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Report No: 187456-TR

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED GUARANTEE

IN THE AMOUNT OF UP TO EUR 600 MILLION
(US$ 654,900,000 EQUIVALENT)
TO

TÜRKİYE İHRACAT KREDİ BANKASI A.Ş.

FOR A
GREEN EXPORT PROJECT

January 26, 2024

Finance, Competitiveness and Innovation Global Practice
Infrastructure Finance, PPPs and Guarantees
Europe and Central Asia Region

CURRENCY EQUIVALENTS

(December 31, 2023)

Currency Unit =	TRY
TRY 29.56 =	US$1
US$ 1.34 =	SDR 1

FISCAL YEAR
January 1 - December 31

Regional Vice President:	Antonella Bassani
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ABBREVIATIONS AND ACRONYMS

A2F	Access to Finance
AIIB	Asian Infrastructure Investment Bank
AM	Accountability Mechanism
APA	Alternate Procurement Arrangements
APEC	Asia-Pacific Economic Cooperation
BaU	Business as Usual
Bn	Billion
BRSA	Banking Regulation and Supervision Agency
CAR	Capital Adequacy Ratio
CBAM	Carbon Border Adjustment Mechanism
CBRT	Central Bank of the Republic of Türkiye
CCDR	Country Climate and Development Report
CDS	Credit Default Swaps
CERC	Contingent Emergency Response Component
CET	Common Equity Tier
CGFs	Credit Guarantee Facilities
CNY	Chinese Yuan
CO2	Carbon Dioxide
COVID	Coronavirus Disease
CPF	Country Partnership Framework
CY	Calendar Year
DLIs	Disbursement-linked Indicators
E&S	Environmental and Social
EFIL	Export Finance Intermediation Loan
EFSP	Emergency Firm Support Project
EIS	Entrepreneurship Information System
EOMCEs	Export Oriented Mid-Cap Enterprises
EOSMEs	Export Oriented Small and Medium Enterprises
ERR	Economic Rate of Return
ESDDs	Environmental and Social Due Diligence
ESMS	Environmental and Social Management System
EU	European Union
EUR	Euros
Euribor	Euro Interbank Offered Rate
EVs	Electric Vehicles
EY	Ernst & Young
FI	Financial Intermediaries

FM	Financial Management
FX	Foreign Exchange
GCI	Green Complexity Index
GDP	Gross Domestic Product
GEFR	Gross External Financing Requirement
GHG	Greenhouse Gas
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
GVCs	Global Value Chains
HQ	Head Quarters
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IFI	International Financial Institution
IFRs	Interim un-audited Financial Reports
IPF	Investment Project Financing
ISDS	Integrated Safeguards Data Sheet
ISO	International Organization for Standardization
ISRs	Implementation Status and Results Reports
MASAK	Financial Crimes Investigation Board
MCEs	Mid-Cap Enterprises
MFD	Mobilizing Finance for Development
MIGA	Multilateral Investment Guarantee Agency
MoTF	Ministry of Treasury and Finance
MoU	Memorandum of Understanding
MPA	Multiphase Programmatic Approach
MSMEs	Micro-, Small and Medium-Sized Enterprises
MtCO2e	Metric Tons of Carbon Dioxide Equivalent
NDC	Nationally Determined Contribution
NPLs	Non-Performing Loans
NPV	Net Present Value
OECD	Organization for Economic Co-Operation and Development
OP	Operational Policies
PAD	Project Appraisal Document
PCM	Private Capital Mobilization
PIU	Project Implementation Unit
PLR	Program and Learning Review
POM	Project Operations Manual
PPPs	Public-Private Partnerships
PV	Photovoltaic

ROE	Return on Equity
RWA	Risk-Weighted Assets
S&P	Standard and Poor's
SCD	Systematic Country Diagnostic
SMEs	Small and Medium-Sized Enterprises
SOFR	Secured Overnight Financing Rate
SOP	Series of Projects
SORT	Systematic Operations Risk-Rating Tool
SW	Staff Weeks
TFP	Total Factor Productivity
TL	Turkish Lira
UMI	Upper Middle-Income
US$/D	United States Dollars
WB	World Bank
YE	Year End

TABLE OF CONTENTS

DATASHEET

BASIC INFORMATION

Country(ies)	Project Name	
Turkiye	Green Export Project	
Project ID	**Financing Instrument**	**Environmental and Social Risk Classification**
P181436	Investment Project Financing	Substantial

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[ ] Contingent Emergency Response Component (CERC)
[ ] Series of Projects (SOP)	[ ] Fragile State(s)
[ ] Disbursement-linked Indicators (DLIs)	[ ] Small State(s)
[x] Financial Intermediaries (FI)	[ ] Fragile within a non-fragile Country
[x] Project-Based Guarantee	[ ] Conflict
[ ] Deferred Drawdown	[ ] Responding to Natural or Man-made Disaster
[ ] Alternate Procurement Arrangements (APA)	

Expected Approval Date	Expected Closing Date
27-Feb-2024	June 30, 2029

Bank/IFC Collaboration

No

Proposed Development Objective(s)

The development objective is to support Turkish exporters in their green transition and to expand green exports through longer-term financing.

Components

Component Name	Cost (US$, millions)

Organizations

Borrower: Türkiye İhracat Kredi Bankası A.Ş. (Eximbank)

Implementing Agency: Türkiye İhracat Kredi Bankası A.Ş. (Eximbank)

PROJECT FINANCING DATA (EUR, Millions)

SUMMARY

Total Project Cost	1,000,000,000
Total Financing	1,000,000,000
of which commercial financing	1,000,000,000
of which IBRD guarantee (maximum)	600,000,000
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	600,000,000

INSTITUTIONAL DATA

Practice Area (Lead)

Finance, Competitiveness, and Innovation

Contributing Practice Areas

Infrastructure Finance, PPPs and Guarantees; Macroeconomics, Trade, and Investment

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks.

Gender Tag

Does the project plan to undertake any of the following?	
a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF	Yes

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment	Yes
c. Include Indicators in results framework to monitor outcomes from actions identified in (b)	Yes

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	L
2. Macroeconomic	S
3. Sector Strategies and Policies	M
4. Technical Design of Project or Program	M
5. Institutional Capacity for Implementation and Sustainability	M
6. Fiduciary	L
7. Environment and Social	S
8. Stakeholders	M
9. Other	
10. Overall	M

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [x] No

Does the project require any waivers of Bank policies?

[ ] Yes [x] No

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Yes
Stakeholder Engagement and Information Disclosure	Yes
Labor and Working Conditions	Yes
Resource Efficiency and Pollution Prevention and Management	Yes
Community Health and Safety	Yes
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	No
Biodiversity Conservation and Sustainable Management of Living Natural Resources	No
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	No
Cultural Heritage	No
Financial Intermediaries	Yes

NOTE: For further information regarding the World Bank's due diligence assessment of the Project's potential environmental and social risks and impacts, please refer to the Project's Appraisal Integrated Safeguards Data Sheet (ISDS).

Legal Covenants

Eximbank will covenant, among other things, that it will:
(a) comply with applicable laws;
(b) provide annual audited financial statements and other reports;
(c) provide certain notices and other information to IBRD;
(d) provide access to the Project Implementation Unit and to sub-projects financed with the Guaranteed Loan proceeds;
(e) not engage in (or authorize or permit any affiliate or any other Person acting on its behalf to engage in) any Sanctionable Practices in connection with the Project;
(f) comply with World Bank requirements relating to Sanctionable Practices regarding individuals or firms included in the World Bank Group list of firms debarred from World Bank Group-financed contracts;
(g) obtain IBRD's consent prior to agreeing to any change to any material Project related transaction document to which it is a party which would affect the rights or obligations of IBRD under the Guarantee;

(h) use the proceeds of the disbursements under the IBRD-guaranteed Loan exclusively for the Project and in accordance with the terms and conditions of the Project Agreement and Project Operations Manual;
(i) comply with the Performance Standards, the ESMS, the ESAP and the applicable environmental and social laws, and require any recipient of proceeds of the Guaranteed Loan to do the same, including requiring such recipient to carry out environmental and social impact assessments and prepare environmental and social management plans acceptable to Eximbank if such requirements are triggered; and
(j) other specific covenants to be determined.

Conditions

Usual and customary conditions for financing of this type including but not limited to the following:
(a) Provision of relevant legal opinions satisfactory to IBRD (including a legal opinion from the appropriate official of Republic of Türkiye relating to the Indemnity Agreement and from Eximbank on the Project Agreement);
(b) Payment in full of the first installment of the Guarantee Fee, Front-End Fee, Initiation Fee, Processing Fee and the Standby Fee (if any);
(c) Conclusion of an Indemnity Agreement between IBRD and Republic of Türkiye and a Project Agreement between IBRD and Eximbank;
(d) Approval by Eximbank of a final Project Operations Manual, acceptable to IBRD; and
(e) Satisfaction of any other conditions precedent under the financing documents.

I. STRATEGIC CONTEXT

A. Country Context

1. **Türkiye's development achievements over the past two decades have been remarkable, but at the expense of elevated macro-financial vulnerabilities.** Real GDP growth averaged 5.4 percent between 2002 and 2022 resulting in income per capita (in real terms) more than doubling over the same period. Moreover, growth was accompanied by rapid poverty reduction with the poverty rate ($6.85 2017 PPP poverty line) halving from above 20 percent in 2007 to around 10 percent in 2020. As in other countries, the COVID-19 pandemic had a negative impact on growth in 2020, but the country was one of the few that did not register a GDP contraction that year, instead growing by 1.9 percent. This performance was due to a large extent to the government's economic policy response to the pandemic focusing on loosening monetary policy and rapid credit expansion. Moreover, supported by domestic and external demand, Türkiye achieved double-digit GDP growth in 2021 (11.4 percent) and maintained significant momentum in 2022 (5.5 percent). However, the policy framework that ensured a strong economic performance during and in the aftermath of the pandemic compounded by the effects of Russia's invasion of Ukraine also heightened macroeconomic risks, including rising inflation (with annual inflation reaching 64.8 percent in December 2023 after having peaked at 85.5 percent in October 2022), currency depreciation (77 percent against the US$ between January 2020 and January 2024), corporate and banking sector vulnerabilities, and a decline in reserve buffers. Following the May 2023 elections there have been positive steps aimed at the normalization of Türkiye's macroeconomic situation.

2. **Türkiye's rapid economic growth alongside a rising population has also led to significant increases in resource use, waste generation and greenhouse gas emissions.** Total domestic extraction of natural resources more than tripled over the past two decades, mainly driven by increasing demand for construction materials, while the generation of municipal waste increased by over 27 percent over the same period, most of which is landfilled – the most unsustainable method of waste management. Türkiye's net Greenhouse Gas (GHG) emissions have increased from 164 MtCO2e in 1990 to 467 MtCO2e in 2020, the fastest pace in the Organization for Economic Co-operation and Development (OECD). This increase in GHG emissions reflects continued GDP and population growth and was observed across all sectors of the economy, but particularly in energy,[1] with emissions growing 3.8-fold between 1990 and 2020 as Türkiye is still reliant on fossil fuels for its energy supply.[2] Türkiye is also highly vulnerable to the physical impacts of climate change and other environmental hazards due to a combination of geographic, climatic, and socioeconomic conditions; Türkiye has high vulnerability on 9 out of 10 climate vulnerability dimensions, compared with a median of 2 out of 10 in other OECD countries.[3]

3. **Responding to these risks, Türkiye has made ambitious environmental and climate change commitments.** Türkiye ratified the Paris Agreement in October 2021 and committed to net zero emissions by 2053. Türkiye's updated Nationally Determined Contribution (NDC) targets are set at a 41 percent reduction in GHG emissions from the Business as Usual (BaU) level by 2030. Türkiye has taken significant steps in strengthening its legislation for climate action and sustainability, setting up authorities to implement relevant laws and regulations. The country has a comprehensive regulatory framework in support of decarbonization and circular economy across sectors. However, the enforcement of these regulations needs improvement to meet the targets in terms of waste recycling and recovery, and the use of

[1] Energy combines electricity and heat production, petroleum refining, and fugitive emissions from fuels.
[2] In 2021, fossil fuels accounted for 84% of Türkiye's total energy supply, with natural gas comprising 31% of total supply, followed by oil (27%), and coal (25%). Despite considerable growth over the past decade, energy supply from wind, solar and other renewable energy sources only accounted for 16% of total energy supply in 2021.
[3] Türkiye CCDR (https://openknowledge.worldbank.org/server/api/core/bitstreams/ffa637a2-d07c-40b1-9992-cc350a46fe6a/content)

renewable energy by industry and households. The new National Development Plan, updates of the Climate Action and Energy Efficiency Plans, and the Green Deal Action Plan are expected to update commitments and further policy guidance.

4. **The proposed Project directly supports the country's environmental and climate change commitments by supporting emissions reductions of Türkiye's exporters and accelerating exports of green products.** It is one part of a broader World Bank (WB) engagement with the Government of Türkiye to green the industrial sector in support of the country's green transition, as described in more detail below. The intensification of climate-related events in recent years—including floods, forest fires, and sea pollution—and the potential implications of the European Union (EU) Green Deal for Türkiye's economy have contributed to the urgency of this agenda. This transition requires long-term finance and private capital, but uncertainties, specifically currency volatility and persistently high inflation, have undermined the development of domestic sources of long-term finance in Türkiye. The Country Climate Development Report (CCDR) for Türkiye (2022) recognized the opportunity to progress towards the country's climate commitments and equally emphasized the need to mobilize private capital for the significant investments required to achieve Türkiye's climate ambitions and address climate vulnerability. The proposed Project builds on these findings and is directly linked to Türkiye's NDC and the CCDR's and SCD's recommendations while supporting mitigation and adaptation efforts in country-specific contexts by (i) supporting exporters' decarbonization and green and climate-resilient investments; (ii) crowding in private capital through an IBRD loan guarantee; and (iii) promoting climate-resilient investments, hence addressing identified climate vulnerabilities and supporting adaptation in the country-specific context of Türkiye.

B. Sectoral and Institutional Context

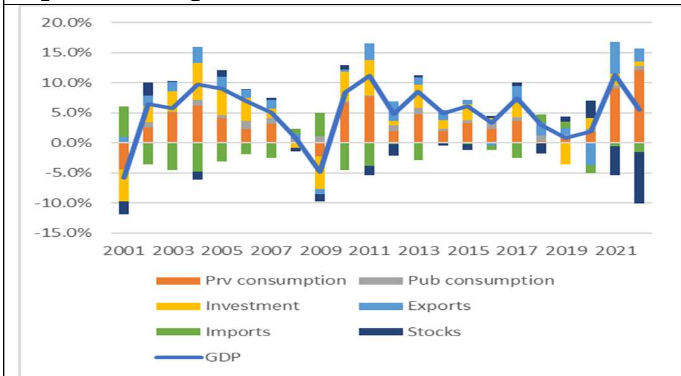
5. **Türkiye has achieved remarkable economic development since the early-2000s, but the economy faces structural challenges that need to be addressed to sustain future growth.** Real GDP growth, measured in constant PPP (2017 international dollars), averaged 5.4 percent between 2002 and 2022 (Figure 1), making Türkiye the 25th fastest growing country in the world. However, growth relied on factor accumulation and the contribution of total factor productivity (TFP) to growth—recognized as a central driver of long-term economic growth and poverty reduction—has declined to very low levels. Türkiye's high growth has also been accompanied by rising current account deficits (Figure 2) and other macroeconomic imbalances that widened in 2022, though the government has taken recent steps to normalize macroeconomic policies and address these imbalances. And although Türkiye's GHG emissions growth has been slower than its economic growth and its per capita emissions are lower than in OECD or EU countries, advancing environmental protection and green growth will need to accelerate to fulfill its climate commitments.

6. **Türkiye's export sector has a key role to play in addressing each of these challenges – first, as a key driver of growth and employment, and a catalyst for revitalizing productivity growth.** The reduction of trade barriers in the mid-1980s followed by the establishment of the EU-Türkiye Customs Union in 1995 catapulted Türkiye's integration into the global economy in the late-1990s and early-2000s. As a share of GDP, exports of goods and services increased from 20 percent in 2000 to 38 percent by 2022. Exports of goods and services have contributed close to a quarter of GDP growth since 2000 and export firms employ about 37 percent of Türkiye's formal employment in 2021.[4] Türkiye's growth model has been supported by a diversified export base. Exporters reach almost all countries in the world with the EU market accounting for over 40 percent of Türkiye's total exports followed by the Middle East and North African region. Türkiye's most important merchandise export sectors include metals, vehicles, textile and apparel, petrochemicals, machinery, and processed food. A substantial portion of Türkiye's international trade is carried out in the context of GVCs whose

[4] World Bank staff calculations using data from EIS.

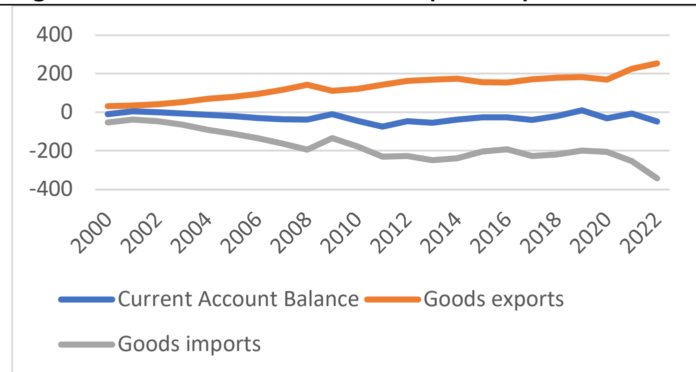
exporters tend to be more productive and larger than the average domestic firm.[5] Goods export growth has accelerated in recent years, averaging 8.8 percent per annum between 2016 and 2022.[6] By allowing countries to specialize, take advantage of economies of scale, access technology, and promote competition, international trade—and GVC trade in particular—is a key channel for productivity growth.[7]

Figure 1: GDP growth contribution



Source: World Bank staff calculations using data from Turkstat.

Figure 2: Current account balance (bn US$)



Source: World Bank staff calculations using data from CBRT.

7. **Second, with the current account persistently in deficit and remaining a source of external vulnerability, maintaining export performance is vital for Türkiye's macroeconomic stability.** The current account deficit averaged close to 5 percent of GDP from 2005 to 2018. The sharp downturn in activity in 2018/19 resulted in Türkiye running a current account surplus in 2019, but the external balance deteriorated sharply again in 2020, driven by the COVID-19 pandemic and the resulting shock to tourism. The deficit improved once again in 2021, falling to around 1 percent of GDP, only to deteriorate in 2022 to 5.4 percent of GDP due to a terms of trade shock and a surge in gold imports that are being used to hedge against inflation. According to the latest data from the Central Bank of the Republic of Türkiye, the current account deficit reached an all-time high of US$49.1 billion in 2022 and is 1.2 percent higher in the first eleven months of 2023 than over the same period of 2022. Türkiye's export performance is crucial in the context of its current account deficit because it generates foreign exchange, aids in deficit reduction, and bolsters macroeconomic stability by mitigating external vulnerabilities and dependency on foreign debt.

8. **Third, given that exports form a substantial part of Türkiye's economy, shifting towards greener exports can help reduce the nation's environmental impact.** Overall, Türkiye still has high fossil fuel dependency, and industry, in particular, has the highest energy consumption at 36 percent of the total. The industrial sector sources 28 percent of energy from natural gas, 26 percent from electricity, 21 percent from oil, and 18 percent from coal, and as a result is more carbon-intensive than the EU average. The green transformation of the private sector is also lagging. Based on the World Bank Enterprise Survey 2019, only 35 percent of firms surveyed had upgraded machinery, equipment, and other assets in the period 2016-2019, while 20 percent of firms surveyed had made improvements to heating, cooling, and lighting systems, and 13 percent leveraged circular economy practices, such as waste reduction, recycling, and management.[8] Turkish firms' green management practices also need improvement.

[5] For example, Turkish firms that export in GVCs are twice as productive as domestic firms and 30 percent more productive than other exporters. World Bank. 2022. *Leveraging Global Value Chains for Growth in Turkey: A Turkey Country Economic Memorandum*. © World Bank.
[6] According to Balance of Payment data.
[7] World Bank. 2020. *World Development Report 2020: Trading for development in the age of global value chains.* © World Bank.
[8] EU Green Deal and EU-Türkiye Customs Union Modernization – Challenges, opportunities, and policy options, World Bank, June 2022

9. **As a large producer of emission intensive products, Türkiye's exports face risks from the global transition to a low carbon future.** Türkiye is the 5th largest producer globally of cement and the 7th largest producer of steel. As countries take action to decarbonize their economies, demand will drop for fossil fuels and emission intensive goods. The EU Green Deal, a comprehensive set of policy initiatives by the European Union with the aim of making Europe climate neutral by 2050, is poised to have substantial implications for Türkiye's trade dynamics. The deal prioritizes green technologies, sustainable solutions, and sets stricter regulations on carbon emissions. For example, the circular economy model in the EU, which emphasizes reducing waste, reusing products, and recycling materials, will require products exported to the EU market to meet these evolving standards to maintain access.

10. **The EU Carbon Border Adjustment Mechanism (CBAM) is a tangible example, where the EU will place a fee on the import of certain emissions intensive products to create a level playing field for domestic producers subject to the EU emissions trading system.** The objective of the CBAM is to ensure that the price of imports of certain goods into the EU reflects the carbon content and thus preserves the competitiveness of domestic production as well as reducing the risk of carbon leakage. The CBAM will be fully operational in 2026, with reporting starting in its transitional phase from 1 October 2023,[9] covering scope 1 emissions from cement, electricity, aluminum, iron and steel, and fertilizers. The EU has signaled that the CBAM is likely to expand over time to cover more products, e.g., from chemicals, petroleum products, and glass, and include scope 2 emissions and eventually scope 3 emissions.[10]

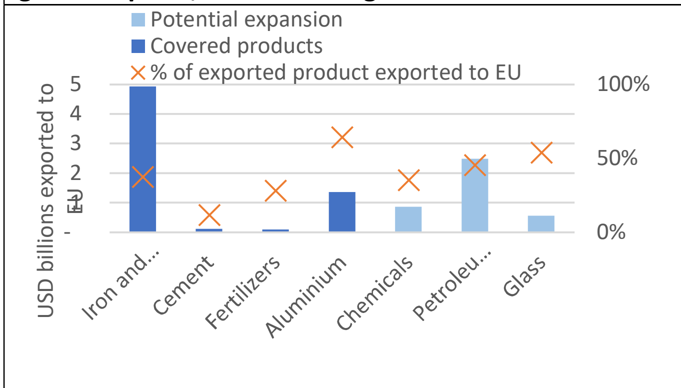
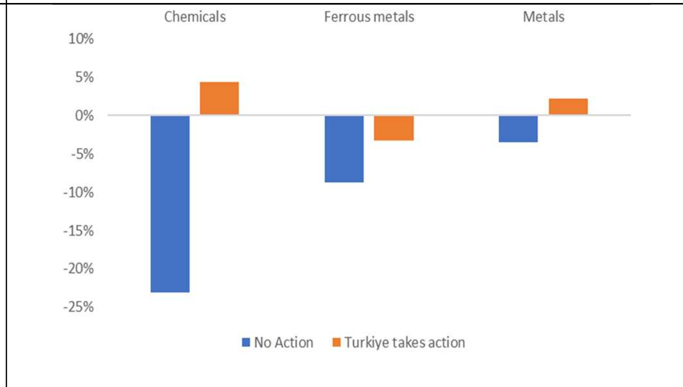
11. **As Türkiye's largest trading partner, the introduction of the CBAM by the EU is expected to result in declining exports in some sectors.** The long-run impact of the CBAM on Türkiye's economy is expected to be limited overall but sizable for some sectors (Figure 4).[11] This is the case especially in emissions-intensive industries in Türkiye with a high trade exposure to the EU market. The carbon intensity of the products exported by Türkiye in the initial product groups covered by the CBAM is relatively lower than in other countries.[12] However, since export shares to the EU are high, especially in iron and steel, aluminum, and fertilizer, Türkiye's exposure to the carbon fees to be introduced under the CBAM is significant (Figure 3). In 2022, 5.2 percent of Türkiye's total exports and 12.7 percent of goods exports to the EU are in CBAM Phase 1 sectors, and another 11.7 percent of total exports and 28.9 percent of exports to the EU are in sectors anticipated under Phase 2. The modeling suggests exports to the EU in CBAM sectors decline by more than 12 percent by 2035. While some exports can be diverted to non-EU markets, this may not fully materialize, especially as other countries start introducing comparable measures to CBAM. Within CBAM exports, the sectors impacted most significantly would be chemicals and ferrous metals like iron and steel with exports to the EU estimated to decline by more than 20 percent and around 10 percent, respectively. The impact of CBAM is much lower if Türkiye decarbonizes, and with proximity to and strong existing trade ties with the EU, Türkiye is in a good position to gain a relative advantage of EU decarbonization efforts. WB analysis shows that if Türkiye takes action to reduce emissions, it can not only minimize the impact of the CBAM, but in some cases actually increase exports to the EU as it out-competes more emissions intensive producers (Figure 4).

[9] The CBAM regulation officially entered into force the day following its publication in the Official Journal of the EU on 16 May 2023.

[10] Scope 1 emissions are direct emissions from sources owned or controlled by a company, such as fuel combustion or company vehicles; Scope 2 emissions are indirect emissions from the generation of purchased energy, like electricity or heating; and Scope 3 emissions encompass all other indirect emissions that occur in a company's value chain, including both upstream and downstream activities, such as the extraction and production of purchased materials, transportation of purchased fuels, and use of sold products and services.

[11] World Bank analysis explored the impact of the introduction of scope 1 and subsequently scope 2 emissions under CBAM using a CGE model that allows interactions between within and outside Türkiye's economy, energy decarbonization paths, and the global macroeconomic environment. Starting in 2026, exporters would pay the forecast EU ETS price after factoring in (i) level of carbon price domestically (i.e. EU credits for carbon pricing policy so that the exporter pays the EU's ETS price less the domestic price), and (ii) free allocation (i.e. CBAM is reduced in line with the level of free allocation to each industry in the EU's ETS).

[12] Emission intensities based on GTAP data.

Figure 3: Value of exports to EU and EU share of global exports, annual average 2018-2020	**Figure 4: Modelled impact on exports to the EU (2035)**
	
Source: UNCOMTRADE (from WITS)	*Source:* World Bank modelling. *Note:* Under an expanded CBAM scenario that includes scope 2. Türkiye takes action using a carbon price similar to the EU level.

12. **Greening of trade can also enhance access to markets by allowing firms to tap into the growing demand for green products and services, which tend to be products of higher technology and sophistication.** New analysis for the CCDR identified the competitive strengths and opportunities in manufacturing 'green products' (or products with environmental benefits) and found that Türkiye's current productive capabilities and export competitiveness place it in a strong position to capitalize on the global transition to a green economy. In 2015-2019, green products accounted for about 8.6 percent of Türkiye's merchandise exports. Türkiye's ranking on the Green Complexity Index (GCI), which tracks countries capacities to competitively export products that are green and complex (meaning they tend to involve more technologically sophisticated capabilities), has been improving over the last few decades (26^{th} out of 230). Türkiye also ranks highly on the Green Complexity Potential index (6^{th} place), which suggests significant potential to build on existing capabilities. For example, solar photovoltaics, wind turbines and EVs are technologies that will experience immense growth as countries around the world decarbonize. Many of the products and technologies necessary for the green transition are also technologically sophisticated and associated with greater knowledge spillovers. Countries that rank highly in the GCI tend to have higher environmental patenting rates, lower CO2 emissions and more stringent environmental policies.[13] Although there is no single definition of green products, this project adopts the classification provided by the Asia-Pacific Economic Cooperation (APEC) List of Environmental Goods, which identifies products that directly and positively contribute to green growth and sustainable development objectives. The list is comprehensive and is an internationally commonly used definition for green exports. In 2022, 1.4 percent of Türkiye's total exports and 1.5 percent of exports to the EU were of green products under this classification.

13. **Long-term investments will be required for exporters to reduce emissions and to accelerate green exports, hence requiring accessible and affordable long-term financing.** Long-term finance contributes to faster growth, greater welfare, shared prosperity, and stability in two important ways: by reducing rollover risks for borrowers, thereby lengthening the horizon of investments and improving performance; and by allowing for longer-term investments, which are needed particularly for the green transition, building climate resilience, and job creation. Given their short-term funding structure (71 percent of liabilities are up to 3 months maturity, primarily customer deposits) with access to

[13] Mealy, P., & Teytelboym, A. (2020). Economic complexity and the green economy. *Research Policy*, 103948.

international finance but at short maturities and high costs[14], commercial banks in Türkiye are reluctant to lend long-term. About 60 percent of loans have maturities up to 1 year, 28 percent have maturities between 1-5 years and only 11 percent of loans have maturities above 5 years.[15] For export loans, commercial banks largely provide short-term trade finance to exporters (usually less than six months maturity). On the side of exporters, trade finance constitutes the largest share of debt funding (about 36 percent based on an analysis of a large-scale firm-level dataset) while long-term bank loans make up only 3 percent of total debt. Considering the long-term investment needs of exporters, this funding structure is not conducive to exporters' green transition. This statement is supported by empirical evidence that suggests that access to longer-term bank finance leads to more exports and investment, but that access to finance is a major constraint for exporters (see Annex 5).[16]

14. The proposed Project is one part of broader WB support for greening Türkiye's industrial sector and economy by supporting the green transition of Türkiye's exporters and accelerating green exports. Analysis in the CCDR shows that Türkiye's green transformation requires approximately US$165 billion in investments, roughly half of which would need to come from the private sector. Under a Memorandum of Understanding (MoU) between IBRD and IFC with Türkiye, along with the European Bank for Reconstruction and Development, France, Germany, and the United Nations, additional climate-related financing of US$3.2 billion will be provided. WB financing is supporting sectoral transformations in energy, transport, industry, urbanization, agriculture, and water and forest management. The pipeline of new climate-related projects also aims at expanding the availability of green finance and engaging the private sector, building institutional capacity, and ensuring that the green transition is socially inclusive. Different segments of the private sector have different climate transition and emission reduction needs and the WB is offering adapted solutions through leveraging long-term commercial financing, capital market solutions such as private equity for green and greening firms, or reimbursable financing to adopt technology to green industrial processes and products as well as investment in innovation. Beyond financing, the WB is also supporting Türkiye to incorporate net-zero emissions commitments by 2053 and climate adaptation into development planning, as well as supporting implementation of policy, such as the national green taxonomy and the emissions trading system.

C. Relevance to Higher Level Objectives

15. The proposed Project is aligned with the focus areas identified in the Country Partnership Framework (CPF) for Türkiye and complements ongoing WBG operations in helping to achieve the overall objectives of the CPF. The Türkiye CPF [11096-TR] was discussed in August 2017 and extended through the Program and Learning Review (PLR) [142353-TR] in March 2020 with the overall objective to help Türkiye to achieve more sustainable and inclusive growth. This Project will contribute to the achievement of CPF/PLR objectives under Focus Areas I (growth) and Focus Area III (sustainability) by improving competitiveness and employment in selected industries, notably by providing financing to exporters that are either exposed to CBAM or produce green export products, thereby improving their resource efficiency, sustainability, and green transition. Under the draft new CPF (2024-28), this support area remains a priority. More specifically, this Project is aligned to the objective of boosting competitiveness and enabling services towards the achievement of higher productivity-led and green growth as well as the objective of supporting the energy transition towards strengthened resilience to shocks. The proposed operation is similarly aligned with the upcoming SCD for Türkiye

[14] Despite recent policy normalization, Turkish banks' international borrowing costs remain high. The latest 367-day syndicated loan cost of a Turkish commercial bank was SOFR+3.5% and Euribor+3.25% (October 2023). On October 24, 2023, Eximbank issued a 3.25-year Eurobond at 9.125% yield. Although Eximbank typically issues 5-year Eurobonds like other Turkish commercial banks, current market conditions have shortened these maturities to 3 years. Some banks are also now issuing notes with just over 1-year maturity.
[15] Turkish Bank Association data, September 2023.
[16] This statement is also supported by a 2020 analysis of the Enterprise Information System (EIS) data, maintained by Ministry of Industry and Technology, and the Enterprise Survey Date (2019).

currently being finalized and structured around growth, inclusiveness, and sustainability. Export competitiveness and growth, external balance and macroeconomic sustainability, the financial sector, and the green transition are embedded in all three pillars and the Project will therefore be directly linked with these SCD themes.

16. **The proposed Project similarly supports implementation of country strategies and plans.** Through decarbonization of the export sector and potential adaptation investments by the beneficiary exporters, the Project directly supports implementation of the Government's 12th National Development Plan (2024-2028), updates of the Climate Action and Energy Efficiency Plans, and the Green Deal Action Plan.

17. **The proposed Project follows the WB's Mobilizing Finance for Development (MFD) approach.** The Project will enable high private capital mobilization (PCM) through the use of the IBRD guarantee instrument. The commercial funding to be mobilized with the help of the IBRD guarantee, estimated at up to EUR 1 billion, will count as PCM for the Project.

18. **The proposed Project is fully consistent with Türkiye's climate action pathways and is aligned with the goals of the Paris Agreement.** Among the key mitigation activities of the updated NDC is support to the industry sector in their green transition and a reduction in emissions from high intensity sectors, including iron and steel. The overarching development objective of this Project is to support Turkish exporters in their green transition and to expand green exports through longer-term financing. Furthermore, the proposed operation aims to exclusively provide long-term financing to local exporters for green and climate-resilient investments, thus contributing to Türkiye's low-carbon pathway and adaptation priorities outlined in the NDC. In addition, the Project is consistent with the "Green Growth Technology Roadmap" in preparation to identify the technologies needed to increase green production in industry and support R&D studies for the development of the determined technologies. Therefore, the Project is directly linked to achieving Türkiye's NDC and is aligned with the mitigation goals of the Paris Agreement. The Project is also consistent with adaptation objectives outlined in the country's National Climate Change Adaptation Strategy and Action Plan (2011). One of the objectives of the adaptation action plan is to develop the private sector's capacity and support R&D investments in climate change adaptation. The Project will promote and only allow low-carbon alternative and climate-resilient investments and contribute to both adaptation and mitigation in the country-specific context of Türkiye. As per corporate commitments, a detailed Paris Alignment assessment was undertaken on the consistency of the operation's components with Türkiye's climate strategies defined in the country's updated NDC, as well as an evaluation for climate change and disaster-related impacts, that were reflected in Project design.

II. PROJECT DESCRIPTION

A. Project Development Objective

PDO Statement

The development objective is to support Turkish exporters in their green transition and to expand green exports through longer-term financing.

PDO Level Indicators

- Annual GHG emission avoided or reduced by the exporters financed by the Project (tons/year);

- Increase in green exports (EUR, Number);
- Ratio of the average maturity of sub-loans financed under the Project, over the average maturity of Eximbank's representative loan portfolio (Number).

B. Project Components

19. **The proposed financing instrument is an up to EUR 600 million or US$ equivalent of IBRD Loan Guarantee to Eximbank to enable raising up to EUR 1 billion in aggregate in approximately 10-year commercial loan structures from the international markets.**[17] A guarantee coverage of up to 60 percent will be possible to ensure successful execution, subject to market conditions at the time. The IBRD guarantee may cover multiple loans with legal agreements executed over 24 months following Board approval.[18] Indicatively, the first loan could be committed by commercial banks and disbursed to Eximbank in the first quarter of CY2024. Türkiye will provide a sovereign counter-guarantee to IBRD, in line with the standard requirement for IBRD guarantee projects. The proposed guarantee is the second only in Türkiye, following the successful EUR 250 million Long-Term Finance Guarantee (P171448) with Eximbank, approved by the Board in 2020, which successfully mobilized EUR 500 million in commercial loans, and is in the late stage of implementation. It is also the World Bank's first loan guarantee aimed at mobilizing funding for greening exports, with potential for replication in other countries.

20. **The Project is proposed to have one component that will utilize the commercial financing raised by Eximbank with the support of the IBRD guarantee to directly extend sub-loans to eligible exporters exclusively for greening purposes.** Eligible exporters will include export-oriented SMEs (EOSMEs) and export-oriented MCEs (EOMCEs) that are adapting to climate transition risks, arising from CBAM, the EU Green Deal, and others, by greening their operations or expanding green exports (see definitions in Annex 2). The entire loan proceeds to be raised from the market (less any fees related to the IBRD guarantee) will be used for exporters' green investments. Adaptation finance activities will also be eligible. Supporting these exporters will help them maintain and expand their export competitiveness, particularly with regard to exports to the EU, which will be a key target export market for beneficiary exporters. At least 60 percent of the loan proceeds raised from the market with the help of the IBRD Loan Guarantee will be lent to exporters affected by CBAM Phase 1 and 2 with the affected sectors as defined in Annex 2.[19] At least 25 percent will be used for sub-loans to EOSMEs (note that the majority of CBAM affected firms are EOMCEs) and at least 15 percent will be dedicated for lending for women-inclusive firms (see Annex 2 for details). The eligibility criteria will be further detailed and managed through the Project Operations Manual (POM).

21. **The Project's focus is aligned with Eximbank's new strategy that emphasizes sustainability as a key focus for itself and for the exporters it supports.** Eximbank has already begun working on the potential pipeline of exporters that could be supported through this Project, identifying about 1,600 exporters that will be affected by CBAM Stage 1 and 2, making up about 11 percent of total 2022 exports of Türkiye. While the exact types of investments will only be determined during implementation, beneficiary exporters will use the financing from Eximbank to replace machinery with more energy-efficient products or purchase equipment to produce solar energy to become greener, among others, with the entire loan proceeds to be raised from the market (less any fees related to the IBRD guarantee) to be used for exporters' green transition and mitigation and adaptation investments. Beneficiary exporters will commit to reduce direct and indirect GHG emissions resulting from their operations through these investments.

[17] Eximbank's overall borrowings and debt securities issued totaled TL 401.8 billion at end June 2023 (or about EUR 14.2 billion).
[18] Per Bank Procedure Project-Based Guarantees, if Legal Agreements are not signed within 24 months following approval, the Bank may give the member country and relevant Project Participants more time or recommend withdrawal of the offer of the Bank guarantee.
[19] See Regulation (EU) 2023/956 *https://eur-lex.europa.eu/eli/reg/2023/956/oj* for details on CBAM.

22. **Eximbank has been identified as the most conducive channel to achieve the objectives of the Project for the following reasons.** First, Eximbank has a specific mandate to help increase Turkish exports as the sole export credit agency of Türkiye. To ensure this, Eximbank only provides loans against actual exports (verified through custom declaration forms). Within the financial sector, Exim has the best understanding of the universe of exporters, exporters' growth potential, and exporters' investment and financing needs. Eximbank also prioritizes the sustainability and greening of Turkish exporters as a stated objective under its new strategy, in line with the objectives of this Project. This differentiates Eximbank from commercial banks. Eximbank has the institutional ability to support the greening of exporters by offering specialized products, providing technical assistance for identifying suitable green investments, and collaborating effectively with relevant state and private agencies (see Annex 3 for more details on Eximbank's capacity). Second, Eximbank positions itself as complementary to the private sector. This is evidenced, for instance, in Eximbank requiring guarantees for all of its loans (e.g., letters of guarantee from commercial banks or guarantees from the Export Development Corporation, which is majority privately owned). This allows banks that are not able to take cash risk to take non-cash risk instead and effectively means that Eximbank also relies on the capital and credit risk appraisal of commercial banks, showing Eximbank's market enabling role. Third, Eximbank focuses on providing long-term financing to exporters in foreign currency and with positive net interest rate spreads[20], thus complementing private banks' trade finance solutions as exporters will need access to both to increase their operations. By providing this long-term financing, needed for green investments, Eximbank fills a market gap and plays a market-enabling role rather than crowding out the private sector.

23. **Given that Eximbank is considered the best placed institution to help achieve the objectives of the Project, it is proposed that Eximbank will lend directly to beneficiary exporters.** In addition to the rationale provided above, direct lending will also ensure that the entire maturity advantage from using the IBRD Guarantee is transferred to exporters. On-lending through other financial institutions would require more upfront time, meaning that the maturity of sub-loans would end up being shorter than possible through direct lending. In addition, given the significant E&S requirements arising from the chosen focus sectors, it is unlikely that private financial institutions would be able to meet WB requirements within a short period of time, while Eximbank has built this capacity over the past years.

24. **Eximbank will assume the credit risk of the beneficiary exporters, which will be selected based on clear eligibility criteria.** The (i) terms and conditions between IBRD and Eximbank, (ii) eligibility criteria for exporters that can receive financing from Eximbank under the Project, and (iii) terms and conditions of sub-loans between Eximbank and beneficiary exporters are included in Annex 2 and will be further detailed and managed through the POM. The terms and conditions in the POM will also specify requirements for minimum sub-loan maturity to ensure that the longer maturity of financing facilitated by the IBRD guarantee will be transferred to beneficiary exporters.[21] Both investment and working capital loans will be eligible, with the focus on investment loans given the Project's focus and all working capital loans needing to be tied to parallel green investments in line with the Project's objectives. The cost of lending from Eximbank to eligible exporters will reflect, at a minimum, the cost of funding raised by Eximbank from the market plus an on-lending margin reflecting Eximbank's administrative costs, a credit risk margin associated with the particular sub-borrower, and fees for the MoTF counter-guarantee provided to IBRD. Since the entire transaction, from the commercial financing to the sub-loans to exporters will be in FX and since exporters are naturally hedged given their FX-based revenues, there will be no unhedged FX risk in this transaction.

[20] The net interest margin was 1.15 in 2021, 1.74 in 2022 and 2.1 in 1H2023. 42 percent of Eximbank loans are medium to long-term.

[21] For the ongoing guarantee project with Eximbank, the average maturity of sub-loans financed under the project is 4.6 times longer than the average maturity of Eximbank's loan portfolio not financed under the project, as of 2023Q2.

25. **An IBRD project guarantee has been identified as the appropriate instrument to achieve the Project objectives.** A Corporate Review Guarantee Committee was convened on September 18, 2023 and confirmed the appropriateness of the IBRD guarantee. The IBRD guarantee will help mobilize private capital from commercial banks at scale to help meet exporter's needs for funds necessary for the CBAM transition and scaling up green exports. The guarantee will also lengthen the tenor and lower the pricing for Eximbank, which benefits both Eximbank and the beneficiary exporters. The tenor of the financing to be mobilized with the IBRD guarantee is expected to be 10 years, which is significantly longer than the 3.25 years of Eximbank's latest Eurobond issuance. Market sounding conducted in August 2023 with 15 financial institutions clearly indicated the necessity of the IBRD guarantee and private insurance coverage to raise the required funds at the sought maturities and pricing due to the challenging macroeconomic situation. The estimated cost of IBRD-guaranteed commercial loans is below the comparable Turkish government bond yields (mid-October 2023) by about 1.7 percent per annum that translates into roughly USD 100 million in aggregate interest cost savings over the 10-year term of the loan from commercial lenders and insurers to extend uncovered loans to Eximbank at longer maturities and competitive rates.

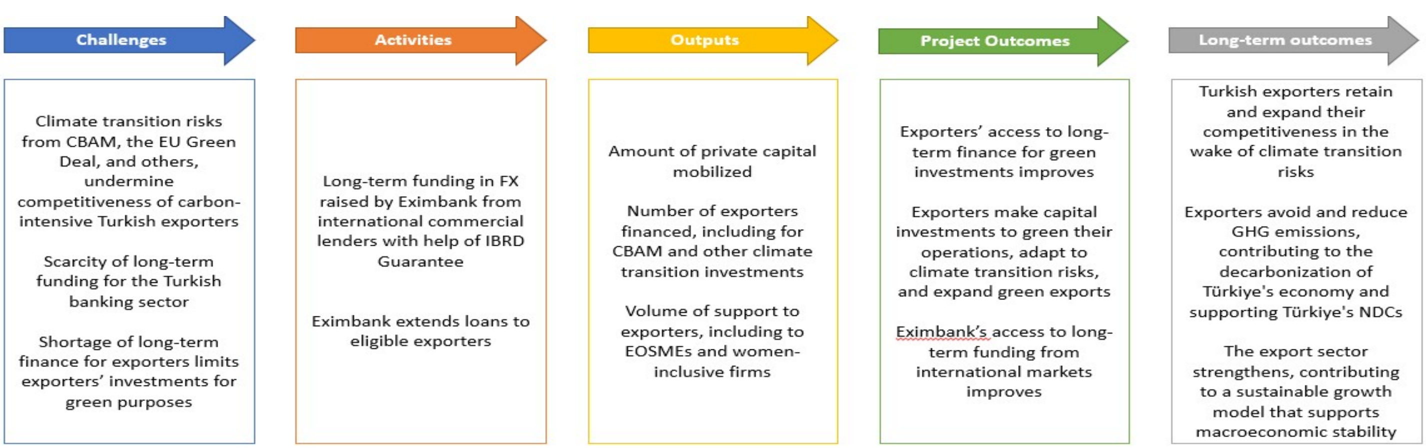
26. **Eximbank may raise funding for the Project in several loans.** The first loan is expected to be raised in the first quarter of 2024, and the second loan, if needed, later in 2024 or 2025, depending on market conditions. Retroactive financing provisions will help ensure timely disbursement for beneficiary exporters.

C. Project Beneficiaries

27. **Turkish exporters that will receive long-term financing from Eximbank through the proposed Project will be the main Project beneficiaries.** Exporters will benefit both from the long-term financing itself as well as from the investments they will be able to make to accelerate their green transition and adaptation to climate transition risks including CBAM through that financing. This will allow them to remain competitive, especially in terms of exports to the EU market, which will be critical to achieve Türkiye's strategic objective of transitioning to a sustainable export-led growth model.

28. **Eximbank and its broader universe of clients will be additional Project beneficiaries.** Eximbank will benefit from the long-term funding to be raised through the IBRD guarantee itself as well as the Project's support in terms of strengthening Eximbank's capacity to raise long-term funding in international markets. The latter will benefit all of Eximbank's clients even beyond the Project scope, and the universe of exporters in Türkiye.

D. Results Chain



E. Rationale for Bank Involvement and Role of Partners

29. **The proposed Project will support exporters in their green transition to retain and expand exporters' competitiveness amid the global transition to a green economy, addressing clearly identified market failures.** The long-standing maturity and currency mismatches in Turkish banks' balance sheets, exacerbated by challenging macro-financial conditions in Türkiye since the Covid-19 pandemic, restrict the availability of long-term finance to exporters. Firms are hesitant to invest for greening purposes because they lack access to long-term finance, stymying their growth and export potential, which also undermines job creation. This Project aims to address the identified market failure of insufficient long-term finance for exporters' green transition by helping Eximbank mobilize long-term commercial market funding using the IBRD guarantee instrument and then using this funding to improve exporters access to longer-term finance for capital investments to green their operations, adapt to climate transition risks and expand green exports, all of which require longer-term financing. As such, the Project is expected to mobilize significant international private capital (PCM expected at up to EUR 1 billion) and insurance coverage to help these exporters maintain and expand their operations and decarbonize. This will support the public policy objectives of Türkiye's transition to a more sustainable growth model, which heavily relies on increasing exports, help correct Türkiye's persistent current account deficit, and contribute to the decarbonization of the economy.

30. **The value addition of IBRD support is multifold.** First, the IBRD guarantee will help Eximbank mobilize long-term hard currency financing at a time when Turkish country risk limits the interest from commercial lenders and insurers to extend uncovered loans to Eximbank at longer maturities and competitive rates. Eximbank's latest Eurobond (US$ 500 million issued October 2023) has a maturity of 3.25 years. The IBRD guarantee will improve confidence in the transaction and help unlock the capacity of commercial lenders and insurers who would be unlikely to participate otherwise, especially at the sought maturities (10 years) and pricing. This hard currency financing will also come at a time when the country's foreign exchange reserves are low (approximately 2 months of imports). Second, Eximbank will utilize the financing to extend loans to exporters for their green transition with longer maturities than would have been possible from its own resources (achieving maturity transformation), ensuring their export competitiveness to the EU and beyond, even in the face of uncertain macro and external financial conditions, and complementing what private lenders offer. Third, the support could have demonstration and signaling effects, encouraging lenders to consider increasing their exposure and providing uncovered loans to Eximbank and other Turkish banks in the wake of gradual macroeconomic policy normalization. And forth, there is a lack of suitable alternatives to IBRD as Eximbank is fully government-owned and not served by IFC; given Türkiye's credit ratings, MIGA's ability to increase exposure to Eximbank for long-term financing needs are constrained.

31. **IBRD is coordinating closely with IFC and MIGA to support Türkiye's green exports from different angles.** While IBRD will support Eximbank's long-term funding, MIGA is identifying opportunities to support Eximbank's short-term funding, and IFC is looking to scale up trade finance solutions for private commercial banks. Beyond the WBG support, AIIB approved a risk-mitigation project with Eximbank in November 2023 but for a comparatively smaller amount.

32. **The Project is complementary to other pipeline and ongoing operations across the WBG**. Beyond the export focus, there are complementarities with the Green Finance Project (P178274) and the Green Industry Project (P179255), which focus on private equity for green and greening firms and the green transformation of industrial firms through reimbursable financing with a specific focus on MSMEs that may have challenges to access commercial financing, respectively. As such they are complementary in terms of financing solutions and focus areas to the proposed Project. Other WB projects in pipeline aim at expanding the distributed solar photovoltaic market across Türkiye, including the

first operation: Accelerating the Market for Distributed Energy Türkiye Program-for-Results, P176375, under the Renewable Energy Scale-up in Europe and Central Asia MPA (ECARES) (P502473). Another operation, the Emissions Reduction Project (P180762), aims at financing air pollutant and GHG emission reductions in enterprises falling under the EU's Industrial Emissions Directive with a focus on Best Available Techniques for a comprehensive WB engagement on greening Türkiye's industrial sector and economy. Lastly, the Project also provides continuity to the previous Long Term Export Finance Guarantee (P171448) with an even more targeted and ambitious design. The WB is also supporting Türkiye through technical assistance towards achieving its climate commitments, as well as supporting implementation of policy.

F. Lessons Learned and Reflected in the Project Design

33. **The Project builds upon the lessons learned from previous World Bank financial sector engagements in Türkiye, and experience with maximizing PCM through IBRD Guarantees across the World.** The Project builds on the WB's comparative advantage in terms of mobilizing PCM through its IBRD guarantee product, therewith helping Eximbank mobilize competitively priced long-term funding for on-lending to exporters for their greening needs. The proposed guarantee is the second only in Türkiye, following on the heels of the successful EUR 250 million Long-Term Finance Guarantee (P171448) with Eximbank, approved by the Board in 2020, which successfully mobilized EUR 500 million in commercial loans, and is in the late stage of implementation. The guarantee helped Eximbank mobilize private capital from global lenders, doubling the volume of financing raised relative to IBRD's committed credit exposure, with longer maturity and lower all-in cost than was available from markets without a guarantee. The financing was primarily used to support export-oriented SMEs and midcaps that were negatively impacted by the COVID-19 shock. The project has been rated as Satisfactory throughout implementation. Lesson learned from this first guarantee include that (i) IBRD guarantees can achieve significant maturity and pricing advantages in a country like Türkiye while using a market-based instrument, (ii) the IBRD guarantee can help achieve high PCM (estimated at up to EUR 1 billion in this new Project), and (iii) Eximbank has the implementation capacity to implemented IBRD guarantee instruments.

34. **The Project also builds on earlier engagements with Eximbank and other financial institutions in Türkiye, while adding new angles.** As in the previous Long-Term Finance Guarantee (P171448), the Project focuses on a market-based instrument which in a country like Türkiye allows for scale and extends the already existing market access financial institutions have available. Similar to the Green Finance Project (P178274), the Project prioritizes green transition related investments which will be key for both resilient economic growth and achieving NDC targets. While the Project will be more targeted than previous engagements with Eximbank, it also builds upon the lessons learned from previous operations with a broad group of financial intermediaries in Türkiye (EFIL I (P065188), EFIL II (P082801), EFIL III (P093568), SME I (P082822), EFIL IV (P096858), SME III (P130864), Innovative A2F (P147183), Inclusive A2F (P163225), EFSP (P174112), which for instance showed the need for clear eligibility criteria and implementation arrangements. Most of these operations were rated Highly Satisfactory or Satisfactory by the WBG's Independent Evaluation Group. Lastly, the Project builds upon the lessons learned from other IBRD guarantee transactions, which include the value addition of extensive market sounding early on to ensure that there is strong market interest for the transaction, and to ensure that Eximbank is comfortable with the indicative market funding terms.

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

35. **The proposed Project will be implemented by Eximbank based on the following agreements:** (i) (a) Guaranteed Loan Agreement(s) between Eximbank, the commercial lender(s) and IBRD pursuant to which the commercial lender(s)

would provide financing to Eximbank, and IBRD would partially guarantee the debt service by Eximbank; (ii) a Project Agreement between IBRD and Eximbank pursuant to which certain terms relating to Eximbank's sub-loans to beneficiary exporters will be defined, including eligibility criteria, terms, conditions and approval procedures; and (iii) an Indemnity Agreement between IBRD and the Republic of Türkiye (represented by the MoTF) pursuant to which IBRD will be indemnified for any draw on the Guarantee. The details of implementation arrangements will be included in the POM, to be agreed between IBRD and Eximbank prior to Project effectiveness.

36. Eximbank is an experienced implementing agency for IBRD projects and naturally suited to implement the proposed Project given its role as Türkiye's sole export credit agency. The bank is fully owned by the government and operates as a non-deposit taking development bank under the oversight of the banking supervisor BRSA. Eximbank is tasked with supporting the Turkish economy in alignment with the government's export-led growth policy. Additional criteria for selecting Eximbank include the bank's experience in implementing IBRD Guarantee transactions, its financial soundness, its good performance in previous IBRD operations, and its strategic shift towards emphasizing sustainability as a key priority (see Annex 3 for the financial intermediary assessment of Eximbank).

37. Eximbank's experienced Project Implementation Unit (PIU), staffed with capable and qualified personnel, will be responsible for monitoring Project implementation. The same PIU was responsible for implementing previous operations (P171448, P156252, and earlier operations) with satisfactory performance and is therefore familiar with WB requirements. The PIU responsibilities will include: (i) monitoring of the on-lending of Guaranteed Loans' proceeds to final beneficiaries; (ii) responsibility for adherence to all fiduciary and E&S requirements of the WB by Eximbank and final beneficiaries; and (iii) monitoring and evaluation based on the agreed results framework.

B. Results Monitoring and Evaluation Arrangements

38. Eximbank will evaluate progress through monitoring the agreed results indicators and reporting them to the WB. Eximbank's PIU will continuously monitor the PDO and intermediate indicators and report them to the WB on a semi-annual basis. From its experience with previous WB projects, Eximbank is well accustomed to collecting necessary information from clients. The financial performance of Eximbank will be monitored through independent auditors' reports and separate management letters confirming adherence to prudential norms.

C. Sustainability

39. The likelihood of sustainability is high. First, there is strong commitment by the Government and Eximbank to support Türkiye's transition to a more sustainable growth model, which heavily relies on increasing exports, the competitiveness of exporters, and exporters' access to longer-term financing. This high-level commitment will ensure that these objectives will be supported even beyond the Project scope and lifetime. Second, the Project will support Eximbank's own sustainability, both from a financial and an environmental perspective. On the financial side, the use of the IBRD Guarantee may have demonstration and signaling effects, encouraging lenders to expand uncovered loans to Eximbank (and other Turkish banks) in the future. On the environmental side, Eximbank has, during the implementation period of the previous operation, developed a new strategy focused on sustainability and has heavily invested in its ability to calculate GHG emissions resulting from its operations, including its lending portfolio, with verification in line with ISO 14064:2018 standards. As a result, it can be expected that the share of Eximbank loans that will be directed for greening purposes will increase even beyond the direct attribution to the Project.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis

Economic and Financial Analysis

40. **The main expected benefit of the Project is supporting exporters' green transition, decarbonization, and climate-resilient investments through longer-term financing to retain and expand their competitiveness in the wake of climate transition risks including CBAM, the EU Green Deal, and others.** This Project will help Eximbank mobilize long-term commercial market funding using the IBRD guarantee instrument and then using this funding to improve exporters access to longer-term finance for capital investments to green their operations, adapt to climate change risks and expand green exports, all of which require longer-term financing. The entire loan proceeds to be raised from the market (up to EUR 1 billion, less any fees related to the IBRD guarantee) will be used for exporters' green investments. As such, the Project is expected to mobilize significant international private capital (PCM expected at up to EUR 1 billion). The Project will therewith support Türkiye's transition to a more sustainable growth model, which heavily relies on increasing exports and contribute to the decarbonization of the economy.

41. **A cost-benefit analysis was conducted for the Project.** The analysis assumes that 70 percent of the Project's US$1 billion in financing is disbursed for CBAM-related investment loans[22] and the remainder for working capital, with 25 percent of total financing for SMEs and 75 percent for mid-caps. It is assumed that 40 investment loans are provided to SMEs and 110 investment loans are provided to mid-caps, while financing for working capital is provided to 40 SMEs and 80 mid-caps. The costs are modelled simply as the initial outlay of the loan. The benefits are modelled as (i) growth in firms' value added assuming a 10 percent rate of return for investment loans and a 5 percent rate of return for working capital; and (ii) a total of 500 thousand metric tons of CO2 emissions reductions per annum as a result of more efficient production techniques financed through CBAM-related investment loans, valued with a lower shadow price of carbon (US$ per 1 metric ton of CO2 equivalent).[23] A discount rate of 9 percent is used and the appraisal period is for 10 years (through 2034). Firm-size segments are appraised separately and then costs and benefits combined.

42. **The target of 500 thousand metric tons of CO2 emission reduction/ avoidance per annum – equivalent to 20 million trees[24] – was calculated as follows.** First, it is assumed that EUR450 million will go towards renewable energy production (to replace sources of energy). Each EUR 1 million of investments is expected to yield 1 MW energy production capacity. With the 1 MW production capacity, 1.599 MWh/year of average production is assumed (using a plant load factor of 0.1825). This number is then multiplied with the National Electricity Grid Emission Factor of 0.6488 tCo2/ MWh for solar and wind published by the Ministry of Energy. The total assumed 450MW energy production capacity to be supported through this part of the project will therefore yield an assumed 450 MW*0.1825*8760*0.6488 =466,756 tCO_2 carbon emission avoidance in a year (1,037 tCO_2 per MW). Second, it is assumed that EUR 150 million will go towards energy efficiency investments (e.g., to replace old machinery). Since these investments will be about replacing machinery, a ratio of savings is used. Assuming that this machinery will consume on average as much as solar panels produce, it will mean an average of 133 MW consumption. Targeting 15 percent savings for each investment means 20 MW savings which in turn would mean 20*1,037=20,744 tCO_2e carbon emission reduction per year. This leads to a total end target of 487,501 tCO_2 per year, rounded up to 500,000 tCO_2. A maximum of EUR 400mn will support working capital

[22] This is different from the legal minimum of 60 percent as per Annex 2 as it reflects overall assumptions.
[23] Results did not vary much when the upper shadow price of carbon was used.
[24] Over one year, a mature tree will take up about 22 kilograms of carbon dioxide from the atmosphere. Source: European Environment Agency.

investment, only eligible for exporters that are undertaking greening investments in line with the Project's objectives (but that may be financed through own or other resources). Since these investments will not be financed by the Project, no direct carbon emission reduction/ avoidance was calculated for this part even though there will be indirectly facilitated GHG emission avoidance/ reduction. Türkiye aims to reduce GHG emissions by 100 million tons within the scope of the Second Energy Efficiency Action Plan covering the years 2024-2030.[25] For comparison purposes, country-wide Türkiye has 10,000 MW installed solar capacity.

43. Other benefits are harder to quantify and therefore are not captured in the cost-benefit analysis. These include, inter alia, enhanced macroeconomic stability vis-à-vis export growth; increased output of domestically produced intermediate inputs demanded by exporting firms through value-chain linkages; health benefits due to reductions in local air pollution from lower-carbon production; among other positive externalities and spillover effects.

44. Results. The analysis shows an overall economic rate of return (ERR) of 28 percent and a net present value (NPV) of US$901 million when carbon emissions reductions are excluded from the benefit cost-analysis, and an ERR of 34 percent and a NPV of US$1,188 with emissions reductions included. CBAM-related investment loans yield an ERR between 30 and 45 percent and financing for working capital yields an ERR of 24 percent.

Table 1: Economic cost-benefit analysis summary

	CBAM Investments w/o carbon emissions	CBAM Investments w/ carbon emissions	Working Capital	Total - w/o carbon emissions	Total - w/ carbon emissions
NPV (US$)	691	1,265	210	901	1,188
ERR (%)	30	45	24	28	34

45. In addition, the relationship between long-term credit availability, investment, and the amount of exports for CBAM sectors and green exporters in Türkiye was investigated for the period between 2009-2021. The analysis was based on Customs Data, Credit Registry Data, Balance Sheet Data, and the Entrepreneurship Information System (EIS) database. Findings indicate a positive correlation between long-term credit, investment, and the amount of exports for CBAM sectors and green exporters. The analysis also showed positive credit elasticities of investment and export for green exporter firms, with the coefficients of long-term credit elasticities significantly higher than short-term credit elasticities. The study underscores the potential benefits of policies supporting access to long-term credit for exporters in CBAM sectors and green exporters in Türkiye. For more details, please see Annex 5.

Technical Analysis

46. Feasibility of Guarantee. The market for Eximbank to raise 10-year EUR/USD commercial loans without risk mitigation for lenders is limited. Hard currency lenders generally require as high as 95 percent of the loan principal and interest to be covered. In 2020/2021, the IBRD loan guarantee for Eximbank covered 50 percent of the principal (EUR 250m) and commercial banks used private insurance for additional coverage. Commercial banks continue to require a very high level of risk mitigation. For this proposed transaction, the market sounding held during pre-appraisal in Q3 CY2023 indicated the necessity of the IBRD credit enhancement higher than 50 percent, particularly since the insurance

[25] The figure was announced during the UN Climate Change Conference (COP28), Minister of Energy and Natural resources. (https://enerji.gov.tr/haber-detay?id=21203)

market is constrained. By project appraisal in early December 2023, based on indicative offers received, Eximbank aims to conclude a single loan facility of EUR 1 billion (subject to market conditions) with 60 percent IBRD guarantee coverage of the loan principal and interest following World Bank approval.

47. Paris Alignment. The proposed Project is aligned with the mitigation and adaptation goals of the Paris agreement and specific measures were integrated into Project design to achieve these goals. The Project's component does not pose a material risk of having a negative impact on Türkiye's decarbonization pathway given its contribution to the implementation of climate policies that aim to reduce the emissions of the country. The Project is aligned with mitigation goals since Eximbank will only finance green investments, notably in CBAM sectors, including iron and steel, aluminum, fertilizers, and electricity, thus contributing to Türkiye's annual GHG emission reduction. To prevent carbon lock-in, Eximbank intends to facilitate the transfer and diffusion of low carbon technologies and infrastructures by providing support for the export of environmentally beneficial goods and services, as stated in the institution's Climate Change Mitigation and Adaptation Policy. As no new construction will be financed, the risk of carbon lock-in is prevented. The Project is also aligned with the adaptation goals of the Paris Agreement. The risks from climate hazards for this Project were determined by the World Bank Climate and Disaster Risk Screening tool. Specific locations of investments at this stage are unknown, and the geographic scope in the screening is considered nationwide. Depending on their location, investments may be exposed to (i) extreme temperature, (ii) extreme precipitation such as flooding, and (iii) geophysical hazards (e.g., earthquakes). As the implementing entity, Eximbank has adequate capacity and systems in place to identify and manage risks related to climate change.[26] Eximbank's technical screening and eligibility criteria for sub-loans will consider such risks and require investment designs and equipment to meet appropriate standards. Eximbank, during its credit reviewing process, will ensure that risks from climate hazards to the investments are adequately assessed and managed. Such measures will reduce the Project's residual adaptation risk to an acceptable level. To mitigate the vulnerability of the Project to climate hazards and carbon lock-in, Eximbank agreed and confirmed that it will apply eligibility criteria that include consideration of impacts of climate change on proposed investments, and make sure that only proposals that adopt lower carbon alternatives and are climate resilient can be funded. By doing so, Eximbank will promote low carbon and climate-resilient investment, hence supporting both adaptation and mitigation in the country-specific context of Türkiye.

48. Gender. The Project is expected to contribute to the reduction of the gender gap in enterprise access to finance. Based on 2019 Enterprise Survey data[27], firms managed by women are less likely to have a loan or line of credit than those managed by men (25 versus 35 percent), are less likely to finance investments through banks (6 versus 16 percent), face stricter collateral requirements. Women-managed firms are also significantly more likely to report access to finance as their biggest obstacle (41.6 compared to 28.4 percent). Given the Project's focus on financing investments, the share of investments financed through banks is used as a proxy to reduce the gender gap. Eximbank will earmark at least 15 percent of the funding raised with the help of the IBRD Guarantee for loans to women-inclusive firms (EUR 150 million or 25 percent of the maximum IBRD guarantee amount) and will make a dedicated effort to identify women-owned or managed exporting enterprises eligible for financing under the Project. Eximbank has been very successful at supporting women-inclusive exporters during the on-going project (P171448), overachieving on all related indicators.

49. Citizen Engagement. The Project includes a citizen-oriented design. Eximbank will proactively reach out to exporters, with a particular emphasis on reaching EOSMEs and women-inclusive firms. Eximbank will also conduct a survey of all beneficiary exporters to solicit their views on the Project. The survey content will be agreed with the World Bank, and the survey will be conducted no later than 50 percent of guaranteed loan proceeds are allocated to sub-loans.

[26] Eximbank's Climate Change Mitigation and Adaptation Policy can be found *here*.
[27] https://www.enterprisesurveys.org/en/enterprisesurveys.

The summary of survey results will be shared with beneficiaries and with the WB team and inform further Project implementation and to close the feedback loop. Eximbank will conduct follow-up discussions with beneficiary enterprises that expressed material concerns in the survey. The suggested beneficiary feedback indicator is *"Share of beneficiary exporters that report project sub-loans reflected their needs."* Eximbank has an established grievance redress mechanism (GRM), which consists of a well-defined, clear, and transparent system for receiving, recording, and resolving potential concerns and complaints that may arise from Project implementation.

B. Fiduciary

(i) Financial Management

50. **Eximbank is an experienced borrower from the World Bank and has satisfactory financial management arrangements in place.** The continued soundness of Eximbank and its compliance with domestic prudential regulations will be monitored through the annual entity audit reports. Eximbank will maintain its records and will ensure appropriate accounting and monitoring for the Project transactions.

51. **All proceeds of the financing raised with the help of IBRD guarantee will be used for the Project and will be channeled to sub-loans to eligible exporting enterprises** (less any potential fees that will be paid from the funds raised), in line with criteria reflected in this PAD, also recorded in the Project Operations Manual and the Project Agreement between the World Bank and Eximbank.

52. **Eximbank will use third-party funds, rather than the World Bank funds, to set up a credit line designed to meet the Project.** Consequently, the financial management arrangements for this operation will be streamlined compared to the arrangements put in place for regular lending operations of the World Bank. There will be no designated account for the Project, no disbursements, and no flow of funds to and from the designated account. The sub-loan transactions will be maintained and monitored in Eximbank's main accounting system.

53. **The Project financial reporting will consist of semi-annual reports covering information on loans provided to eligible customers through the funds raised by the guaranteed borrowing.** The reports will be submitted to the World Bank within 45 days following the end of the reporting semester. The templates for these Project financial reports, interim un-audited financial reports (IFRs) will be agreed with the World Bank and will be documented in the Minutes of Negotiation. Eximbank will ensure to have these Project financial reports reviewed on an annual basis as part of an agreed-upon procedures engagement with auditors. The review will include a verification of eligibility and other criteria outlined in the Project documents for the selected sample of loans funded through this facility. The Terms of Reference for such an engagement with the external auditors will be agreed with the World Bank and attached to the Minutes of Negotiations.

54. **Eximbank's existing annual financial reporting and auditing arrangements are considered acceptable to the World Bank.** Eximbank will continue having its annual entity financial statements prepared in accordance with the International Financial Reporting Standards and audited in accordance with International Standards on Auditing. The audit reports for the Project and entity financial statements will be submitted to the World Bank within six months following the end of each financial year. As required by the World Bank's Access to Information policy, audited financial statements will be publicly disclosed both by Eximbank and the World Bank. As per local legislation, customer information may not be made publicly available. Therefore, only an abridged version of the Project audit reports will be made publicly available.

(ii) Procurement

55. **Given the nature of the operation (project-based guarantee), the Bank's Procurement Framework will not be applicable.** The World Bank "Procurement Regulations for Investment Project Financing (IPF) Borrowers" govern the procurement of goods, works, non-consulting services, and consulting services financed by the Bank (in whole or in part) through IPF operations. As per the Section 2.2.a of the Procurement Regulations, procurement of Goods, Works, Non-consulting Services, and Consulting Services financed by the Bank under project-based guarantee are excluded from these Regulations. World Bank Anti-Corruption Guidelines for World Bank Guarantee and Carbon Finance Transactions are applicable to the Project. Eximbank will not engage under this Project with any firms debarred by the World Bank. Likewise, EOSMEs and EOMCEs will not contract with any such debarred firms in connection with the activities they carry out under the Project.

C. Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

D. Environmental and Social

56. **The Project is implemented under OP4.03 on World Bank Performance Standards.** Therefore, the Performance Standards apply to this operation as well as the Environmental and Social risk categorization for financial intermediaries (FI). The Project is categorized as FI-2 given that potential subprojects (supported firms) are anticipated to have adverse environmental or social risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures. The majority of the supported firms are expected to be in the range of Moderate to Substantial risk. Projects rated as FI-1 (Category A) will be excluded from financing. Anticipated risks and impacts are associated with water use, wastewater management, pesticide use, hazardous materials management, energy and resource efficiency, noise and air emissions, waste management, greenhouse gas emissions, community health and safety and occupational health and safety issues. The Project will not finance activities requiring involuntary land acquisition and resettlement, those with significant impacts on biodiversity and cultural heritage, or activities involving child and forced labor. Eximbank's Exclusion List prohibits child and forced labor in its lending operations. Turkish national laws prohibit forced labor, treating it as a criminal offence. The minimum working age in Türkiye is 15 years. Beneficiary exporters will use the financing from Eximbank to upgrade machinery, equipment, and buildings with more energy-and water-efficient solutions, and potentially producing hot water, steam and electricity from solar sources, with the aim to reduce direct and indirect GHG emissions resulting from their operations. No new construction will be financed. The Project will adopt low carbon alternatives by supporting green practices in emissive sectors and since no new construction will be financed, the risk of carbon lock-in is prevented.

57. **Eximbank has an Environmental and Social Management System (ESMS), including an Environmental and Social Impact Policy, which is publicly disclosed.** Eximbank has an ESMS which includes procedures for sub-project screening, due diligence, and impact assessment analysis as per national environmental and social requirements, and international lenders including World Bank and IFC. Eximbank has dedicated environmental and social staff for the implementation of the ESMS. The recently established dedicated Sustainability Department has a total of six staff. Eximbank also has

experience with World Bank Group Performance Standards gained though projects supported by MIGA as well as the precedent World Bank guarantee operation with Eximbank. Solar energy constitutes only a portion of all energy greening options. In instances of solar photovoltaic (PV) investments, Eximbank, through its ESMS, will carry out due diligence on forced labor in the supply chain. The beneficiary firms will sign declarations on the absence of forced labor in their supply chains.

V. GRIEVANCE REDRESS SERVICES

58. ***Grievance Redress.*** Communities and individuals who believe that they are adversely affected by a project supported by the World Bank may submit complaints to existing project-level grievance mechanisms or the Bank'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 Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted to the AM at any time after concerns have been brought directly to the attention of Bank Management and after Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit https://accountability.worldbank.org.

VI. KEY RISKS

59. The overall risk of the operation is proposed as Moderate based on the following assessment:

- **Political and Governance (Low).** The proposed operation is considered a priority by the government. Given the importance of exports for Türkiye's growth model and the history of government support to Eximbank, a shift in priorities carries a low risk. Eximbank is well regarded internationally with low governance risk.
- **Macroeconomic (Substantial).** Market conditions for raising funding on international markets are not favorable (see macro and sector context); however, this increases the value of the IBRD guarantee. Macro-financial risks in Türkiye remain overall elevated, despite promising developments and gradual normalization in recent months. The main macroeconomic risks for this operation relate to Eximbank's capitalization (susceptible to further FX depreciation) and potentially negative impacts on the financial viability of Exim's borrowers through supply channels. However, Eximbank has been able to manage previous periods of volatility without risks to its financial sustainability. The loan proceeds will be distributed to many Eximbank borrowers, which diversifies repayment risks. Eximbank also requires all borrowers to provide a third-party guarantee from local financial institutions for their borrowings. Lastly, the Project will not generate currency risk at Eximbank nor beneficiary exporters as funds will be on-lent to exporters who are naturally hedged.
- **Sector Strategies and Policies (Moderate).** Exports and consequently export finance are of high importance for Türkiye's growth model. As part of its Liraization strategy, the Central Bank instituted FX surrender requirements for exporters[28] to access its rediscount loans. The requirements were recently relaxed during

[28] January 26, 2023. *CBRT Press Release.*

the policy normalization process since May 2023. While not a direct risk for the operation or Eximbank, any negative impact on exporters can have indirect effects on credit risk.

- **Technical Design (Moderate).** Given the shortage of long-term finance in the Turkish market, particularly for green investments, the demand for funds from exporting enterprises is assessed as high. The Project builds on the 2020 operation in which Eximbank proved that it can execute an IBRD guarantee. The moderate risk reflects the uncertainty on final loan terms until the guarantee has been executed.
- **Institutional Capacity for Implementation and Sustainability (Moderate).** Eximbank is a well-established counterpart, familiar with WB requirements and a strong track record in executing WB operations. Previous operations with Eximbank were all rated as Moderately Satisfactory or higher by IEG (P156252, P065188, P082801, P093568, P096858), and the currently ongoing project (P171448) has been consistently rated as Satisfactory in ISRs. Despite increasing sovereign risk, Eximbank's financial risks are moderate; financial sustainability measures are in place to address credit, liquidity, and market risks.
- **Fiduciary (Low).** The fiduciary arrangements will be based on previous operations with Eximbank, in which the fiduciary performance and outcomes were mostly rated satisfactory/ highly satisfactory.
- **Environment and Social (Substantial).** The Project is processed under OP 4.03 (Performance Standards) and categorized as FI-2 given that potential subprojects (supported firms) are anticipated to have adverse environmental or social risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures. Projects rated as FI-1 (Category A, High risk) will be excluded from financing (see details in ISDS).
- **Stakeholders (Moderate).** There is a risk that commercial banks would not be fulfilling their lending obligations after expressing their interests. However, EUR 1 billion is not excessive for international lenders expected to participate in the transaction. The number of lenders could be expanded as needed, and there could be several loans.

VII. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY: Turkiye
Green Export Project

Project Development Objectives(s)

The development objective is to support Turkish exporters in their green transition and expanding green exports through longer-term financing.

Project Development Objective Indicators

Indicator Name	Baseline	End Target
Annual GHG emission avoided or reduced by the exporters financed by the Project (tons/year)	0	500,000
Increase in green exports (EUR, Number)	2,400 million	2,800 million
Ratio of the average maturity of sub-loans financed under the Project, over the average maturity of Eximbank's representative loan portfolio (Number)	N/A	1.5

Intermediate Results Indicators by Components

Indicator Name	Baseline	End Target
Amount of private capital mobilized (cumulative, EUR) (Number)	0	1,000,000,000
Number of exporters financed under the Project (cumulative) (Number)	0	150
Number of exporters who received financing for CBAM transition investments (cumulative) (Number)	0	80
Percentage of financing to support CBAM transition investments (percentage)	0	60
Percentage of financing to support EOSMEs (percentage)	0	25
Number of exporters reporting GHG emission and/or energy efficiency data (cumulative) (Number)	0	80
Gender: Percentage of financing to support women-inclusive firms (percentage)	0	15
Non-performing loans under the Project (percentage)	0	<5
Eximbank’s compliance with prudential regulation (Yes/No)	Yes	Yes
Citizen Engagement: Share of beneficiary exporters that report project sub-loans reflected their needs (percent)	N/A	>80

Monitoring & Evaluation Plan: PDO Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
Annual GHG emission avoided or reduced by the exporters financed by the Project (tons/year)	Annual GHG emission avoided or reduced by the exporters financed by the Project	Annual	Progress reports	Eximbank GHG emission model and data provided by the sub-borrowers	Eximbank
Increase in green exports (EUR, Number)	Increase in green exports facilitated by the Project. Baseline is set as total green exports of Türkiye as of end-2022. Green export is defined as the export of goods that are on APEC List of Environmental Goods that directly and positively contribute to green growth and sustainable development objectives (https://www.apec.org/meeting-papers/leaders-declarations/2012/2012_aelm/2012_aelm_annexc)	Annual	Progress reports	Analysis of beneficiary data	Eximbank
Ratio of the average maturity of sub-loans financed under the Project, over the average maturity of Eximbank's representative loan portfolio (Number)	Longer maturity of sub-loans expected under the Project compared to Eximbank's representative loan portfolio	Semi-annual	Progress reports	Analysis of sub-loan data	Eximbank

Monitoring & Evaluation Plan: Intermediate Results Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
Amount of private capital mobilized (cumulative, EUR) (Number)	Amount of funding raised from international lenders with support of the IBRD Guarantee	Semi-annual	Progress reports	Project accounts	Eximbank
Number of exporters financed under the Project (cumulative) (Number)	Number of exporters financed under the Project	Semi-annual	Progress reports	Analysis of sub-loan data	Eximbank
Number of exporters who received financing for CBAM transition investments under the Project (cumulative) (Number)	Number of exporters who received financing for CBAM transition investments under the Project	Semi-annual	Progress reports	Analysis of sub-loan data	Eximbank
Number of exporters reporting GHG emission and/or energy efficiency data (cumulative) (Number)	Number of exporters who report GHG emission and/or energy efficiency data to Eximbank. For CBAM sectors, this reporting should be sufficient enough to be in compliance with EU requirements. For the remainder, reporting will be in compliance with current national legislation and potential future changes.	Annual	Progress reports	Analysis of beneficairy data	Eximbank
Percentage of financing to support CBAM transition investments (percentage)	Total financing disbursed for CBAM transition investments relative to total financing provided under the Project. Total financing under the Project will be the amount raised from international markets less any fees that will be paid from the funds raised.	Semi-annual	Progress reports	Analysis of sub-loan data	Eximbank

Percentage of financing to support EOSMEs under the Project (percentage)	Total financing disbursed to EOSMEs relative to total financing provided under the Project. Total financing under the Project will be the amount raised from international markets less any fees that will be paid from the funds raised.	Semi-annual	Progress reports	Analysis of sub-loan data	Eximbank
Gender: Percentage of financing to support women-inclusive firms (percentage)	Total financing disbursed to women-inclusive firms relative to total financing provided under the Project; definition of women-inclusive firms per the PAD and POM. Total financing under the Project will be the amount raised from international markets less any fees that will be paid from the funds raised.	Semi-annual	Progress reports	Analysis of sub-loan data	Eximbank
Non-performing loans under the Project (percentage)	Ratio of NPLs in Project sub-loan portfolio. NPLs defined as loans >90 days in arrears	Semi-annual	Progress reports	Analysis of sub-loan data	Eximbank
Eximbank's compliance with prudential regulation (Yes/No)	Eximbank's compliance with prudential regulation	Semi-annual	Progress reports	Analysis of audited financial statements	Eximbank
Citizen Engagement: Share of beneficiary exporters that report project sub-loans reflected their needs (percent)	Based on survey of all beneficiary exporters supported under the Project, to be conducted by Eximbank	Project mid-term	Report on summary of survey findings, and data on responses	Survey of beneficiary exporters	Eximbank

VIII. INDICATIVE TERMS AND CONDITIONS FOR THE GUARANTEE

Türkiye Green Export Project Guarantee Term Sheet

This term sheet contains a summary of indicative terms and conditions of a proposed guarantee ("Guarantee") by the International Bank for Reconstruction and Development ("IBRD") for discussion purposes only and does not constitute an offer to provide a Guarantee. The provision of a Guarantee is subject, inter alia, to satisfactory appraisal by IBRD of the Türkiye Green Export Project ("Project"), compliance with all applicable policies of the World Bank, including those related to environmental and social safeguards, review and acceptance of the ownership, management, financing structure (including in connection with shareholders and Project design), review and acceptance of project/transaction documentation by IBRD, and the approval of the management and Executive Directors of IBRD in their sole discretion. Without limiting the generality of the foregoing, IBRD is highly selective with regard to the clients and beneficiaries it works with and is diligent with Know Your Customer requirements for all Project participants (ultimate shareholders, lenders, contractors, advisors) and will undertake an appraisal of the Project and the Borrower including an assessment on these parameters.

Any beneficiary of an IBRD guarantee must be in compliance with IBRD's requirements for tax transparency and integrity in the use of intermediate jurisdictions and must cooperate in any due diligence as to corporate structure and integrity, as well as in any remedial measures, that IBRD may require, before IBRD can provide its Guarantee. In order for IBRD to commence that assessment, potential beneficiaries of the IBRD Guarantee must inform IBRD if any affiliate or other related party will also be participating in the transaction and provide details of its/their domiciliation and relationship to the potential Guarantee beneficiary, or confirm that no such entity will be involved.

IBRD-Guaranteed Loan (the Financing)	
IBRD-Guaranteed Loan Agreement:	Agreement among the Borrower, the Agent and the Lenders and IBRD as Guarantor setting out terms and conditions of the Financing, mechanism for payment on the Financing, and containing the Guarantee. The Guarantee will be contained in the IBRD Guaranteed Loan Agreement for the first loan of the Guarantee and is expected to be contained in a separate guaranteed loan agreement for any subsequent loans of the Guarantee.
Borrower:	Türkiye İhracat Kredi Bankası A.Ş.
Guaranteed Lender/Beneficiaries of the IBRD Guarantee:	Commercial bank lenders, or the Agent on their behalf, each to be identified for each tranche of the Guarantee (as applicable).
Currency:	EUR or USD[29]
Principal Amount:	Up to EUR [1,000] million or equivalent in USD, which may be raised in multiple, separate consecutive loans based on market conditions
Term:	[10] years including [2] years of grace period
Repayment of the Financing:	[Semi-annual]
Loan Interest Rate:	Spread above [Euribor] or [SOFR], as applicable, acceptable to the Borrower and IBRD
Use of Proceeds:	Lending to export-oriented companies, supporting their green transition in the wake of the EU Carbon Border Adjustment Mechanism, and expanding exports of green products.
Drawdown:	[Q1 2024 for first IBRD-Guaranteed Loan]
IBRD Guarantee Agreement	
Guarantor:	International Bank for Reconstruction and Development (IBRD)

[29] Banks are requested to provide feedback based on the format provided, including pricing for either USD or EUR lending.

Parties:	IBRD and the Guaranteed Lender(s) and/or a Facility Agent acting on behalf of the Guaranteed Lenders.
Guarantee Face Value:	Up to EUR [600] million or equivalent in USD, to be potentially utilized across multiple, separate loans
Guarantee Support:	IBRD will guarantee the payment, following occurrence of a Guaranteed Event, of principal [and interest] amounts due on scheduled payment dates on a rolling, [first-loss basis] up to the Maximum Guaranteed Amount.
Guaranteed Events:	Failure by the Borrower to make scheduled payments of principal [and interest] on the IBRD-guaranteed Loan.
Guarantee Period:	[10.5 years (aligned with the term of the loan plus a final demand period)]
IBRD Financial Exposure Limits:	The average life of the financial exposure of IBRD under the Guarantee will not exceed 20 years and the Maximum Guarantee Period will not exceed 35 years. Financial exposure of IBRD under the Guarantee will start on the first disbursement date of the loan.
Maximum Guaranteed Amount:	Up to EUR [600] million or its equivalent in USD An aggregate amount equivalent of up to [60%] of the principal [and interest] amount of the financing, not to exceed the Guarantee Face Value.[30]
Signing:	If the Guarantee-related legal agreements are not signed within 24 months following approval by the Board of Executive Directors of IBRD, IBRD may withdraw the offer of the Guarantee.
Amendments and waivers:	IBRD and the government of Türkiye will be entitled to be kept fully informed about any proposed waiver or amendment to the terms of the transaction. Certain amendments or waivers to the provisions of the transaction documents will require the prior written consent of IBRD, including, but not limited to, any material amendment or modification to a finance document or any amendment or waiver that relates to the IBRD Guarantee or affects the rights or obligations of IBRD.
Suspension:	IBRD may, during the availability period for drawdown of the guaranteed financing, inform the Agent that no further drawdown of the guaranteed financing, from the date of notification by IBRD up until such notice is revoked by IBRD, will be covered by the IBRD Guarantee upon the occurrence of the following types of scenarios, *inter alia*: (i) an event of default occurs under the guaranteed financing; (ii) the Member Country has ceased or been suspended from its membership of the World Bank or International Monetary Fund; (iii) the Borrower has breached a material obligation under the Project Agreement and such breach continues after any applicable cure period; or (iv) the Agent or a beneficiary of the IBRD Guarantee engaged in certain sanctionable practices (fraud, corruption, coercion, collusion, obstruction) relating to the guaranteed financing. If the event giving rise to a suspension has been waived by IBRD, or remedied to IBRD's satisfaction, then IBRD may revoke its suspension notice and let the Agent know which amounts are reinstated for coverage under the IBRD Guarantee. If such suspension continues for a period of [12] months, the IBRD Guarantee will reduce permanently by the amount with respect to which IBRD had suspended coverage.
Withholding:	IBRD may withhold payment to a beneficiary of the IBRD Guarantee in the following types of scenarios, *inter alia*: (i) a sanctionable practice (fraud, corruption, coercion, collusion, obstruction) has been committed by the Agent or a beneficiary of the IBRD Guarantee; (ii) the Agent or a beneficiary of the IBRD Guarantee, *inter alia*, amends the guaranteed financing documents without IBRD's prior written consent, or transfers or assigns all or part of its interest in the financing to a non-commercial or debarred or sanctioned entity; (iii) the Agent or a beneficiary of the IBRD Guarantee engages in Repackaging Arrangements in respect of the IBRD Guarantee.

[30] Banks are requested to provide feedback based on the format provided, including pricing at either 50% or 60% guarantee coverage.

Termination:	The Guarantee may be terminated, *inter alia*, (i) if an installment of the Guarantee Fee or Standby Fee is not paid when due; (ii) if an amendment, waiver, modification or other change is made or given relating to certain provisions of the finance documentation, IBRD's rights or obligations, or the Guarantee without IBRD's prior written consent; (iii) following full payment of all guaranteed amounts or (iv) after the final date for payment under the Guarantee, or (v) solely in respect of any amounts withheld from payment under the IBRD Guarantee as described above, if IBRD has withheld such amounts for a period of [6] months.
No Discharge:	Neither the obligations of IBRD under the IBRD Guarantee nor the rights, powers and remedies conferred upon the Agent with respect to IBRD by the IBRD Guarantee or by applicable law or regulation shall be discharged, impaired or otherwise affected by: (i) any insolvency, moratorium or reorganization of debts of or relating to the borrower; (ii) any of the obligations of the Borrower under the financing agreements being or becoming illegal, invalid, unenforceable, void, voidable or ineffective in any respect; (iii) any time or other indulgence being granted to the borrower in respect of its obligations under the financing agreements; or (iv) any other act, event or omission (other than the failure of the Agent to make a timely and duly completed demand under the IBRD Guarantee) which might otherwise operate to discharge, impair or otherwise affect any of the obligations of IBRD under the IBRD Guarantee or any of the rights, powers or remedies conferred on the Agent by the IBRD Guarantee or by applicable law or regulation.
Reduction of Demand:	If, after the Agent has made a demand on IBRD for payment under the IBRD Guarantee, but before IBRD has made payment of the amount so demanded, the Agent receives payment in respect of such amount from the Borrower (or the Agent recovers otherwise than from IBRD) any sum which is applied to the satisfaction of the whole or any part of such amount, the Agent shall promptly notify IBRD of such fact and IBRD's liability under the IBRD Guarantee in respect of such demand shall be reduced by an amount equal to the portion so paid by the Borrower (or so recovered by the Agent) and so applied.
Non-Accelerability of Guarantee:	The Guarantee cannot be accelerated and become payable prior to the scheduled debt service payment dates under any circumstances, including if the underlying IBRD-Guaranteed Loan is accelerated as a result of a Guaranteed Event. In such instances, the IBRD Guarantee will cover payment of debt service up to the Maximum Guaranteed Amount in accordance with the original payment schedule. [A standstill period during which no acceleration of the underlying financing could take place should occur, except for certain fundamental events of default.]
Conditions Precedent to Effectiveness of the IBRD Guarantee:	Usual and customary conditions for financing of this type including but not limited to the following: a) Provision of relevant legal opinions satisfactory to IBRD (including a legal opinion from the appropriate official of Türkiye relating to the Indemnity Agreement and (if applicable) a legal opinion from counsel to the Guaranteed Lenders regarding capital adequacy requirements compliance); b) Payment in full of the Front-End Fee, the Initiation Fee, the Processing Fee and payment [in full] [of the first installment] of the Guarantee Fee, and the relevant installment(s) of the Standby Fee; c) Conclusion of an Indemnity Agreement between IBRD and Türkiye, a Project Agreement between IBRD and the Borrower, a Project Operations Manual ("POM") relating to implementation of the Project, acceptable to IBRD, and any other applicable documentation, acceptable to IBRD; and d) Satisfaction of any other conditions precedent under the financing documents.

Subrogation:	If and to the extent IBRD makes any payment under the Guarantee, IBRD will have an immediate and automatic right of subrogation to the extent of such unreimbursed payment to the lenders' rights.
Right to Purchase:	[If IBRD guarantees payment of interest, then upon payment default by the Borrower, IBRD will have the right to purchase all rights, title and interests of the Beneficiaries in the Financing.]
Assignment/Transfer:	Except as IBRD may otherwise agree, any assignment of the IBRD-Guaranteed Loan may be made only to an assignee established as a commercial bank or financial institution. Such assignee may be a partly or wholly government-owned institution that is autonomous, and established under commercial law for the purpose of pursuing profit, but cannot be an export credit agency, multilateral institution or governmental agency. Such assignee must not have been declared ineligible to be awarded an IBRD- or IDA-financed contract in accordance with the World Bank Sanctions Procedures and must not be sanctioned pursuant to a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations. The assigning Lender shall provide advance notice of potential assignments to IBRD.
Repackaging Arrangements:	The Guaranteed Lenders will severally undertake for the benefit of IBRD that, provided the IBRD Guarantee remains in effect, they will not enter into or permit any of their affiliates to enter into any arrangement pursuant to which any security or other similar obligation is created or issued, the economic effect of which is the separation of rights of payment from IBRD under the IBRD Guarantee and of rights of payments from the Borrower under the financing, which is referred to as “Repackaging Arrangements”.
Payment of Fees to IBRD:	Payment of fees due to IBRD is the obligation of the Borrower. However, if the Borrower fails to pay any installment of the fees due to IBRD in full or when due, the Guaranteed Lenders can elect to pay the unpaid amount of the fees and seek reimbursement from the Borrower.
Upfront Fees:	Standard upfront fees for IBRD guarantees of this nature, including (i) Front-End Fee of 25 bps, (ii) Initiation Fee of greater of 15 bps and $100,000 and (iii) Processing Fee of 50 bps
Standby Fee:	25 bps per annum, charged periodically and applied to that portion of the guaranteed amount that IBRD has contractually committed and for which IBRD does not yet have financial exposure under the guarantee. The IBRD standby fee is normally charged semi-annually and accrues sixty (60) days after the date of signing of the agreement providing for IBRD’s guarantee. The Standby Fee must be paid in advance on regular payment dates.
Guarantee Fee (recurring):	[X] basis points per annum[31]. The IBRD Guarantee Fee is charged on that portion of the guaranteed amount that IBRD has contractually committed and for which IBRD has financial exposure under the guarantee. The Guarantee Fee must be paid [in advance semi-annually on regular payment dates][in a one-time lump sum]. Where the Guarantee Fee is payable in installments, IBRD will have the right to terminate the Guarantee in the event of nonpayment of any installment of the Guarantee Fee or Standby Fee in full when due.
Governing law:	English law or New York Law.
Indemnity Agreement	
Parties:	IBRD and Türkiye (the “Member Country”)
Indemnity:	The Member Country will reimburse and indemnify IBRD on demand, or as IBRD may otherwise direct, for all payments under the Guarantee and all losses, damages, costs, and expenses incurred by IBRD relating to or arising from the Guarantee.
Covenants:	Usual and customary covenants included in agreements between member countries and IBRD

[31] The guarantee fee level is determined by the average life of the guarantee: 50bps up to 8 years, 60bps from 8 to 10 years, 80bps from 10 to 12 years, 100bps from 12 to 15 years, 120bps from 15 to 18 years and 140bps from 18 to 20 years.

Remedies:	If the Member Country breaches any of its obligations under the Indemnity Agreement, IBRD may suspend or cancel, in whole or in part, the rights of the Member Country to make withdrawals under any other loan, credit or grant agreement with IBRD or IDA, or any IBRD loan or IDA credit to a third party guaranteed by the Member Country, and may declare the outstanding principal and interest of any such loan or credit to be due and payable immediately. A breach by the Member Country under the Indemnity Agreement will not, however, discharge any guarantee obligations of IBRD under the Guarantee.
Governing Law:	The Indemnity Agreement will follow the usual legal regime and include dispute settlement provisions customary for agreements between member countries and IBRD.
Project Agreement	
Parties:	IBRD and the Borrower
Representations and Warranties:	The Borrower will represent, among other standard and project-specific provisions that: (a) it is in compliance with applicable environmental laws and the applicable World Bank guidelines, environmental and social safeguard requirements, including the World Bank Performance Standards and other applicable requirements; and (b) neither it (nor its direct and indirect shareholders and any other relevant project participants, as determined by IBRD), nor any of its affiliates has engaged in any Sanctionable Practices {"Sanctionable Practices" include corrupt, fraudulent, collusive, coercive, or obstructive practices, as defined in IBRD's Anti-Corruption Guidelines.} in connection with the Project.
Covenants:	The Borrower will covenant, among other things, that it will: (a) comply with applicable laws, including environmental laws, and the applicable environmental and social safeguards requirements under the World Bank Performance Standards ; (b) provide annual audited financial statements and other reports; (c) provide certain notices and other information to IBRD; (d) provide access to the Project; (e) not engage in (or authorize or permit any affiliate or any other Person acting on its behalf to engage in) any Sanctionable Practices in connection with the Project; (f) comply with World Bank requirements relating to Sanctionable Practices regarding individuals or firms included in the World Bank Group list of firms debarred from World Bank Group-financed contracts; (g) obtain IBRD's consent prior to agreeing to any change to any transaction document which would affect the rights or obligations of IBRD under the Guarantee Agreement or any other guarantee related agreement; and (h) use the proceeds of the disbursements under the IBRD-Guaranteed Loan exclusively for the Project and in accordance with the terms and conditions of the IBRD-Guaranteed Loan Agreement. Additional Key Undertakings: (i) The Borrower shall directly lend the loan proceeds raised from the market with the help of IBRD Loan Guarantee, in accordance with the beneficiary exporters eligibility and other implementation requirements agreed with IBRD. (ii) The Borrower shall 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. (iii) The Borrower shall comply with the requirements (including the Environment and Social safeguard requirements) set out in the POM, and shall not modify the POM without the prior written consent of IBRD. (iv) For the duration of the project implementation period, beginning with the year 2024, Eximbank will submit an audit report annually in accordance with the International Standards on

	Auditing that is prepared in accordance with International Auditing Standards and International Financial Reporting Standards. (v) The Borrower must submit relevant reports, including the semi-annual project reports certified by its Management. (vi) The Borrower will be responsible for the monitoring of, and reporting to IBRD the information on the PDO and Intermediate Results indicators listed in the Project's Results Framework and the Additional indicators listed in the POM, on semi-annual and yearly basis.

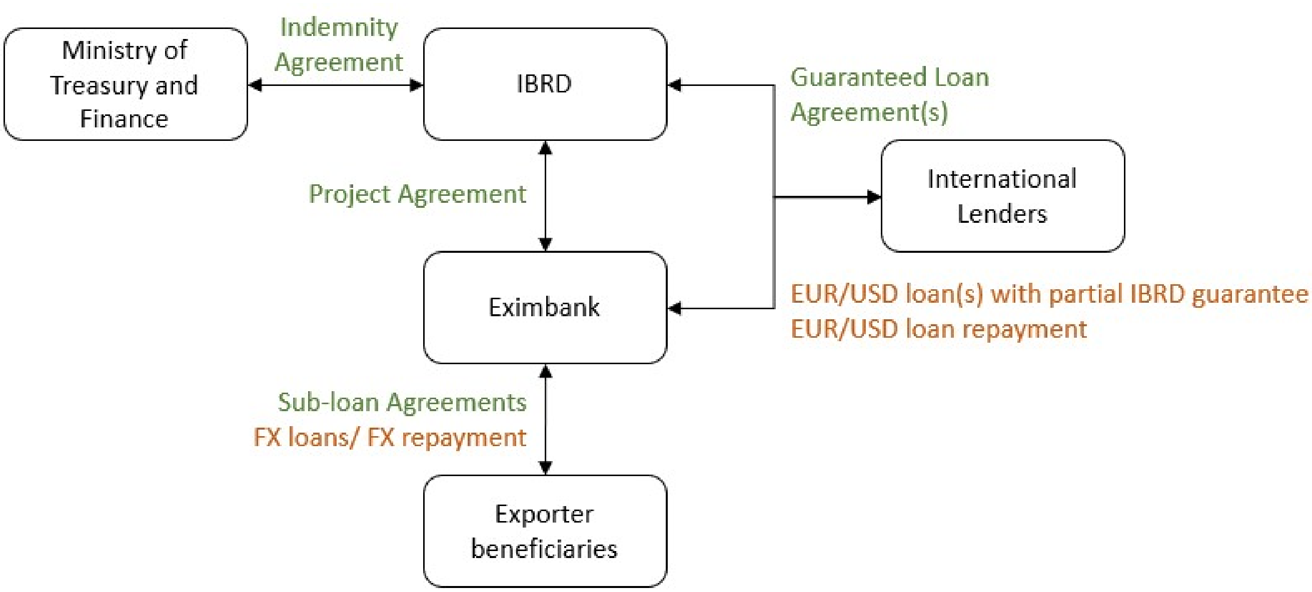
ANNEX 1: Implementation Arrangements and Support Plan

COUNTRY: Türkiye
Green Export Project

Institutional and Implementation Arrangements

1. **The Project will be implemented by Eximbank based on the following agreements:** (i) (a) Guaranteed Loan Agreement(s) between Eximbank, the commercial lender(s) and IBRD pursuant to which the commercial lender(s) would provide financing to Eximbank, and IBRD would partially guarantee the repayment of such financing by Eximbank; (ii) a Project Agreement between IBRD and Eximbank pursuant to which certain terms relating to Eximbank's sub-loans to beneficiary exporters will be defined, including eligibility criteria, terms, conditions and approval procedures; and (iii) an Indemnity Agreement between IBRD and the Republic of Türkiye (represented by the MoTF) pursuant to which IBRD will be indemnified for any draw on the Guarantee (see Figure A1). The details of implementation arrangements will be included in the Project Operations Manual (POM), to be agreed between IBRD and Eximbank prior to Project effectiveness.

Figure A1. Contractual Arrangements and Financial Flows



2. **Eximbank's experienced Project Implementation Unit (PIU), staffed with capable and qualified personnel, will be responsible for monitoring Project implementation.** The same PIU was responsible for implementing previous operations (P171448, P156252, and earlier operations) with satisfactory performance and is therefore familiar with WB requirements. The PIU responsibilities will include: (i) monitoring of the on-lending of Guaranteed Loans' proceeds to final beneficiaries; (ii) responsibility for adherence to all fiduciary and E&S requirements of the WB by Eximbank and final beneficiaries; and (iii) monitoring and evaluation based on the agreed results framework and reporting to the WB on a semi-annual basis.

Financial Management

3. **The Financial Management risk of the project is low.** Eximbank will use third party funds to set up a credit line designed to meet the objectives and eligibility criteria set forth in this document. Consequently, the financial management arrangements for this operation will be limited relative to the arrangements put in place for regular lending operations of the World Bank.

4. **Designated Account and Disbursements.** There will be no designated account for the Project and thus no reporting and auditing on the Designated Account statements and corresponding flow of funds tables. As this is a guarantee operation, the World Bank will not disburse funds for this Project unless Eximbank fails to make a guaranteed payment to its commercial lenders under the IBRD-guaranteed loan agreement. Disbursement of IBRD funds will only occur in the unlikely event of Eximbank's default on its borrowing from commercial lenders. This disbursement will be contingent upon guaranteed lender(s) sending a demand for payment under the Guarantee following a failure by Eximbank to make a scheduled guaranteed payment under the Guaranteed Loan Agreement between the lender(s), Eximbank and IBRD.

5. **Accounting and Reporting.** Eximbank will use its main banking system for Project accounting and reporting. Eximbank will ensure to have the interim un-audited financial reports (IFRs) automatically generated from that system, as is the case for their ongoing World Bank funded operation. The IFRs will consist of semi-annual Project financial reports, including information on loans to customers through the funds raised by the guaranteed borrowing. The templates of the IFRs will be attached to the Minutes of Negotiations.

6. **Review of Project Financial Statements.** The review of project financial statements will consist of independent auditors undertaking agreed-upon procedures (AUP) to review the loans funded through this facility, including verification of eligibility and other criteria set forth in the Project documents. The review will be conducted in line with the International Standards on Auditing (ISAs). The Terms of Reference for such AUP review will be agreed with the World Bank. The annual AUP review reports will be submitted to the World Bank within six months following the calendar year-end.

7. **Entity Audits.** Eximbank will submit the annual audited entity financial statements prepared in accordance with the International Financial Reporting Standards and audited per the International Standards on Auditing within six months following the calendar year-end.

8. **Access to Information Policy.** As per the World Bank's Access to Information policy, audited financial statements will be publicly disclosed both by Eximbank and the World Bank. As per local legislation, customer information may not be made publicly available. Therefore, only an abridged version of the Project audit reports may be made publicly available.

9. **Eximbank will need to demonstrate compliance with the prudential requirements set by the Banking Regulation and Supervision Agency (BRSA).** Eximbank submits quarterly financial reports to the BRSA and publishes annual audited financial statements. The external auditors are required to report to the BRSA on compliance to prudential regulations as well as Eximbank's internal control and risk management systems. They are also obliged to report directly to BRSA with respect to certain issues that may threaten the financial standing and going concern nature of the bank.

Procurement

10. **Given the nature of the operation (project-based guarantee), the Bank's Procurement Framework will not be applicable.** The World Bank "Procurement Regulations for Investment Project Financing (IPF) Borrowers" govern the procurement of goods, works, non-consulting services, and consulting services financed by the Bank (in whole or in part)

through IPF operations. As per the Section 2.2.a of the Procurement Regulations, procurement of Goods, Works, Non-consulting Services, and Consulting Services financed by the Bank under project-based guarantee are excluded from these Regulations. World Bank Anti-Corruption Guidelines for World Bank Guarantee and Carbon Finance Transactions are applicable to the Project. Eximbank will not engage under this Project with any firms debarred by the World Bank. Likewise, EOSMEs and EOMCEs will not contract with any such debarred firms in connection with the activities they carry out under the Project.

Implementation Support

11. The following implementation support strategy is proposed, considering the risks and mitigation measures related to the Project:

- **Technical Support.** WB implementation support will include Financial Sector Specialist(s) to help guide Eximbank in Project implementation. Continuous technical support will be available both from the WB office in Ankara and at the WB office in Vienna. A guarantee specialist will support Project implementation and provide support in monitoring guarantee features and compliance with the terms and conditions of the Guaranteed Loan Agreement(s). Implementation support missions are expected to be conducted twice per calendar year and will combine on-site and hybrid modalities.

- **Financial Management.** During Project implementation, the World Bank will supervise the Project's financial management arrangements in two 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 arrangements to ensure compliance with the World Bank's requirements. As required, a World Bank-accredited Financial Management Specialist, based in the WB Türkiye office, will assist with the implementation process.

- **Safeguards.** Implementation support will be provided by the World Bank Specialists for Environmental and Social Safeguards.

Table 1. Implementation Support Plan and Resource Requirements

Time	Focus	Skills Needed	Resource Estimate
Year 1	Task management	Project management (Vienna and Ankara based)	6 staff weeks (SWs) each
	Guarantee supervision	Guarantee specialist (HQ based)	4 SWs
	FM supervision	FM Specialist (Ankara based)	3 SWs
	Safeguards	Safeguards specialists	4 SWs
Year 2-4	Task management	Project management (HQ based)	6 SWs each per year
	Guarantee supervision	Guarantee specialist (HQ based)	4 SWs
	FM supervision	FM Specialist (Ankara based)	3 SWs per year
	Safeguards	Safeguards specialists	3 SWs per year

ANNEX 2: Detailed Project Description

COUNTRY: Türkiye
Green Export Project

1. This Annex provides further details on the following:

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

(b) Sub-loan terms and conditions for Eximbank's sub-loans to beneficiary exporters:

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

   (ii) Terms and conditions of sub-loans between Eximbank and beneficiary exporters.

2. Project terms and conditions between the World Bank and Eximbank

- Eximbank will directly lend the loan proceeds raised from the market with the help of the IBRD Loan Guarantee to exporters that are adapting to climate transition risks, arising from CBAM, the EU Green Deal, and others to be defined in the POM, by greening their operations or expanding green exports.
- Eximbank will directly lend at least 60 percent of the loan proceeds raised from the market with the help of the IBRD Loan Guarantee (less any fees related to the IBRD guarantee) to exporters affected by CBAM Phase 1 and 2, as defined below.
- Eximbank will directly lend at least 10 percent of the loan proceeds raised from the market with the help of the IBRD Loan Guarantee (less any fees related to the IBRD guarantee) to Women-Inclusive exporters, as defined below.
- Eximbank will directly lend at least 25 percent of the loan proceeds raised from the market with the help of the IBRD Loan Guarantee (less any fees related to the IBRD guarantee) to export-oriented small and medium enterprises (EOSMEs), as defined below.
- Eximbank can direct up to EUR 200 million (20 percent of the expected total guaranteed loan amounts) for financing sub-loans approved prior to the Signature Date of the Guarantee/Loan Agreement but on or after 1 year before the Signature Date, provided the said sub-loans comply with criteria and procedures set forth in the Project Agreement and the POM.
- 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 and remain in compliance, during Project implementation, with the requirements (including the Environment and Social requirements) listed in the Project Agreement and the POM.
- For the duration of the Project implementation period, beginning with the year 2024, Eximbank will submit an audit report annually in accordance with the International Standards on Auditing that is

prepared in accordance with International Auditing Standards and International Financial Reporting Standards.

- Eximbank must submit relevant reports, including the semi-annual Project reports certified by its management.
- Eximbank will be responsible for the monitoring and reporting of the information regarding the PDO and Intermediate Results indicators listed in the Project's Results Framework and the additional indicators listed in the POM, on a semi-annual and yearly basis.

3. Sub-loan terms and conditions for Eximbanks' sub-loan financing to beneficiary exporters.

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

- For the purpose of this Project, eligible exporters are defined as export-oriented SMEs (EOSMEs) and export-oriented MCEs (EOMCEs) that are adapting to climate transition risks, arising from CBAM, the EU Green Deal, and others to be defined in the POM, by greening their operations or expanding green exports, and compliant with additional criteria detailed in the POM.
- Exporters affected by **CBAM Phase 1** are defined as exporters operating in the following six sectors: cement, iron and steel, aluminium, fertilizers, electricity, and hydrogen, with nomenclature codes as set out in the Regulation (EU) 2023/956 (*https://eur-lex.europa.eu/eli/reg/2023/956/oj*). This definition will remain subject to change, to be managed through the POM, in line with any EU regulatory updates.
- Exporters affected by **CBAM Phase 2** are preliminarily defined as exporters in the following sectors: manufacture of food products, textile products, chemicals and chemical products, rubber and plastic products, computers, electronic and optical products, electrical equipment manufacturing, construction, water transportation, and airways transportation. These sectors are at high risk of carbon leakage and may be included in the next phase of CBAM (expanding the list of sectors in the Regulation (EU) 2023/956). The eligible sectors under CBAM Phase 2 will remain subject to change, to be managed through the POM, in line with any EU regulatory updates.
- In line with Government policy and Eximbank practice, EOSMEs are defined as firms with fewer than 250 employees, and compliant with additional criteria detailed in the POM.
- In line with Government policy and Eximbank practice, EOMCEs are defined as firms employing from 250 to 3,000 people, and compliant with additional criteria detailed in the POM.
- Eligible exporters must be privately owned (more than 50 percent in private ownership).
- Eligible exporters must present GHG emission reduction plans to Eximbank.
- Women-inclusive exporter is defined as: (i) owned by women (i.e., with at least one female shareholder with a properly documented representative and managing powers); or (ii) managed

by women (i.e., with at least one female C-level[32] manager or with at least 25 percent female representation in mid-level management); or (iii) employing a ratio of women that is higher than the average ratio observed in the respective sector; or (iv) has increased the share of women employment by at least 5 percent in the previous year.

(ii) **Terms and conditions of sub-loans between Eximbank and beneficiary exporters**

- Sub-loans will be evaluated in accordance with Eximbank's standard project and financial evaluation guidelines.
- The cost of sub-loans by Eximbank to beneficiary exporters will include, at a minimum, the cost to Eximbank of the raised market funding plus a margin reflecting: (i) administrative costs; (ii) a credit risk markup; and (iii) MoTF counter-guarantee fee.
- Sub-loans may be made for both investment and working capital purposes.
- Eximbank will direct at least 60 percent of the loan proceeds raised from the market with the help of the IBRD Loan Guarantee (less any fees related to the IBRD guarantee) to investment loans.
- Sub-loans for working capital loans shall be made to beneficiary exporters that are undertaking investments in line with the Project objectives, as detailed in the POM. Working capital loans shall not be higher in amount than the investments undertaken by the exporter.
- All sub-loans for working capital purposes and investment purposes must have maturities not shorter than 2 years for working capital loans and 4 years for investment loans, unless otherwise agreed between the Bank and Eximbank trough the POM.
- The amount of an individual sub-loan will not exceed EUR 10 million equivalent, except as the World Bank and Eximbank shall otherwise agree.
- The maximum exposure to a single beneficiary exporter will not exceed EUR 20 million equivalent, except as the World Bank and Eximbank shall otherwise agree.
- For all investment sub-loans to EOMCEs, Eximbank will aim at achieving a co-financing target by the exporter of 10 percent of the investment.
- For all sub-loans above EUR 5 million equivalent, sub-beneficiaries must submit a cash flow statement following a format agreed upon with Eximbank and will need to display compliance, at the time of sub-loan approval, with a financial obligation/ equity ratio and a financial obligation service coverage ratio, as detailed in the POM.
- The first two sub-loans, irrespective of size, will be subject to prior review by the World Bank.
- The ESDDs for the first five sub-loans, irrespective of size, will be subject to prior review from an environmental and social perspective.

[32] C-level jobs include the following: General Manager, Executive Vice President, Deputy General Manager, Chief Executive Officer, Chief Operations Officer, Chief Finance Officer, Chief Marketing Officer, Chief Technology Officer, and Chief Information Officer.

- All sub-loans not subject to prior review may be subject to ex-post review by the World Bank to verify compliance with the terms and conditions.
- The relevant authorities must certify that the sub-beneficiaries and sub-projects meet environmental and social laws and standards in force in Türkiye. The World Bank Performance Standards (OP4.03) will also be complied with.
- Sub-projects involving dams and international waterways will not be financed.
- Sub-projects that would trigger WB PS5: Land Acquisition and Involuntary Resettlement because of land acquisition and or involuntary resettlement, as well as works, non-consulting services, and consultant services on the World Bank's negative list will not be eligible for financing.
- Sub-projects that would trigger WB PS6 and WB PS8, projects having adverse impacts on sensitive areas (e.g., critical habitats, cultural heritage) will not be eligible for financing.
- Sub-projects in the Exclusion List of Eximbank and the WBG Exclusion List (https://www.ifc.org/exclusionlist), including any production or trade of weapons and/or munitions, alcoholic beverages (excluding wine and beer) and tobacco, will not be eligible for financing.
- Sub-projects involving harmful child and forced labor will not be eligible for financing.
- 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 two years after the Project), as may be requested by the World Bank, and/or Eximbank.

ANNEX 3: Financial Intermediary Assessment for Eximbank

COUNTRY: Türkiye
Green Export Project

1. **Eximbank is Türkiye's official export financing institution, established in 1987, and wholly owned by the government.** Eximbank was founded in 1987, as a non-deposit taking development and investment bank. The bank is fully owned by the government, with its shares managed by the Ministry of Treasury and Finance (MoTF). The government oversees Eximbank's activities via the Supreme Advisory and Credit Guidance Committee, chaired by MoTF, and comprised of Deputy Ministers of MoTF, Ministry of Science, Industry, and Technology, Ministry of Trade, President of the Central Bank of the Republic of Türkiye (CBRT) and Deputy President of Strategy and Budget. Except for Eximbank's General Manager, who is appointed by the Board of Directors, other Board members, including the Chairman, are elected by the General Assembly. While wholly owned by the government, Eximbank operates as an independent legal entity in line with BRSA regulations. Its credit decisions are made autonomously, following a thorough and detailed credit evaluation processes, and no loan is approved without adhering to these processes. Eximbank is subject to BRSA prudential oversight. Eximbank's headquarters are in Istanbul; it has 3 regional directorates, 23 branches and 12 liaison offices throughout Türkiye.

2. **Eximbank rigorously monitors its transactions for compliance; all clients, shareholders, and related entities are vetted against national and international sanctions lists.** The bank ensures that its transactions do not involve sanctioned individuals, countries, or entities and continually screens its clientele accordingly. The Compliance Department evaluates suspicious transactions, reporting to the Financial Crimes Investigation Board (MASAK). Eximbank refrains from associating with blacklisted entities, those sanctioned by the United Nations Security Council or labeled as Specially Designated Nationals by the U.S. Treasury. Eximbank avoids businesses in sanctioned areas and does not work with Shell Banks or their affiliates. Relationships are not initiated without thorough identification and clarity on business intent. Furthermore, the Paygate Maestro system cross-references every payment with a Dow Jones database to verify sanction compliance.

3. **Additionally, Eximbank adheres to its "Policy and Codes of Practice on Prevention of Laundering Crime Revenues and Financing of Terrorism."** This policy is in line with national and international laws and standards, addressing concerns like money laundering, terrorism financing, and weapons proliferation. Through prior agreements with the World Bank, Eximbank commits to abstain from, and ensures its affiliates do not engage in, any sanctionable practices. Eximbank also upholds standards against sanctionable actions by those blacklisted from World Bank Group contracts.

4. **Eximbank's mandate is to support the development of Turkish exports and exporter's sustainability through:** increasing the volume of exports, supporting exporters to diversify destinations and sectors, facilitating exporters entering new markets, increasing the exporters' share in international trade, and increasing exporters' competitiveness by mitigating risks and promoting sustainability. Eximbank is also a participant of the OECD Arrangement on Officially Supported Export Credits.[33] In recent years, the bank has strategically shifted towards a new strategy that emphasizes SMEs, added value, and sustainability. It has notably taken a pioneering role in the Turkish Banking Sector by calculating the carbon footprint generated by its customers. Additionally, it calculates greenhouse gas emissions resulting from business and investment loans, with verification in line with ISO 14064:2018 standards. Their commendable efforts in

[33] The main purpose of the Arrangement is to provide a framework for the orderly use of officially supported export credits by fostering a level playing field in order to encourage competition among exporters based on quality and prices of goods and services exported rather than on the most favorable officially supported export credits.

this realm earned them prestigious awards in sustainable financial innovation in 2022. These endeavors underscore their commitment to resilience mechanisms against climate change.

5. **As of May 31, 2023, Eximbank has facilitated around 16.5 precent of Turkish exports and has a market share of approximately 31 percent in total export loans within Türkiye.** Eximbank is the largest development and investment bank and the 9th largest bank in Türkiye in terms of the size of the loan portfolio, and the market leader in export credit insurance. The bank's primary objective is not profit-oriented, instead aiming for earnings that correspond to its risk profile. Its portfolio predominantly consists of low-risk, short- and long-term loans to Turkish exporters, backed by private Turkish banks' guarantees and Export Development Corporation's guarantees. This prudent approach has led to sound asset quality, strong capitalization, and steady profitability, all in line with the bank's mission. Any losses incurred by Eximbank under the credit, guarantee and insurance programs due to political risk are covered by the government. MoTF also provides guarantees for borrowings from supranational institutions if required.

Overall Financial Position

6. **The most recent financial statements released by Eximbank indicate a growing bank with stable financial metrics and compliance with all applicable regulations.** The 2022YE financial statements were prepared in accordance with BRSA regulations and reviewed by EY, its independent auditors, with an unqualified opinion. Total assets grew by 7.3 percent in Turkish Lira (TL) terms to TL 346 billion but decreased by 24 percent in USD terms due to FX depreciation and slowdown in loan growth in 2022. Eximbank's profitability improved (37.2 percent ROE in 2022 vs 23.9 percent in 2021) and the bank maintained its capital buffers (20.9 percent) and low non-performing loans (NPLs) (0.21 percent) (see Table 1). This is driven by (i) the principle of taking high-quality collateral such as letters of guarantees from commercial banks against its lending; and (ii) the underlying borrower's export-based cash flow, which provides a natural hedge against currency devaluation. As of December 2022, Eximbank's NPL ratio is the lowest in the Turkish banking sector, and the Stage II ratio is a low 0.7 percent. However, the liquidity coverage ratio declined as of 2022 year-end (60.9 percent in December 2022 vs 309.3 percent in June 2022) due to high Eurobond repayments. As of June 2023, the FX liquidity ratio recovered to 311.1 percent and FX&TL liquidity ratio to 322.9 percent.

Table 1. Eximbank's Prudential Ratios

Percent	2018	2019	2020	2021	2022
Capital Adequacy Ratio	18.6	19.1	20.0	18.0	20.9
Gross NPL/total loans	0.3	0.4	0.6	0.2	0.2
Stage 2 Loans/total loans	0.5	0.42	1.9	0.3	0.7
Return on Average Assets	0.8	0.9	0.8	1.2	1.8
Return on Average Equity	13.1	18.7	14.8	23.9	37.2

Source: Eximbank's audited financial statements.

7. **Eximbank is rated B3 and B-, respectively, by Moody's and Fitch as of August 2023, which is one notch below the sovereign rating in case of Fitch and aligned with the sovereign rating for Moody's.** Moody's revised the outlook to positive in January 2024. While the ratings reflect the high government propensity to support Eximbank given its ownership structure and policy role, it also reflects Eximbank's considerably larger balance sheet and volumes of external market funding than the state's other development banks and considering the sovereign's ability to provide support in FX. Eximbank's operating environment and its performance are highly influenced by Türkiye's overall macroeconomic risks.

Structure of Assets and Liabilities

8. **Eximbank's assets consist of 88 percent loans, 6.2 percent liquid assets, and 5.8 percent securities held to maturity and other assets in 2022**. As of 2022YE, Eximbank's total foreign currency (FX) denominated assets amounted to TL223 billion (65 percent of its total assets), same as its total FX liabilities. Eximbank's FX position is followed daily, and the transactions are performed in accordance with the market and within limits set by the Board of Directors of Eximbank. Borrowing strategies are determined in accordance with Eximbank's asset structure. As part of its strategy to manage the impact of exchange rates and to hedge against FX exposure, Eximbank enters into swap transactions[34]. Short-term currency swap transactions are carried out during the year to meet exporters' FX loan demand and to manage Eximbank's FX risk. As noted above, Eximbank's borrowers are less exposed to currency risk as their FX revenue provides a natural hedge.

9. **Eximbank's loan portfolio reached TL 306 billion as of 2022YE, a 6 percent increase over the previous year in TL terms.** About 65 percent of total loans are denominated in FX. Of the FX loans, 62 percent and 38 percent are denominated in EUR and USD respectively. In terms of maturity as of 2023Q2, 58 percent are short-term loans and 42 percent are medium- and long-term loans. Eximbank typically lends at fixed and floating rates and borrows at floating rates, but it closes its open positions with interest rate swaps. It typically reports positive repricing gaps in all-time buckets of up to one year.

10. **Eximbank's liabilities consist predominantly of borrowed funds (about 92 percent as of June 2023), with the majority of those stemming from the CBRT's rediscount facility.** As a non-deposit-taking development bank, Eximbank borrows from domestic and foreign money and capital markets to fund its operations outside of its equity. The CBRT's rediscount facility accounts for 54 percent of Eximbank's total debt liabilities. Firms can obtain short-term export rediscount credits from the CBRT through intermediary banks (including Eximbank) by presenting foreign exchange bills for rediscount.[35] CBRT loans are back-to-back transactions and funding is provided on a daily basis. Funding and lending maturities are fully matched. Eximbank only acts as an intermediary under this program.

11. **Eximbank's stock of external funding declined significantly to USD 16.4 bn from USD 21.9 bn (by 25 percent) in 2022.** This is a result of increased borrowing costs due to higher country risks and a decline in using the CBRT's rediscount facility due to lower exporter demand. Apart from the CBRT funding, Eximbank's external funding comes primarily from Eurobonds (14 percent) and supranational funding guaranteed by the government and the borrowings guaranteed by supranational institutions (17 percent). The remainder are syndicated loans, bilateral funding, and other TL and FX funding (15 percent in total). In May 2022, Eximbank renewed its syndicated loan by 104 percent with the participation of 26 international financial institutions, and obtained a total of USD 745 million in funding, consisting of EUR 504 million and USD 205.8 million, with a maturity of one year. In November 2022, the Bank renewed the syndicated loan by 101.4 percent with the participation of 24 international banks, in connection with sustainability, and obtained a total of USD 588 million, comprising EUR 404.2 million, USD 136 million and CNY 350 million, with a maturity of 1 year. Eximbank issued its latest Eurobond in October 2023 (USD 500 million with a 3.25-year maturity). In its funding objectives, Eximbank aims to match the tenor of funding with the tenor of its assets, diversify its funding sources and match currencies. As a

[34] Eximbank applies hedge accounting for the measurement of derivative financial instruments, which are related to the bonds issued and accounted for hedge accounting. Financial derivatives which are used as hedging instruments in fair value hedge accounting are cross-currency and interest rate swaps and forward transactions. Eximbank maintains a conservative net FX position, which is close to balanced.

[35] A reduction of Central Bank funding through the export rediscount loan program is highly unlikely as this is a major policy tool to support exporters and a reserve accumulation strategy for the central bank where it provides TL and collects FX from exporters. Although representing about 54 percent of Eximbank funding, it is expected that the CBRT program would not generate a significant disruption in liquidity management even if it was phased out. The CBRT program is managed as a separate program, isolated from Eximbank's other activities. This portfolio is also backed up with strong collateral and commercial bank guarantees whereas Eximbank takes limited credit risk of exporters.

result, Eximbank has limited maturity mismatch on its balance sheet and is able to maintain a conservative net foreign exchange position/regulatory capital ratio (2.97 percent as of December 2022).

Credit risk

12. **Eximbank's credit risks remain low due to strong credit risk mitigation measures.** As of 2022YE, Eximbank's NPL ratio continues to be very low (0.21 percent) compared to the banking sector average (2.1 percent). Low NPLs reflect the requirement for Eximbank's borrowers to obtain a 100 percent guarantee against their liabilities to Eximbank from commercial banks in Türkiye. Eximbank also accepts CGF and Export Development Corporation guarantees. As such, Eximbank's credit risk mostly lies with the bank counterparty rather than the end borrower. In addition, the Stage 2[36] loan ratio is also low at 0.7 percent in December 2022, compared to around 10 percent in the banking sector. Eximbank manages its credit risks through provisions covering 100 percent of gross NPLs, which is above the banking sector average of 81.5 percent as of 2022Q2. As per guaranteeing policy, since credits are mostly extended based on the risk of the domestic bank, Eximbank can undertake risk of up to 20 percent of the cash and non-cash total credit risk amount for a single bank.

13. **Exporting companies comprise 95 percent of Eximbank's total customers as of 2022YE.** The twenty largest clients represent 28.5 percent of the loan portfolio as of 2022YE (26.2 percent as of December 2021). The top twenty country risk exposures under the export credit insurance programs constituted 70 percent (69 percent in December 2021) of total insurance exposure for the same period. Eximbank has a well-balanced sectoral loan diversification. Diversification by destination is less balanced, with 41 percent of loans concentrated on exporters targeting the EU market. Although the material share of FX loans in Eximbank's portfolio increases exposure to currency volatility, the currency risk is mitigated by the fact that borrowers' cash flows are typically matched by currency, given their export activities, or structurally ensure some level of FX or FX-indexed cash flows.

Liquidity risk

14. **Eximbank maintains sufficient liquidity to meet the bank's obligations with limited maturity mismatch.** The liquidity coverage ratios have decreased from 613.10 (FC+TL) in December 2020, to 376.36 in December 2021, and to 60.95 in December 2022 due to bulk syndication and Eurobond coupon payments, before recovering to 578.74 percent in March 2023. However, as noted above, Eximbank's external funding decreased significantly due to higher borrowing costs associated with increasing sovereign risk. Eximbank has a relatively low liquid assets over total assets ratio at 6.6 percent in 2022Q4 (including cash, banks, and security portfolio) but that is offset by (i) half of Eximbank's funding coming from the CBRT, with funding and lending maturities fully aligned, (ii) the average maturity of Eximbank's interest-bearing liabilities as of 2023Q2(468 days) being longer than for its loans (328 days), with limited maturity mismatch, and (iii) access to sovereign guarantees to support Eximbank in securing access to long-term multilateral funding, mitigating debt rollover risk.

Capital buffers and profitability

15. **As of 2022YE, Eximbank had a Common Equity Tier (CET) 1 ratio of 16.5 percent and CAR of 20.9 percent.** This compares to 13 and 18.02 percent as of 2021YE, respectively.[37] Capital buffers are adequate given operating environment

[36] Includes financial assets which have a significant increase in credit risk since initial recognition, but unbiased evidence does not occur. Lifetime expected credit losses are recognized for these financial instruments.

[37] As per BRSA regulations, the Common Equity Tier I Ratio must be above 4.5 percent. Tier 1 Ratio - minimum ratio must be above 6 percent. Capital Adequacy Ratio (CAR) - minimum ratio must be above 8 percent and target ratio must be above 12 percent.

risks, high FX lending, and Eximbank's low average risk-weighted assets (RWA) density. The adequate capital cushion and lending strategy, which relies primarily on commercial bank and sovereign guarantees, and reinsurance, underpin the resilience of Eximbank's risk profile. However, capital ratios are vulnerable to TL depreciation risk given that equity is denominated in TL while assets are largely in FX. To address this issue and to maintain Eximbank's lending capacity, the government has made capital contributions over recent years, increasing capital to broadly offset the impact of FX depreciation on RWAs. The most recent capital injection was TL 6.8 billion in July 2023, increasing the bank's paid-in capital to TL 20.6 billion.

16. **In response to the pandemic, the economic downturn, and financial market volatility, the Turkish authorities introduced regulatory forbearance measures for banks from March 2020 onwards to reduce pressure on reported financial metrics.** After several amendments, as of January 2023, banks are allowed to use the 2022YE FX rate for calculating capital ratios (18.7 USD/TL). Eximbank's CAR figures also benefit from these measures, with the uplift estimated at around 418 bps as of 2023Q2.

17. **Eximbank has maintained its profitability, targeting a ROE slightly above inflation given its policy role**. Profitability has been supported by its low cost of funding, low-risk assets, strong credit risk mitigants, and lean operating expenses. The bank is exempt from paying corporate and stamp tax. It is also exempt from reserve requirements. Revenues are primarily reliant on net interest income (with 1.7 percent Net Interest Margin at 2022YE), while fee income is very low. Eximbank's Return on Equity was 37.2 percent, and its Return on Assets was 1.8 percent as of 2022YE.

ANNEX 4: Market Conditions and Structure of the IBRD Loan Guarantee

COUNTRY: Türkiye
Green Export Project

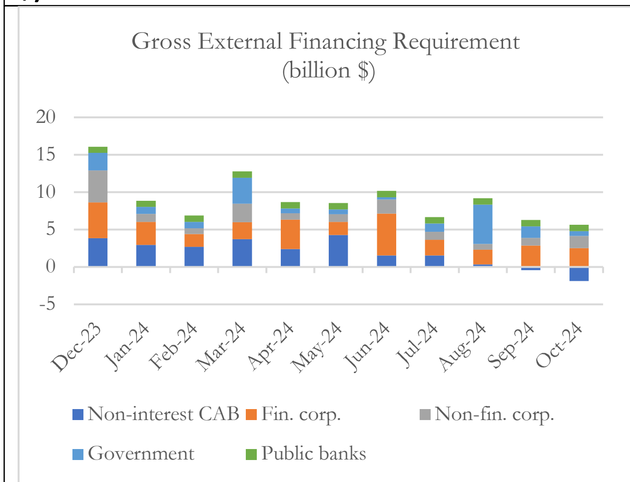
Comparative Market Conditions

1. **Following the May 2023 elections, the government has taken positive steps to normalize Türkiye's macroeconomic policies.** The central bank increased the policy rate from 8.5 percent in May 2023 to 42.5 percent in December (and signaled further tightening until there is significant improvement on inflation) and imposed new reserve requirements and other measures to limit loan growth. Distortive financial regulations are being unwound (including easing maintenance requirements on securities that require banks to hold government bonds and rolling back the FX-protected deposit scheme) alongside fiscal consolidation through tax increases. The TRY continues its steady realignment as foreign exchange interventions slowed and central bank net reserves have started to recover. But lira depreciation, minimum wage increases, and the impact of higher taxes reignited inflationary pressures. Annual inflation rose for the first time in nine months in July to recently stand at 64.8 percent in December 2023, after reaching an 18-month low in June, despite monetary policy tightening. Türkiye's economy is projected to initially slow to 4.2 percent in 2023 and 3.1 percent in 2024 as the economy adjusts from the previous over-accommodative and unsustainable macroeconomic stance.

2. **Türkiye's external financing needs remain high and are susceptible to sudden changes in the external environment.** Excluding foreign exchange currency, the deposits of non-residents, and trade credits, the monthly gross external financing requirement (GEFR) is estimated at around US$8.9bn between December 2023 and October 2024 (Figure A). A large proportion of debt maturing is expected to be rolled over, however a continued fall in the lira would put additional pressure. According to the Central Bank of Türkiye's January Survey of Market Participants, the lira is expected to continue to depreciate over the next year, reaching 40.6 ₺/US$. Financial corporates are expected to account for 33 percent of total external financing needs over the next eleven months. Reflecting greater investor confidence and reduced probability of default, 5-year CDS values have come down from 679, prior to the second round of elections in May, to around 300. Recognizing recent policy adjustments that reduce near-term macro-financial stability risks and ease balance of payments pressures, credit rating agencies have upgraded Türkiye's credit rating outlook from negative to stable or positive but have not upgraded the credit rating (currently S&P: B; Moody: B3; Fitch: B) citing remaining risks to the country's creditworthiness and uncertainty about the ability of the policy adjustment to bring down inflation.

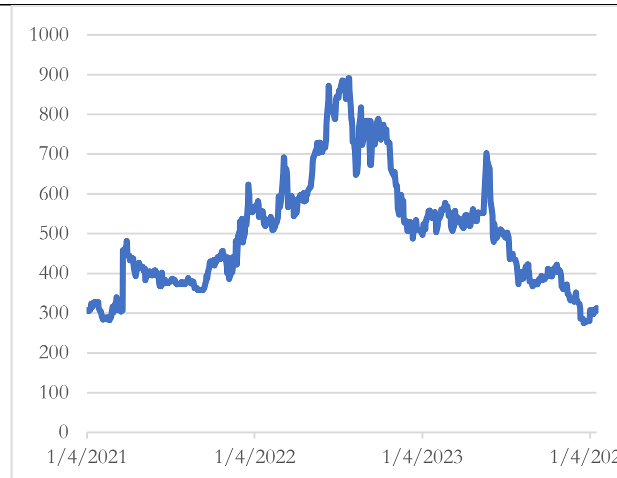
3. **In recent years, the government of Türkiye has been periodically issuing bonds in the international market, while interest rates have increased considerably.** Since the COVID-19 pandemic, around USD 8.7 billion, USD 6.5 billon and USD 5.5 billion of bonds were issued in 2020, 2021 and 2022, respectively. In 2023, USD 7.5 billion have been issued until early October, with the longest maturity 10-year bond priced at a coupon of 9.375 percent. The 10-year bond coupon in 2023 had increased by about 4 percentage points compared to 2019, consistent with the increase in US treasury bond yields. Recent yields to maturity of Turkish government bonds were around 9 percent, or about 4 percentage points above US treasury bonds (Figure C).

Figure A: Gross External Financing Requirement (billion $)



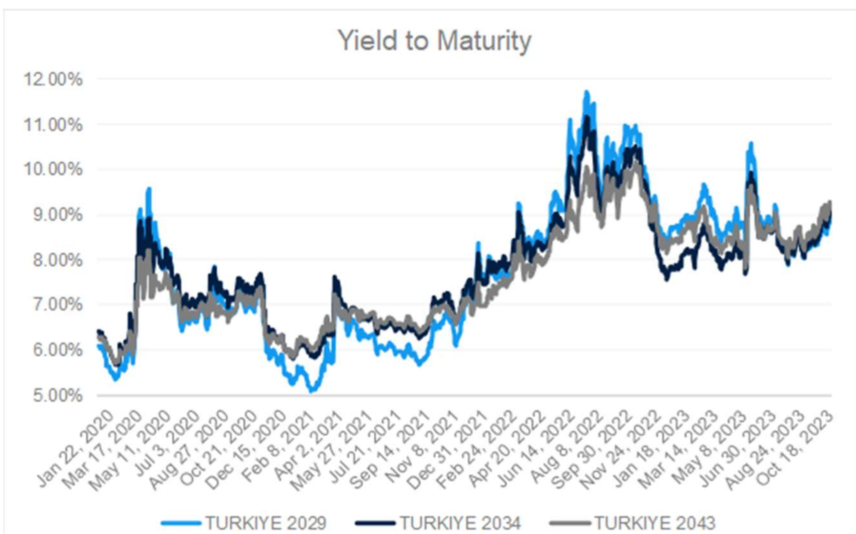
Source: Central Bank of Türkiye, Turkish Ministry of Treasury and Finance, World Bank staff estimates and calculations.
Note: Does not assume any changes in FX deposits and excludes trade credits.

Figure B: 5-year Credit Default Swaps (basis points)



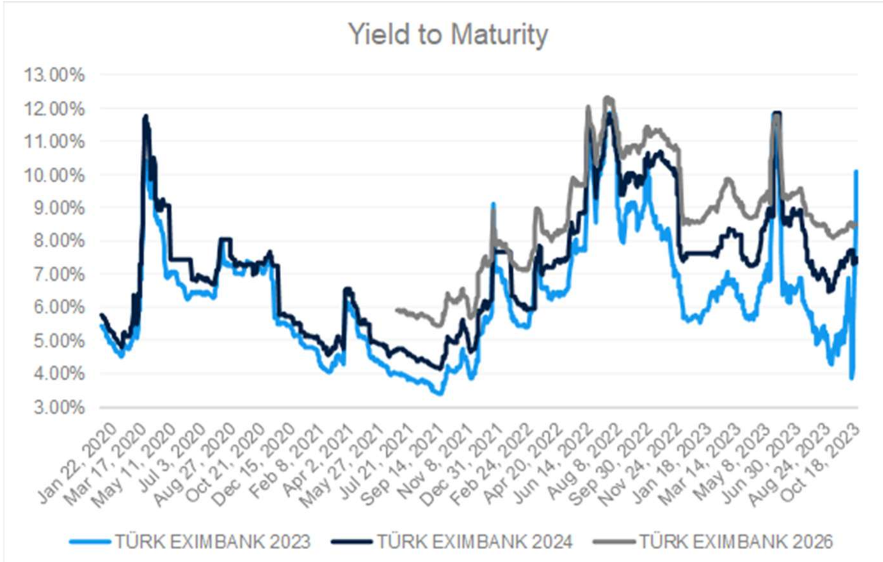
Source: Türkiye Data Monitor

Figure C. Recent Trends in Turkish Government Bonds



4. **Eximbank issued Eurobonds in 2016, 2018, 2019, 2021, and 2023.** These bonds have 1–7 years maturity with each issue size of USD 500 million and USD 750 million. The most recent sizeable issuance was in October 2023, USD 500 million, 3.25–year, at a coupon of 9 percent.

Figure D. Eximbank Eurobond's Yield to Maturity



Market Sounding

5. **The market sounding conducted between August-October 2023 indicated that IBRD guarantee support is critical to any long-term debt issuance given current perceived risk in Türkiye.** The structure tested entailed a 50-70 percent guarantee on a first-loss, rolling basis covering loan principal. Feedback from nine commercial banks and two insurance companies was received during August and early October 2023. Commercial banks will pursue a combined IBRD guarantee plus credit insurance structure to cover risk, with a total coverage of around 95 percent. However, since the insurance market is constrained, it is possible that the expected EUR 1 billion loans, 10-year final maturity, will need to be staged over the 24-month period to accommodate the insurance market constraints.

6. **Eximbank launched the official Call for Expressions of Interest on October 17, 2023.** Commercial banks were asked to provide indicative pricing and amount for a final maturity of 10 years including 2-year grace period in EUR or USD for each of 50 percent and 60 percent IBRD guarantee coverage structures. By early November 2023, the indicative responses from nine banks indicate that: (i) For banks that offer both 50 percent and 60 percent guarantee cover, the proposed financing amounts for most banks are the same for both coverage levels. The difference is the lower lending margin at a higher coverage level. That said, some banks only offered 60 percent coverage; (ii) Due to the insurance market constraint, 60 percent guarantee coverage is more likely to help mobilize the full EUR 1 billion loan, or a slightly lower amount, in one instance; (iii) Extending guarantee coverage to both principal and interest repayments will increase the likelihood of more banks making an offer; (iv) EUR offers generally have lower margins over EURIBOR and all-in interest rates, compared to USD offers (margins over SOFR). Eximbank will select the loan amount, currency, and IBRD guarantee coverage level in consultation with IBRD.

Transaction Structure

7. **The total volume target is EUR 1 billion or equivalent in USD, which will be supported by an up to EUR 600 million IBRD guarantee.** The initial loan is expected to be mobilized in the first calendar quarter of 2024. If needed, the subsequent loan is expected later in 2024 or 2025, depending on market conditions. Similar to the 2020 and 2021 transactions, the loan is expected to be disbursed fully soon after the respective transaction closure.

8. **Eximbank, as the issuer, would have the primary obligation to ensure timely repayment to the investors.** However, if Eximbank fails to make a guaranteed payment of the debt services amount when due, the creditors could call on IBRD's guarantee for repayment of the amount in default. Following that payment by IBRD to creditors, IBRD would have sole discretion to decide whether to demand immediate repayment from Türkiye or to extend terms for repayment over time, through its Indemnity Agreement with the Government. The guarantee would not be reinstated for any amounts paid under guarantee; however, any uncalled amounts of the guarantee would remain in place and paid according to the original agreed structure. Please refer to the term sheet for the terms and conditions of the proposed guarantee.

ANNEX 5: Exporter Access to Finance – Analysis of Firm-Level Data

COUNTRY: Türkiye
Green Export Project

Long-Term Credit Relationship of Investment and Export for CBAM sectors and Green Exporters in Türkiye

1. Companies involved in international trade frequently rely on credit to manage the initial costs of exporting, such as production, shipping, and marketing. This helps to stabilize their cash flow between the time of spending and receiving payments from global customers. Companies also require credit for investments, which can improve their competitiveness and exports over time. This study delves into the role of long-term credit in fostering investments and exports in CBAM sectors and for green exporters, utilizing data sources such as Customs Data, Credit Registry Data, and Balance Sheet Data from 2009-2021.[38]

Analysis for CBAM Sectors

2. We analyze the effect of long-term credit on investment and exports using the following specification:

$$y_{it} = \alpha + \beta RCredit_{jt} + g_i + \theta_t + \lambda_{st} + e_{it} \quad (1)$$

where y_{it} is the time difference of the logarithm of tangible assets (investment) and the logarithm of the export value of the firm i at time t. $Credit_{jt}$ refers to the share of long-term credits within the total credits where long-term loans are defined as those with a maturity period of one year or longer. In equation (1), g_i stands for firm fixed effects and θ_t for time fixed effects. To control for sector-specific technological effects, we include a vector of sector–year fixed effects, λ_{st}, where sector is at the four-digit level.

3. Before discussing the regression results, it is valuable to conduct a comparative analysis between CBAM firms that engage in exporting and those that do not. On average, exporter firms exhibit significantly greater sales figures (TRY 187 million compared to TRY 11 million), a higher level of employment (122 employees versus 13 employees), and a larger total credit exposure (TRY 72 million versus TRY 15.8 million).

4. The results of the estimations are reported in Table 1. There is a positive association between long-term credits and investment (column (1)). Moreover, higher credits are associated with a higher amount of exports (column (2)).

Table 1. Effect of Long-Term Credits on Investment and Export for the CBAM Sectors

	(1)	(2)
	Investment (Log Difference of Tangible Assets)	Exports (Log Value)
Share of Long-Term Credits	0.187***	0.129**
	(0.048)	(0.055)
Number of Observations	13,041	14,844
R-squared	0.238	0.795

Notes: Dependent variables are the time difference of the logarithm of tangible assets and the logarithm of the export value. The share of long-term credit is the share of long-term credits in total credits. All models include firm, year and 4-digit NACE-2 x year fixed effects. Standard errors are clustered at the firm level in all regressions. Statistical significance

[38] Following the BDDK (2022), the CBAM sectors are 2351, 3511, 2015, 2410 2420, 2431, 2432, 2433, 2434, 2442, 2451, 2452, 2511, 2512, 2529, 2591 and 2592 four-digit NACE2 sectors.

*** at the 1 percent level, ** at the 5 percent level, * at the 10 percent. The sample consists of only exporter firms operating in CBAM sectors.

Analysis for Green Exports

5. Green exports play an important role in mitigating climate change by encouraging the adoption of cleaner technologies and environmentally conscious production methods. Furthermore, they open doors to new markets and trade partners, enhancing economic diversification and resilience. This study extends its focus to green exporters, analyzing long-term credit-investment and export relationship using the Entrepreneurship Information System (EIS) database from 2006-2021:

$$y_{it} = \alpha + \beta RCredit_{jt} + g_i + \theta_t + \lambda_{st} + \mu_{rt} + e_{it} \qquad (2)$$

In equation (2), the dependent variable, y_{it} is the logarithm of tangible assets (investment) and the logarithm of the green export value of the firm *i* at time t. $Credit_{jt}$ is the share of long-term credit in total credits. We also include logarithms of short-term and long-term credits in a separate regression. In the equation, g_i stands for firm fixed effects and θ_t for time fixed effects. To control for sector-specific technological effects, we include a vector of sector–year fixed effects, λ_{st}, where sector is at the four-digit level. We also add region-year fixed effects μ_{rt} to control for region-specific time-varying shocks.

6. Before discussing the regression results, it is useful to compare green exporter firms with non-green exporter and non-exporter firms. Green exporter firms are significantly larger than non-green exporter firms and non-exporter firms. The average total sales of these three groups of firms are TRY 136 million, TRY 30 million and TRY 3.5 million, respectively. Moreover, the average export value of green exporter firms is higher than that of non-green exporter firms (US$9.4 million vs US$1.7 million).

7. Table 2 presents the regression results. We find positive and significant coefficients for the share of long-term credit in both investment and export estimations. In other words, a higher share of long-term credits is associated with higher investment and higher export (Panel A). Moreover, we identify positive short-term and long-term credit elasticities of investment and export for green exporter firms. However, the coefficients of long-term credit elasticities are significantly higher than short-term credit elasticities which indicates the key role of long-term financing for both investment and export (Panel B).

Table 2. Effect of Long-Term Credits on Investment and Exports of Green Exporters

	(1)	(2)
Panel A	Investment (Log Difference of Tangible Assets)	Green Exports (Log Value)
Share of Long-Term Credits	0.1090***	0.0808***
	(0.0159)	(0.0293)
N	44,451	48,293
R-squared	0.337	0.700
Panel B		
Short-Term Credits	0.0047***	0.0054***
	(0.0010)	(0.0016)
Long-Term Credits	0.0074***	0.0079***
	(0.0009)	(0.0016)
N	64,826	75,768
R-squared	0.308	0.682

Notes: Dependent variables are the time difference of the logarithm of tangible assets and the logarithm of the green export value. The share of long-term credit is the share of long-term credits in total credits. Short-term credit is the amount of credits that have a maturity of less than one year. Long-term credit is the amount of credits that have a maturity of one year or more. All models include firm, year, 4-digit NACE-2 x year fixed effects and NUTS 3 x year fixed effects. Standard errors are clustered at the firm level in all regressions. Statistical significance *** at the 1 percent level, ** at the 5 percent level, * at the 10 percent. The sample consists of only green exporter firms.

8. In conclusion, we identify a positive relationship between long-term credits and investment and long-term credits and export for firms operating in CBAM sectors as well as firms engaged in green exporting in Türkiye. Therefore, the development of policies aimed at facilitating access to long-term credit for these firms could prove to be valuable.