Report Number : ICRR12888

IEG ICR Review

Independent Evaluation Group

1. Project Data:		Date Posted : 03/31/2008		
PROJ ID :	P082801		Appraisal	Actual
Project Name :	Export Finance Intermediation Loan 2 (efil 2)	Project Costs (US$M):	303.1	303.0
Country:	Turkey	Loan/Credit (US$M):	303.1	303.0
Sector Board :	FPD	Cofinancing (US$M):		
Sector(s):	Micro- and SME finance (35%) Banking (35%) Other domestic and international trade (30%)			
Theme(s):	Small and medium enterprise support (40% - P) Export development and competitiveness (40% - P) Other financial and private sector development (20% - S)			
L/C Number:	L7213			
		Board Approval Date :		01/13/2004
Partners involved :		Closing Date :	09/30/2009	09/30/2009

Evaluator:	Panel Reviewer :	Group Manager :	Group:
Gita Gopal	Rene I. Vandendries	Ali Khadr	IEGCR

2. Project Objectives and Components:

a. Objectives:

The Export Finance Intermediation Loan II (EFIL II) aimed to: (i) provide medium and long-term working capital and investment finance to private exporters, and contribute to further facilitating export growth in Turkey; and (ii) improve the quality, safety of and access to finance through development of financial intermediation in the Turkish private financial sector by banks and leasing companies .

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

No

c. Components (or Key Conditions in the case of DPLs, as appropriate):

The project had a single component, a credit line for exporters with the provision of medium - and long-term funds through two distinct Participating Financial Intermediaries (PFIs), or sub-components: (i) commercial banks providing investment and working capital loans, and (ii) leasing companies providing lease finance for acquisition of productive assets (equipment and machinery). At the level of PFIs, the project had originally allocated US$ 100 million to lease finance and US$200 million to bank sub-loans.

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

The project disbursed as appraised. There were no significant changes. Reallocations took place on two occasions between the leasing and the banking channel, which on a net basis increased leasing allocations by US$ 13 million and reduced the banking allocation with the same amount. The project, however, was fully disbursed almost two years before the planned closing date, with a small-unallocated amount USD 69,000 and unutilized amount of USD 21,687.85, cancelled as of June 14, 2007.)

3. Relevance of Objectives & Design:

The project objectives were highly relevant for the following reasons:

(i) The project was consistent with country priorities and was prepared in response to a Government request for an export credit line, which would be intermediated through the financial system and would help fill the gap in medium - and long-term finance to private exporters to help recovery of the financial sector following the financial crisis in 2001.

(ii) The project was consistent with the FY04-06 CAS objectives. The CAS noted that the process of crisis recovery depended on revitalizing the real sector suffering from a credit crunch. Its key priorities for the medium term included completing the banking and financial sector reforms and revitalizing the real sector by filling the gap in accessing credit facilities.

(iii) The EFIL II built on the lessons learnt from the experience of its successful predecessor project (EFIL I). EFIL II maintained the design of the previous project which had proved to be successful in providing a timely and focused response to the unmet demand from banks and exporting companies for medium - and long-term funding, both during the pre- and post-crisis periods. The decision to include leasing companies was based on a thorough sector study of non-bank financial intermediaries

4. Achievement of Objectives (Efficacy):

The project achieved both its stated objectives.

- To facilitate and increase export growth in Turkey - this objective has been achieved in a highly satisfactory manner.
  - The credit line provided US$ 300 million worth of medium term financing for exporters through 11 financial intermediaries. US$187 million provided by 5 banks, and US$113 million provided by 6 leasing firms. The project thus added US$300 million worth of financial intermediation. This is equal to around 0.3 percent of total domestic credit to the firm sector in Turkey, but it is a much larger part of investment finance in Turkey, which remains underdeveloped. The maturities of sub-loans and leases were quite long with more than half the loans having maturities of four years or more. The impact was well dispersed across 249 exporters in several industries and geographic areas with some concentration in the Marmara region and in the textile sector. Overall, these activities helped to facilitate export growth in Turkey.

  - Exports by sub-borrowers in the project grew by 117 percent (or US$ 2.5 billion) between 2003 and 2006 and thereby reinforced the general trend of increasing exports. According to the ICR, Turkish exports in general expanded by a cumulative growth of 81 percent in US$ terms between 2003 and 2006. The strong export performance has been in spite of a tendency of appreciation of the Turkish currency throughout the life of the project and a strong growth in domestic demand, which increased by 31 percent between 2003 and 2006 and thereby creating an incentive for Turkish firms to become more inward-looking in their marketing. Foreign ownership in the financial sector increased during the life of the project and while this supported the PDO, it resulted in lower demand for funds from the TSKB (Industrial Development Bank of Turkey) channeled credit line, because these PFIs gained access to funds at increasingly competitive prices. The ICR notes that TSKB responded in a timely manner to the changing market conditions and renegotiated its lending rates with some PFIs that gained foreign ownership, although borrowers did complain about the costs of borrowing.

- Improving quality and safety of and access to finance through development of financial intermediation in the Turkish private financial sector by banks and leasing companies. This objective has been satisfactorily met.
  - The ICR reports that sub-loans and leases performed reasonably well with 1.4 percent being non-performing relative to a 3.7 percent NPL ratio in the banking sector as of October 2007. Only two of the participating 249 exporters were classified as non-performing borrowers during the life of the project, and one of them later recovered to performing status. The borrower and participating financial institutions remained financially healthy during the operation with one exception. One PFI incurred losses and had to increase provisions for pension liabilities, which pushed the capitalization of the bank below the regulatory minimum. The bank was subsequently recapitalized by its owners and is now in compliance with banking regulations. Within the manufacturing sector, a large share went to the textile sector (36.7 percent), which accounts for about 27 percent of Turkey's manufacturing exports.
  - Leasing companies have not been financial intermediaries in World Bank projects in Turkey in the past up

to the EFIL II. These were an entirely new financial intermediary class and their inclusion proved to be highly beneficial in reaching smaller-scale exporters. However, even in their case, as the ICR notes "loan sizes under the project were roughly twice what they were for the leasing companies' entire portfolio indicating that bigger firms are targeted in the project." Average loan sizes for the leasing and loan components of the facility were USD 631,982.70.

- Additionally, although TSKB responded quickly to changing circumstances, the ICR notes that most "PFIs indicated that the price of the credit line had become high relative to other funding sources and in particular as price competition in the financial sector had become stronger."

- The ICR notes that the project had a significant impact towards achieving the PDO through indirect channels, namely (i) a demonstration and spillover effect, with TSKB and the PFIs demonstrating that medium term lending can be a viable business proposition; (ii) capacity building for TSKB (for example a new IT system to process loan applications by PFIs through the Internet), PFIs (improving their skills in making medium and long term credit through better credit appraisal and higher documentation requirements) and exporters (improving formal documentation for gaining access and getting credit), (iii) improved environmental practices of exporters and the capacity of PFIs to assess environmental risks of borrowing companies.

5. Efficiency (not applicable to DPLs):

The ICR does not measure efficiency of project outcomes.

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:

Given the high relevance of the project objectives and the satisfactory achievement of project objectives, the overall outcome is assessed to be highly satisfactory.

a. Outcome Rating : Highly Satisfactory

7. Rationale for Risk to Development Outcome Rating:

The ICR review agrees with the ICR finding that the risks to development outcomes are moderate. Public debt is still large in absolute terms, though it has come down as a percentage of GNP, the key being the maintenance of a primary surplus of the public sector of about 6.5 percent of GDP. There also remains some degree of residual uncertainty with progress towards the privatization of state banks not taking place at the pace that the Bank had envisaged in the CAS (CASCR review 2007). Additionally there is the treat of war with Iraq and specific sectors could be affected by changes in the international competitive environment. This said, the performance of the TSKB has been sound and it closely monitors PFI performance, thereby mitigating any specific sector risks. Additionally, the agreement to start the process of negotiation with the European Union is likely to sustain the forward momentum of change in Turkey.

a. Risk to Development Outcome Rating : Moderate

8. Assessment of Bank Performance:

Quality at entry was highly satisfactory. The project design integrated lessons from the successes of its previous project, was well aligned with IEG recommendations for lines of credit, and included a detailed operational manual which ensured that the project was implemented effectively. Bank performance during supervision was satisfactory. Regular supervision and close collaboration with the government ensured that implementation issues were swiftly resolved. Part of the reason for the quick disbursement of the project can be attributed to the still relatively higher than planned average loan sizes made by PFIs. The Bank team might have taken additional steps to ensure that the loans were provided to a more diversified set of smaller borrowers.

a. Ensuring Quality -at-Entry: Highly Satisfactory

b. Quality of Supervision : Highly Satisfactory

c. Overall Bank Performance : Highly Satisfactory

9. Assessment of Borrower Performance:

Although the Government did not have a key role in the implementation of the line of credit, it supported and facilitated the line of credit by taking on the credit risk of TSKB and by helping to follow prudent macroeconomic policies. TSKB's performance was highly satisfactory in that it supported the PFIs, developed an IT system to help monitor the performance of PFIs, and promptly produced and utilized data in its decision making . Overall, PFIs were unanimous in their praise of PFIs, according to the ICR .

a. Government Performance : Satisfactory

b. Implementing Agency Performance : Highly Satisfactory

c. Overall Borrower Performance : Highly Satisfactory

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

The project design included a good monitoring and evaluation framework, with the original set of indicators stated at appraisal being tracked at all stages of the credit line implementation . This design was tracked and reported during supervision. The indicators could, however, have included better benchmarks to measure progress, and clearer indicators to measure loan distribution especially given that this was a follow -on project to EFIL I and a stated objective of this second intervention .

a. M&E Quality Rating : Substantial

11. Other Issues (Safeguards, Fiduciary, Unintended Positive and Negative Impacts):

No other issues are noted. The utilization of a detailed operational manual which covered procurement, financial management, and environmental review processes meant that safeguard and fiduciary compliance was high . Environmental protection procedures were reportedly well implemented with some projects rejected based on environmental standards of loan applicants .

12. Ratings:	ICR	IEG Review	Reason for Disagreement /Comments
Outcome:	Highly Satisfactory	Highly Satisfactory	
Risk to Development Outcome:	Moderate	Moderate	
Bank Performance :	Highly Satisfactory	Highly Satisfactory	
Borrower Performance :	Highly Satisfactory	Highly 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:

It is important to ensure measures in project design that will enable participating PFIs (who are being financed with government guaranteed ODA funds) to reach small borrowers particularly because other large borrowers have access to market borrowing.

14. Assessment Recommended? ○ Yes ● No

15. Comments on Quality of ICR:

The ICR is clear and well-written. However, the ICR could have expanded in more detail on the progress made towards the inclusion of more smaller firms in the credit program. The ICR could also have explained why the closing date is still planned as September 30, 2009, as indicated in the data sheet, when elsewhere the ICR notes that the disbursement was complete two years before planned.

a.Quality of ICR Rating : Satisfactory