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Project Name	TSKB Sustainable Energy and Infrastructure On-lending Facility
Country	Republic of Turkey
Sector	FI / banks
Project No	000132
Borrower	Turkiye Sinai Kalkinma Bankasi A.S. (TSKB)
Implementation Agency	TSKB
Environmental and Social	FI (financial intermediary)
Date of PSI preparation or update	Nov. 2, 2018
Date of Concept Approval	May 8, 2018
Date of Appraisal Approval	Aug. 6, 2018
Date of Board Approval	Sep. 28, 2018

## **I. Introduction**

Turkey is an upper middle-income country with a per capita income of approximately USD10,500. Turkey's economic performance since 2000 has been impressive, both before and after the 2008/2009 global financial crisis. Turkey recovered well from the crisis, with high economic growth during the 2010-2012 period. Turkey's per capita income rose from USD3,115 in 2001 to USD10,800 in 2016. However, economic growth has dwindled since 2012, per capita income has stagnated at around USD10,500 per annum (2017) and unemployment is inching upward. The economy today is faced with several macroeconomic challenges. In recent months, currency volatility has increased, with daily fluctuations of up to c.18 percent. These developments need to be addressed for Turkey's continued progress toward reaching high-income status and reducing income inequality.

The government's support for infrastructure growth has been strong and consistent. Turkey, with its strategic geographical location and growing population, urbanization and economy, is expected to support robust demand for infrastructure projects across all sectors. Government efforts to promote infrastructure growth have ranged from promoting multiple public-private partnership opportunities and offering guarantees to lower the risk threshold for private investors in the sector, to the creation of a new sovereign wealth fund—the Turkey Wealth Fund—in 2016 to finance large infrastructure projects. The banking sector will thus play a key role in bridging the gap between financing needs and available financial resources of the government and private sector (especially when it comes to long-term capital needed for infrastructure investments).

The Borrower is Turkey's first privately owned development and investment bank and a leading investor in the Turkish infrastructure sector (particularly in renewable energy projects). As of Q1 2018, 50.65 percent of the Borrower's shares are held by the Türkiye İsbankası

Group, the largest private commercial bank in Turkey. The second largest shareholder is Turkiye Vakiflar Bankasi, which holds 8.38 percent, while the remainder is composed of minor holdings of other institutional shareholders and free-float trades on the Turkish stock market, Borsa Istanbul.

## **II. Project Objective and Expected Results**

The project objective is to support sustainable infrastructure development in Turkey through providing a long-term source of financing. The project is well-aligned with the Asian Infrastructure Investment Bank's (AIIB) mandate to (i) foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors and (ii) promote regional cooperation and partnership in addressing development challenges by fostering partnerships with commercial and development banks such as the Borrower.

## **III. Project Description**

The project includes a sovereign-backed loan facility for an amount of up to USD200 million to the Borrower. Loan proceeds will be primarily used to finance renewable energy projects (including solar, hydropower, wind, geothermal and biomass), energy efficiency projects and to a smaller extent, in other infrastructure fields such as transport, water management and treatment, power transmission and telecommunications.

## **IV. Environmental and Social**

AIIB's Environmental and Social Policy (ESP) is applicable to this on-lending program. The project has been placed in Category FI because the financing structure involves the provision of funds through a financial Intermediary, whereby AIIB delegates to the Borrower the decision-making on the use of AIIB funds insofar as the projects meet the eligibility criteria and environmental and social (E&S) conditions agreed with AIIB, including the selection, appraisal, approval and monitoring of the Sub-projects. AIIB retains the right to conduct prior review of the E&S due diligence of the Sub-projects throughout the course of the facility by engaging with the Borrower.

The Borrower has developed an extensive environmental, social and governance management system with individual policies on sustainability, environmental and social impact, human rights, occupational health and safety and anti-bribery and corruption. These have been disclosed on its website (<http://www.tskb.com.tr/en/sustainable-banking/tskb-surdurulebilirlik-yonetim-organizasyonu/our-sustainability-policy>). The Borrower has also developed an exclusion list that is generally aligned with that of AIIB and other multilateral development banks and defined sustainability goals applicable to both the Borrower's internal operations and to the management (including identification, quantification and mitigation of environmental and social risks induced by their activities and services). For that purpose, in addition to the use of the TSKB-developed Environmental Risk Evaluation Tool (ERET)—which conforms with Turkish regulatory requirements and international standards such as AIIB's ESP and Environmental and Social Standards (ESSs), the IFC Performance Standards and EBRD Performance Requirements—the Borrower has developed an extensive set of procedures and framework plans comprised in an Environmental and Social Management

System (ESMS). The project team has assessed that the Borrower's ESMS is materially consistent with the provisions of AIIB's ESP and relevant ESSs.

The Borrower shall conduct screening to identify higher-risk transactions, categorize Sub-loans into a four-tier (A, B+, B- and C) system of categories reflecting environmental and social risks and impacts, complete E&S due diligence and appraise potential Sub-loans accordingly. The Borrower shall require its Sub-borrowers to develop instruments proportionate to the level of E&S risks and impacts of their activities and commit to regular monitoring and reporting against the applicable E&S standards. The Borrower integrates relevant E&S covenants and where necessary a legally binding Environmental and Social Action Plan in its Sub-loan agreements.

The Borrower is required to conduct regular monitoring of the Sub-projects, report to AIIB on a semiannual basis on compliance status of all ongoing Sub-projects and present corrective actions for any noncompliance. AIIB will conduct annual supervision of the Borrower, including site visits and documentation review of selected Sub-projects.

#### **V. Estimated Loan Size (USD million)**

The Bank's loan amount is up to USD200 million.

#### **VI. Implementation**

The project will be implemented by TSKB.

AIIB is providing financing to a financial intermediary, namely TSKB, to finance eligible infrastructure projects with privately owned beneficiaries. Thus, procurement of goods, works and services financed under these investments is to be conducted in accordance with the provisions of AIIB's Procurement Policy for Private Sector Entities.

Project implementation period (Start Date-End Date): November 2018-November 2021.

#### **Contact Points**

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