

## Türkiye : Türkiye COVID-19 Credit Line Project

## 1. Project Information

Project ID:	P000381	Instrument ID:	L0381A;L0381B
Member:	Türkiye	Region:	Western Asia
Sector:	CRF-Finance/Liquidity	Sub-sector:	N/A
Instrument type:	<input checked="" type="checkbox"/> Loan:500.00 US Dollar million <input type="checkbox"/> Guarantee	Lead Co-financier(s):	
ES category:	FI	Borrowing Entity:	Development and Investment Bank of Türkiye; Industrial Development Bank of Türkiye
Implementing Entity:	Development and Investment Bank of Türkiye; Industrial Development Bank of Türkiye		
Project Team Leader:	Ying Shen		
Responsible DG:	Ke Fang		
Responsible Department:	IMD		
Project Team Members:	Liu Yang, Project Counsel; Bernardita Saez, Alternate Counsel; Rui Xiang, OSD - Financial Management Specialist; Yunlong Liu, OSD - Procurement Specialist; Miao Zhou, PMA; Huiqian Feng, Back-up PMO; Chee Wee Tan, OSD - Environment & Social Development Specialist; Huiqian Feng, Back-up PTL		
Completed Site Visits by AIIB:	<p>Aug, 2021 On August 12 and 13, 2021, AIIB conducted a two-day virtual monitoring mission with TKYB. The mission focused on the overall project implementation status, portfolio performance, procurement, E&amp;S, and financial management aspects. The Project Team also discussed with TKYB on Apex lending implementation progress.</p> <p>Nov, 2021 On November 24 and 25, 2021, AIIB conducted a two-day virtual monitoring mission with TSKB. The mission focused on the overall project implementation progress and performance as well as procurement, E&amp;S, and financial management aspects.</p> <p>Nov, 2022 On November 29 and 30, 2022, AIIB conducted a virtual monitoring mission with TKYB. The mission focused on the overall project implementation status and performance, procurement, E&amp;S, and financial management aspects. The Project Team also discussed with TKYB on Apex lending implementation progress.</p> <p>Dec, 2022 On December 5, 2022, AIIB conducted a virtual monitoring mission with TSKB. The mission focused on the overall project performance, procurement, E&amp;S, and financial management aspects.</p> <p>Sep, 2023 On September 11-12, 2023, AIIB conducted a physical review mission to TKYB and TSKB respectively. The mission focused on the overall project performance, E&amp;S, financial management, and the preparation for project closing.</p>		
Planned Site Visits by AIIB:	None.		
Current Red Flags Assigned:	1		

Current Monitoring Regime:	Regular Monitoring
Previous Red Flags Assigned:	0
Previous Red Flags Assigned Date:	2022/12

## 2. Project Summary and Objectives

Türkiye COVID-19 Credit Line Project is the 1st CRF project to support companies as a general credit line. It provides sovereign-backed short-term credit lines to two of Türkiye's development banks, Türkiye Sınai Kalkınma Bankası (TSKB) and Türkiye Kalkınma ve Yatırım Bankası (TKYB) to alleviate liquidity constraints faced by infrastructure-related companies, mid-caps and small-medium enterprises (SMEs).

The Project has three components: (a) direct on-lending to new/existing TKYB clients; (b) Apex lending to sub-borrowers through TKYB's partner financial intermediaries (PFIs) such as banks; and (c) direct on-lending to new/existing TSKB clients.

The facility will be on-lent in the form of sub-loans to provide liquidity, and it will not support large capital infrastructure investment financing. Eligible sub-borrowers are private entities registered and operating primarily in Türkiye, with its main activity being an eligible sector aligned with AIIB's strategy, as detailed in the Operational Manual (OM).

For direct lending, both SMEs and non-SMEs are eligible. For Apex lending, only SME sub-borrowers are eligible.

## 3. Key Dates

Approval:	Jun. 30, 2020	Signing:	Jul. 30, 2020
Effective:	Dec. 10, 2020	Restructured (if any):	
Orig. Closing:	Dec. 18, 2021	Rev. Closing (if any):	Jun. 18, 2023; Dec. 18, 2022;

## 4. Disbursement Summary (USD million)

Contract Awarded:		Cancellation (if any):	0.00
Disbursed:	500.00	Most recent disbursement (amount/date):	72.78/Jun. 02, 2021
Undisbursed:	0.00	Disbursement Ratio (%) <sup>1</sup> :	100.00

## 5. Project Implementation Update

The Project was transferred from BNK2 to IMD on February 27, 2023.

The loan proceeds have been utilized at 98%. The Project is in the process of loan account closing. Specifically on each facility:

TKYB Loan (L0381A):

<sup>1</sup> Disbursement Ratio is defined as the volume (e.g. the dollar amount) of total disbursed amount as a percentage of the net committed volume.

- TKYB Loan became effective on December 10, 2020.
  - In October 2021, the Loan Closing Date is extended by one year from the original December 18, 2021, to December 18, 2022. Subsequently, the Loan Closing Date is further extended by another 6 months, resulting in an effective Loan Closing Date on June 18, 2023.
  - In September 2022, the Loan was amended to reallocate USD 70 million from Apex lending to direct on-lending, with no change being made to the aggregate Loan amount. The amendment has been completed, and the Apex lending and direct on-lending loan amounts are now revised to be USD 30 million and USD 270 million, respectively.
  - Under the direct lending amount, the full USD 270 million has been disbursed by AIIB.
  - Under the Apex lending amount, the full USD 30 million has been disbursed by AIIB.
  - In this new reporting period, the Project has been assigned one new Red Flag considering that one of the sub-projects under the TKYB facility is viewed as not conforming with the AIIB E&S exclusion list. The Project Team is monitoring the situation closely and will report back in due course.
- TSKB Loan (L0381B):
- TSKB Loan became effective on November 25, 2020.
  - TSKB loan has been fully utilized as of April 18, 2022.
  - To continue monitoring the Project, and given that the closing date of L0381A is extended, the loan account closing procedure for L0381B will be performed together with L0381A in 2023.

Components	Physical Progress	Environmental & Social Compliance	Procurement
1. Direct lending to TKYB clients	TKYB Direct Lending (USD 269.25 million) is fully disbursed by AIIB, with USD 259.25 million allocated to sub-borrowers.	<p>The borrower has established an Environmental and Social Management System (ESMS) and E&amp;S processes in accordance with the requirements stated in the Operational Manual (OM).</p> <p>The borrower has followed the OM and reported to AIIB the E&amp;S materials as required in the OM.</p> <p>The Project Team viewed one of the sub-projects under the TKYB direct lending component as not conforming with the AIIB E&amp;S exclusion list. Pursuant to the AIIB Environmental and Social Framework (ESF) and the Project Operation Manual (POM), the Bank will not knowingly finance Projects involving the AIIB E&amp;S exclusion list. The Project Team requested the substitution of the sub-loan immediately. The Borrower agreed and is in the process of arranging the substitution. The Project Team is following up with the Borrower closely on the matter.</p>	In compliance. The borrower has submitted procurement reporting by following the OM.
2. Apex lending to	One disbursement (USD	TKYB has confirmed that the PFI has	In compliance.

TKYB clients	30 million) was made in July 2022 under Apex lending from AIIB to TKYB. TKYB has substantially disbursed the full USD 30 million to a PFI, and the amount has been fully allocated to sub-borrowers.	established an ESMS and E&S processes in accordance with the requirements stated in the OM.	
3. Direct lending to TSKB clients	The loan is fully utilized.	The borrower has established an ESMS and E&S processes in accordance with the requirements stated in the OM.  The borrower has followed requirements in the OM and report to AIIB the E&S materials.	In compliance.

**Financial Management:**

No significant Financial Management (FM) related matters have been noted as of the reporting date.

Both TSKB and TKYB continue to have in place adequate FM arrangements. Both two banks have timely released required financial reports, including Annual Reports, Quarterly Financial Reports and Auditor's Reports.

Both borrowers have submitted entity audit reports for the year ended Dec 31, 2022, in accordance with IFRS for the year 2022.

1) TSKB's external auditor has issued a qualified opinion due to the inclusion of a free provision for potential risks totaling TL 800 million (equivalent to USD 29.6 million) in the consolidated financial statements. This provision was made to account for the possible adverse effects arising from changes in the economy and market conditions. However, the recognition of this provision does not meet the criteria specified in IAS 37 of IFRS, and considering the materiality of the misstatement, the auditor has issued a qualified opinion.

Despite this matter, the accompanying consolidated financial statements present a fair representation of the company's financial position and performance, except for the effects of the mentioned provision. The misstatement primarily leads to the entity-level operational profit by overestimating the contingency liability. However, it is assessed that the misstatement does not significantly undermine the control effectiveness for lending operations.

According to the management letter issued by EY, TSKB maintains good accounting and control systems, management information systems, and accurate records, which collectively provide a fair and accurate view of TSKB's financial condition and operational results in accordance with International Financial Reporting Standards.

2) TKYB's external auditors have issued qualified opinions on the Financial Statements in accordance with IFRS as well, concerning the transaction on Investment in Associate, the external auditor was unable to obtain sufficient and appropriate evidence about the carrying amount of investment in Maksan, as well as unable to access the audited financial information of one subsidiary - Aricak at the reporting date. The respective impacted amounts are TRY 103,566 thousand and TRY 1,258 thousand in the consolidated financial statements. However, based on the audit report, this specific issue is not likely to impact the overall internal control system on lending operation, excepting for the effects of the mentioned issues, the report collectively provides a fair and accurate view of TKYB's financial condition

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and operational results in accordance with International Financial Reporting Standards.

On the Project financial statements, the TSKB and TKYB's audited project financial statement for FY 2022 was received and deemed to be acceptable by the Bank's team and can be reconciled with AIIB's record.

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**6. Status of the Grievance Redress Mechanism (GRM)**

Both banks have established their respective External Communication Mechanism, allowing them to receive and address grievances relevant to their E&S policy and processes, and the impacts of the activities they finance. Both banks have assigned responsibilities to follow up, assess, and respond to the issues in established processes.

As of this reporting period, both banks have reported that their GRM and all sub-borrowers' GRMs (scaled to risks and impact as appropriate) are functioning. No grievance pertaining to this facility was received at the banks' GRMs and no known grievance was received at sub-borrower GRMs.

GRM can be found on TSKB / TKYB's websites.

TSKB: <https://www.tskb.com.tr/en/about-us/contact-info/contact-form>

TKYB: <https://kalkinma.com.tr/en/contact-us/contact-information>

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**7. Results Monitoring (please refer to the full RMF, which can be found on the last page of this PIMR)**

The on-lending portfolio of TSKB has been concluded by December 2022. The TKYB on-lending portfolio has observed significant progress in Apex lending in 2023, as it reached 97 sub-borrowers compared to none in the previous year. This progress has brought TKYB portfolio's SME financing to an impressive amount of USD 99 million as compared to USD 8 million from December 2022 and to the 2023 year-end target of USD 40 million. The portfolio is in good standing with a zero percent non-performing loan and remains relevant to the Project's overall objective, i.e., the percentage of Loan Value in Group 1 and 2 Sectors is at 75% for TSKB facility, 89% for TKYB direct lending, and 70% for TKYB apex lending.

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**Remarks:**

N/A

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Project Objective Indicators	Indicator level	Unit of Measure	Cumulative Target Values																	Frequency	Responsibility	Comments
			Baseline		2020		2021		2022		2023		2024		2025		End Target					
			Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Year			
Amount of Financing	Project	USD	2020	0	0	145	300	281	475	500	475	500	475		475			475		Annual	Borrowers	
Amount of SME financing	Project	USD	2020	0	0	0	100	14	40	14	40	105	40		40			30		Annual	Borrowers	
Non-performing Loans in the Portfolio (TSKB)	Project	%	2020	<5%	<5%	0%	<5%	0%	<5%	0%	<5%	0%	<5%		<5%			<5%		Annual	Borrowers	
Non-performing Loans in the Portfolio (TKYB)	Project	%	2020	<5%	<5%	0%	<5%	0%	<5%	0%	<5%	0%	<5%		<5%			<5%		Annual	Borrowers	
Number of Sub-borrowers (Direct Lending)	Project	#	2020	0	0	2	10	25	30	44	30	54	30		30			30		Annual	Borrowers	
Utilization Rate (Direct Lending)	Project	%	2020	0%	0%	36%	60%	70%	95%	100%	95%	98%	95%		95%			95%		Annual	Borrowers	
Percentage of Loan Value in Group 1 and 2 Sectors (Direct Lending)	Project	%	2020	0%	0%	87%	50%	76%	70%	82%	70%	83%	70%		70%			70%		Annual	Borrowers	
Non-performing Loans (Direct Lending)	Project	%	2020	0%	0%	0%	<5%	0%	<5%	0%	<5%	0%	<5%		<5%			<5%		Annual	Borrowers	
Number of Partner Financial Institutions (Apex Lending)	Project	#	2020	0	0	0	2	0	1	1	1	1	1		1			1		Annual	Borrowers	
Number of Sub-borrowers (Apex Lending)	Project	#	2020	0	0	N/A	10	N/A	6	N/A	6	97	6		6			6		Annual	Borrowers	
Number of SME Sub-borrowers (Apex Lending)	Project	#	2020	0	0	N/A	10	N/A	6	N/A	6	97	6		6			6		Annual	Borrowers	
Utilization Rate (Apex Lending)	Project	%	2020	0%	0%	0%	60%	0%	95%	100%	95%	100%	95%		95%			95%		Annual	Borrowers	
Percentage of Loan Value in Group 1 and 2 Sectors (Apex Lending)	Project	%	2020	0%	0%	N/A	50%	N/A	70%	N/A	70%	70%	70%		70%			70%		Annual	Borrowers	

Non-performing Loans (Apex Lending)	Project	%	2020	0%	0%	N/A	<5%	N/A	<5%	N/A	<5%	0%	<5%		<5%			<5%		Annual	Borrowers	
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Project Intermediate Indicators	Indicator level	Unit Measure of	Cumulative Target Values															Frequency	Responsibility	Comments
			Baseline		2020		2021		2022		2023		2024		End Target					
			Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Year	Target	Actual			