

INTEGRATED SAFEGUARDS DATA SHEET

CONCEPT STAGE

Report No.: 146317

Date ISDS Prepared/Updated: November 27th, 2019

I. BASIC INFORMATION

A. Basic Project Data

Country: Turkey	Project ID: P171448	
	Additional Project ID (if any):	
Project Name: Long Term Export Finance Guarantee Project		
Task Team Leader: Alper Ahmet Oguz, Alexander Pankov		
Estimated Appraisal Date: March 19, 2020	Estimated Board Date: July 2, 2020	
Managing Unit: Finance, Competitiveness and Innovation	Lending Instrument: Guarantee	
Sector:		
Theme:		
IBRD Amount (US\$m.): IDA Amount (US\$m.): GEF Amount (US\$m.): PCF Amount (US\$m.): Other financing amounts by source:		
Environmental Category: FI - 2		
Simplified Processing	Simple []	Repeater []
Is this a transferred project	Yes []	No [X]

B. Project Objectives:

The Project Development Objective (PDO) is to improve access to longer term finance for Export Oriented Small and Medium Enterprises (EOSME) and Export Oriented Large Enterprises (EOLE).

Key PDO indicators include the following: (i) ratio of the average maturity of EOSME sub-loans financed under the project, over the average maturity of Eximbank's EOSME portfolio; (ii) ratio of the average maturity of EOLE sub-loans financed under the project, over the average maturity of Eximbank's EOLE portfolio; and (iii) number of EOSME and EOLE beneficiaries financed under the project.

Key intermediate indicators include: export multiplier¹, private capital mobilization, volume of support, Eximbank's financial performance and compliance with prudential indicators, quality of sub-loan portfolio, gender and client engagement indicators, and additional indicators (e.g., profile and performance of beneficiary enterprises).

C. Project Description:

Sectoral Context:

Turkey's export performance in the past two decades has been strong with significant progress in market and product diversification. On the other hand, Turkey's current development goals critically depend on continued strong export growth. Delivering the ambitious export growth targets presents unique challenges, placing the emphasis on the provision of longer-term finance. Domestic macroeconomic environment has become more challenging for Turkish firms. In addition, given the expected slowdown in both advanced and emerging economies, Turkey may not benefit simply from the 'pull' of growing global demand to the extent that it did over the past decade. Achieving sustained rapid export growth and reaching the government's export targets will require a significant increase in Turkey's global market share. This, in turn, will require that exporters become more competitive by producing goods at more attractive prices, expanding their product range to the faster growing market segments, and improving quality and technological sophistication to command higher prices in export markets. However, expanding into new markets, where importers require deferred payment terms, and increasing the supply of more capital intensive and sophisticated goods are critically dependent on improved access to longer term finance for Turkish export-oriented firms.

Turkish banks' ability to offer longer maturities to borrowers has been hampered by the shortage of long-term funding sources. Long term finance is crucial since it reduces firms' exposure to rollover and interest rate risks, enabling them to undertake longer term fixed investments and maintain/expand employment opportunities. However, average maturity of domestic deposits in Turkey, the banking system's main funding source, is well below three months, while most of the lending was concentrated well above three months. Longer term funding that banks can mobilize from external sources is also rather scarce and expensive, with most of it coming in the form of syndicated loans with one-year maturity. The result is a chronic maturity mismatch (i.e., short terms liabilities exceeding liquid assets, also known as the liquidity mismatch risk) that peaks in the one to five-year maturity. Recent deleveraging and reduced access to external funding sources have further weakened the banking sector's limited ability to extend long-term maturity with the affordable costs to real sector.

Project Description:

The proposed instrument is a EUR 250 million IBRD Loan Guarantee to Eximbank that would enable raising at least EUR 500 million in a 7-10 year loan structure from the

¹ Ratio of the export growth of EOSMEs and EOLEs under the project relative to the export growth in the relevant sector of the economy.

international markets. Based on preliminary market sounding conducted by the WB team in recent months, the IBRD Loan Guarantee could assist Eximbank in mobilizing resources well beyond the notional amount of IBRD guarantee amount, while also achieving significantly longer maturity and lower all-in cost for Eximbank than are achievable on a standalone loan basis. Eximbank has prior experience with funding its operations through borrowings from domestic and international money and capital markets. Eximbank has issued eight bonds since 2012 and raised 5-7 years funding from the market in the benchmark size of USD 500 million at a cost of around 150-200 bps above sovereign. Eximbank also used MIGA guarantees to access markets. However, after August 2018, bond markets were not available for Turkish banks due to restrictive cost and risk aversion of international investors². Ultimately, the larger amount achieved by mobilizing longer-term private sector funding will help Eximbank to support more exporters at an appropriate maturity and at attractive rates, while keeping the all-in funding cost at a level that does not adversely affect Eximbank's cost recovery over time.

Eximbank will utilize the entire amount (i.e., covered and uncovered portions) of raised funds to directly extend sub-loans to private Small and Medium Sized (SME) and Large Enterprise (LE) export-oriented firms. For the purpose of this project, in line with the Government policy, exporter will be defined as: a) an entity that exports good or services according to the definition of exports used in the national accounts; or b) entity that commits to provide evidence of exports at least equivalent to the sub-loan amount not later than 6 months after receiving the sub-loan. Also in accordance with the Government standard terminology, SMEs will be defined as firms employing fewer than 250 people, while LEs will be defined as firms employing from 250 to 1000 workers. Eximbank will assume the credit risk of the sub-borrowers which will be selected based on agreed upon selection criteria. Sub-loans will be extended on market terms to avoid any distortion.

Eximbank is selected based on its extensive experience with supporting SME and LE exporters, including through the World Bank projects. Eximbank, a public sector development bank with a export finance portfolio of about US\$ 44 billion, has extensive experience in offering credit and export insurance products to exporters in all regions and sectors in Turkey. Furthermore, Eximbank has a target to further grow its long-term investment and working capital loan portfolio beyond short term-oriented export finance loans (export rediscount and buyer's credit) which is dominating its total loan portfolio currently. Additional criteria for selecting Eximbank included the bank's financial soundness, performance of its credit portfolio, and its good performance as one of the Borrowers in the closed EFIL I (P065188) and EFIL IV (P096858) credit line projects as well as ongoing (but fully disbursed) Long Term Export Finance Project (P156252) financed by the World Bank.

The project will apply OP4.03 Performance Standards for Private Sector Activity with a rationale that the guarantee will support an activity involving a financial intermediary, which will finance the subprojects to be implemented by private entities;

² Eximbank is currently rated by Fitch (B+), and Moody's (B2).

D. Project location and salient physical characteristics relevant to the analysis of environmental and social risks and impacts (if known):

Eximbank will provide sub-loans to SMEs and LEs throughout Turkey. Therefore, the project locations are not known at this moment. SMEs are defined as firms employing fewer than 250 workers, while LEs are firms employing 250-1000 workers. Exim Bank has an ESMS (Environmental and Social Management System) which includes the procedure for sub-project screening, impact assessment and due-diligence analysis as per national environmental requirements and safeguard policies of the Bank. This ESMS will be additionally assessed during project preparation.

While there is no sector specific limitation regarding the type of SMEs or LEs to be financed, it is expected that eligibility for financing will exclude projects with impacts on biodiversity, those requiring land acquisition and/or physical displacement, and those with impacts on cultural heritage. It is estimated that the following sectors will be eligible to financing: logistics and transportation, services, food processing, apparel and clothing, automotive, wholesale trade, electronics, machinery and equipment, electrical appliances, retail, health, information and communication technologies.

During project preparation the Bank will agree with Eximbank on additional exclusion criteria. The financing provided by the Bank will only be used to fund business activities that have a potentially limited adverse environmental or social impact, that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures. The financing by the Bank will not be used for high-risk projects.

E. Borrower's Institutional Capacity for Effective SEMS:

Eximbank will be responsible for the implementation of the project and was selected based on its experience with exporters, and with World Bank projects. Eximbank, a public sector development bank with an export finance portfolio of about US\$ 42 billion, has extensive experience in offering credit and export insurance products to exporters in all regions and sectors in Turkey. Additional criteria for selecting Eximbank included the bank's financial soundness, performance of its credit portfolio, and its good performance as one of the Borrowers in the closed EFIL I (P065188) and EFIL IV (P096858) credit line projects as well as ongoing (but fully disbursed) Long Term Export Finance Project (P156252) financed by the World Bank. Eximbank has dedicated staff for the implementation of the ESMS. Eximbank also has experience with IFC Performance Standards gained through projects supported by MIGA. MIGA's Environmental and Social Action Plan (ESAP, 2018) included measures such as capacity building of E&S specialists, developing procedure for responding to stakeholders on queries in relation to Cat A and B projects, development of a procedure to document E&S review, including review and responding to monitoring reports, and updating Eximbank Environmental and Social Guidelines to include the thresholds in for E&S classification. In addition, Eximbank staff participated in Bank's safeguards trainings.

The Project Implementation Unit (PIU) at Eximbank is staffed with qualified personnel, capable of satisfactorily implementing all aspects of the project, already performed under past World Bank projects. Its responsibilities will include: (i) selection of and lending to SMEs and LEs (ii)

monitoring of SMEs and LEs to ensure compliance with project criteria; (iii) responsibility for adherence to all fiduciary and safeguard (WB Performance Standards) requirements of the World Bank for the final borrowers; and (v) monitoring and evaluation based on key project development indicators.

F. Environmental and Social Safeguards Specialists on the Team:

Jelena Lukic, Sr. Social Development Specialist

Merve Ayse Kocabas Yurtkuran, Environmental Specialist

II. PERFORMANCE STANDARDS THAT MIGHT APPLY

Performance Standards <i>(please explain why)</i>	Yes	No	TBD
PS 1: Assessment and Management of Environmental and Social Risks and Impacts	X		
<p>The project is categorized as FI-2 given the potential subprojects 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. Limited number of subprojects with potential significant adverse environmental or social risks are anticipated within the scope of the project. This standard is relevant to assess the existing system of the Eximbank managing environmental and social (E&S) risks of its portfolio. Eximbank has an Environmental and Social Impact Policy that has been recently updated and published on their website. The policy adopts the principles of OECD Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence, IFC performance Standards, World Bank Group (WBG) Environmental Health and Safety (EHS) Guidelines, World Bank (WB) Environmental and Social Framework (ESF) and United Nations Guiding Principles on Business and Human Rights. Eximbank has an exclusion list that is compatible with the WB's. Eximbank also has an E&S guideline that applies E&S Risk Model for its portfolio – for projects with 10 million USD or above and for below 10 million USD projects that are close to sensitive areas/receptors. There is a screening system that applies categorization of the projects as “A” with potential to have significant adverse E&S impacts, “B” with potential E&S impacts are less adverse than those of Cat A projects and “C” with minimal or no adverse E&S impacts. Depending on the E&S risk categorization, Eximbank requires from its clients to conduct site specific E&S assessment including ESIA's and local official permits. Eximbank conducts E&S review for the projects it finances. The review includes aspects of project description, potential E&S impacts, GHG emissions, public consultation and disclosure etc. The review is followed by an action plan that include proposals about measures in relation to prevent, minimize, mitigate, or compensate for adverse impacts and as well as methods to improve environmental performance. Eximbank monitors the compliance in accordance with its assessment, defined as “Eximbank can procure consultant at any time to monitor compliance with the precautions identified.”</p> <p>The implementation of the E&S policy is the responsibility of Sustainability Committee, while Board of Directors is responsible for approval and updating of the document. The Policy is reviewed annually, and if deemed necessary updated and disclosed with all the stakeholders including its direct employees.</p>			

Performance Standards <i>(please explain why)</i>	Yes	No	TBD
<p>Eximbank publicly discloses environmental and social information including ESIA studies and assessed international standards regarding Category A and Category B projects throughout the disbursement period. Information of Category A projects (in particular, ESIA report, the transaction name, location, transaction description and reference to additional information) is disclosed for 30 days prior to investment decision.</p> <p>The ESMS in place will be assessed in details and the gaps and appropriate mitigation measures to fill the gaps will be identified, with respect to policy statement, organizational capacity, procedures to screening and assessing risks and impacts and monitoring performance during appraisal stage. The assessment will also ensure that Exim has in place stakeholder engagement plan; and community grievance mechanism to meet the requirements of PS1. Once the ESMS is aligned with the WB PS requirements, Eximbank will disclose the followings: (i) the policy statement describing specific objectives, metrics, and aspirations that the Eximbank has set with regard to its environmental and social performance, (ii) procedures for screening and assessing risks and impacts of subprojects and (iii) the summary of the environmental and social assessment that is required for any subproject, after review of the Bank. The progress in implementation of the ESMS will be reported to WB, annually. The WB will also periodically review the results of E&S due diligence conducted by Eximbank, through meetings, site visits and reports.</p>			
PS 2: Labor and Working Conditions	X		
<p>This standard is relevant given that Eximbank has direct workers. As of 2019, Eximbank employed 724 employees in the HQ and branches. The Eximbank's Human Resources (HR) Policy promotes the principle of equal opportunity and attracting of talented and qualified employees. Eximbank also has a Training Policy. According to the requirements of PS2, Eximbank should have an HR Policy and relevant procedures aligned with the PS requirements. Furthermore, the policy should be respectful to the workers' rights including but not limited to collective bargaining, non-discrimination and equal opportunity, prohibition of child and forced labor, grievance mechanism and occupational health and safety. The status of contracted and supply-chain workers will be addressed during project preparation. The existing HR Policy will be assessed against PS2 requirements by the appraisal stage. The review will also include assessment of OHS policies and procedures and any available grievance mechanism for workers. The gaps with PS2 will be identified and addressed with appropriate mitigation measures/action included in the Action Plan. In the past, Eximbank financed sub-projects did not report cases of fatalities, OHS accidents or fines by the Labor Inspectorate.</p>			
PS 3: Resource Efficiency and Pollution Prevention	X		
<p>The sectors included in the project scope are logistics and transportation, services, food processing, apparel and clothing, automotive, wholesale trade, electronics, machinery and equipment, electrical appliances, retail, health, information and communication technologies. The environmental risks and impacts associated with such sectors include water and wastewater management, hazardous materials management, energy and resource efficiency, noise and air emissions, waste management and greenhouse gas emissions. Such impacts will be assessed, addressed and mitigated within the scope of the ESMS and the associated environmental and social impacts assessment studies, after alignment with WB PS requirements.</p>			

Performance Standards <i>(please explain why)</i>	Yes	No	TBD
PS 4: Community Health, Safety, and Security	X		
This standard is relevant given that the subprojects involve sectors relevant to hazardous materials, water and wastewater, solid waste, noise and air pollution. Depending on the location of the Eximbank's clients, the projects to be financed might have impacts and risks on communities with respect to traffic, emergencies, hazardous materials, diseases etc.			
PS 5: Land Acquisition and Involuntary Resettlement		X	
The project concept excludes the sub-projects that will require land acquisition and involuntary resettlement. Such projects are not eligible for financing. The ESMS will include a screening procedure to ensure that sub-projects are screened according to this criterion. The Bank will conduct prior review for an initial set of sub-projects. Supervision will include spot checks for a number of sub-projects. Eximbank should not fund projects that have recently acquired land involuntarily in anticipation of use for the project to be funded by Eximbank.			
PS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources		X	
The project concept excludes the sub-projects that will have significant impacts on the sensitive areas (e.g., nationally and internationally protected areas, cultural values etc.). Such projects are not eligible for financing.			
PS 7: Indigenous Peoples		X	
There are no groups of people or communities that are identified as Indigenous Peoples in Turkey.			
PS 8: Cultural Heritage		X	
Since the project supports existing SMEs and LEs, no impacts/risks on cultural heritage is anticipated. Besides, the potential projects that will have impact on sensitive protected areas will not be eligible for financing. In case of construction activities, it will be ensured that a chance find procedure is established and followed throughout the construction phase.			

III. SAFEGUARD PREPARATION PLAN

- A. Target date for the Quality Enhancement Review (QER), at which time the ESRS would be disclosed and the PAD-stage ISDS would be prepared:
- B. For Category C or Category FI projects that do not require an ESRS, the target date for preparing the PAD-stage ISDS: March 19, 2020
- C. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing³ should be specified in the PAD-stage ISDS:

Assessment of ESMS and preparation of the Action Plan

³ Reminder: The Bank's Access to Information Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in-country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.

IV. APPROVALS

<i>Signed and submitted by:</i>		
Task Team Leader(s):	Name: Alper Ahmet Oguz (Sr. Financial Sector Specialist, Alex Pankov (Lead Financial Sector Specialist)	Date: 12/12/2019
<i>Approved by:</i>		
Regional Safeguards Coordinator:	Name: Nina Che	Date 17/12/2019
Comments:		
Sector Manager(s):	Name: Mario Guadamillas (EECF2) and Sebnem Erol Madan (IPGFS)	Date 12/19/2019 and 06/01/2020
Comments:		
Country Director:	Name: Hebatalla Elgazzar (Program Leader - HECDR) and Eavan O'Halloran (Country Program Coordinator – ECCTR) acting for Auguste Tano Kouame (ECCTR)	Date 12/02/2020
Comments:		