

SBF Project Completion Note

Türkiye: Eximbank COVID-19 Credit Line Project

1. Project Information

Project ID:	P000447	Instrument ID:	L0447A
Member:	Türkiye	Region:	Western Asia
Sector:	CRF-Finance/Liquidity	Sub-sector:	N/A
Instrument type:	Loan	E&S category:	FI
Co-financier(s):			
Borrower:	Türkiye İhracat Kredi Bankası A.Ş. (Export Credit Bank of Türkiye)		
Guarantor:			
Implementing Agency:	Türkiye İhracat Kredi Bankası A.Ş. (Export Credit Bank of Türkiye)		
Project Team Leader(s):	Dominic Richards, Original PTL Ying Shen, PMO		
Project Team Members:	Jinji Liu, Project admin Yi Geng , OSD – Senior Financial Management Specialist Irem Kizilca , Economist Yang Shuai , OSD – Senior Environment & Social Development Specialist Liu Yang , Project Counsel Bernardita Saez , Senior Counsel Shonell Robinson , OSD - Financial Management Specialist Yunlong Liu , OSD - Senior Procurement Specialist		
Site Visits by AIIB:	The project team didn't conduct any physical site visits during the project implementation period due to the travel restriction of COVID 19. However, the project team maintained close contact with the Borrower and had frequent reviews on the project implementation via online video calls and email exchanges. The project was closed successfully before the travel restriction lifted.		

2. Project Summary and Objectives

Project Summary:

Eximbank COVID-19 Credit Line Project provided a sovereign-backed credit line (Credit Line) to Türkiye İhracat Kredi Bankası A.Ş. (Export Credit Bank of Türkiye, Eximbank). Eximbank has then on-lent the proceeds from the Credit Line to sub-borrowers operating in the export sector in Türkiye, providing working capital support to alleviate the liquidity constraints caused by the COVID-19 pandemic. This project was processed under AIIB's COVID-19 Crisis Recovery Facility.

The facility was on-lent in the form of sub-loans to provide liquidity, and it did not support capex financing. Eligible sub-borrowers were private entities registered and operating primarily in Türkiye,

with its main activity being an eligible sector aligned with AIIB's Corporate Strategy. Eligible sectors were detailed in the Operational Manual (OM) and included industries like transportation, telecommunications, and manufacturing, among others.

Objectives:

To increase access to finance (via Eximbank) of firms in Türkiye's export sector that faced liquidity constraints caused by the coronavirus disease (COVID-19) pandemic.

3. Key Dates

Approval:	May 20,2021	Signing:	May 26,2021
Effective:	July 15,2021	Restructured (if any):	
Orig. Closing:	September 30,2022	Rev. Closing (if any):	December 31,2022

4. Disbursement Summary (US Dollar million)

a) Committed:	250.00	b) Cancelled (if any):	0.00
c) Disbursed:	250.00	d) Last disbursement: (amount /date)	250.00 / July 23,2021
e) Undisbursed (if any):	0.00	f) Disbursement Ratio (%) ¹ :	100.00

5. Estimated and Actual Costs

The total estimated costs and actual costs are the same, i.e., USD 250 million. This includes USD 249,375,000 of on-lending proceeds and USD 625,000 of front-end fee. There are no counterpart funds involved in this project.

6. Project Implementation, including major changes to the original Objective, Project Design, and Indicators

The loan disbursement was made in one-go on July 23, 2021, in the format of Advance.

The Loan was extended by three months from Sep 30, 2022, to December 31, 2022. The reason was for the Borrower to on-lend the remaining portion of the Loan (as of September 22, 2022, the utilization rate was 94%). On October 12, 2022, the Borrower confirmed that the utilization ratio had reached 100%.

Other than revision of the closing date, there are no changes made to the original objective, project design, and result framework indicators.

¹ Disbursement Ratio is defined as the volume (i.e. the dollar amount) of total disbursed amount as a percentage of the net committed volume, i.e., $f = c / (a - b)$

Components	Physical Progress	Environmental & Social Compliance	Procurement
This project has only one component and the Borrower has completed the planned on-lending to the sub-borrowers.	There are no constructions in this project.	The borrower has established an Environmental and Social Management System (ESMS) and E&S processes in accordance with the requirements stated in the Operational Manual (OM).	In compliance.

Financial Management:

The loan is fully disbursed, and submission of annual report and compliance certificate of the Borrower is following the schedule. As required under the loan agreement, Eximbank is compliant with Capital Adequacy Ratio (CAR) at 21.08% > minimum level of 12% and is compliant with tangible net worth at Turkish Lira (TRY) 23.9 billion > 5 billion (both covenant compliance status as stipulated in the compliance certificate reported by the client dated June 16, 2023, for 2022 year-end). In the audited annual report, the auditor (EY) expressed that the financial statements fairly represent the financial position of Eximbank. The final audit report has been disclosed to public via below link: <https://eximbank.gov.tr/en/announcements/aiib-covid-19-credit-line-project-closing-report>. Eximbank will take responsibility for the management and monitoring of sub-loan repayments. The loan maturity date is November 15, 2025.

7. Implementation of Environmental and Social Policy and project specific E&S instruments, including the project level Grievance Redress Mechanism (GRM)

No Category A sub-loan was made and there is no grievance received as of the closing date. The External Communication Mechanism (ECM) is established and disclosed at the Borrower's corporate website: <https://www.eximbank.gov.tr/en/contact-us> both in English and Turkish.

The Borrower submitted all required E&S monitoring reports timely during the implementation period. The project is of working capital nature and therefore carries low E&S risk.

ES Performance

Eximbank has been on-lending the proceeds of the Credit Line to sub-borrowers operating in the export sector in Türkiye for their working capital needs per the SMS (Sustainability Management System) which is materially consistent with AIIB's ESP requirements including the Environmental and Social

Exclusion List (ESEL). Activities included in AIIB’s ESEL and those involving high E&S risks and potential impacts, as clearly defined in the Operations Manual (OM) for the Project, are not eligible for financing. Eximbank has been following all these requirements and reporting back to AIIB in a timely manner of its screening of projects and performance satisfactory to AIIB.

As Eximbank has screened out all subprojects with potential high ES risks, no Environmental and Social Action Plan (ESAP) by sub projects are needed. The overall ES performance rating is satisfactory.

Project GRM

Eximbank has an External Communication Mechanism (“ECM”) for the public to express any concerns or opinions and suggestions on sustainability issues. Information on the ECM has been disclosed from the beginning of the project, all inquiries/grievances received have been timely resolved and no outstanding case was found or reported.

8. Results Achieved (Against the original indicators and/or revised indicators. RMF table will be exported on the last page of this PCN.)

The project had achieved overall objective and accomplished all the targets set at project origination; for some result indicators, the accomplishment went much better than original design, such as number of qualified sub-borrowers (reached 83 sub-borrowers against 35 as the target), % value of loans provided to woman-inclusive enterprises (reached 20% against 5% as the target), Non-performing loans (NPL) in the sub-portfolio (remained 0% as of the closing date against targeted less than 4%).

9. Investment Sustainability (operational, financial/commercial, institutional)

The project has no physical constructions; therefore, no operation and maintenance of any physical assets would be required.

Despite the challenging macroeconomic environment in Türkiye both the project portfolio and Eximbank more generally have exhibited very resilient financial performance. The project portfolio has evidenced zero NPLs as of the closing date. This reflects the resilience of Eximbank’s underlying borrowers – exporters – with their revenue base largely denominated in Euros and US Dollars and all loans are extended with a policy of 100% export commitment utilization.

Eximbank was established in 1987 as Türkiye’s official export credit agency. It is fully owned by the Turkish Ministry of Treasury and Finance. Eximbank has a long-term issuer rating of “B-” by Fitch (April 2023) and benefits from a rating uplift from the assumption of government support.

Sub-borrowers are required to demonstrate their compliance with applicable E&S regulatory requirements and commit to maintaining this status during the tenor of the sub-loan. Eximbank will receive at least annual E&S performance reports from the sub-borrowers.

10. Compliance and Alignment with AIIB’s Policies and Strategic Priorities

On Apr 16, 2020 – about five weeks after the World Health Organization characterized the COVID-19 outbreak as a pandemic, AIIB launched a COVID-19 Crisis Recovery Facility (the Facility) with an initial financing envelope of USD5-10 billion over 18 months to help its sovereign and non-sovereign

borrowers with crisis response and recovery. In 2021, the Facility was expanded to USD20 billion and until Dec. 31, 2023.

This project was processed under the Facility and the use of proceeds is aligned with the AIIB COVID-19 Crisis Recovery Facility to address liquidity constraints for clients in infrastructure and other productive sectors.

Eligible sub-loans that may receive loan proceeds under this Facility have been classified by AIIB strategies as following:

Group 1: Strong relationship with AIIB's key strategic sectors (energy, transport, water, sustainable infrastructure, healthcare, ICT)

Group 2: Generally other productive sectors and activities that are eligible under the draft OPS strategy (5.1.1. Critical inputs to infrastructure development, management, and operation.)

Group 3: Less strong link towards AIIB priorities, but not an Excluded Sector (See Figure 19 below).

Some of these sectors are important to safeguard employment and productive capacity of infrastructure and OPS.

As of the reporting date, 5.6%, 66.6% and 27.8% of the Facility proceeds (in USD amount) has been allocated to group 1, 2 and 3 respectively. In total, 72.2% has been allocated to group 1 and 2 sectors.

11. Any outstanding issues not yet resolved, if applicable

Not applicable.

12. Lessons learned that can be considered for future investments

The Project has provided AIIB with valuable reflections and areas to improve.

These are being incorporated into the preparation, design, and supervision of subsequent similar FI facilities.

Lesson Tag	Lesson Description
Other	Operational efficiencies: "Reporting with same rhythm" It would be more efficient if the Financial Operational efficiencies: Statements could come in in the same months as the ES reports. The project team may review them together and would have a more focused discussions with the Borrower.
Other	Monitoring activity scope: From a fiduciary perspective, the Bank only monitors the project till loan closing date. If the Borrower re-on-lends, the new sub-loans are sourced in a revolving mechanism but not new disbursing from the Bank. The Bank's project team may explain to the Borrower and reach consensus.

Financial management	<p>DA management:</p> <p>In this project, USD 30 million worth of repayments will be kept at balance during the life of the loan and last 18 months of repayments will be kept as well, i.e., the Borrower cannot re-allocate. The Borrower proposes to earn overnight interest to be able to mitigate this cost of reserved funds. The AIIB loan agreement and POM didn't mention anything about the "overnight interest" possibility on the reserved funds. It is recommended to investigate best practice and provide any possible convenience to the client.</p>
Other	<p>Project Management: closing date extension</p> <p>The closing date has been extended for three months (original: September 30, 2022; revised: December 31, 2022) as requested by the Borrower to allow the Borrower to on-lend remaining portion of the loan proceeds to additional qualified potential sub-borrowers. No risk has been identified associated with this request from the Borrower. The extension was deemed as a non-material change to the Project.</p> <p>The project team interviewed the Borrower to learn that capacity building might be needed to support the Borrower in mapping/screening potential sub-borrowers, training relevant staff, etc. to ensure smooth/successful deployment of the Facility. Capacity building might also be needed at the sub-borrower level, especially ES and FM aspects to help the Borrower to maintain credit quality of the portfolio.</p>

13. Borrower's Feedback

The Borrower had overall good feedback for this project. The Borrower also indicated several areas that AIIB may consider providing help, such as longer tenor (5-10 years), more flexible eligible criteria to benefit more value chain sub-borrowers, more institutional capacity building for sub-borrowers, IT system enhancements, and continued support in Environmental and Social areas. SMEs may not have ES Management Systems for working capital loans which is often a necessity to get liquidity support from MDBs, particularly for Paris Agreement alignment monitoring/reporting.

14. Achievement of Project Results

Please refer to the table below

Annex: Client Feedback on the Project

1.Are the services and support provided by the Project Team professional, sufficient and in time, during project preparation and project implementation? [please provide some specifics or examples as an illustration.]

AIIB has one of the most professional and accommodating team we had the chance to work with and who has done their best to cooperate with our institution during both the preparation and implementation process of the project. Periodic reporting, constant and efficient communication between our Bank and AIIB insured adequate coordination and information flow. AIIB team members were always understanding and accommodating for us to better suit the project to our Banks needs and procedures.

2.Is it convenient to access to the Project Team’s services and support? [please provide some specifics or examples as an illustration.]

As mentioned above, AIIB’s project team was always available and supportive during the project preparation, implementation, and reporting stages. The team replied professional and very quick to all of our questions and supported us constantly. For example whenever we need clarification on an urgent and important issue AIIB team would set an online meeting for us to meet with relevant parties within hours. We also had the comfort to call the AIIB team members and they would respond very professionally and kindly.

3.Does the Project Team demonstrate flexibility and efficiency during project preparation and project implementation? [please provide some specifics or examples as an illustration.]

The project team always demonstrated flexibility and efficiency during all of the stages of the project. Through efficient communication and constant information flow, we were able to navigate the process without any barriers. The team was earnest in understanding the structure, procedures and needs specific to our institution and resolve any issue they might find with constructive and solution oriented attitude.

4.What is the value addition of AIIB’s financing in the Project?

As the official export credit bank of Türkiye, the mission of our bank is always to expand financial support to Turkish exporters, diversify exported goods, entering new markets in means of export, to support the initiatives and share of Turkish exporters in international trade. By creating a precious cooperation with AIIB, our bank was able to support Turkish exporters to improve their financial conditions during the covid-19 crisis and go through such difficult times the world was in with minimum negative results.

5.Will you consider working with the AIIB again in infrastructure development? Please provide a few specific reasons.

As stated above, one of the main goals and strategies of Türk Eximbank is to support Turkish exporters in international markets and therefore we are always open to work with AIIB again in new projects especially after such a successful cooperation. AIIB’s support is precious for all of

our customers and we received no complaint but only gratitude from our customers for our AIIB funded loan program.

6. Do you have any suggestion to the Project Team and/or the AIIB?

We always appreciate AIIB teams' support, and want to thank the team for always being available and doing their best to support us during the whole process of the project. As one of the best IFI we had the chance to work with; AIIB's and Project team's only challenge would be to be better than they already are.

7. Other comments (such as comments on the reporting requirements, approval of project changes, etc.)

We only wish to thank AIIB and the Project team for this great Project and their kind contribution to this great experience and hope to increase our cooperation further in the future.

Project Completion Note

Prepared on 11/14/23

Project Objective Indicators	Indicator level	Unit of Measure	Cumulative Target Values											Frequency	Responsibility	Comments
			Baseline		2020		2021		2022		End Target					
			Year	Value	Target	Actual	Target	Actual	Target	Actual	Year	Target	Actual			
Number of sub-borrowers	Project	integer number	2020	0	0	0	25	33	35	83	2022	35	83	annual	Borrower	
Percent value of loans provided to women inclusive enterprises	Project	%	2020	0%	0%	0%	5%	6.16%	5%	20%	2022	5%	20%	annual	Borrower	
Nonperforming loans (NPL) in the sub-portfolio	Project	%	2020	0%	0%	0%	<4%	0	<4%	0	2022	<4%	0	annual	Borrower	
Utilization rate of the credit line provided by AIIB	Project	%	2020	0%	0%	0%	70%	29.87%	100%	100%	2022	100%	100%	annual	Borrower	