sector, Exim has the best understanding of the universe of exporters, exporters' growth potential, and exporters' investment and financing needs. Eximbank also prioritizes the sustainability and greening of Turkish exporters as a stated objective under its new strategy, in line with the objectives of this Project. This differentiates Eximbank from commercial banks. Eximbank has the institutional ability to support the greening of exporters by offering specialized products, providing technical assistance for identifying suitable green investments, and collaborating effectively with relevant state and private agencies. Second, Eximbank positions itself as complementary to the private sector. This is evidenced, for instance, in Eximbank requiring guarantees for all of its loans (e.g., letters of guarantee from commercial banks or guarantees from the Export Development Corporation, which is majority owned by the private sector). This allows banks that are not able to take cash risk to take non-cash risk instead and effectively means that Eximbank also relies on the capital and credit risk appraisal of commercial banks, showing Eximbank's market enabling role. Third, Eximbank focuses on providing long-term financing to exporters in foreign currency and with positive net interest rate spreads, thus complementing private banks' trade finance solutions as exporters will need access to both to increase their operations. By providing this long-term financing, needed for green investments, Eximbank fills a market gap and plays a market-enabling role rather than crowding out the private sector.

Given that Eximbank is considered the best placed institution to help achieve the objectives of the Project, it is proposed that Eximbank will lend directly to beneficiary exporters. In addition to the rationale provided above, direct lending will also ensure that the entire maturity advantage from using the IBRD Guarantee is transferred to exporters. On-lending through other financial institutions would require more upfront time, meaning that the maturity of sub-loans would end up being shorter than possible through direct lending. In addition, given the significant E&S requirements arising from the chosen focus sectors, it is unlikely that private financial institutions would be able to meet World Bank requirements within a short period of time, while Eximbank has built this capacity over the past years. The (i) terms and conditions between IBRD and Eximbank, (ii) eligibility criteria for exporters that can receive financing from Eximbank under the Project, and (iii) terms and conditions of sub-loans between Eximbank and beneficiary exporters will be detailed in the PAD and Project Operations Manual (POM). The Project will also include a citizen-oriented design with a dedicated beneficiary feedback (CE) indicator to be detailed in the PAD. Both investment and working capital loans will be eligible, with the focus on investment loans given the Project's focus and all working capital loans needing to be tied to parallel green investments in line with the Project's objectives. Since the entire transaction, from the commercial financing to the sub-loans to exporters will be in FX and since exporters are naturally hedged given their FX-based revenues, there will be no unhedged FX risk in this transaction.

An IBRD project guarantee has been identified as the appropriate instrument to achieve the Project objectives. The IBRD guarantee will help mobilize private capital from commercial banks at scale to help meet exporter's needs for funds necessary for the CBAM transition and scaling up green exports. The guarantee will also lengthen the tenor and lower the pricing for Eximbank, which benefits both Eximbank and the beneficiary exporters. The tenor of the financing to be mobilized with the IBRD guarantee is expected to be 10 years, which is significantly longer than the 3.25 years of Eximbank's latest Eurobond issuance. Market sounding conducted in August 2023 with 15 financial institutions clearly indicated the necessity of the IBRD guarantee and private insurance coverage to raise the required funds at the sought maturities and pricing due to the challenging macroeconomic situation.



CONTACT POINT

World Bank

Gunhild Berg
Lead Financial Sector Specialist

Borrower/Client/Recipient

TÜRKİYE İHRACAT KREDİ BANKASI A.Ş. (TURK EXIMBANK)

Implementing Agencies

TÜRKİYE İHRACAT KREDİ BANKASI A.Ş. (TURK EXIMBANK)

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Gunhild Berg, Etkin Ozen, Rome Chavapricha
----------------------	--

Approved By

Practice Manager/Manager:	Mario Guadamillas	December 7, 2023
Country Director:	J. Humberto Lopez	December 11, 2023

For Official Use Only