Report No:

Project Information Document (PID)

Concept Stage | Date Prepared/Updated: October 6, 2023 | Report No:

BASIC INFORMATION

A. Basic Project Data OPS TABLE

Country	Project ID	Parent Project ID (if any)	Project Name
Türkiye	P181436		Green Export Project
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
Europe and Central Asia	November 27, 2023	February 15, 2023	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	TÜRKİYE İHRACAT KREDİ BANKASI A.Ş. (TURK EXIMBANK)	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 expanding 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	Concept Review Decision
FI-2	Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

Türkiye achieved high economic growth in the past decade that supported rapid poverty reduction, but at the expense of elevated macro-financial vulnerabilities. Average annual gross domestic product (GDP) growth accelerated from 4.0 percent between 2001-10 to 5.2 percent between 2011-20 with the poverty rate[1] nearly halving from above 20 percent in 2007 to 12.9 percent[2] in 2020 (UMI poverty rate of $6.85 in 2017 PPP). As in other countries, the COVID-19 pandemic had a negative impact on growth in 2020, but the country was one of the few that did not register a GDP contraction that year, instead growing 1.9 percent. This performance was due to a large extent to the government's economic policy response to the pandemic focusing on loosening monetary policy and rapid credit expansion. Moreover, supported by domestic and external demand, Türkiye achieved double-digit GDP growth in 2021 (11.4 percent) and maintained significant momentum in 2022 (5.6 percent). However, the policy framework that ensured a strong economic performance during and in the aftermath of the pandemic compounded by the effects of the war in Ukraine also heightened macroeconomic risks, including rising inflation (with annual inflation reaching 47.8 percent in July 2023 after having peaked at 85.5 percent in October 2022), currency depreciation (78 percent against the US$ between January 2020 and August 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 SCD and directly supports the country's green transition. The CCDR and SCD recognized 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 and SCD equally emphasized the need to mobilize private capital for the significant investments required to achieve Türkiye's climate ambitions and address climate vulnerability. The project is directly linked to the CCDR's and SCD's recommendations by (i) supporting exporters' decarbonization and investments in green technologies in response to CBAM and the green transition; and (ii) crowding in private capital through a loan guarantee.

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.[3]

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 imports of certain goods into the EU reflects the carbon content and thus preserves the competitiveness of domestic

[1] 6.85 US$ 2017 PPP poverty line.
[2] World Bank staff estimates.
[3] World Bank staff calculations using data from EIS.

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,[4] 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 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—frequently defined as all funding for a time frame exceeding one year—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.[5] 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 (in contrast to short-term funding) leads to more exports and investment, but that access to finance is a major constraint for exporters.[6]

Relationship to CPF

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 new SCD for Türkiye currently under preparation 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.

[4] The CBAM regulation officially entered into force the day following its publication in the Official Journal of the EU on 16 May 2023.
[5] Turkish Bank Association data, March 2023.
[6] This is based on a 2020 analysis of the Enterprise Information System (EIS) data, maintained by Ministry of Industry and Technology, and the Enterprise Survey Date (2019). The sample consisted of 32,946 SME firms in the manufacturing sector, including 20,776 exporter SMEs and 12,170 non-exporter SMEs.

C. Proposed Development Objective(s)

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

Key Results (From PCN)

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 green 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. Additional intermediate results indicators will be proposed in the Project Appraisal Document (PAD).

D. Concept Description

The proposed project responds to a request from the Government of Türkiye to support exporters in their green transition to retain their export competitiveness, especially to the EU market. Given the extent of financial support requested, IBRD is coordinating closely with IFC and MIGA to support Türkiye's green exports. While IBRD is proposing to support Eximbank's long-term funding, MIGA is identifying opportunities to support Eximbank's short-term funding, and IFC is looking to scale up trade finance solutions for private commercial banks. Beyond the WBG support, AIIB separately has been exploring opportunities for supporting Eximbank through its financial solutions. The project is complementary to other pipeline and ongoing operations including the Green Finance Project (P178274) and the Green Industry Project (P179255), which focus on private equity for green and greening firms and the green transformation of industrial firms through reimbursable financing with a specific focus on SMEs that may have challenges to access commercial financing, respectively. As such they are complementary in terms of financing solutions and focus areas to the proposed project.

The proposed financing instrument is an up to EUR 600 million or equivalent in USD 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.[7] A guarantee coverage of 50 percent will be pursued to maximize Project funds. The IBRD guarantee is expected to cover multiple loans with legal agreements executed over 24 months following Board approval. Türkiye will provide a sovereign counter-guarantee to IBRD, in line with the standard requirement for IBRD guarantee projects. The proposed project follows on the heels of the EUR 250 million IBRD Long Term Export 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. The guarantee helped Eximbank mobilize private capital from global lenders, doubling the volume of financing raised relative to IBRD's committed credit exposure, with longer maturity and lower all-in cost than was available from markets without a guarantee. The financing was primarily used to support export-oriented SMEs and midcaps that were negatively impacted by the COVID-19 shock. The project has been rated as Satisfactory throughout implementation.

The Project aims to address the following interrelated challenges: (a) scarcity of long-term funding for the Turkish banking sector; (b) constraints faced by exporters in accessing longer-term financing; and (c) the urgent investments needed to maintain the competitiveness of Turkish exporters in the wake of CBAM and rising demand for green exports. The Project intends to address these challenges by helping Eximbank mobilize long-term market funding using the IBRD guarantee instrument and then using this funding to improve exporters access to longer-term finance for CBAM

[7] Eximbank's overall borrowings totaled TL 300.7 billion in 2022 (or about EUR 10.4 billion at September 2023 exchange rate).

and green export related investments. Given the challenging market conditions for raising funding on international markets discussed above, the IBRD guarantee will improve confidence in the transaction and help unlock the capacity of commercial lenders and insurers who would be unlikely to participate otherwise, especially at the sought maturities and pricing. By doing so, the Project is expected to mobilize significant private capital to help these exporters maintain and expand their operations (in terms of volume of exports) and decarbonize. This will help Türkiye maintain strong export performance as a key driver of growth and contribute to the decarbonization of the economy.

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 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.[8] Supporting these exporters will help them maintain and expand their export competitiveness, particularly with regard to exports to the EU market. The project's focus is in line with Eximbank's new strategy that emphasizes sustainability as a key focus for itself and for the exporters it prioritizes.

Eximbank has been identified as the most conducive channel to achieve the objectives of the 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. 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, 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.[9]

Given that Eximbank is considered the best placed institutions 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

[8] 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.

[9] Other channels such as working through one of the existing credit guarantee mechanisms (Credit Guarantee Fund or Export Development Corporation) were not deemed feasible or preferable as those are majority privately owned and in fact already work in close conjunction with Eximbank. IFC would in theory be able to work with one of these institutions.

be eligible, with the focus on investment loans given the Project's focus. 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 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. 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.

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APPROVAL

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