ICR Review
Operations Evaluation Department

Report Number : ICRR11752

1. Project Data:		Date Posted :	05/03/2004	
PROJ ID :	P065188		Appraisal	Actual
Project Name :	Export Finance Intermediation Loan	Project Costs (US$M)	252.53	249.71
Country:	Turkey	Loan/Credit (US$M)	252.53	252.53
Sector(s):	Board: FSP - Other industry (98%), Banking (2%)	Cofinancing (US$M)		
L/C Number:	L4506			
		Board Approval (FY)		00
Partners involved :		Closing Date	02/28/2003	08/31/2003
Prepared by :	Reviewed by :	Group Manager :	Group:	
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2. Project Objectives and Components

a. Objectives

EFIL's development objectives were to: (i) provide short and medium-term working capital and investment finance to private exporting enterprises to assist the Turkish exporting sector that had been hurt by the 1998 global financial crisis; and (ii) to enable a strategic dialogue and close interaction with the major banks and the Bankers Association, through the setting up of stricter and upgraded prudential eligibility criteria and banking standards for capital adequacy, foreign exchange exposure, connected and insider lending and risk management systems. This was the more critical objective since it involved long-term sectoral development. The loan's operational objective was also to facilitate further institutional development of Turkey's Eximbank as an efficient and professionally run export finance institution/export credit agency, through a comprehensive review of its institutional development priorities and targeted institutional strengthening efforts. The institutional aspects were covered through a technical assistance component included in the loan.

b. Components

The loan consisted of: the following components, which were not revised: (i) a credit line of $246 million for on-lending through six participating financial institutions (private commercial banks) managed by Turkey's export credit agency, Eximbank; (ii) technical assistance to Eximbank amounting to $4.5 million; and a front-end fee of $2.52 million. In May 2001, some of the eligibility criteria applicable to sub-borrowers and sub-projects were revised in order to increase the attractiveness of the credit line from a transactions viewpoint. The loan was made direct to Eximbank (and not to the Government) and Eximbank took on the responsibility of ensuring consistent standards and quality of subloans made under the operation. Eximbank was therefore acting as a wholesaler under this operation.

c. Comments on Project Cost, Financing and Dates

1. The loan was a timely response to the financial and economic crisis at the time. The design of the apex operation, using Eximbank (Turkey's official export credit agency), was sound. The loan amount was large, but since it involved on-lending to six participating financial institutions (PFIs) -- TSKB, Yapi Kredi, Kocbank, Garanti, Disbank, and IS Bank -- it was appropriate. Each bank signed a Subsidiary Loan Agreements (SLA) with Eximbank. The credit line portion that was drawn down amounted to $243.92 million compared to the $246 million allocated under the loan. Pre-agreed amounts were allocated to each bank, and they paid commitment fees on their portion, which helped to ensure the draw-down of the loan funds.

2. The technical assistance funding supported Eximbank's institutional strengthening efforts, following a comprehensive review of its institutional development priorities.

3. Commitments under the credit line, beyond the first US$100 million, were subject to the World Bank having confirmed to Eximbank its satisfaction with progress achieved by the Government in carrying out financial sector reform policies (Schedule 4 of the Loan Agreement). Thus, this EFIL was tranched, making it more of a hybrid-type operation.

4. The closing date of the loan was extended once (by six months).

3. Achievement of Relevant Objectives:

1. Lending was done through six private banks (PFIs) including one privately owned development bank (TSKB). The banks were selected according to the criteria agreed between IBRD and Eximbank. Eximbank took the credit risk on the aggregate funds lent to participating PFIs. The PFIs in turn made the sub-loans to private exporting enterprises for procurement of raw materials, equipment, works and services in order to expand their current export volumes, or in exceptional circumstances to enable them to retain and maintain their current level of exports. The PFIs took the credit risk on the sub-loans made to borrowing enterprises. A parallel loan for the Programmatic FSAL II, which has also been reviewed at this time, has confirmed a satisfactory outcome on

these sectoral policies.

2. The repayment record by the sub-borrowers has been good. A subloan (as per the Loan Loss Provisioning Rule in Turkey) becomes overdue after 90 days. Sub-loans debt servicing performance in EFIL has been good. Though there were some small debt servicing delays in a couple of sub-loans during the 2001 banking crisis period, these were temporary and are back on track.The 100% sub-loan debt servicing performance under EFIL is commendable, but it must be recognized that sub-borrowers are all well-established exporters who were able to service their Forex-denominated debts satisfactorily, and who could have probably obtained credit through the normal commercial markets anyway.

3. The project helped to achieve incremental export growth from the EFIL sub-borrowers -- their exports grew from $2 billion to $4 billion in the period 1999-2002. This is a small percentage of the country total exports, which reached $36 billion in 2002. The annual growth rate of exports from the sub-borrowers tapered off from 40 percent in 2000 to 29 percent in 2002.

4. Significant Outcomes/Impacts:

1. The PFIs were evaluated by Eximbank regarding their internal risk management system capacity, capital adequacy ratios, foreign exchange exposure, insider lending practices, and Y2K readiness at the time. At the inception of the EFIL, the PFIs were obliged under the terms of Subsidiary Loan Agreements (SLAs) to remain in compliance with prudential ratios that were stricter than those imposed on the banking system by the Turkish bank regulatory authorities (the Turkish Treasury and the Central Bank). Capital adequacy ratios improved for all banks during project implementation. How to undertake risk management analysis became a significant outcome under the operation.

2. The newcomer banks (IS Bank, Kocbank and Disbank), although working for the first time in a World Bank credit line operation, became adept in implementing the Bank's criteria after the experience of the first two subloans in each PFI.

3. The sectoral objective of developing a strategic dialogue and close interaction with the Turkish banking system helped to enhance the regulatory/structural reforms in the Turkish banking sector. Thus, the real impact of EFIL lies in achieving this objective, by utilizing the EFIL as a facilitator through which the Bank was (i) able to initiate a dialogue with the Turkish banking sector; (ii) became aware of its structural weaknesses; and (iii) supported the banking reform of the Government throughout three ensuing financial sector program loans (FSAL, PFPSAL I and II). Another by-product was to further develop the credit analysis capability of the Turkish banks (see Borrower's documents attached to the ICR, especially Table 5 on the respective banks' capital adequacy ratios). These steps had a lasting impact and contributed significantly to the long-term institutional and regulatory development of the Turkish banking sector.

5. Significant Shortcomings (including non-compliance with safeguard policies):

1. The ICR (page 6) states "that because of the eligibility criteria, PFIs were limited to lending to their most creditworthy clients, which had a long and positive relationship with them. Under these conditions, EFIL could not be utilized by firms with promising projects, but with little or no access to banks."

2 The ICR has no information on the (ex-ante) IFRRs for the investment subprojects (nor ex-post, which is more relevant). Yet the principal terms and conditions of the Subsidiary Loan Agreement (SLA) says in Attachment to Schedule 4, Clause 4, that: (a) the first two subloans by said PFI shall have been approved by the World Bank" and Clause 7 (a) says: "export development subloans shall be economically, financially and commercially viable and; (d) says: they should have a projected financial rate of return of at least 15 percent." Given this, the IFRRs for at least the first two subloans by each PPFI should have been included in the ICR.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Institutional Dev .:	Modest	Modest	The Project Data page has modest, but Annex 5 has high. Eximbank is not involved in the new follow-up operation. TSKB becomes the apex bank under the new export credit operation, which also includes a leasing component.
Sustainability :	Likely	Likely	Export financing operations are continuing, but Eximbank has chosen not to be involved in the follow-up operation
Bank Performance :	Satisfactory	Satisfactory	The Project Data page has satisfactory, but Annex 6 has highly satisfactory.
Borrower Perf .:	Satisfactory	Satisfactory	The Project Data page has satisfactory, but Annex 6 has highly satisfactory.
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

1. Excessively controlled procurement requirements unsuitable for private sector borrowers, and the World Bank's previous currency pool loan features proved to be a hindrance to expeditious project implementation in other credit lines, so in this case commercial practices for procurement and a single currency loan (SCL) feature were used, which helped to smooth subloan implementation and disbursement arrangements.

2. It makes sense to combine the Borrower and Implementing Agency functions into one and the same entity -- Eximbank in this

case and to lend directly to it, once the due diligence tests were met. There was no need to lend to the Treasury and have it on-lend the funds. The project design was straightforward and efficient

8. Assessment Recommended? ○ Yes ● No

9. Comments on Quality of ICR:

1. The ICR could have benefitted from information on the IFRRS for investment subloans, especially on the first two subloans in each PFI case that were subject to Bank ex-ante review) and on subloan repayment performance (how overdues are defined). Regarding institutional development, the ICR should have explained that under the new operation there has been a switch in the apex bank arrangements (the ICR was issued after the PAD on the new operation in December 2003). Apparently, Eximbank plans to focus more on cross-border financing of importers of Turkish products and construction contracts in neighboring countries, and therefore the Turkish Treasury and the World Bank have elevated TSKB to the role of an apex bank under EFIL II.

2. The ICR (Table 5 of the Borrower's contribution) shows the capital adequacy for the six PFIs, 1998-2003, but there is no discussion explaining the variances in the ratios. The table shows an improving trend for all six banks, and averages for commercial banks (29.1) and for development banks (51.3) that are well above the capital adequacy ratios of the PFIs (except for IS Bank which is 28.8). There is no discussion of why there are quite large differences from the average comparisons for the other five banks.

3. There were inconsistencies in the ratings of ID, Bank and Borrower Performance, between the project data sheet and Annexes 5 and 6.

4. The key performance indicators in Annex 1 of the ICR and PAD are quite general and are not stated in terms of outcomes. Financial sector operations and credit lines need to have specific indicators by which one can measure progress.