June 28, 2016

Closing Date: Monday, July 18, 2016 at 6 p.m.

FROM: Vice President and Corporate Secretary

Turkey - Long Term Export Finance Project

Project Appraisal Document

Attached is the Project Appraisal Document regarding a proposed loan to Turkiye Ihracat Kredi Bankasi (Turk Eximbank) with a sovereign guarantee from the Republic of Turkey for a Long Term Export Finance Project (R2016-0137), which is being processed on an absence-of-objection basis.

Distribution:
- Executive Directors and Alternates
- President
- Bank Group Senior Management
- Vice Presidents, Bank, IFC and MIGA
- Directors and Department Heads, Bank, IFC and MIGA

Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No: PAD1640-TR

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF USD300 MILLION

TO

TÜRKİYE İHRACAT KREDİ BANKASI A.Ş. (EXIMBANK)

WITH THE GUARANTEE OF

THE REPUBLIC OF TURKEY

FOR A

LONG TERM EXPORT FINANCE PROJECT

JUNE 23, 2016

Finance and Markets Global Practice
Turkey Country Unit
Europe and Central Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective Mar 9, 2016)

Currency Unit	=	Turkish Lira (TL)
TL 2.91	=	USD 1
USD 1.10	=	EUR 1
USD 1.39	=	SDR 1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

BRSA	Banking Regulation and Supervision Agency
CAR	Capital Adequacy Ratio
CAD	Current Account Deficit
CPS	Country Partnership Strategy
DPL	Development Policy Loan
EFIL	Export Finance Intermediation Loan
EU	European Union
LEs	Large Enterprises
FI	Financial Intermediary
FM	Financial Management
GDP	Gross Domestic Product
HQ	Headquarters
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IDA	International Development Agency
IFRs	Interim Financial Reports
IFRS	International Financial Reporting Standards
LE	Large Enterprise
MENA	Middle East and North Africa
MIGA	Multilateral Investments Guarantee Agency
NDP	National Development Plan
NPL	Non-Performing Loan
OECD	Organization for Economic Co-operation and Development
OM	Operational Manual
PAD	Project Appraisal Document
PDO	Project Development Objective
PIU	Project Implementation Unit
ROA	Return On Assets
ROE	Return On Equity
SMEs	Small and Medium Enterprises
SOBs	State-Owned Banks
TL	Turkish Lira
WB	World Bank
WTO	World Trade Organization

Regional Vice President:	Cyril E Muller
Country Director:	Johannes C. M. Zutt
Senior Global Practice Director:	Gloria M. Grandolini
Practice Manager:	Aurora Ferrari
Task Team Leader:	Ilias Skamnelos, Alper Ahmet Oguz

TURKEY
Long Term Export Finance Project

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PAD DATA SHEET

Turkey

Long Term Export Finance (P156252)

PROJECT APPRAISAL DOCUMENT

EUROPE AND CENTRAL ASIA

FINANCE AND MARKETS GLOBAL PRACTICE

Report No.: PAD1640-TR

Basic Information		
Project ID P156252	EA Category F - Financial Intermediary Assessment	Team Leader(s) Ilias Skamnelos, Alper Ahmet Oguz
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ] Financial Intermediaries [X] Series of Projects [ ]	
Project Implementation Start Date 18-Jul-2016	Project Implementation End Date 25-Jul-2020	
Expected Effectiveness Date 01-Sep2016	Expected Closing Date 31-Jan-2021	
Joint IFC No		

Practice Manager/Manager	Senior Global Practice Director	Country Director	Regional Vice President
Aurora Ferrari	Gloria M. Grandolini	Johannes C.M. Zutt	Cyril E Muller

Borrower: Turkiye Ihracat Kredi Bankasi (Turk Eximbank)			
Responsible Agency: Turkiye Ihracat Kredi Bankasi (Turk Eximbank)			
Contact:	Ertan Tanriyakul	Title:	Deputy General Manager
Telephone No.:	902166665540	Email:	etanriyakul@eximbank.gov.tr

Project Financing Data(in USD Million)					
[X]	Loan	[ ]	IDA Grant	[ ]	Guarantee
[ ]	Credit	[ ]	Grant	[ ]	Other

Total Project Cost:	300.00	Total Bank Financing:	300.00
Financing Gap:	0.00		

Financing Source	Amount
Borrower	0.00
International Bank for Reconstruction and Development	300.00
Total	300.00

Expected Disbursements (in USD Million)

Fiscal Year	2017	2018	2019	2020	2021
Annual	30.00	60.00	100.00	100.00	10.00
Cumulative	30.00	90.00	190.00	290.00	300.00

Institutional Data

Practice Area (Lead)

Finance & Markets

Cross Cutting Topics

[ ] Climate Change
[X] Jobs
[ ] Fragile, Conflict & Violence
[ ] Public Private Partnership
[ ] Gender

Sectors / Climate Change

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Finance	Banking	50		
Finance	SME Finance	50		
Total		100		

☑ I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

Themes

Theme (Maximum 5 and total % must equal 100)

Major theme	Theme	%
Financial and private sector development	Micro, Small and Medium Enterprise support	50
Financial and private sector development	Other Financial Sector Development	50
Total		100

Proposed Development Objective(s)

The Project Development Objective (PDO) is to improve access to longer term finance for export oriented small, medium and large enterprises.

Components	
Component Name	**Cost (USD Millions)**
The establishment and operation of a credit facility by Eximbank for the provision of subsidiary-finance to PFIs for the provision of sub-finance to SMEs and LEs to finance the Sub-projects.	239.25
The establishment and operation of a credit facility by Eximbank for the provision of sub-finance to SMEs to finance the Sub-projects.	60.00

Systematic Operations Risk- Rating Tool (SORT)	
Risk Category	**Rating**
1. Political and Governance	Low
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Low
5. Institutional Capacity for Implementation and Sustainability	Low
6. Fiduciary	Low
7. Environment and Social	Low
8. Stakeholders	Low
9. Other	
OVERALL	Moderate

Compliance		
Policy		
Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [X]
Does the project require any waivers of Bank policies?	Yes [ ]	No [X]
Have these been approved by Bank management?	Yes [ ]	No [X]
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No [ ]

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	X	
Natural Habitats OP/BP 4.04		X
Forests OP/BP 4.36		X
Pest Management OP 4.09		X
Physical Cultural Resources OP/BP 4.11		X

Indigenous Peoples OP/BP 4.10		X
Involuntary Resettlement OP/BP 4.12		X
Safety of Dams OP/BP 4.37		X
Projects on International Waterways OP/BP 7.50		X
Projects in Disputed Areas OP/BP 7.60		X

Legal Covenants

Name	Recurrent	Due Date	Frequency
Eligibility Criteria, Terms and Conditions of On-lending/financing to PFIs	**X**		Continuous

Description of Covenant

On-lending/financing to PFIs shall be made only in accordance with the Eligibility Criteria, Terms and Conditions listed in Loan Agreement Schedule 2 Section I.B.

Name	Recurrent	Due Date	Frequency
Eligibility Criteria, Terms and Conditions of SME and LE Sub-financing	**X**		Continuous

Description of Covenant

Sub-financing to SMEs and LEs shall be made only in accordance with the Eligibility Criteria, Terms, Conditions and Approval Procedures listed in Loan Agreement Schedule 2 Section I.C.

Conditions

Source Of Fund	Name	Type
IBRD	Operational Manual	Effectiveness

Description of Condition

The Borrower shall have adopted the Operational Manual satisfactory the Bank.

Source Of Fund	Name	Type
IBRD	Subsidiary Financing Agreement	Effectiveness

Description of Condition

At least two Subsidiary Financing Agreements, satisfactory to the Bank, shall have been entered into between the Borrower and PFIs.

Team Composition

Bank Staff

Name	Role	Title	Unit
Ilias Skamnelos	Team Leader (ADM Responsible)	Lead Financial Sector Specialist	GFM03
Alper Ahmet Oguz	Team Leader	Senior Financial Sector Specialist	GFM03
Salih Bugra Erdurmus	Procurement Specialist	Procurement Specialist	GGO03

	(ADM Responsible)		
Zeynep Lalik	Financial Management Specialist	Sr Financial Management Specialist	GGO21
Aida Japarova	Team Member	Operations Analyst	GFMDR
Arzu Uraz	Safeguards Specialist	Social Development Specialist	GSU03
Donato De Rosa	Team Member	Program Leader	ECCU6
Esra Arikan	Safeguards Specialist	Senior Environmental Specialist	GEN03
Jasna Mestnik	Team Member	Finance Officer	WFALA
Margaret Png	Counsel	Lead Counsel	LEGLE
Ulrich Bartsch	Team Member	Lead Economist	GMF03

I. STRATEGIC CONTEXT

A. Country Context

1. **Turkey's post-2001 economic development has resulted in impressive economic achievements.** After a banking crisis in 2001, the country embarked on a path of structural reforms supported by strong fiscal consolidation, strengthened banking supervision, and a shift to a flexible exchange rate regime with an independent central bank responsible for inflation targeting. Per-capita income and the incomes for the bottom 40 percent tripled since the start of the century, but, in several dimensions of well-being, Turkey continues to face numerous structural challenges.

2. **Turkey's achievements have recently been challenged by a less favorable economic and political outlook, and a sizable current account deficit in tighter financing conditions.** After a swift rebound from the recession of the global crisis of 2008-09 and since a busy electoral cycle in 2014-15, economic growth has slowed on the back of fading private investment and unemployment has inched upwards. Turkey has faced renewed conflict in the South-East, a deteriorating geopolitical and sociopolitical environment (including the influx of close to 3 million refugees), constitutional changes uncertainty, and a dampened investor sentiment. Real GDP growth increased to 4 percent in 2015. Private consumption became the main driver of growth, thanks to real wage growth and the large decline in oil prices. Government spending continued to support growth, while private investment remained depressed despite some momentum gains. Currency depreciation stoked inflation that reached 9.6 percent in January 2016, above the Central Bank's target band of 3-7 percent. Annual consumer inflation eased to 6.6 percent in April 2016, due to the correction in food prices and alleviation of the pass-through effect of the Turkish Lira depreciation. Moderate growth, the normalization of gold trade, low oil prices and exchange rate depreciation reduced the current account deficit (CAD) to 4.5 percent of GDP, while the gold-adjusted CAD remained at five percent in 2015. Nevertheless, the core CAD actually widened and remains large in a period of challenging financing. Important factors include weaknesses in trading partners, particularly in the European Union (EU), the Middle East and North Africa (MENA) and Russia (including sanctions over the border incident in late 2015). Exports coverage of imports in 2015 was about 76 percent. On the financing side, domestic political concerns and global financial market jitters dried up short-term inflows in 2015, with global financial conditions remaining fragile in early 2016.

3. **The growth outlook remains cautious, with a need to accelerate structural reforms to achieve Turkey's full growth potential.** Economic growth surprised positively despite political uncertainty in the run-up to the June parliamentary election. The election results of 2015, have provided clarity over political uncertainties, yet economic uncertainty has not fully faded away. Real GDP growth is projected to drop to 3.5 percent in 2016, with private consumption continuing as the main driver, and public spending contributing positively but at a slower rate. Inflation projections stand at 8.5 percent by end-2016. Lira depreciation has strained balance sheets and raised the debt service burdens of the corporate sector, weighing heavily on private investment. Firming activity in the EU is helping, but disappointing global growth is likely to reduce export growth. Low oil prices are expected to stabilize the CAD at around 4.6 percent of GDP. Over the medium-term, Turkey's growth prospects depend on the recovery of private investment, structural reforms and stronger economic institutions. Its main assets include

a young, dynamic population, a large domestic market, and a strategic location, combined with strong infrastructure and much improved public services. Recent action plans under the 10th National Development Plan provide for an ambitious reform agenda, and implementation can help regain investor confidence.

B. Sectoral and Institutional Context

4. **The authorities have set an ambitious development vision for 2023 that will require significant efforts to catalyze export growth.** Merchandise exports increased from USD36 billion in 2002 to over USD143 billion in 2015, mostly represented by large enterprises at 44 percent of the exports. Turkey now aims to become one of the ten largest economies in the world by 2023, with exports rising to USD500 billion under the "Turkish Exports Strategy for 2023" initiated by the Ministry of Economy and Turkish Exporters Assembly in 2009. Yet, with the recent slowdown of the global economy both in advanced and emerging economies, Turkey may not benefit simply from the 'pull' of growing global demand to the extent that it did over the past decade. Achieving sustained rapid export growth and reaching the government's export targets will require a significant increase in Turkey's global market share. This, in turn, will require that exporters become more competitive by producing goods at more attractive prices, expanding their product range to the faster growing products sphere, and improving quality and technological sophistication to command higher prices in export markets.

5. **A shift to diversify market reach and provide more capital intensive and sophisticated products presents unique challenges, placing the emphasis on the provision of longer term finance.** At the onset of the global financial crisis, amid a sluggish expansion in demand in traditional markets, the share of Turkey's exports to the EU declined, while that of MENA and other markets rose. The composition of Turkey's export basket has also been changing over the past decade, as the economy moves increasingly to capital-intensive products from those predominantly intensive in inexpensive labor. Mid-tech exports have replaced garments and textiles, playing an important evolution in export sophistication. Meanwhile, by 2010, the majority of Turkish exports switched to the mid to high-end of the quality range, in particular in the machinery sector. However, expanding into new markets, where importers require deferred payment terms, and increasing the supply of more capital intensive and sophisticated goods require access to longer term finance. Foreign direct investment has been relatively low despite an improvement in 2015, constraining export growth and mostly held back from business environment impediments, with Turkey comparing unfavorably with many competitors in the Doing Business indicators.

6. **The bank-dominated financial sector has limited ability to provide the maturity required to support recent export trends.** Banks represent about 87 percent of the financial sector and about 120 percent of GDP. Despite significant progress to deepen the capital market, the diversity of corporate debt instruments is limited, banks dominate issuances, and bonds are to a considerable extent floating rate securities with an average maturity of 265 days. The banking sector has limited access to long-term finance, despite a recent lengthening in the average funding maturity. The banking system is funded mostly by relatively stable customer deposits, backing 53 percent of total assets. However, about 88 percent of the sector's deposits had maturity below three months, while 77 percent of the lending was concentrated above three months. Characteristically, only 4.4 percent of deposits had maturity of over one year, dropping

to only 1.3 percent for Turkish Lira (TL) deposits. The result is a negative liquidity gap (i.e. more liquid liabilities than assets, also known as the liquidity mismatch risk) that peaks in the one to five year maturity. With the system's loan to deposit ratio increasing to 123 percent, banks have drawn on balance sheet liquidity and wholesale funding from abroad (with foreign liabilities to total assets standing at 20 percent). Longer term sources of foreign debt, through for instance securitizations and subordinated debt, remain limited and constitute around 15 percent of the total. In addition, following the Banking Regulation and Supervision Agency's (BRSA) authorization in 2010, banks begun to issue domestic bank bonds, with tenor ranging between six to 18 months. Nevertheless, only 1.2 percent of total assets are funded by Turkish lira bonds, while the weighted average of the maturity remains under one year. These imbalances are reflected on the bank loan portfolio and the enterprises' liability structure. About 50 percent of bank loans have less than one year remaining maturity, 36 percent between 1-5 years, and only 14 percent above 5 year. Consolidated sectoral balance sheet data for manufacturing enterprises offer a similar picture – the share of short term external liabilities below 1 year makes up almost 70 percent of the total for small enterprises, dropping to just 63 percent for large enterprises.

7. **Medium and large exporting enterprises are particularly constrained by the inadequacy of long-term finance, indirectly impacting Small and Medium Enterprises (SMEs) integrated into their local supplier chains.** Large and medium enterprises account for 43 and 18 percent of exports, respectively. Long term finance reduces firms' exposure to rollover and interest rate risks, enabling them to undertake longer term fixed investments. Medium and large exporting enterprises frequently undertake lumpy purchases of physical investment to remain competitive or explore new markets. The banking sector is the largest provider of long term finance in Turkey, and is characteristically facing maturity mismatches from limited access to long-term finance. In addition, banks and large enterprises (that are typically able to tap financial markets directly) have been negatively affected from the recent volatility on international markets through worsening loan availability and terms. Ultimately, SMEs participating in supply chains, whereby smaller enterprises are integrated as local suppliers of larger enterprises, are strongly impacted by the effect of the economic uncertainty on the buyers of their goods and services.

8. **In addition, the sector has been increasingly experiencing performance headwinds, impacting credit growth and SMEs in particular, which are the most vulnerable to financing pressures during a deceleration.** The banking sector's profitability has decreased in recent years (Return on Assets –ROA– and Return on Equity –ROE– of 1.2 percent and 11.3 percent respectively, compared to ROA and ROE of 1.6 and 14.2 percent, respectively, in 2013, and even higher rates prior to the global financial crisis). With the sector's loan to deposit ratio increasing to 123 percent, in the face of external funding challenges due to global market uncertainty, and in part due to macro-prudential measures to curb excessive household borrowing, foreign exchange adjusted annualized credit growth has slowed down, dropping to 11 percent as of March 2016, about nine percentage points slower than the average of past years. Notably, the SME share in total credit declined in the aftermath of the global crisis by about five percentage points to just over 20 percent in 2009, the sharp fall demonstrating how SMEs are among the first and most affected during financial distress. During economic downturns, working capital becomes a priority for SMEs as they typically experience delays in the payments for goods sold and services provided. Overall, they receive only 27 percent of total loans and grow slower relative to both large enterprises in Turkey and SMEs in peer comparison countries.

9. **Non-bank financial intermediaries can play an increasingly important role to support exporters and SMEs.** Beyond larger exporters and SMEs in their value chain, Turkey's firm distribution reveals a surprising lack of dynamism among Turkey's mid-sized firms in terms of exports (as well as productivity growth) - a phenomenon called missing middle. Leasing allows SMEs access to income-producing assets without a significant base for collateral, and can play a critical role in their inclusion in the formal financial system. Turkey ranks below most European countries with respect to leasing penetration, with a rate of about 0.9 percent of annual leasing volume to GDP. Although the leasing sector captures about 44 percent of the non-bank financial sector, its assets correspond to about 1.5 percent of total financial sector assets. Notably, new leasing volume dropped by 17 percent in 2015 (in dollar terms, which dominates leasing transactions), as a result of milder growth expectations and weaker investment demand. The largest users of leasing are SMEs and the average term stands at three years.

10. **The World Bank has been working through various channels to support long term finance, SMEs and exporters** (see Annex 3). Over the past fifteen years, the World Bank has provided lines of credit for SMEs and exporters as a bridge until financial infrastructure constraints are lifted and alternative sources of long-term finance are developed, which can be a long-term process. The government has been taking significant steps to lift these constraints, in many instances with the support of the World Bank – for example through Development Policy Financing supporting reform on capital markets, leasing and factoring, and technical assistance to strengthen Turkey's capital markets, non-bank financial sector, and financial infrastructure. The World Bank has, in addition, been undertaking analysis of gender related access to finance issues to better inform it operations (see Annex 3 and Section VI.A).

C. Higher Level Objectives to which the Project Contributes

11. **The project is consistent with and supports the IBRD/IFC/MIGA Country Partnership Strategy (CPS) for the FY12-16 period, including the updated Progress Report.** The CPS has three main strategic objectives and pillars: (i) enhanced competitiveness and employment; (ii) improved equity and public services; and (iii) deepened sustainable development. The project supports the strategic objectives of enhancing competitiveness and employment that includes the provision of medium and long-term funding to SMEs and exporters. The project is also complementary to other private and financial sector initiatives, including: (i) the Savings and Financial Sector Diversification technical assistance project that aims to support the development of the capital markets and the non-bank financial sector (see Annex 3 on an overview of World Bank TA activities); (ii) ongoing World Bank line of credit operations (Innovative Access to Finance – P147183, SME III – P130864, and SME&LESCF – P157691) that aim to provide medium to long-term finance to SMEs and exporters; and (iii) ongoing IFC projects targeting SMEs, through bonds purchases and loans. In particular the proposed operation is a natural continuation of the EFIL series of projects (EFIL I-IV, P065188, P082801, P093568, P096858) that focused on export oriented enterprises.

12. **The project is also consistent with the government's latest SME Strategy and Action Plan, the Turkish Exports Strategy for 2023, as well as the 10th National Development Plan (NDP).** The new five-year NDP was adopted by the government of Turkey in July 2013 and covers the period 2014 to 2018. Access to finance was one of the five strategic areas under the 2011-13 SME Strategy, and a key provision of the 2007-13 NDP under the "Entrepreneurship

and SMEs" and the "Financial Markets" sections. The recently introduced SME Development Strategy and Action Plan (2015-18) also designated "Facilitating SMEs Access to Finance" as one of its five strategic targets. Key objectives include increasing the access of SMEs to bank finance and alternative financial sources of finance. Similarly, the Turkish Exports Strategy for 2023, initiated by the Ministry of Economy and Turkish Exporters Assembly in 2009, aims to reach USD500 billion of exports volume in 2023, with the 10th NDP aiming for the intermediate target of USD277 billion by 2018.

II. PROJECT DEVELOPMENT OBJECTIVES

A. Project Development Objectives

13. The Project Development Objective (PDO) is to improve access to longer term finance for export oriented small, medium and large enterprises.

B. Project Beneficiaries

14. **For the purpose of this project, SMEs will be defined as firms employing fewer than 250 people, and Large Enterprises (LEs) as firms employing fewer than 1,500 people.** At least 60 percent of the Loan will be used to fund SMEs. Sub-finance to SMEs may be made for longer term investment financing and for short term working capital financing (to accommodate potential delays in the payments for goods sold and services provided in an uncertain macro-financial environment, and provide, more generally, flexibility to smaller size enterprises). Sub-finance to LEs may be made only for longer term investment financing (a primary concern towards undertaking lumpy purchases of physical investment to remain competitive or explore new markets). SMEs and LEs must be export oriented enterprises, which includes existing and potential exporters. The definition of exports follows the national account definition. Enterprises make an initial export commitment, and submit to the PFI the customs declaration form at an amount at least equal to the allocated credit and not later than the maturity date of the credit plus one month. The customs declaration from is annexed by the PFI with its export credit, ensuring that the exporter cannot benefit from multiple financing for the same goods.

C. Project Development Objectives Level Results Indicators

15. **Key PDO indicators include the following:**

(a) Ratio of the average maturity of SME and LE sub-financing (separately) under the project, over the average maturity of the PFIs' SME portfolio not financed under the project.

(b) Number of SME and LE beneficiaries (separately) financed under the project.

(c) Volume of Bank support.

16. Key intermediate indicators (e.g. export multiplier, financial performance and prudential compliance indicators, gender and client engagement indicators) and additional indicators, monitored for analytical purposes and aimed to help improve SME and export related policies and projects, are explored in Annexes 1 and 3.

III. PROJECT DESCRIPTION

A. Project Components

17. **Two project components will provide a total of USD300 million, less the Loan's Front-end Fee finance from Loan proceeds, to be intermediated by Eximbank through on-lending to banks and leasing companies and by direct lending targeting export oriented LEs and SMEs.** The credit line, guaranteed by the Turkish government, will be intermediated by Eximbank, which will be the Borrower and implementing agency for this project.

18. **Under Component 1 (USD239.25 million), Eximbank will on-lend funds through PFIs to SMEs and LEs.** Eximbank will select PFIs according to criteria agreed upon with the World Bank, and subject to the no objection of the World Bank. PFIs can be banks (including participation banks, i.e. Islamic finance) and leasing companies. The selected PFIs will, in turn, provide sub-finance to private export oriented LEs and SMEs, the sub- beneficiaries of the credit line. The PFIs will assume the credit risk of the sub-beneficiaries that will be selected based on agreed upon eligibility criteria. Eximbank will have exposure only to the selected PFIs and will assume the credit risk for on-lending funds to PFIs.

19. **On-lending will take place on an 'open doors' and 'first come first serve' model for interested and qualifying financial intermediaries.** Financial intermediaries that satisfy the PFI eligibility criteria will sign Subsidiary Finance Agreements (SFAs) with Eximbank and be assigned PFI status (at any stage during project implementation). The PFI status will not impose any cost, or oblige the financial intermediaries to access funding. There will be a maximum utilization of the funding per PFI set at USD60 million (including Eximbank as a direct lending PFI under Component 2). PFIs will make a request to Eximbank to refinance eligible sub-finance extended to eligible sub-beneficiaries for eligible sub-projects. PFIs will be served on a 'first-come first-serve' basis until the funding is fully utilized. The PFI subsidiary-finance amount will be equivalent to the aggregate amount of principals of all sub-finance made by the respective PFI. The PFIs will be required to repay interest, or mark-up, and principal on the PFI subsidiary-finance. This will be the first time an 'open doors' approach will be used in Turkey in recent years, while a 'first come first serve' approach was last utilized in Turkey in the 1980s and early 1990s (P009036, P009057, P008946). The advantage of 'open doors' is that a wider base of financial intermediaries will be tapped – among banks, participation banks, and leasing companies. A 'first-come first-serve' model will promote competition among financial intermediaries, although upper limits will ensure that capture is avoided.

20. **In the case of Islamic finance, the Subsidiary Financing Agreement (SFA) will be Islamic finance compatible, and sub-financing will be mostly for *Murabahah* and *Ijarah***. A number of options are available for the SFA structure between Eximbank and the participation banks (see Annex 3 for possibilities), with *Wakalah* being the most likely option at appraisal. The structure chosen by Eximbank will have to be Islamic finance compatible, approved by the *Shari'a* Supervisory Boards of the participation bank PFIs, and will have to receive the no objection of the World Bank. Sub-financing is, in turn, expected to be mostly *Murabahah* or *Ijarah* (see Annex 3 for definitions).

21. **Under Component 2 (USD60 million), Eximbank will act as a PFI and lend directly to export oriented SMEs only.** Eximbank will assume the credit risk of sub-finance to the final beneficiaries. The eligibility criteria of sub-finance and for sub-beneficiaries will be different under Component 1 and 2 to reflect the differences in financing models. Eximbank direct lending will be more targeted, including being exclusively for SMEs, subject to longer maturity requirements compared to other PFIs, and with at least 10 percent of all sub-finance provided for new exporters.

22. **Annex 2 provides a detailed description of the project.** It includes: (i) the Loan terms and conditions between IBRD and Eximbank; (ii) the eligibility criteria for the PFIs that will be financed by Eximbank, and the terms and conditions of subsidiary finance between Eximbank and PFIs; and (iii) the eligibility criteria for the LEs and SMEs that will be financed by PFIs (and separately Eximbank under direct financing), and terms and conditions of sub-finance between PFIs (and separately Eximbank under direct financing) and LEs/ SMEs.

B. Project Financing

Financing Instrument

23. **The proposed Investment Project Financing uses IBRD funds, with Eximbank as the Borrower.** The Loan repayments will be guaranteed by the Republic of Turkey. The Loan Choice Worksheet was completed on April 20, 2016. The Borrower requested an IBRD Loan in the amount of USD300 million, with the following terms: variable spread, level repayment of the principal linked to commitment, total maturity of 22 years including a grace period of 7 years, with the Front-end Fee and any Interest Rate Cap/ Collar financed from the Loan proceeds.

Project Cost and Financing

24. **The project consists of a two Project Components of USD300 million equivalent.** It is expected that at least USD180 million will be utilized by SMEs.

C. Lessons Learned and Reflected in the Project Design

25. **The project follows and reflects lessons learned from a series of successful financial intermediation operations supported by the World Bank in Turkey, as well as recent Economic Sector Work.** The project is built on the findings of the recent "Trading up to High Income" Country Economic Memorandum (Report No. 82307-TR) that highlights the challenges and opportunities that Turkey faces in strengthening export performance. It also reflects lessons learned from a series of successful financial intermediation operations. Reviews of Implementation Completion Reports by the World Bank Group's Independent Evaluation Group rate outcomes above Satisfactory (EFIL I, P065188, Satisfactory; EFIL II, P082801, Highly Satisfactory; EFIL III, P093568, Highly Satisfactory; SME I, P082822, Satisfactory). The recent Implementation and Completion Report for EFIL IV (P096858) rated its outcome as Satisfactory. Overall, lessons learned point to: (i) a simple and flexible design, allowing for operational adjustments, and avoiding sectoral or regional targets, (ii) intensive monitoring of key indicators that measure the quality of the loan portfolio; (iii) use of quantified eligibility criteria for selecting PFIs; and (iv) availability and use of sound analysis and data on the financial performance of PFIs, and external audit for verification. The Project has also benefited

by incorporating lessons learned from the recent Implementation Completion Report for SME II (P118308) and the restructuring of two Turkish operations (SME III – P130864 and SME EE – P122178) by revising financial covenants to accommodate the realities of smaller enterprises.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

26. **Eximbank will be responsible for the implementation of the project and was selected based on its experience with exporters and with World Bank projects.** Eximbank, Turkey's sole official export financing institution with a lending portfolio of over USD20 billion, has extensive experience in the export sector (its loans accounting for 49 percent of all export loans in Turkey), as well as in direct lending and on-lending through PFIs. Eximbank's current strategy is to increase the share of long-term finance in its loan portfolio. Eximbank conforms to internationally accepted rules and regulations set forth by organizations such as the World Trade Organization (WTO), the Organisation for Economic Co-operation and Development (OECD) and the EU, and operates in accordance with the obligations arising from Turkey's membership in the WTO, the OECD Export Credits and Credit Guarantees Group and from the Customs Union between Turkey and the EU. Eximbank is a full member of the International Association of Export Credit and Investment Insurance Companies (Berne Union), with which it has a close relationship in the area of export credit insurance activities. Additional criteria for selecting Eximbank include the bank's financial soundness, performance of its credit portfolio, and its good performance as one of the Borrowers in the completed EFIL IV (P096858, as direct lender) and EFIL I (P065188, as on-lender to PFIs) projects financed by the World Bank. Annex 3 provides background information on Eximbank, while Annex 6 provides a summary evaluation of Eximbank, including an analysis of its financial soundness, implementation capacity (also assessed in Annex 4) and specific considerations on the bank's ability to meet the World Bank requirements.

27. **The Project Implementation Unit (PIU) in Eximbank is staffed with capable and qualified personnel for the implementation of the project (see Annex 4).** The Implementation Completion Report of the EFIL IV (P096858) and EFIL I (P065188) projects rated the Outcome and Borrower's performance as Satisfactory. The PIU responsibilities will include: (i) selection of and on-lending to PFIs; (ii) monitoring of PFIs to ensure compliance with project criteria; (iii) coordination of Eximbank's direct lending; (iv) responsibility for adherence to all fiduciary and safeguard requirements of the World Bank for final borrowers; and (v) monitoring and evaluation based on key indicators.

28. **PFIs will be selected by Eximbank (subject to the World Bank's no objection) based on their financial health, as well as their capacity to implement sub-projects.** Eximbank takes the credit risk of PFIs and therefore has a strong incentive to carefully assess their financial health and operational capabilities. The PFI selection is also subject to a no-objection process by the World Bank, while Subsidiary Finance Agreement covenants between Eximbank and PFIs require compliance with local regulations thereby supporting the continued financial health of the PFIs. If PFIs do not effectively implement the project, they may be denied their eligibility status under the first come first serve design.

B. Results Monitoring and Evaluation

29. **The Borrower will evaluate progress on the proposed indicators through regular reports.** Eximbank's PIU will monitor the PDO and intermediate indicators of the Results Framework (that includes SME finance core indicators for Bank-wide monitoring and a gender indicator, Annex 1) and additional indicators (Annex 3) on a quarterly, semi-annual and yearly basis. The data will come from Eximbank's internal reports. The PIU will prepare semi-annual project reports. Although the scope of reporting will be significant, the indicators will be effectively monitored. Eximbank has worked with the World Bank on the design of appropriate reporting templates in the Operational Manual (OM), and it is well accustomed to collecting such information from clients. The financial performance of Eximbank will be monitored through independent auditors' reports and separate management letters confirming adherence to prudential norms. Further details on the Results and Monitoring Framework are provided in Annexes 1 and 4. The Core Intermediate Results Indicators offer no baseline or targets, as PFIs have not been preselected and the indicator collection is for analytical purposes and project implementation adjustments.

C. Sustainability

30. **Sustainability will be facilitated in the short run by the government's commitment to increasing exporters and SME access to finance, and, in the long run, by the development of alternative sources of long term funding.** The Turkish government has committed itself to a significant array of programs towards achieving USD500 billion of exports volume in 2023 and aimed at making SMEs more competitive, more capable of applying modern technologies to improve production processes, and more effective as exporters. While the World Bank can play an important catalytic role at this stage by providing the sector with long-term financing that is currently scarce, it is expected that, in the long run, alternative sources will be developed. Work by the World Bank, primarily through technical assistance, aims to assist the development of longer term funding markets and instruments (see Annex 3).

31. **To avoid market distortions, Eximbank and the PFIs will follow their respective pricing policy according to market conditions.** The cost of on-lending subsidiary financing through PFIs will include, at a minimum, the cost of IBRD funds to Eximbank plus an on-lending margin reflecting Eximbank's administrative costs, a credit risk margin (or risk markup) associated with the PFI, and fees to the Treasury for the Guarantee provision. Ultimate beneficiary cost will add, at a minimum, the PFI's administrative costs, and a credit risk margin (or risk markup) associated with the export oriented enterprise. The cost of the targeted direct financing by Eximbank will include, at a minimum, the cost of IBRD funds to Eximbank plus an on-lending margin reflecting Eximbank's administrative costs, a credit risk margin associated with the export oriented enterprise, and fees to the Treasury for the Guarantee provision. The only significant market advantage from the World Bank funds is in terms of maturity, facilitating the provision of medium- and long-term finance to enterprises without taking on a significant maturity mismatch.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

32. **The overall risk for the project is assessed as Moderate.** Eximbank is a proven borrower, familiar with the World Bank's requirements, and the demand for funds is assessed as high. However, global uncertainty could negatively affect the appetite for Turkish exports. The 'first-come first-serve' mechanism should provide greater flexibility and promote competition in utilizing project funds. A 'first come first serve' approach was last utilized in Turkey in the 1980s and early 1990s, however the World Bank does have recent experience with this design (e.g. Bosnia and Herzegovina – Enhancing SME Access to Finance, P111780; Jamaica – Foundations for Competitiveness and Growth, P147665).

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

33. **SME and LE sub-projects to be financed are not pre-identified and project costs are not defined, thus a traditional economic/financial analysis cannot be conducted.** Annex 2 describes the eligibility criteria of SMEs and LEs, and terms and conditions of sub-finance under the project.

34. **The rationale for a public intervention in the provision of long term finance to the private financial sector is driven by the lack of alternatives in the short term.** Catalyzing export growth requires diversifying export market reach and providing more capital intensive and sophisticated products. This places the emphasis on the provision of longer term finance, which is constrained due to shallow capital markets, underdeveloped financial infrastructure, and a banking sector with high maturity mismatches. In addition, during economic downturns, working capital becomes a priority for enterprises as they typically experience delays in the payments for goods sold and services provided.

35. **Supporting access to finance for SMEs and LEs, the project could have significant impact on employment.** At least 60 percent of the proceeds of the Loan will be for sub-finance to SMEs. SMEs are estimated to account for 76 percent of employment, but are financially constrained by lack of collateral, poor credit history and other constraints. Notably, exports are mostly generated by SMEs, accounting for 60 percent of the total. The project will also collect data on gender for analytical purposes and towards the design of future projects. It was informed at the preparation stage by studies under the "Increasing Women's Access to Economic Opportunities (2012-2017)" project implemented by the World Bank and the Ministry of Family and Social Policies with the financial support of Swedish International Development Cooperation Agency. As individuals (individual level), men are significantly more likely than women to report having a formal account. Although the disparity decreased between 2011-14, the gender gap in Turkey is among the widest in the world. It is, however, strongly influenced by labor force participation rates. Though employed women are as likely as men to have an account, just 11 percent of women are wage workers and only 3 percent are self-employed, compared with 34 percent and 22 percent of men. As entrepreneurs (firm level), most business environment constraints do not pose a bigger obstacle for the operations of women-led enterprises relative to

those led by men. In addition, there is no significant difference between men and women-led enterprises in accessing external finance.

B. Technical

36. **The financial condition of Eximbank is good (see Annex 3 and 6) and the final interest rates, mark ups and/or other charges and fees will be in line with the market (see Annex 2).** Provisions are included in the project to ensure that interest rates, mark ups and/or other charges and fees reflect the cost of intermediating project funds and an appropriate risk margin.

C. Financial Management

37. **The project financial management systems at Eximbank are Satisfactory.** Eximbank is an experienced borrower with the World Bank and has established systems and procedures to manage the on-lending and direct lending components. Continued soundness of Eximbank and its compliance with domestic prudential regulations will be monitored through the annual entity audit reports. Eximbank will maintain records and will ensure appropriate accounting and documentation for the project funds. Interim un-audited Financial Reports (IFRs) will be prepared semi-annually and will be submitted to the World Bank no later than 45 days after the end of each calendar semester. The formats of the IFRs will be agreed upon with Eximbank during negotiations. The project accounts will be subject to independent audit on an annual basis. The project audit report will be made publicly available as per the Access to Information policy of the World Bank. The World Bank may approve disclosure of an abridged version of the audit report when the financial statements contain proprietary or commercially sensitive information.

D. Procurement

38. **A procurement assessment of the project has been carried out.** The proposed operation is a natural continuation of the EFIL series of projects that focused on export oriented enterprises. Eximbank is an experienced borrower and familiar with the World Bank procurement procedures, with the past performance under the EFIL I and IV projects rated as Satisfactory. The demand-driven nature of the project precludes an estimation of the sub-beneficiaries and their procurement requirements at the appraisal stage, rendering impossible for Eximbank to develop a Procurement Plan. Eximbank will continue to maintain the existing staff capacity for procurement oversight and monitoring arrangements, including supervision of the sub-project implementation progress through regular project audits/reviews and site visits. Mitigation measures and arrangements for a more efficient implementation are provided in detail under Annex 4.

E. Social (including Safeguards)

39. **The project is not expected to have negative social effects.** By increasing access to finance, the project is expected to have a positive impact on the growth of SMEs, LEs and employment. One of the positive social impacts of the project may also be on access to finance for female entrepreneurs and on female employment. The project will collect indicators on gender for analytical purposes and towards the design of future projects. More specifically, an indicator will cover the percentage of SME and LE beneficiaries financed under the project with

at least 15 percent female participation in their workforce. The project beneficiaries are SMEs and LEs, and the project will ensure that Eximbank collects and responds to feedback from these beneficiaries as necessary to inform implementation of this project and possibly design of future projects. With regard to Citizen Engagement, the beneficiaries will be surveyed on their satisfaction with the sub-finance received in term of their needs. However, the survey will not include satisfaction with financial intermediary (FI, i.e. Eximbank) decisions related to the size, terms and conditions that need to be market based (as required by OP10). Survey results will be reported in mid-term and will inform project implementation, as appropriate.

40. **Any involuntary land acquisition or associated involuntary resettlement that would trigger the World Bank Operational Policy (OP) 4.12 on Involuntary Resettlement will not be eligible for financing under the scope of this project.** In light of this, Eximbank will be screening the sub-projects accordingly to ensure that the OP 4.12 is not triggered. The Environmental Review Framework for the project details how sub-projects will be screened to ensure that they do not trigger OP 4.12.

F. Environment (including Safeguards)

41. **The project has been categorized as "FI" in accordance with World Bank OP 4.01 (Environmental Assessment).** Due to the nature of the project, working capital or investment finance applications are expected to include machinery purchase/replacement or small scale construction works. Therefore, it is expected that there will be no large scale significant and/or irreversible impacts. Sub-projects in environmental Category A will not be eligible for funding. Moreover, the project will not finance sub-projects which may have impacts on natural habitats. An Environmental Review Procedures document (Environmental Review Framework) was prepared by Eximbank and was disclosed on its website on April 11, 2016, followed by InfoShop disclosure on April 12, 2016. The draft framework document, included as part of the draft OM, describes the environmental assessment and environmental due-diligence procedures to be used in sub-project evaluation. The draft framework document also differentiates the respective responsibilities of the World Bank, Eximbank and the PFIs regarding the environmental review and clearance procedures. The environmental procedures defined in the draft Environmental Review Framework document are consistent with the Government of Turkey's Environmental Assessment requirements and OP 4.01.

G. Other Safeguards Policies Triggered

42. **International Waterways (OP/BP 7.50) was not triggered**, and it is clearly stated in the draft OM that the project will not finance any investment that can involve the use or pollution of, or otherwise affect the quality or quantity of water of international waterways, as defined in OP/BP 7.50. The waterways identified as NOT an international waterway (do not trigger OP 7.50) in Turkey are as follows: Susurluk, North Aegean, Gediz, Kuçuk Menderes, Buyuk Menderes, Western Mediterranean, Antalya, Sakarya, Western Black Sea, Yesilirmak, Kizilirmak, Konya Kapali, Eastern Mediterranean, Seyhan, Ceyhan, Eastern Black Sea, Burdur, Afyon, Orta Anadolu, and Van.

H. World Bank Grievance Redress

43. **Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

Annex 1: Results Framework and Monitoring

TURKEY: Long Term Export Finance Project

Results Framework

Project Development Objectives

PDO Statement

The Project Development Objective (PDO) is to improve access to longer term finance for export oriented small, medium and large enterprises.

These results are at	Project Level

Project Development Objective Indicators

Indicator Name	Baseline	Cumulative Target Values				
		YR1	YR2	YR3	YR4	End Target
Ratio of the average maturity of SME sub-financing under the project, over the average maturity of the PFIs' SME portfolio not financed under the project. (Number)	1.00	>1.00	>1.00	>1.00	>1.00	>1.00
Ratio of the average maturity of LE sub-financing under the project, over the average maturity of the PFIs' LE portfolio not financed under the project. (Number)	1.00	>1.00	>1.00	>1.00	>1.00	>1.00
Number of SME beneficiaries financed by PFIs under the project (cumulative). (Number)	0.00	40.00	85.00	170.00	215.00	260.00
Number of LE beneficiaries financed by PFIs under the project (cumulative). (Number)	0.00	5.00	10.00	20.00	25.00	30.00
Volume of Bank support (cumulative, USD million). (Number)	0.00	50.00	100.00	200.00	250	300.00

Intermediate Results Indicators

Indicator Name	Baseline	Cumulative Target Values				
		YR1	YR2	YR3	YR4	End Target
Number of active PFIs under the project (cumulative). (Number)	0.00	2.00	4.00	6.00	6.00	6.00
Based on Core Indicator: Volume of Bank Support: Lines of Credit - SME (cumulative, USD million). (Number)	0.00	30.00	60.00	120.00	150.00	180.00
Export multiplier: Ratio of the export growth of SMEs and LEs under the project relative to the export growth of their equivalent sector. (Number)	1.00	>1.00	>1.00	>1.00	>1.00	>1.00
Percent of SMEs receiving sub-finance by Eximbank that are new exporters. (Number)	0.00					10.00
Outstanding export finance portfolio (USD million). (Number)	n/a					n/a
Based on Core Indicator: Outstanding SME finance portfolio (USD million). (Number)	n/a					n/a
Number of active export finance accounts (not cumulative). (Number)	n/a					n/a
Based on Core Indicator: Number of active SME finance accounts (not cumulative). (Number)	n/a					n/a
Based on Core Indicator: Portfolio Quality: Portfolio at risk (%). (Percentage)	0.3					n/a
Based on Core Indicator: Financial Sustainability: Return on Assets (%) (Percentage)	1.2					n/a
Based on Core Indicator: Financial Sustainability: Return on Equity (%) (Percentage)	10.4					n/a
Compliance with prudential regulation. (Yes/No)	Yes	Yes	Yes	Yes	Yes	Yes

Gender: Percent of SME and LE beneficiaries financed under the project with at least 15 percent female participation in their workforce. (Number)	0.00					n/a
Citizen Engagement: SMEs and LEs that feel project sub-finance reflected their needs. (Percentage)	0.00					n/a

Indicator Description

Project Development Objective Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Ratio of the average maturity of SME sub-financing under the project, over the average maturity of the PFIs' SME portfolio not financed under the project.	No description provided.	Semi-annual	Project report	PIU and PFIs
Ratio of the average maturity of LE sub-financing under the project, over the average maturity of the PFIs' LE portfolio not financed under the project.	No description provided.	Semi-annual	Project report	PIU and PFIs
Number of SME beneficiaries financed by PFIs under the project (cumulative).	No description provided.	Semi-annual	Project report	PIU and PFIs
Number of LE beneficiaries financed by PFIs under the project (cumulative).	No description provided.	Semi-annual	Project report	PIU and PFIs
Volume of Bank support (cumulative, USD million).	No description provided.	Quarterly	Project report	PIU and PFIs

Intermediate Results Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Number of active PFIs under the project (cumulative).	Note: PFIs that have signed an SFA and extended sub-finance, excluding Eximbank.	Semi-annual	Project report	PIU and PFIs

Based on Core Indicator: Volume of Bank Support: Lines of Credit - SME (cumulative, USD million).	Note: Under this project, SMEs are defined as firms employing fewer than 250 people. In addition, the size of the sub-financing under the project is not to exceed USD3.5 million, reflecting the local market conditions.	Semi-annual	Project report	PIU and PFIs
Export multiplier: Ratio of the export growth of SMEs and LEs under the project relative to the export growth of their equivalent sector.	No description provided.	Semi-annual	Project report	PIU and PFIs
Percent of SMEs receiving sub-finance by Eximbank that are new exporters.	Note: New exporters are defined as SMEs that begun exporting in the past three years. Annual cumulative target values are not defined, accommodating economic fluctuations during project implementation.	Semi-annual	Project report	PIU and PFIs
Outstanding export finance portfolio (USD million).	Note: The top indicator will report for all PFIs. However, the accompanying text will report by PFI.	Semi-annual	Project report	PIU and PFIs
Based on Core Indicator: Outstanding SME finance portfolio (USD million).	Note: The top indicator will report the entire SME portfolio of the PFIs, not just the Bank-financed portion, as per Core Indicator guidance. However, the accompanying text will report by PFI, both the entire portfolio and the Bank-financed portion.	Semi-annual	Project report	PIU and PFIs
Number of active export finance accounts (not cumulative).	Note: The top indicator will report the entire portfolio of the PFIs, not just the Bank-financed portion. However, the accompanying text will report by PFI, both the entire portfolio and the Bank-financed portion.	Semi-annual	Project report	PIU and PFIs
Based on Core Indicator: Number of active SME finance accounts (not cumulative).	Note: The top indicator will report the entire portfolio of the PFIs, not just the Bank-financed portion, as per Core Indicator guidance. However, the accompanying text will report by PFI, both the entire portfolio and the Bank-financed portion.	Semi-annual	Project report	PIU and PFIs
Based on Core Indicator: Portfolio Quality: Portfolio at risk (%).	Note: The indicator is not SME specific and follows the local definition for NPLs, as regulated by BRSA. The top indicator will report on Eximbank. However,	Semi-annual	Project report	PIU and PFIs

	the accompanying text will report by PFI, both the entire portfolio and the Bank-financed portion.			
Based on Core Indicator: Financial Sustainability: Return on Assets (%)	Note: The top indicator will report on Eximbank. However, the accompanying text will report by PFI.	Semi-annual	Project report	PIU and PFIs
Based on Core Indicator: Financial Sustainability: Return on Equity (%)	Note: The top indicator will report on Eximbank. However, the accompanying text will report by PFI.	Semi-annual	Project report	PIU and PFIs
Compliance with prudential regulation.	Note: The top indicator will report on Eximbank. However, the accompanying text will report by PFI.	Semi-annual	Project report	PIU and PFIs
Gender: Percent of SME and LE beneficiaries financed under the project with at least 15 percent female participation in their workforce.	No description provided.	Semi-annual	Project report	PIU and PFIs
Citizen Engagement: SMEs and LEs that feel project sub-finance reflected their needs.	A mid-term survey will measure the satisfaction of the sub-beneficiary (SMEs and LEs) with the sub-finance in term of their needs (e.g. short-term working capital and long-term investment finance). This will exclude satisfaction with FI decisions related to the size, terms and conditions that need to be market based (as required by OP10). The survey results will inform the project implementation, as appropriate.	Mid-term	Survey basis	PIU

Annex 2: Detailed Project Description

TURKEY: Long Term Export Finance Project

1. **This Annex describes the following in summary:**

   (a) Loan terms and conditions between the World Bank and Eximbank;

   (b) Subsidiary financing terms and conditions for Eximbank's on-lending/financing to PFIs;

      (i) Eligibility criteria for the PFIs that will be financed by Eximbank;

      (ii) Terms and conditions of subsidiary financing between Eximbank and PFIs;

   (c) Sub-finance terms and conditions for PFIs' sub-project financing to SMEs and LEs;

      (i) Eligibility criteria for the SMEs that will be financed by PFIs;

      (ii) Eligibility criteria for the LEs that will be financed by PFIs;

      (iii) Terms and conditions of sub-finance between PFIs and SMEs or LEs;

      (iv) Terms and conditions of sub-finance with Eximbank as a PFI.

(a) Loan terms and conditions between the World Bank and Eximbank

- Eximbank selection of IBRD Loan characteristics will take place prior to Negotiations.
- Eximbank will extend a minimum of USD239.25 million of Loan proceeds to PFIs, subject to a maximum USD60 million equivalent per PFI, using Subsidiary Financing Agreements (SFAs). Selection of PFIs and all SFAs are subject to prior review and acceptance by the World Bank. SFAs will be Islamic finance compliant in the case of participation bank PFIs.
- Eximbank will directly lend a maximum of USD60 million of the Loan proceeds.
- At least 60 percent of the Loan proceeds will be extended as Sub-finance to SMEs and Eximbank will directly lend only to SMEs.
- Eximbank will maintain, during project implementation, a Project Implementation Unit (PIU) with procedures, responsibilities and staffed with qualified personnel capable of implementing all aspects of the project in a satisfactory manner.
- Eximbank must be in compliance with the requirements (including the Environment and Procurement requirements) listed in the Operational Manual (OM).
- For the duration of the project implementation period, beginning with the year 2016, Eximbank will submit annually an audit report that is prepared in accordance with International Auditing Standards and International Financial Reporting Standards. BRSA reports are also acceptable.
- Eximbank must submit relevant reports including the semi-annual un-audited Interim Financial Reports (IFRs) certified by its Management.
- Eximbank will be subject to monitoring of the PDO and Intermediate Results indicators in Annex 1 "Results Framework and Monitoring" and the Additional indicators in the OM and Annex 4 on a quarterly, semi-annual and yearly basis.

(b) Subsidiary financing terms and conditions for Eximbank's on-lending/financing to PFIs

Eximbank will on-lend/finance PFIs for a minimum of USD239.25 million of Loan proceeds. Before final selection of the PFIs, Eximbank will submit to the World Bank the evaluation report, including financials of the proposed PFIs, together with a request to include the PFIs in the project. The World Bank will review and clear Eximbank's assessment by conveying no objection for each PFI's participation. The no objection will be based on the criteria included in this section. Eximbank will send the financials of the proposed PFIs to the World Bank every year to ensure that the selected PFIs continue to meet the required criteria throughout the life of the project. The no objection is not required for the continued participation of the PFIs.

(i) Eligibility criteria for the PFIs that will be financed by Eximbank

PFIs will be selected based on their expression of interest in participating in the project and on acceptance by Eximbank of their credit risk, as well as the following eligibility criteria:

For Banks, including Participation Banks, unless agreed otherwise by the World Bank:

- Total assets during the last two fiscal years to exceed a minimum of USD1 billion equivalent on average.
- Compliance with all BRSA prudential norms.
- General compliance with legal and regulatory requirements applicable to the banking industry, including but not limited to such prudential regulations as minimum capital adequacy ratio, maximum foreign currency exposure limits, maximum large exposure to single and connected clients and maximum insider lending limits, etc., duly certified by the banks' auditors every year and confirmed by the management as of June 30 every year. In such cases where the year-end audits have already been completed and do not meet this requirement, the participation bank shall submit a management letter confirming its compliance with prudential norms.
- Audited IFRS financial statements as per BRSA requirements.
- Adequate organization, management, staff and other resources necessary for its efficient operation.
- Application of appropriate procedures for appraisal, supervision, and monitoring of Sub-projects, including for the efficient evaluation and supervision of the procurement and environmental elements of Sub-projects.

For Leasing Companies, unless agreed otherwise by the World Bank:

- Total lease receivables during the last two years to exceed a minimum of USD50 million equivalent on average.
- New lease volume during the last two years to exceed a minimum of USD50 million equivalent on average.
- The leasing company should have been profitable for at least two out of the last three years of operations.
- Compliance with all BRSA prudential norms.
- General compliance with legal and regulatory requirements applicable to the leasing industry, including but not limited to such regulations as minimum equity capital, the total sum of lease exposures, and the total sum of exposures to related parties, duly certified by the leasing companies' external auditors every year and confirmed by management as of June 30 every year. In such cases where the year-end audits have

already been completed and do not meet this requirement, the leasing company shall submit a management letter confirming its compliance with prudential norms.

- Audited financial statements as per BRSA requirements.
- Adequate organization, management, staff and other resources necessary for its efficient operation.
- Application of appropriate procedures for appraisal, supervision, and monitoring of Sub-projects, including for the efficient evaluation and supervision of the procurement and environmental elements of Sub-projects.

(ii) Terms and conditions of subsidiary financing between Eximbank and PFIs (banks, participation banks, and leasing companies)

- PFIs must start and remain in compliance with the eligibility criteria for PFIs.
- The funds available to PFIs will depend upon the availability of funds to Eximbank from the World Bank.
- The cost of subsidiary funds will include, at a minimum, the cost of the World Bank funds to Eximbank plus an on-lending margin (or a markup in the case of participation bank PFIs) reflecting: (a) Eximbank's administrative costs, and (b) a risk margin (or a markup in the case of participation bank PFIs).
- PFIs will be responsible for ensuring that sub-beneficiaries comply with the World Bank's procurement procedures for the procurement of goods, works, non-consulting services and consultant services under sub-finance, applicable Turkish environmental legislation and regulations, and the World Bank policy on environmental assessment.
- PFIs will provide Eximbank with a set of documentation for all sub-finance to enable it to maintain all project records and make them available for ex-post review by the World Bank or by external auditors as necessary.
- PFIs, SMEs and LEs will be required to provide reasonable information for the purpose of monitoring and impact assessment during the life of the project (and for a certain period after the project), as may be requested by the World Bank and Eximbank.

(c) Sub-finance terms and conditions for PFIs' sub-project financing to SMEs and LEs.

(i) Eligibility criteria for the SMEs that will be financed by PFIs

- For the purpose of this project, SMEs are defined as firms with fewer than 250 employees.
- Export oriented enterprises include existing and potential exporters making an initial export commitment.
- All private export-oriented SMEs (private ownership more than 50 percent), irrespective of their sector, will be eligible for participation as sub-beneficiaries on a commercial basis.

(ii) Eligibility criteria for the LEs that will be financed by PFIs, unless agreed otherwise by the World Bank:

- For the purpose of this project, LEs are defined as firms with fewer than 1,500 employees, except as the Bank shall otherwise agree.
- Export oriented enterprises include existing and potential exporters making an initial export commitment.

- All private export-oriented LEs (private ownership more than 50 percent), irrespective of their sector, will be eligible for participation as sub-beneficiaries on a commercial basis.

(iii) Terms and conditions of sub-finance between PFIs and SMEs or LEs

- Sub-finance will be evaluated in accordance with PFI's normal project and finance evaluation guidelines, as well as Islamic finance rules and guidelines in the case of participation banks. Eximbank will ascertain the eligibility of the sub-finance provided by PFIs to ensure that they meet the project requirements, but will not conduct its own evaluation of sub-finance.
- The cost of sub-finance by PFIs to SMEs and LEs will include, at a minimum, the cost of the project funds to PFIs plus an on-lending margin (or a markup in the case of participation bank PFIs) reflecting: (a) PFI's administrative costs, and (b) a risk margin (or a markup in the case of participation bank PFIs).
- Sub-finance to SMEs may be made for working capital and investment purposes. Sub-finance to LEs may be made for investment purposes only, including incremental working capital.
- The amount of an individual sub-finance will not exceed USD3.5 million equivalent for SMEs and USD6 million equivalent for LEs, except as the World Bank shall otherwise agree. The aggregate amount of outstanding Sub-finance to any one SME or LE shall not exceed USD5 million equivalent and USD10 million equivalent, respectively.
- All investment sub-finance to SMEs must have at least two years maturity and to LEs at least three years maturity.
- For all sub-finance above USD1 million equivalent, sub-beneficiaries must submit a cash flow statement following a format agreed upon with Eximbank.
- For sub-finance above USD1 million equivalent, sub-beneficiaries to have a financial debt/equity ratio (or financial obligation/equity ratio in the case of Islamic finance) of not more than 85:15 after the receipt of the sub-finance, unless agreed otherwise by the World Bank.
- For sub-finance above USD1 million equivalent, sub-beneficiaries should, after the receipt of the sub-finance, be projected to maintain a financial debt service coverage ratio (or financial obligation service coverage ratio in the case of Islamic finance) of at least 1.1:1 and calculated on an average basis over the sub-finance life, unless agreed otherwise by the World Bank.
- The first sub-finance by each PFI, irrespective of size, will be subject to prior review by the World Bank. Sub-finances to be provided to a SME exceeding USD2.5 million equivalent and to a LE exceeding USD4.5 million equivalent will require prior approval by the World Bank.
- All sub-finance not subject to prior review may be subject to ex-post review by Eximbank or by the World Bank to verify compliance with the terms and conditions.
- The relevant authorities must certify that the SMEs and LEs (sub-beneficiaries) and sub-projects meet environmental laws and standards in force in Turkey. The World Bank policy on environmental assessment will also be complied with.

- Sub-projects classified as World Bank's Environmental Category A or involving dams and international waterways will not be financed.
- Sub-projects that would trigger OP 4.12, as well as used equipment, and goods, works, non-consulting services and consultant services on the World Bank's negative list will not be eligible for financing.
- Contracts from sub-beneficiaries where the contracted firms are on the World Bank lists of debarred or suspended firms will not be eligible for financing.
- Sub-beneficiaries must comply with the World Bank's procurement procedures for the procurement of goods, works, non-consulting services and consulting services to be financed under the project.
- SMEs and LEs will be required to keep copies of invoices for all expenses financed with working capital and investment finance received under the project. SMEs and LEs will be required to send to their respective PFIs invoice and other documentation for sub-finance, except in the case of non-procurement working capital expenditures. SMEs and LEs will send the list of non-procurement expenses financed with working capital finance to the PFIs.. The invoices/documentation for these expenses will be kept by the SMEs and LEs and made available to the PFIs, Eximbank, and the World Bank on request.
- Sub-beneficiaries will be required to provide reasonable information for the purpose of monitoring and impact assessment during the life of the project (and for certain period after the project), as may be requested by the World Bank, and/ or Eximbank.
- Sub-beneficiaries are required to comply with the World Bank's "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants," dated October 15, 2006, and revised January 2011 (Anti-Corruption Guidelines) as part of its general obligations relating to the receipt and use of such proceeds of the Loan. The Turkish translation of the Anti-Corruption Guidelines is available on the World Bank website in Turkey (http://www.worldbank.org.tr). The English language version will apply in case of any inconsistency between the Turkish and the English versions of the Anti-Corruption Guidelines.

(iv) Terms and conditions of sub-finance with Eximbank as PFI

In the case of Eximbank as a PFI, Eximbank's direct lending will be subject to the following targeting (in addition to relevant Sections c (i), and (iii)):

- All sub-finance will be for SMEs.
- All sub-finance to SMEs must have at least four years maturity in the case of working capital and at least six years maturity in the case of investment finance.
- At least 10 percent of all sub-finance provided by Eximbank will be for new exporters i.e. SMEs that begun exporting in the past three years.

Annex 3: Sector and Eximbank Background

TURKEY: Long Term Export Finance Project

Sector Background

Financial sector

1. **The Turkish financial sector lacks the depth one would expect given the size of the economy, and is dominated by the banking sector.** Financial markets increased almost eight fold, from TL461 billion in 2003 to about TL3,500 billion in December 2015. Total financial system assets amounted to 180 percent of GDP in 2015, with the emerging market economies average at about 195, and newly industrialized Asian economies at 620. Banks represent 88 percent of the financial sector and about 120 percent of GDP (with banking sector credit and deposits at 75 and 64 percent of GDP, respectively).

2. **The modern Turkish banking sector foundations were laid by a comprehensive reform program undertaken in the aftermath of the 2000-01 financial crisis.** The banking sector reforms included: (i) the establishment of an independent monetary authority; (ii) the transparent recapitalization of the core banking system; (iii) the introduction of a new banking sector legal framework with the establishment of an independent regulator and introduction of stronger regulation and supervision; and (iv) restructuring and partial privatization of the State Owned Banks (SOBs).

3. **The reforms helped in the emergence of a stronger and more competitive banking sector, resulting in higher financial intermediation.** Characteristically, the sector managed to overcome the challenges of the recent global financial crisis without any state intervention. The sector remains well-capitalized (CAR of 15.6 percent), profitable (ROA and ROE of 1.2 and 11.3 percent, respectively), and with historically low non-performing loans (NPLs of 3.2 percent, after reaching five in 2009). Nevertheless, the recent drying global liquidity and rising domestic and international uncertainties have curtailed credit growth and impacted capital adequacy, profitability, and NPL levels relative to past years. Following high credit growth in late 2011 of almost 40 percent, the rate has recently fluctuated in response to tightening measures and uncertainties, settling at the milder level of 18.5 percent in 2014.

4. **A long term challenge of the banking sector relates to the availability of long term finance.** About 88 percent of the banking sector's deposits have maturity below three months, while 77 percent of the lending is concentrated above three months. As a result, there is a negative liquidity gap that peaks in the one to five year maturity. With the loan to deposit ratio breaching 123 percent, banks are increasingly relying on foreign funding in absolute terms.

5. **The development of capital markets is a challenging but critical endeavor to ensure stable sources of long-term financing and secure sustainable growth.** High dependency on external (and volatile) financing, a bank centric model and strong demand for investments in areas such as infrastructure are just part of the reason why capital markets development is critical. Developing deeper and longer-term bond markets would help diversify and provide more stable financing for productive real-sector activity. Furthermore, well-developed local bond

markets could help larger corporates tap bond markets and eventually reduce their reliance on bank funding, in turn providing larger space for SME lending in banks' balance sheets.

Box 1. World Bank support in long-term finance and SME access to finance

The latest Development Plan (2014-18), alongside priority action plans (introduced late 2014 on Savings and the Istanbul Financial Center) and the SME Strategy, prioritize long term finance and SME's access to finance as key areas of focus for the government. In line with these priorities, the World Bank supports these reform areas both through advisory services and development policy lending.

One of the major constraints for MSMEs access to finance is not having sufficient amount of collateral. Improving the movable collateral framework can alleviate this constraint by enabling the MSMEs' use of movable assets, including receivables, stocks, machinery and equipment to access loans. Firms face onerous collateral requirements in Turkey. On average, the value of the collateral was 199 percent of the loan amount, which is above the global average of 194 percent. The most common form of collateral required was land or buildings (58 percent), followed by personal assets (30 percent). The World Bank has provided technical assistance and has prepared a diagnostic report assessing the current movable collateral regime, proposing a roadmap to improve the secured transactions framework in line with international standards. Two key recommendations were the establishment of a central collateral registry in line with international standards, and the preparation of a unified collateral regulation in line with best practices. The Turkish government has decided to prioritize this program by including it in the priority action plans, as well as the SME Development Strategy Action Plan. The access to finance committee, working under the Coordination Council for Improving the Investment Environment (YOIKK) with the membership of all relevant organizations (BRSA, CMB, Ministry of Justice, Treasury, Credit Bureau, Business Associations, etc), has begun drafting the unified collateral law in line with international standards.

In addition, MSMEs have less transparent financial statements and problems related to the bankruptcy framework. This creates constraints in banks' efforts to expand lending to the SME segment, with the cost of financing to SMEs increasing and the available amount of funding decreasing. The World Bank has been working with the government on reforms in these areas through advisory work and development policy lending. The Sustaining Shared Growth Development Policy Loan (DPL) supported the Risk Center of the Banks Association of Turkey, which became fully operational in June 2013. This aims to improve the depth of credit information belonging to firms and individuals, thereby providing cost effective systematic information on potential borrowers, laying the basis for orderly growth of the financial services industry and promoting management of credit risk. In addition, the World Bank, in cooperation with the Ministry of Justice, organized a conference on the challenges of the current bankruptcy framework with an aim to assist the drafting committee of the new bankruptcy law.

Lack of long term finance has serious implications on economic growth by limiting available long term funds for investments. Turkey has made substantial progress towards a deeper capital market, but there are non-trivial challenges to be overcome. Progress is evident in several areas: (i) the government was able to extend the yield curve issuing nominal and inflation-linked instruments with maturities up to 10 years; (ii) the corporate bond market grew from a negligible base prior to 2010 to reach more 330 issuances in 2013 worth more than TL 55 billion; and (iii) institutional investors and in particular pension funds have shown considerable growth since the implementation of government measures. In spite of these significant milestones, low levels of savings and investors' preferences for short-term investments, among other bottlenecks, have constrained the development of long-term financing. Diversity of corporate debt instruments is very limited. Banks account for close to 90% of issuances and bonds are almost exclusively floating-rate securities with an average maturity of one year and overall less than three years to maturity. The World Bank has been working with the Turkish government to address these challenges through technical assistance and development policy lending. The World Bank has provided support to the government on corporate bond market development, mutual funds, secondary regulations of the capital markets law, and, recently, on diagnostic reports for deepening capital markets with a comprehensive capital markets deep dive action plan addressing challenges in: (i) demand (especially institutional investors and international investors); (ii) supply (potential issuers, companies, municipalities, utility companies); (iii) tax and market infrastructure (especially liquidity); and, (iv) new instruments (covered bonds, securitizations, project bonds, long term *Sukuks*, etc.).

6. **In addition, challenges are pronounced in the provision of SME finance, with access to services and loans, in particular, lower compared to 2008.** SMEs receive only 27 percent of the total bank loans in spite of their large share in economic activity - they account for 99.8 percent of all enterprises, 76 percent of employment, 54 percent of investments, and 60 percent of exports. Lack of cash flow based financing, credit history, and high collateral requirements acutely constrain their access to funding. Enterprise surveys show that access to finance is still one of the most important constraints for business growth, despite strong credit growth recently making it the fourth rather than first ranked obstacle overall. Access to basic financial services (firms having a checking or saving accounts) has dropped compared to 2008 from 91 to 78.7 percent, which is below both the ECA (88.2 percent) and World average (88.4 percent). The percent of firms with a bank loan/ line of credit has dropped from 57 percent in 2008 to 40 percent in 2013, although this is slightly higher than the ECA (36 percentage) and World average (35 percent). Collateral required as a percentage of loan amount is 319 percent, among the highest in the world and a significant increase to 90 percent in 2008.

7. **The Turkish Islamic banking industry has witnessed remarkable growth over the past decade, with participation banks' SME finance portfolio significantly higher than that of conventional banks, when calculated as a percent of the total.** Participation banks – similar to conventional banks - are fully supervised and regulated by BRSA under the umbrella of the Banking Law. In terms of assets for the period 2008-2012, participation banks in Turkey recorded the second highest growth rate among Islamic banks in the leading global Islamic markets – however this growth has slowed down relative to peers in the past two years due to local uncertainty. Participation banks accounted for about 5.1 percent of the Turkish banking system assets in 2015. There are currently four private participation banks (Bank Asya, Kuveyt Türk, Türkiye Finans, and AlBaraka Türk). State owned participation banks have also recently made an entry, with Ziraat and Halkbank entering the market in 2015, and Vakif expected to follow soon. Murabahah accounts for an average of 80 percent of Islamic financing, not much different from the global norm of about 70 percent (see Box 2 on Islamic finance instruments). Participation banks' SME finance portfolio significantly higher than that of conventional banks, when calculated as a percent of the total. As of end 2015, SME finance represented 26 percent of conventional banks' total finance portfolio in terms of volume, while they accounted for 42 percent in the case of participation banks.

8. **The leasing sector has significant growth potential, but faces uncertainty in the short term due to tighter funding conditions and lower investment expenditure appetite.** Turkey ranks 30th in leasing penetration rate among 50 countries, with 0.88 percent of new leasing volume relative to GDP. The sector experienced a major contraction during the global financial crisis in 2008-09 due to the drop in investment expenditure demand and the removal of its tax incentives. Between 2009 and 2014, the leasing sector grew by 436 percent supported by favorable funding conditions, investment demand from the SME sector, and the new Leasing, Factoring and Investment Finance Companies Law. However, new leasing volume dropped by 11 percent y-o-y in the third quarter of 2015 (in USD terms), as a result of milder growth expectations and uncertainties in investment demand. Feedback from the sector indicates lower growth expectations in the short term.

Box 2. Islamic Finance Instruments

The Innovative Access to Finance project (P147183) introduced IBRD financing for Islamic finance in Turkey. The Project Appraisal Document of the project offers a detailed introduction into: (i) different structures that could allow funds to be transferred from a financial institution (borrowing from IBRD) to participation bank PFIs in a Islamic finance compliant way, while adhering to the World Bank's operational policies; and (ii) Islamic finance products offered by participation banks. This Box aims to provide a short summary of the different Islamic finance products that form the basis of these structures.

Islamic finance products can be divided into two basic categories: a) non profit-and-loss sharing based products, which involve the purchase and hire of goods or assets and services on a fixed-return basis (i.e. *wakalah*, *kafalah*, *ijarah*, and *murabahah*); and b) profit-and-loss sharing based products, also referred to as participatory modes (i.e. mudarabah and musharakah).

(i) *Wakalah* (Agency contract): *wakalah* is an agency contract between two counterparties, an agent (*wakeel*) and a principal (*muwakkel*). The agent undertakes to render a service to the principal against a predetermined fee (known as *ujrah*).

(ii) *Kafalah* (Financial guarantee): *kafalah* is a financial guarantee contract whereby the guarantor agrees to discharge the liability of the debtor in the case of default by the debtor. This includes the debtor's debt, fine or any other personal liability.

(iii) *Ijarah* (Operational and finance leasing): *ijarah* is a leasing contract whereby the usufruct generated over time by an asset is sold to the lessee at a predetermined price. It can be classified into "operating *ijarah*", which doesn't include a promise to transfer the legal title of the leased asset into the lessee at the end of the lease, and "*ijara wa iqtina*", which is concluded by passing the legal title of the leased asset to the lessee. *Ijara* means literally rent, and the process can be used for equipment as well as property.

(iv) *Murabahah* (Commodity sale with an agreed upon mark-up): *murabahah* is a contract whereby the seller purchases goods desired by the buyer and transfers ownership to the buyer upon full payment within an agreed upon time frame (including an agreed upon mark-up, with payments either in installments or lump sum). The seller bears the risk for the goods until they have been delivered to the buyer. Under a diminishing *murabahah* ownership is transferred gradually upon the receipt of installments.

(v) *Mudarabah* (Trustee finance contract): *Mudarabah* is a contract between two or more individuals whereby some provide finance, while others provide entrepreneurship and management to carry out a business venture with the objective of sharing the profits in accordance to agreed upon ratios. The loss borne by the financiers is in proportion to the equity share. The loss for the entrepreneurs is missed rewards for the services provided.

(vi) *Musharakah* (Partnership/ equity participation contract): *Musharakah* is a contract whereby all partners share in equity as well as management. The profits are distributed in accordance to agreed upon ratios. Losses must be shared according to the equity share.

9. **Although there are no significant differences at the entrepreneur level, the gender gap in Turkey is among the widest in the world when it comes to financial inclusion at the individual level.** Based on data from the Turkish Household Labor Force Surveys, as entrepreneurs (firm level), most business environment constraints do not pose a bigger obstacle for the operations of women-led enterprises relative to those led by men. In addition, there is no significant difference between men and women-led enterprises in accessing external finance. Based on Global Financial Inclusion database (Findex), as individuals (individual level), men are significantly more likely than women to report having a formal account. Although the disparity decreased between 2011-14, the gender gap in Turkey is among the widest in the world. It is, however, strongly influenced by labor force participation rates. Though employed women are as likely as men to have an account, just 11 percent of women are wage workers and only 3 percent are self-employed, compared with 34 percent and 22 percent of men.

Exports sector

10. **Turkey's export performance since 2000 has been strong, despite negative growth in 2009 and 2015, and an overall deceleration in growth since 2012.** Amid a conducive global environment, progress in advancing structural reforms domestically, and with more productive companies, exports increased from USD28 billion in 2000 to over USD132 billion in 2008, with an average growth of 20 percent during this time period. The global financial crisis brought about negative growth of 23 percent in 2009, only to be reversed in the coming years growing the export volume to USD152.5 billion in 2012. Since then export growth has been anemic at -0.4 and just 3.8 in 2013 and 2014 respectively. Nevertheless, Turkey's global market share rose substantially from 0.55 percent of global imports in 2002 to 0.86 percent in 2014. Exports stood at USD144 billion in 2015, a drop of 9 percent from 2014.

11. **Turkey managed to diversify both its export markets and its export product mix in the last decade.** Amid a sluggish expansion in demand in traditional markets during the global financial crisis, the share of Turkey's exports to the EU declined, while that of MENA rose. These changes notwithstanding, the EU remains Turkey's key trading and investment partner, capturing about 44 percent of total exports in 2015 (down from over 56 percent in 2005). The composition of Turkey's export basket has also been changing over the past decade, as the economy moves increasingly to capital-intensive products from those predominantly intensive in inexpensive labor. Mid-tech exports have replaced garments and textiles, playing an important evolution in export sophistication. Meanwhile, by 2015, the majority of Turkish exports switched to the mid to high-end of the quality range, while only 35 percent of the exports is in low technology industries. Metals products, machinery, and, to a lesser extent, agri-food industries have taken a prominent position in the export basket recently. Exports of chemicals, particularly plastics, have also been rising in the last few years. Finally, large exporters account for about 44 percent of total exports, with the MSMEs rising contribution in 2012 coming under pressure since then.

Figure 1. Total exports and export market diversification

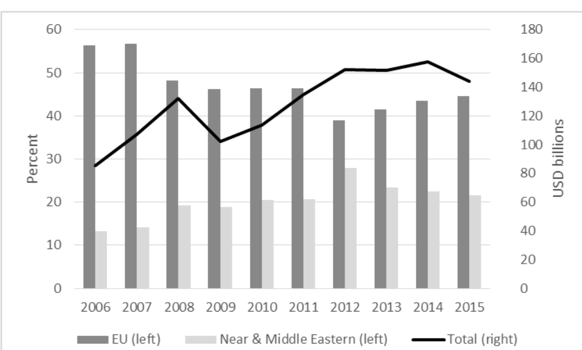
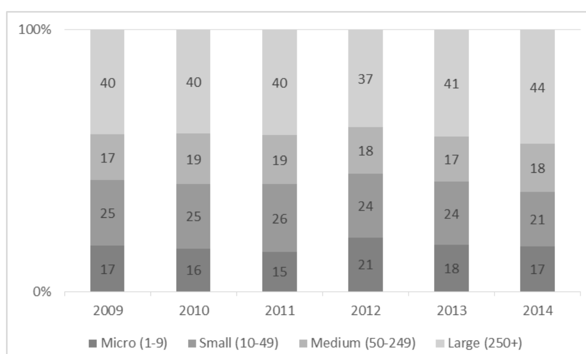


Figure 2. Exporter contribution by size to total exports



12. **With an expected growth pick up, the EU will continue dominating Turkey's export market - continued global uncertainty, however, requires maintaining the country's diversification agility.** Turkey is extensively using Free Trade Agreements (FTAs) to support export diversification. There are currently 18 active FTAs, representing 15 percent of the exports. Discussions under the Transatlantic Trade and Investment Partnership and revisions of

the Customs Union agreement with the EU are also expected to have significant implications on Turkey's export markets. Recent regional uncertainty and political tensions resulted in a drop of exports to MENA, North Africa and Russia. There has been a sharp decline (40 percent) in exports to Russia, and exports to oil exporting countries such as Iraq (21 percent), Azerbaijan (33 percent) and Iran (6 percent) between 2014 and 2015. With the lift of international sanctions, Iran has now emerged as a promissing market for Turkish exports, and an increase is expected in 2016. According to the annual strategy by the Ministry of Economy and the Turkish Exporters Assembly, target countries for the period 2016-2017 are the United States, United Arab Emirates, China, Ethiopia, South Korea, India, Iraq, Iran, Japan, Mexico, Nigeria, Poland, Romania, and Saudi Arabia. Expanding exports to developed countries (and to the South East Asia region) requires increasing the share of high value added products in the export basket. Companies have to meet quality standards to further penetrate developed markets such as the EU and US, and there is a need to increase the share of value added products to overcome the high logistics cost associated with the far eastern markets. The export strategy for 2023 aims at modernization and in achieving a more flexible export structure by incorporating advanced technology and research and development in the production sphere.

Box 3. Lessons learned from the recent EFIL IV ICR

This Box aims to summarize key lessons learned from the recent Implementation Completion Report for EFIL IV (P096858):

• *Flexibility of project design and responsiveness to market conditions reduce implementation delays.* For any project, the design context is inevitably different from the implementation context. Eligibility restrictions (such as sectoral or geographic) can be counterproductive, especially during economic downturns. Both the World Bank and borrowers need to have the ability to adjust as needed. Legal documents should provide for the often inevitable small adjustments that enable the project to perform better during implementation.

• *While project requirements are essential for fiduciary, safeguards, and capacity-building purposes, careful project design should try to minimize transaction costs to reach the target markets.* There is an inherent trade-off between the World Bank's project requirements and objectives to reach the smaller, financially underserved firms. Project requirements increase the transaction costs for PFIs who find it more attractive to lend to larger firms and in larger amounts. In addition, the credit eligibility criteria that aim to increase capacity (i.e. requirements on firm leverage and debt service coverage) can exclude exporters who would otherwise be eligible and can have a more significant negative impact on the outcomes of credit line operations targeting smaller firms.

• *On-lending is, generally, preferable to direct lending.* First, a wider range of PFIs increases the number and diversity of potential project beneficiaries. Second, on-lending enables new PFIs to gain experience in working with IFIs, which will help them develop other sources of funding. Third, on-lending encourages a healthy competition and causes less market distortion than direct lending, as the benefits are spread over a large share of the financial sector. On the other hand, direct lending may offer advantages when placing more constraints to PFIs (i.e. targeting in terms of maturity, enterprise size, sectors, regions etc.).

• *Alignment with business practices increases the project's attractiveness.* In Turkey, commercial practices have been assessed as acceptable with regard to World Bank procurement requirements. As a result, project procurement requirements should be similar to existing practices of PFIs for sub-loan preparation and record-keeping requirements. Given the recurrent complaints of PFIs and sub-borrowers, a clear definition of working-capital expenditures and distinctions between procurement and non-procurement working-capital expenditures is warranted.

• *Strong M&E design and effective arrangements are necessary for a better assessment of outcomes.* The impact of a project extends beyond the loan amount extended to firms and employment generation. First, it is often more useful to analyze the loan purposes, the nature of investments, and productivity over time. Second, employment data does not capture the firm's activities and life cycle. The OM and the SFAs should have a section on M&E requirements and, overall, project documents should clearly document M&E arrangements and all project components should be monitored.

13. **Overall, Turkey faces significant challenges to achieve high export growth.** Turkey has specialized in mid-tech sectors that have experienced relatively slow growth in global demand, while the share of high-tech exports in total exports has stagnated. Changes in the export basket towards high-tech, high value added products will require additional investments. Expanding into new markets, where importers require deferred payment terms, and increasing the supply of more capital intensive and sophisticated goods require access to longer term finance. Furthermore, the relatively low level of foreign direct investment in manufacturing has been a constraint to export growth and quality improvements. Finally, the relatively poor export performance of SMEs is one of the main constraints to the growth and the upgrading of exports. An effective policy agenda addressing these challenges requires structural reforms that can support technology upgrading, innovation, productivity, improved skill base, enhanced business environment, and the availability of longer term finance.

Eximbank Background

Eximbank's origins and market presence

14. **Eximbank is Turkey's sole official export financing institution.** Türkiye İhracat Kredi Bankası A.Ş. was established in March 1987 (Act # 332) as a development and investment bank with a mandate focused on supporting foreign trade. Accordingly, Eximbank does not accept deposits. Eximbank is wholly-owned by the state. The bank's affairs are overseen by the Supreme Advisory and Credit Guidance Committee, which is chaired by the Prime Minister or the Minister with whom the bank is affiliated (currently the Deputy Prime Minister). This committee approves Eximbank's annual programs, as well as the bank's general strategy, targeted annual volumes and key objectives for each year. Eximbank operates out of its headquarters in Istanbul, Regional Directorates in Ankara, Izmir and the branch in Gaziantep. Eximbank also has nine liaison representative offices in Kayseri, Denizli, Adana, Bursa, Konya, Samsun, Istanbul-European Side, Trabzon and Antalya.

15. **Eximbank provides on-lending and direct lending, with credit, insurance and guarantee programs.** Eximbank provides four main export finance related products: short-term credits, medium and long-term credits, guarantees, and insurance. These are funded by borrowings from domestic and foreign money and capital markets, as well as its own sources. On-lending is done through 48 banks and accounts for 12 percent of total loans. Eximbank also provides working capital loans directly to companies, usually fully covered by guarantees from banks. As a consequence, Eximbank's credit risk lies with the banks and not the underlying borrower. All banks are rated using a four-grade scale - at end 2015, only 8 percent of loans were extended to banks in the highest risk category.

16. **Eximbank's board is composed of seven members, including the General Manager.** The bank's corporate governance practices meet the mandatory requirements imposed by the laws of Turkey, the BRSA and other applicable regulations, as well as the Articles of Association of the bank. Its board of directors includes a representative from the Turkish Treasury, from the Trade and Customs Ministry, and from export associations. The bank's Chief Executive Officer is appointed by a joint decree of the State Minister in charge, the Prime Minister, and the President of the Republic of Turkey. The other six directors are appointed by the General Assembly. Each director serves a term of three years and may be reelected by the General Assembly upon termination of a term. All members have over 15 year experience in

banking and management. The board meets at least once a month. Key committees include Audit, Credit and Executive. The audit committee, composed of two members of board, is responsible for maintaining the operation of systems and actively managing the effectiveness and competence of internal systems of the bank on behalf of the board of directors. The most critical responsibilities of the Executive Committee are the management of the bank's assets and liabilities, and making decisions about the presentation of credit demands on a project basis, including domestic and foreign risks, to be submitted to the board of directors. The Credit Committee is responsible for approving credit allocations under the supervision of the board of directors within the established thresholds. Eximbank is in full compliance with BRSA prudential regulations. The external audit of the bank is conducted by Akis Bağımsız Denetimve Serbest Muhasebecilik Mali Müşavirlik A.Ş., a member of KPMG. The independent audit reports for the year-ended December 31, 2015 and year-ended December 31, 2014, concluded that the financial statements gave a true and fair view of the bank's position.

Eximbank's financial standing

17. **Eximbank is not a profit oriented financial institution, but its objectives include the preservation of its net worth.** Eximbank supports the export sector through non-profit activities, however, the bank also seeks to ensure the most appropriate rate of return in order to maintain its capital and financial strength. Return on average equity was 10.8 percent for 2015, with the banking sector average standing at 12.3 percent. Return on average assets was 1.3 percent, at the same level as the banking sector average. The income structure mostly comprises of interest income. Loans account for 97 percent of the total Eximbank's assets, impacting income directly with 95 percent of net interest income originating from loans. Interest margins are relatively low (net interest margin at 1.9 percent in 2015 and 2.3 percent in 2014) reflecting the mission of the bank. Eximbank exhibits strong capital adequacy, with the capital adequacy ratio at 18.94 percent (and Tier I adequacy ratio at 18.44). The BRSA minimum is 8 percent and 12 percent if the bank operates in offshore markets. Finally, loan impairment charges affect profitability much less than the sector, as the bank has the lowest rate of NPLs in the sector at 0.3 percent. The bank puts aside full impairment provisions for the NPLs.

Table 1. Key Eximbank financial indicators

(TL million)	2015	2014	2013	2012	2014- 15 Change (%)
Total Assets	44,438	33,742	24,810	15,486	32%
Liquid Assets	285	1,230	1,205	1,727	-77%
Loans	43,159	31,890	23,035	13,163	35%
Securities	274	317	256	320	-14%
Total Liabilities	39,657	29,427	20,908	11,811	35%
o/w CBRT Loans	22,589	19,241	13,159	6,803	17%
o/w IFI lending (IBRD, EIB)	2,237	1,663	1,224	885	35%
Shareholders' Equity	4,781	4,315	3,902	3,675	11%
Net Interest Income	711	629	384	396	13%
Net Fee and Commission Income	14	30	(1)	(1)	-54%
Net Profit	489	427	246	221	15%
Key Ratios (%)					
Loans/Total Assets	97	95	93	85	
Non-performing Loans/Total Loans	0.3	0.4	0.5	0.8	
Return on average assets	1.3	1.5	1.2	1.8	
Return on average equity	10.8	10.4	6.5	6.0	

Capital Adequacy Ratio*	18.9	24.1	26.2	25.1

Source: Eximbank's Audited Unconsolidated Financial Statements; *Basel II for 2012-13, Basel III for 2014-15

18. **The bank's principal sources of funding are capital contributions and other transfers from the Treasury**, loans from domestic and international banks, borrowings from the Central Bank, and monies received from the issuance of notes and other debt securities (including in the international capital markets). Funding is almost fully denominated in foreign currency, replicating the loan book structure. Loans from CBRT made up 68.5 percent of Eximbank's funding at end-2015 - these short-term funding facilities match Eximbank's lending profile. Firms can obtain export rediscount credits from the CBRT through intermediary banks (including Eximbank) with a maturity of maximum 240 days, by presenting foreign exchange bills for rediscount. Export rediscount credits are extended to firms through the intermediary banks in Turkish lira equivalent of the foreign currency amount specified in the bill, which is calculated over the exchange rate effective on the day that the credit is extended. As the repayments of these credits are made in foreign exchange, they help boost the CBRT foreign exchange reserves on the date of maturity.

19. **The bank intends to shift its lending from primarily short term to medium and long term.** The bank has historically had a high proportion of assets held in loans (97 percent of the bank's assets were loans as at December 31, 2015) and its principal liquidity source consists of short-term loans. Of the total loan portfolio of TL43 billion as of the end of 2015, 65 percent are short-term credits and 35 percent are medium and long term credits. This has shifted as compared to 2014, when the breakdown was at 76 and 24 percent respectively. As of December 31, 2015, over 68 percent of the bank's liabilities had remaining maturities of one year or less, 11 percent of liabilities had maturity from 1 to 5 years, and 7 percent of liabilities had maturity over 5 years. As of the same date, over 72 percent of the bank's assets had remaining maturities of one year or less and 26 percent of assets with maturity of 1 to 5 years. As of 31 December 2015 and 31 December 2014, the bank maintained a positive liquidity gap for maturities (by group) that are up to one month, three months to one year, and one year to five years, while the total net liquidity (which includes those over five years and those with no maturity) was also positive.

Annex 4: Implementation Arrangements

TURKEY: Long Term Export Finance Project

Project Institutional and Implementation Arrangements

1. **Eximbank will be responsible for project implementation.** The PIU responsibilities will include: (i) selection of and on-lending to PFIs; (ii) monitoring of PFIs to ensure compliance with project criteria; (iii) coordination of Eximbank's direct lending; (iv) responsibility for adherence to all fiduciary and safeguard requirements of the World Bank for final borrowers; and (v) monitoring and evaluation based on key indicators.

2. **Eximbank's PIU is staffed with capable and qualified personnel for the implementation of the project.** Eximbank has experience from the EFIL IV (P096858, as direct lender) and EFIL I (P065188, as on-lender to PFIs) projects. The Implementation Completion Report and the Independent Evaluation Group Review of the EFIL I project rated the Outcome and Borrower's performance as Satisfactory. The Implementation Completion Report of the EFIL I project rated the Outcome and Borrower's performance as Satisfactory (the Independent Evaluation Group Review has not yet been published).

Financial Management, Disbursements and Procurement

Financial Management

3. Eximbank is experienced in implementing World Bank financed projects in a Satisfactory manner. There is an established PIU composed of qualified professionals. The same teams will work during the implementation of this project.

4. The project will be disbursed through Eximbank and banks, participation banks and leasing companies (PFIs). The accounting and auditing requirements, as well as prudential requirements applicable to the banks (including participation banks) and leasing companies in Turkey, are determined by the BRSA. Banks and leasing companies submit quarterly financial reports to the BRSA and publish annual audited financial statements. The applicable standards for accounting and auditing are the standards issued by the Public Oversight, Accounting and Auditing Standards Authority, which are in compliance with the International Financial Reporting Standards and International Standards on Auditing. The external auditors are required to report to the BRSA on the banks' and factoring companies' internal control and risk management systems. They are also obliged to report directly to BRSA with respect to certain issues that may threaten the going concern nature of a bank or factoring company.

Accounting and Internal Controls

5. Eximbank will integrate the project in its existing accounting systems. As was the case in previous operations funded by the World Bank, the main accounting system will be used to account for the transfers from the World Bank, transfers to SMEs for the Eximbank direct lending portion and the sub-finance provided to SMEs and LEs for the on-lending portion, as well as other project transactions that may arise. Eximbank will open sub-accounts in the main accounting system, which will allow the PIU to extract data in the detail necessary to prepare detailed project reports.

6. For the on-lending portion, the PFIs will make their application to the Credit Allocation Department with all the required documentation. Upon initial verification and approval, the transaction will be handled by the Operations Department. The accounting system will have the necessary sub-account on the basis of PFIs to enable extraction of reports for the project reporting and monitoring.

7. For the direct lending portion, Eximbank will apply its usual lending procedures for the Project. Accordingly, the exporters will apply to Eximbank. The Risk Analysis department will prepare a customer evaluation report that will be sent to the Credit Allocation Department. Depending on the size of financing, the loan will be sent to the approval of the relevant credit committee. Upon approval and receipt of collateral, the documents will be passed to the Operations Department, which will cross-check the documentation and transfer the funds to the beneficiary.

Internal Auditing

8. Eximbank has an Internal Audit and an Internal Controls Directorate within its organizational structure and the Project loans will be in the scope of their review.

Financial Reporting

9. Eximbank will submit interim un-audited financial reports (IFRs) on a semi-annual basis. The format and content of IFRs will be agreed upon during the negotiations and will be included in the OM.

Auditing

10. Eximbank will submit two sets of audit reports on an annual basis during the lifetime of the Project and the grace period of the Loan: the audit of Eximbank's financial statements prepared in accordance with the International Financial Reporting Standards and the audit of the project financial statements. The independent auditors will be firms licensed by the Public Oversight Authority and approved by the BRSA. The audits will be conducted in accordance with the International Standards on Auditing.

11. Annual and semi-annual (limited review) audits of Eximbank financial statements in accordance with the International Financial Reporting Standards (IFRS) are publicly available as per the regulations. The last three years' audit reports (in accordance with IFRS and ISA) were reviewed and summarized below:

Year	**Auditor**	**Opinion**
2014	KPMG	Unmodified (clean).
2013	KPMG	Unmodified.
2012	PWC	Unmodified.

Funds Flow

12. Eximbank will open a designated account to disburse funds from the World Bank Project Loan account. The project will have a special code in the accounting system and sub-finance extended to exporters in the direct lending portion as well as in the on-lending portion will be earmarked with the code.

Disbursement arrangements

13. The disbursement procedures will be communicated in the Disbursement Letter that is an integral part of the legal package of the Project.

Retroactive Financing

14. Retroactive Financing in an aggregate amount not exceeding USD60 Million may be made in respect of sub-finance made in accordance with criteria and procedures set forth in the Loan Agreement and OM.

Procurement

15. The overall procurement risk is evaluated as Low at the Appraisal stage.

16. The proposed operation is a natural continuation of the EFIL series of projects that focused on export oriented enterprises. Eximbank is an experienced Borrower and familiar with the World Bank procurement procedures, with the past performance under the EFIL I and EFIL IV projects rated as Satisfactory.

17. In the completed similar operations in Turkey, it was determined that there are well established commercial practices for the procurement of goods, works and services by the private sector enterprises, autonomous commercial enterprises and individuals. Furthermore, the gradual implementation of the new Commercial Code, which provides a completely new and modern "constitution" for private sector commercial activity and entrepreneurship, is grounded in financial transparency and strengthened corporate governance. This code also regulates the reporting requirements for intergroup transactions among group companies. In this context, the communique on "Minimum content for the annual activity report" requires the group companies to report on the group transactions, which will eventually strengthen arms-length arrangements between them. In the case of goods, the local practice is to prepare the technical specifications and solicit quotations from the local and/or international market. In the case of medium and large works, the technical specifications are usually prepared by consultant companies and bids are collected from qualified contractors. Minor works are generally tendered on a lump sum basis by collecting bids from a number of local contractors. When equipment and machinery is needed for the expansion of existing facilities, the purchasers usually prefer proprietary goods from a single source for standardization and minimization of the operation and maintenance cost. Therefore, the local private sector or commercial practices can be considered to be consistent with the World Bank's criteria with respect to economy and efficiency. The general rule in the sector is to procure the least cost goods, works and services consistent with minimum quality requirements.

18. Participation banks involved with Islamic finance are regulated by the BRSA. In the transactions subject to Islamic financing, the asset and the funding are directly linked and the amount of financing should reflect the value of goods/works/non-consulting services procured. Participation banks are involved with and monitor the procurement processes more closely compared to the conventional banking transactions. With regard to the Islamic finance instruments, the procurement transactions for the dominant instruments Murabahah and Ijarah take place as follows: (i) for Murabahah, the goods/works/non-consulting services are procured by the PFIs and the ownership is transferred to the SMEs or LEs, (ii) for Ijarah, being a leasing contract, the SME or LE (lessee) may retain or not retain the ownership of the goods at the end

of the leasing period, where in any case the price of the leased goods or the leasing price during the contract period should be in line with the market prices. So the practice can be considered to be consistent with the World Bank's criteria for economy and efficiency. In any case, the procurement arrangements for Islamic finance instruments will be conducted as agreed upon in the OM.

19. Procurement of goods, works and non-consulting services for the proposed Project will be carried out in accordance with the World Bank's "Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011 and revised July 2014, (Procurement Guidelines); and procurement of consultant services will be carried out in accordance with the World Bank's "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011 and revised July 2014, (Consultant Guidelines) and the provisions stipulated in the Loan Agreement. The World Bank's "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006, and revised in January 2011 (Anti-Corruption Guidelines) will apply to this Project. A General Procurement Notice shall be published for the procurements under the Project by Eximbank.

20. Well-established Private Sector Procurement Methods or Commercial Practices will be followed for Goods, Works and Non-Consulting Services contracts in accordance with paragraph 3.13 of the Procurement Guidelines; and for Consulting Services contracts in accordance with paragraph 3.13 of the Consultant Guidelines, and the provisions stipulated in the OM. Given the demand-driven nature of the project, it is not possible to estimate neither the sub-beneficiaries nor their procurement requirements under the credit line financing of the sub-projects at the appraisal stage of the Project. Therefore, it is not possible for Eximbank to develop a Procurement Plan. Simplified procurement plans as detailed in the OM, where feasible and practical, will be prepared for the sub-finances between Eximbank and the sub-beneficiaries. A definition of non-procurement working capital expenditures will be provided in the OM, so that these will not be listed in the future procurement plans.

21. The World Bank will review the procurement arrangements performed by Eximbank and PFIs including contract packaging, applicable procedures, and the scheduling of the procurement processes for conformity with the World Bank's Procurement and Consultant Guidelines, the proposed implementation program and disbursement schedule. The procurements will be subject to ex-post review by the World Bank on a random basis in accordance with the procedures set forth in Appendix 1 of the Procurement Guidelines and Consultant Guidelines, respectively. Post review of the procurement documents will normally be undertaken during the World Bank's supervision mission or upon the World Bank's request to review any particular contracts at any time. In such cases, Eximbank and PFIs shall provide the World Bank the relevant documentation for its review. Sampling for the review of the procurement documents will be done in accordance with the OM.

22. Sub-project agreements of Eximbank and PFIs will refer to the World Bank's Anti-Corruption Guidelines as well as the Procurement and Consultant Guidelines. Eximbank and PFIs will check the contracts from sub-beneficiaries so that the contracted firms are not on the World Bank's lists of debarred or suspended firms.

23. Eximbank will be responsible through its PIU for ensuring that the procurement rules for sub-projects specified in the PAD and OM are followed. Eximbank and PFIs will keep the records and the originals/copies of relevant invoices of the procurement transactions handled by the sub-beneficiaries. Updated procurement plans of all sub-finances will be kept in Eximbank's PIU, and they will be furnished to the World Bank along with other procurement documents whenever requested.

24. Eximbank has a PIU established under the closed EFIL I and EFIL IV Projects which is still active under other IFI Projects. Eximbank will need to maintain its existing staff capacity and tools for record keeping under its PIU to oversee the procurement activities and to support the PIU's procurement function for the project. For the PFIs, their procurement capacity needs to be assessed by Eximbank and the World Bank's clearance needs to be obtained prior to Eximbank entering into SFAs with the PFIs as stipulated in the OM. During implementation of subsidiary financing, PFIs will need support from Eximbank for the follow up of the World Bank's procurement procedures.

25. Although the risk is rated as "Low" at the appraisal stage, the following measures are needed for an effective implementation by: (i) maintaining the record keeping system for the follow-up on the procurement related documents to be received from PFIs/branches; (ii) development of an informative tool on procurement procedures for PFIs/branch staff; (iii) close working relationship between the Bank's procurement specialist and the PIU throughout the duration of Project implementation.

Environmental and Social (including safeguards)

26. Environmental issues of sub-beneficiaries and their sub-projects will be addressed through the sub-finance environmental eligibility assessments. Environmental assessments will be carried out in accordance with both Ministry of Environment and Urbanization (MoEU) Environmental Assessment Regulation and World Bank environmental assessment (OP 4.01) requirements.

27. The sub-finance under the Loan should be subjected to an environmental review process by PFIs (including Eximbank as PFI under direct lending). However, Eximbank will be responsible for successful implementation of the project. The PFIs will be responsible for environmental classification of sub-beneficiaries/sub-projects, and for ensuring that each sub-finance and sub-project proposal includes an evaluation of its environmental impact and clearance documentation from the local authorities. Once environmental requirements are established and recommendations incorporated into the sub-project, PFIs will appraise the proposed sub-finance package. Adherence to any environmental obligations established by the regulatory authorities and the World Bank safeguard requirements will be monitored by the PFIs.

28. In order for the World Bank to fulfill its fiduciary responsibilities, for the first five sub-project applications submitted to PFI, the PFI will provide information on the sub-project to Eximbank for the World Bank's "prior review", together with its proposed classification of the sub-project (Category B or C) and the advice it proposes to give to the sub-beneficiary regarding additional actions needed to fulfill World Bank requirements as detailed in the OM. After Eximbank reviews the environmental documentation for the first 5 applications, it will submit all the documents to the World Bank for final review. Following this "pilot" period, the World Bank

will change to spot checking the screening and environmental review process on a "post review" basis. Eximbank could decide on its "prior review" procedures with the relevant PFI separately, through the SFAs. After the prior review process, Eximbank will share the relevant due-diligence, environmental and social documentation with the World Bank via frequent progress reports.

29. Eximbank will also assess the capacities of the PFIs and offer them training if necessary. The capacity assessment tools, assessment results and the improvement measures identified for the PFIs will also be shared with the World Bank (in advance of the World Bank's no-objection for the first 5 applications and then periodically in progress reports to be submitted to World Bank). Independent of prior or post review process, the improvement measures (if suggested during the PFI review of Eximbank) should be taken prior to the respective PFI's beginning of on-lending/financing WB funds for any sub-projects with potential Safeguards impacts.

Monitoring & Evaluation

30. Key indicators for measuring the PDO include:

(a) Ratio of the average maturity of SME sub-financing under the project, over the average maturity of the PFIs' SME portfolio not financed under the project.
(b) Ratio of the average maturity of LE sub-financing under the project, over the average maturity of the PFIs' LE portfolio not financed under the project.
(c) Number of SME beneficiaries financed by PFIs under the project (cumulative).
(d) Number of LE beneficiaries financed by PFIs under the project (cumulative).
(e) Volume of Bank support (cumulative, USD million).

31. Key Intermediate Results indicators include:

(a) Number of active PFIs under the project (cumulative).
(b) Based on Core Indicator: Volume of Bank Support: Lines of Credit - SME (cumulative, USD million).
(c) Export multiplier: Ratio of the export growth of SMEs and LEs under the project relative to the export growth of their equivalent sector.
(d) Percent of SMEs receiving sub-finance by Eximbank that are new exporters.
(e) Outstanding export finance portfolio (USD million).
(f) Based on Core Indicator: Outstanding SME finance portfolio (USD million).
(g) Number of active export finance accounts (not cumulative).
(h) Based on Core Indicator: Number of active SME finance accounts (not cumulative).
(i) Based on Core Indicator: Portfolio Quality: Portfolio at risk (%).
(j) Based on Core Indicator: Financial Sustainability: Return on Assets (%)
(k) Based on Core Indicator: Financial Sustainability: Return on Equity (%)
(l) Compliance with prudential regulation.
(m) Gender: Percent of SME and LE beneficiaries financed under the project with at least 15 percent female participation in their workforce.

(n) Citizen Engagement: SMEs and LEs that feel project sub-finance reflected their needs.

32. In addition to the above indicators, the project will monitor some additional indicators. These indicators will be monitored for analytical purposes only and will serve as useful inputs to define policies and projects aimed at further improving SMEs' and LEs' access to finance in Turkey:

(a) *Performance of SMEs and LEs under the project:* (i) Increase in employment.
(b) *Profile of SMEs and LEs under the project:* (i) Size of SMEs and LEs (number of employees); (ii) Economic sector; (iii) Geographical location.
(c) *Profile of finance under the project:* (i) Size of sub-finance; (ii) Maturity of sub-finance; (iii) Interest or markup of sub-finance.

33. Annex 1 includes the data source, frequency, and responsibility for data collection for the Project Development Objective and Intermediate Results Indicators. Table 2 below describes the arrangements for monitoring for the Additional Indicators.

34. The data will come from Eximbank's internal reports. Although the scope of reporting will be significant, Eximbank has worked with the World Bank team in the design of the appropriate reporting templates in the OM, and it is well accustomed to collecting such information from its clients. Financial performance of Eximbank will be monitored through independent auditors' reports and separate management letters confirming adherence to prudential norms.

Table 2. Additional Indicators and Arrangements for Monitoring

Indicator Name	Frequency	Data Source/ Methodology	Responsibility for Data Collection
Performance of SMEs and LEs under the project			
Increase in employment	Annual	Project report	PIU
Profile of SMEs and LEs under the project			
Size of SMEs and LEs (number of employees)	Annual	Project report	PIU
Economic sector	Annual	Project report	PIU
Geographical location	Annual	Project report	PIU
Profile of finance under the project			
Size of sub-finance	Annual	Project report	PIU
Maturity of sub-finance	Annual	Project report	PIU
Interest or markup of sub-finance	Annual	Project report	PIU

Annex 5: Implementation Support Plan

TURKEY: Long Term Export Finance Project

Strategy and Approach for Implementation Support

1. The implementation support strategy was developed taking into account the risks and mitigation measures related to the operation and targets the provision of flexible and efficient implementation support to the clients.

a. **Technical Support** – IBRD implementation support missions will include a Financial Sector Specialist to help guide Eximbank with project implementation and policy dialogue.

b. **Procurement** – A country office based procurement specialist will carry out ongoing supervision and will participate in project implementation support missions and site visits, respond to just-in-time requests and provide ongoing guidance to Eximbank based on its procurement activities.

c. **Financial Management** – During project implementation, the World Bank will supervise the project's financial management arrangements in two main ways: (i) review the project's semi-annual project reports as well as Eximbank's and the project's annual audited financial statements; and (ii) during the World Bank's implementation support missions, review the project's financial management and disbursement arrangements to ensure compliance with the World Bank's minimum requirements. As required, a World Bank-accredited Financial Management Specialist will assist in the supervision process.

d. **Safeguards** – A Project Implementation Unit (PIU) is already established. Although Eximbank has implemented World Bank Loans before, implementation support will need to be provided, especially by the World Bank Specialist on Environmental Safeguards.

Implementation Support Plan

Time	Focus	Skills Needed	Resource Estimate
Year 1	Task management	Project management (HQ based)	8 staff weeks (SWs)
	Technical reviews	Financial Sector Specialist (Ankara based)	6 SWs
	Procurement support	Procurement Specialist (Ankara based)	3 SWs
	FM supervision	FM Specialist (Ankara based)	3 SWs
	Safeguards	Environmental specialist (Ankara based)	2 SWs
Year 2-4	Task management	Project management (HQ based)	6 SWs per year
	Technical reviews	Financial Sector Specialist (Ankara based)	4 SWs per year
	Procurement support	Procurement Specialist (Ankara based)	2 SWs per year
	FM supervision	FM Specialist (Ankara based)	3 SWs per year
	Safeguards	Environmental specialist (Ankara based)	2 SWs per year

Annex 6: Financial Intermediary Assessment

TURKEY: Long Term Export Finance Project

Financial Intermediary Assessment

1. **An assessment of Eximbank took place at the appraisal stage based on eligibility criteria in accordance to OP10.0:**

a. The bank must be duly licensed and at least two years in operation.
b. The bank's owners and managers must be considered "fit and proper". It must have qualified and experienced management, adequate organization and institutional capacity for its specific risk profile.
c. The bank must be in "good standing" with its supervisory authority (i.e., it should meet all pertinent prudential and other applicable laws and regulations) and remain in compliance at all times.
d. The bank must maintain capital adequacy prescribed by prudential regulations.
e. The bank must have adequate liquidity.
f. The bank must have positive profitability and acceptable risk profile. It must maintain the value of its capital.
g. The bank must have well defined policies and written procedures for management of all types of financial risks (liquidity, credit, currency, interest rate and market risk, as well as risks associated with balance sheet and income statement structures) and operational risk.
h. The bank must classify its assets and off-balance-sheet credit risk exposures (at least four times per year) and make adequate provisions. It must have adequate portfolio quality. The bank should not have more than 10 percent of criticized assets (i.e., classified as doubtful and loss).
i. The bank must have adequate internal audits and controls for its specific risk profile.
j. The bank must have adequate management information systems.

In addition, Eximbank is expected to fully comply with the prudential regulations of BRSA.

2. **A detailed confidential appraisal report has been internally filed with summary results presented in Table 3 below.** These are based on the following sources of information: (i) The externally audited unconsolidated financial statements by Akis Bagimsiz Denetim ve Serbest Muhasebeci Mali Musavirlik A.S. (the Turkish Member firm of KPMG International Cooperative, a Swiss entity) as of December 31, 2015; (ii) The externally audited unconsolidated financial statements by Akis Bagimsiz Denetim ve Serbest Muhasebeci Mali Musavirlik A.S. (the Turkish Member firm of KPMG International Cooperative, a Swiss entity) as of December 31, 2014, and prepared in accordance with IFRS; (iii) Eximbank's Annual Report for 2014; (iv) Interviews with senior management, including review of the related policy documents.

3. **Background information on Eximbank, including key financial indicators, can be found in Annex 3.**

Table 3. Summary of Eximbank appraisal

Criterion	Comments
1. License	Criterion met. Eximbank was incorporated in 1987 and begun operations in 1988.
2. Owners/Managers “fit & proper”, governance quality	Criterion met. The Undersecretariat of Treasury owns 100 percent of Eximbank’s shares. Board members cleared by BRSA as “fit and proper”, with over 15 year experience in banking and management. Eximbank meets the corporate governance mandatory requirements imposed by the laws of Turkey, the BRSA and other applicable regulations, as well as the Articles of Association of the Bank.
3. Good standing with the BRSA	Criterion met. In full compliance with BRSA prudential regulations.
4. Capital Adequacy	Criterion met. The capital adequacy ratio was 18.94 percent, and Tier I was 18.44 percent. Leverage ratio was 9.73 percent.
5. Liquidity	Criterion met. Liquidity Coverage Ratio (LCR) is 8.04 percent, Liquidity adequacy requirement (LAR) is at 223.9 percent.
6. Profitability	Criterion met. Yearly Net Profit of TL489.4m, 14.6 percent increase yoy. ROAE 10.8 percent, ROAA 1.3 percent. NIM of 1.9 percent.
7. Policies and Risk Management Functions	Criterion met. Eximbank has appropriate internal control, risk management and internal audit systems that operate effectively through centralized and on-site audits in compliance with the Banking Law and BRSA regulations.
8. Asset Quality and Provisions	Criterion met. NPL ratio at 0.31 percent. NPL coverage of 100 percent.
9. Internal Audit and Controls	Criterion met. The internal audit function is organized in line with the legal and regulatory requirements of the BRSA. Duties and functional responsibilities are well documented, and the department is adequately staffed.
10. Adequate MIS	Criterion met. The IT and MIS system is of adequate quality and meets the current Eximbank needs. There is satisfactory disaster recovery planning.