Report Number: ICRR14937

IEG ICR Review

Independent Evaluation Group

1. Project Data:		Date Posted: 06/13/2016		
Country:	Turkey			
Project ID:	P096858		Appraisal	Actual
Project Name:	Fourth Export Finance Intermediation Loan (efil Iv)	Project Costs (US$M):	600	900
L/C Number:		Loan/Credit (US$M):		900
Sector Board:	Financial and Private Sector Development	Cofinancing (US$M):		
Cofinanciers:		Board Approval Date:		05/22/2008
		Closing Date:	06/30/2013	12/31/2014
Sector(s):	General industry and trade sector (50%); General finance sector (20%); SME Finance (15%); Banking (15%)			
Theme(s):	Export development and competitiveness (40%); Other Financial Sector Development (20%); Micro; Small and Medium Enterprise support (20%); Other Private Sector Development (20%)			

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2. Project Objectives and Components:

a. Objectives:

According to the Project Appraisal Document (page) and the Loan Agreement (Schedule 1, page 5), the objectives of the project are to:

(a) support exports by providing medium and long -term working capital and investment finance to private exporting enterprises ; and (b) improve the ability of the financial sector to provide financial resources to firms through development of financial intermediaries .

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

Yes

If yes, did the Board approve the revised objectives/key associated outcome targets?

Yes

Date of Board Approval: 03/17/2011

c. Components:

There were 3 components:

1 A credit line to TSKB (Turkiye Sinai Kalkinma Bankasi) (estimated cost was US$ 300 million equivalent at appraisal, and US$ 300 million of additional financing was added in 2011; actual cost was US$ 600 million).

- The implementing agency (TSKB) passed on funds to participating financial institutions (PFIs) for further on-lending to eligible exporters. TSKB operated as a wholesaler and entered into subsidiary loan agreements with both banks and leasing companies. There were no pre-allocations between PFIs and no sector restrictions.

The definition of exporters was expanded to include service exports such as tourism .

2. A credit line for exporters through Eximban k (Turkiye Ihracat Kredi Bankasi) (estimated cost was US$ 296.3 million equivalent at appraisal; actual cost was US$ 297.8 million).

- This was to enable Eximbank to be operated as a retail lender , lending directly to exporters in the shipbuilding and machine-building sectors only.

3. A loan to Eximbank to improve risk management capacity (estimated costs was US$ 3.7 million at appraisal; actual cost was US$ 2.2 million actual).

- In addition to building backup capacity for Eximbank's critical information technology (IT) system to better manage operational risk and upgrading the existing IT systems , the component would support Basel II implementation that started January I, 2008.

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

Project Cost : At appraisal the cost was estimated at US$ 600 million equivalent. In April 2011, additional financing of US$ 300 million was approved to scale-up of the reach and impact of the project. In May, 2013, US$1.5 million was reallocated from component 3 to component 2 as part of the component 3 activities were financed by own sources. At closing, the the actual cost was US$ 900 million, after allowances are made for currency fluctuations.

Financing : The entire project cost was financed by two IBRD loans totaling of US $ 900 million that were fully disbursed

Borrower Contribution : A contribution from the Borrower was neither planned nor given ..

Dates: In March 2011, the closing date was extended by 18 months to 12/31/2014 to allow for the implementation of additional financing.
The project was restructured four times, without making any changes in the objectives:.

(i) 03/17/2011: To provide additional financing, extend closing date and revise development objectives and intermediate outcome indicators;
(ii) 06/13/2011: To lift sector restrictions on Eximbank lending and revise the project's environmental framework ;
(iii) 10/10/2012: To make one-time waiver to TSKB on procurement thresholds; and
(iv) 05/17/2013: To reallocate US$1.5 million from Eximbank's institutional development plan (component 3) to its credit line (component 2).

3. Relevance of Objectives & Design:

a. Relevance of Objectives:

Substantial

Objectives were relevant to the economic conditions at the time the project became effective (2008). First, the global financial crisis was just beginning to reverberate, to be followed by a severe economic contraction. Credit and liquidity were exceptionally tight. The original loan ($600 million) provided the much needed relief to the financial system. Second, the additional financing ($300 million) of 2011, which coincided with the debt crisis in Greece and Southern Europe, helped alleviate credit constraints faced by Turkish borrowers .

The objectives were well aligned with the government's 10th National Development Plan (NDP 2014-18) and the Turkish Export Strategy which were in effect at the time of project closing . One of the official development priorities was to raise Turkey's export to US$500 billion by 2023.

In addition, the objectives were consistent with the FY 2012 - FY2016 Country Partnership Strategy (CPS) of the World Bank Group, current at the time the operation closed. The first strategic objective of the CPS was to enhance competitiveness and employment, including specific goals of strengthening exports and broadening access to finance.

b. Relevance of Design:

Substantial

The original design was based on three earlier export finance projects in the country , which included (a) an implementing agency acting as a wholesale intermediary; (b) the participation of banks and leasing companies to reach a broad range of exporters. But the results framework at that stage was weak, with broadly stated

project activities, on the one hand, and the expected outcomes, on the other. For one thing, part of component 3 – helping Eximbank comply with Basel II – was already dated when the project became effective. Further, most of the outcome targets of the original results framework (Private investment/GDP; Exports/GDP; Credit to the private sector/GDP; NBFI assets/GDP) were subject to the influences of external factors beyond the control of the project. Even so, the credit line for retail lending to shipbuilding and machine-building sectors only was relevant because these sectors' promising export and growth potentials and Eximbank's established relations with these sectors.

The changes made at the restructuring of March, 2011, to the outcome targets improved the quality of the results framework and did not create a bias in favor of the operation. Thus, split evaluation (which separates the assessment of efficacy into two stages – before and after the restructuring) is not required.

Thus, after restructuring, the linkages between project support and the outcomes envisaged became clearer and more convincing. The removal of the four broadly stated, macro-economic outcomes helped consolidate the results framework and clarified the chains of causality. The combination of intermediate and final outcomes provided a broad approximation of the objectives as stated for the project. On balance, the relevance of design is rated substantial.

4. Achievement of Objectives (Efficacy):

There were two objectives: (1) supporting exports by providing medium and long-term working capital and investment finance to private exporting enterprises; and (2) improving the ability of the financial sector to provide financial resources to firms through development of financial intermediaries.

Outputs common to both objectives:

The project provided US$856 million equivalent of medium- and long-term financing (with maturity of more than 12 months) to 304 distinct exporters through 369 sub-loans from TSKB, Eximbank and 12 PFIs. Of this total, US$609 million equivalent was provided through seven banks (including Eximbank) and US$237 million equivalent through seven leasing companies.

Outcomes:

(1) supporting exports by providing medium and long-term working capital and investment finance to private exporting enterprises: Substantial

- Export finance, defined as medium and long-term working capital and investment finance to private export enterprises rose by US$856 million by project completion, only modestly below the outcome target of US$896 million. Of this total, US$527.5 million was for medium and long-term working capital and US$328.5 million for investment finance.
- The project contributed to both export growth and an expansion of export finance through financial intermediaries. Export growth attributable to the project was observed through the increase in the export sales of participating firms, which exceeded that of the sectors to which the firms belonged. Compared to the export growth of their respective sectors, the participating firms outperformed by an average 6 percentage point per year. The ICR estimated that each dollar of this loan stimulated an increase of $3.8 in exports.
- Some of the intermediate outcome targets were modestly below target, including (i) the number of exporters benefiting from the project (304 actual compared to the target of 320); (ii) the share of medium to long-term finance was 50%, instead of 55% as planned.
- In addition, the project also contributed indirectly to other positive outcomes. Among them:
  - Employment. At a time of financial crisis and turmoil in the region, 60 percent of the firms increased employment while 34 percent avoided retrenchment of workers, according to a survey of participating firms.
  - Lending to under-served regions. Although the project did not set out to expand such lending, $34 million of the loan (4% by value) was made to support firms located in priority areas.

(2) improving the ability of the financial sector to provide financial resources to firms through development of financial intermediaries: Substantial

- The ability of the financial sector to provide financial resources to firms was improved as more (13) financial intermediaries contributed to the increase in export finance. In addition, the development of these financial

intermediaries was illustrated by their ability to maintain a low percentage of non-performing loans in their loan portfolios (3% in June 2014) which was better than the percentage of non-performing loans in the overall economy (4%).

- The project also helped raise term finance available to exporters, with all of the credit supported by the project showing a maturity of more than one year. The average maturity of the portfolio of sub-loans was 43 months (or about three and a half years.) More than 50% of the value of sub-loans supported investment rather than working capital. More intermediaries became providers of export finance, including 3 new PFIs that participated in the project for the first time and eleven that participated in other projects. Furthermore, as required by the covenants of the project, the PFIs maintained a sound financial discipline, including upholding the quality of their assets. Non-performing sub-loans represented 2.7 percent of total sub-loans by number and 3 percent by value, both exceeding the stipulated targets for key performance indicators.
- Through technical assistance and the application of international standards, the implementing agencies and participating financial institutions adopted improved practices in credit assessment and monitoring.

5. Efficiency:

Economic and Financial Efficiency
Neither the project appraisal document nor the ICR presented standard economic and financial analysis. The project team argued that, with no well defined project cost, the standard analysis would not be meaningful. Instead, the ICR suggested that project funds were efficiently utilized because there was substantial value for money. Every dollar disbursed generated $3.8 of new exports. In addition, project resources were deployed to counter the liquidity crisis associated with the global financial turmoil and its aftermath.

Administrative and Organizational Efficiency
Project funds were disbursed as scheduled or earlier, both under the original project and additional financing, allowing the project to close on time and on budget. Turnover of staff was low, limiting the loss of time and resources during the transition.

Overall, efficiency is rated **Substantial**.

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 relevance of development objectives was substantial, as was the relevance of design. Both the objectives of supporting exports through term finance and the objective of improving the ability of financial intermediaries to provide more export finance were substantially achieved. The efficiency of resource utilization was substantial. Overall, the outcome is rated satisfactory.

a. Outcome Rating: Satisfactory

7. Rationale for Risk to Development Outcome Rating:

- Risks to development outcomes include (a) external conditions which could constrain exports and market liquidity; (b) financial sector risks associated with mismatches of currency or maturity in the portfolio of financial intermediaries; and (c) project specific risks pertaining to the performance of PFIs.
- While a slowdown is expected in some of the Asian export markets, the principal markets in the Eurozone are benefiting from accommodative monetary policy and showing signs of stability, moderating the risks of significant market turmoil.

- Currency mismatches are more relevant to intermediaries that lend primarily in local markets. The PFIs are partly hedged against currency depreciation and shortages of foreign exchange because their borrowers are exporters, which benefit from the depreciation of local currency and generate revenue in foreign exchange to meet their foreign exchange liabilities.
- Maturity mismatches are not significant since both TSKB and Eximbank are amply supported by long-term funding from donors and the Government. PFIs' term lending has been supported by the term finance provided by TSKB and Eximbank.
- Project specific risks are also moderate. The PFIs have a track record of navigating the global and regional financial crisis throughout the project. In addition, they benefited from the technical assistance given under the project to appraise and manage credit risks. They also demonstrated the capacity to comply with the standards under the project's covenants.

a. Risk to Development Outcome Rating : Moderate

8. Assessment of Bank Performance:

a. Quality at entry:

The preparation benefited from the experience of three earlier and successful projects in Turkey, including the use of an experienced implementing agency and participating financial institutions and the tested modality of lending and on-lending. It also improved on the practice by bringing in additional financial intermediaries and simplifying some of the safeguards procedures. The project was well timed and delivered to counteract the loss of liquidity among exporters during the 2008 global financial crisis.

But perhaps because of the looming global crisis during the time of project preparation and the need to move quickly with the assistance, the results framework in the project appraisal document showed some weaknesses and the M&E system was inadequate, as discussed in the M&E section below.

Quality-at-Entry Rating : Moderately Satisfactory

b. Quality of supervision:

Project supervision was fully carried out as scheduled by field visits, supplemented by support of field-based financial sector specialists and safeguards specialists. The project team also showed responsiveness by addressing issues of concerns to borrowers and sub-borrowers, including simplifying World Bank procedures on procurement and environmental framework. In addition, the project team undertook a restructuring of the results framework and M&E system, as well as component 3 of the project.

However, the response was very late. The issues of the M&E system were identified in 2008, but the revision was not made until three years later. Similarly, Eximbank's request to lift sector restrictions on loans was made in 2009, but the corrective action did not materialize until 2011.

Quality of Supervision Rating : Moderately Satisfactory

Overall Bank Performance Rating : Moderately Satisfactory

9. Assessment of Borrower Performance:

a. Government Performance:

The government served a relatively limited role – that of a guarantor and not a borrower – in this operation. It nonetheless demonstrated a strong ownership of the project which helped advance the government's priorities. It improved the operating environment for the project by amending the leasing law in 2012 to recognize the commercial services provided by leasing companies. In 2011, it reduced the value added tax applicable to the leasing of machinery and equipment from 18 percent to 1 percent.

Government Performance Rating Satisfactory

b. Implementing Agency Performance:

The performance of TSKB was outstanding, but that of Eximbank was less so. TSKB met all fiduciary and safeguards requirements, was proactive in its support for PFI and quick to respond to changes in market conditions, including amending the terms and conditions of its sub-loans to exporters. Eximbank also complied fully with the loan agreement, but it changed its plans for some of the activities under component 3. As a result, part of the loan was reallocated to another component. Eximbank also opted out of the activities supported in the additional financing.

Implementing Agency Performance Rating : Satisfactory

Overall Borrower Performance Rating : Satisfactory

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

a. M&E Design:

The original design at the time of approval was weak. As the ICR acknowledges, most of the key indicators selected did not reflect the objectives sought by the project -- or respond to project activities. Some of the key outcomes, including profitability of PFIs and lending rates, were not included in the system. Data collection responsibilities and procedures were not fully spelled out and baselines and targets of some key indicators were left undefined. At TSKB, the project utilized the M&E capacity developed under an earlier World Bank project and maintained thereafter.

b. M&E Implementation:

Since M&E arrangements were not fully described in the project appraisal document, the implementation was uneven. At the 2011 restructuring, the design was significantly upgraded. Two intermediate outcome indicators were amended and redefined as key final outcome indicators. The missing baselines of key indicators, however, could not be remedied. A web-based application was developed at TSKB to capture most of the data needed for monitoring and evaluation. At Eximbank, however, the capacity was more limited and a technical assistance program was initiated to strengthen it. Nonetheless, with help from implementation support missions, adequate data were collected.

The restructuring of March 17, 2011, included the following changes of the indicators in the M&E system:

Original outcome indicator	Changed to:	Rationale for change
Export multiplier: incremental export growth by participating exporters/disbursed loan amounts	Export growth by participating firms relative to sector export growth (median)	To make it more project specific by comparing it to the sectors in which each enterprise operates, thereby controlling for general developments in the economy.
Nonperforming loans/total loan to be measured in numbers as well as amounts	Nonperforming loans/total loan (1) by amount and (2) by number of loans of loans included in the project	To make it more project specific by comparing it to sector weighted nonperforming loan ratios, thereby controlling for general developments in the economy.
Export growth Private investments/GDP Nonbank fin assets/GDP Credit to private sector/GDP	Dropped	These indicators measure the whole economy. The project is unlikely to have any significant impact at this scale.
New intermediate outcome indicators	(a) share of term finance in total credit; & (b) number of sub-borrowers.	To fill the gaps in the M&E system

c. M&E Utilization:

The flawed initial M&E system was used nonetheless by project team for the purpose of progress monitoring and project supervision, as well as the preparation of the additional financing. Implementing agencies made use of the system to monitor portfolio quality and comply with project covenants. After the restructuring of 2011, with the revision of the M&E system, the system was better able to support utilization. The borrowers - both TSKB and Eximbank reported extensive use of the M&E system.

M&E Quality Rating: Substantial

11. Other Issues

a. Safeguards:

The project was classified as a "Financial Intermediary" project under OP /BP 4.01 Environmental Assessment. All sub-loans were to be subjected to TSKB's well-established environmental review process acceptable to the World Bank. In March 2011, the environmental frameworks applicable to sub-loans were revised to remove redundancies, clarify classifications of risk categories, introduce a negative list and highlight areas where special attention is needed.

According to the ICR (p. 17), the project's environmental safeguards requirements were found to be unnecessarily demanding, given the similarities between the World Bank environmental safeguard policies and the national legislation. In practice, however, the project's environmental requirements were limited mainly to due-diligence document collection (i.e. proof of compliance) because the majority of sub-loans financed working-capital or equipment leasing.

b. Fiduciary Compliance:

Certain procurement rules, including submission and review of all invoices (no matter how insignificant the amounts were) were found burdensome. But for the most part commercial practices were in line with World Bank procedures. No fiduciary issues arose during project implementation, according to the ICR (p. 16, section 2.4).

c. Unintended Impacts (positive or negative):

d. Other:

12. Ratings:	ICR	IEG Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Risk to Development Outcome:	Moderate	Moderate	
Bank Performance:	Satisfactory	Moderately Satisfactory	Shortcomings on quality at entry and supervision were noted in Section 8 above.
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:

Drawing from the experience of this operation, the ICR offers six lessons, some of which challenge conventional wisdom and offer new perspectives. For example:

- **Sector and regional targets or restrictions (for sub-loans of the PFIs) are unnecessary and could be counter-productive.** This project shows that at times sectoral restrictions exacerbate the shortfall in loan demands, as with Eximbank's situation in 2009. After the restriction was lifted, Eximbank's performance improved.
- **The World Bank's prudential standards tend to diminish its ability to reach smaller and under-served firms.** For example, the requirements on sub-borrower's capital and leverage ratios are difficult for smaller firms to comply with. The project was able to relax some of the rules to reach smaller borrowers in under-served areas.

14. Assessment Recommended? ○ Yes ● No

15. Comments on Quality of ICR:

The ICR is thorough in its coverage and shows candor in some areas including the quality of M&E system and in its assessment of the implementation status and results reports. The quality of analysis and reliability of data, however, could have been improved by:

- Providing more adequate background information on TSKB and Eximbank, including their businesses, ownership and financial strengths, including credit ratings if available;
- Discussion of selection (or eligibility) criteria for both the implementing agencies and the participating financial institutions;
- More careful review of outcomes and indicators (Section F, page 8). The units of measurement should be clearly spelled out. The sample from which data were collected should be disclosed, noting, for example, that all of the exporters/sub-loan borrowers were represented. Export growth of the participating firms should be presented sector by sector, along with the export growth of each sector.
- Some of the lessons are not readily comprehensible to the reader. Complex ideas are often briefly expressed without clarification of the terms used. Bullet 1, for example, mentions “design flexibility”, “responsiveness” and “change in market conditions” without providing any clarification or reference to actual events.

a.Quality of ICR Rating : Satisfactory