Turkey: Türkiye Halk Bankasi III

Ex-post evaluation

OECD Sector	24030 / Financial intermediaries of the formal sector	
BMZ project number	1989 66 285	
Project-executing agency	Türkiye Halk Bankasi (THB)	
Consultant	./.	
Year of evaluation	**2002**	
	Project appraisal	**Ex-post evaluation**
Start of implementation	1989	1989
Period of implementation	Until 1991	Until 2000
Investment costs	EUR 7.4 million	EUR 7.4 million
Financing, of which FC funds	EUR 7.4 million	EUR 7.4 millon
Other institutions/donors involved	./.	./.
Performance rating	4	
• Significance / relevance	5	
• Effectiveness	4	
• Efficiency	4	

Brief Description, Overall Objective and Project Purposes with Indicators

The credit line THB III was granted to THB after two preceding, similarly designed loans in order to increase the production and the productivity of modernizable, small industrial enterprises in selected provinces, to create jobs and to contribute to economic growth in connection with more balanced regional development through the provision of loans.

The project purpose was to strengthen the economic viability and the production potential of developable small, private industrial enterprises in selected provinces. The achievement of the project purpose was to be measured by means of the generation of profits and the compliance with debt service obligations by at least 80% of the financed enterprises after two years of operation.

The overall objectives of the project were to contribute to economic growth in connection with more even regional development and to improve the employment situation. The effect on employment was to serve as an indicator of the achievement of the second overall objective. Later on it was determined that the goal would be to create at least 750 new jobs, corresponding to investment costs per job of around EUR 9,900.

Target enterprises were small and medium-sized industrial enterprises as defined by THB in selected provinces. The THB’s criteria were not stated explicitly. During the project appraisal of THB IV (1993) THB defined SME by means of a balance sheet value for the machinery that did not exceed EUR 0.5 million.

Major Deviations from the original Project Planning and their main Causes

The demand for sub-loans under the line THB III was high in the years 1990 and 1991 but then abated and dried up completely in 1994. The reason was extremely high real interest due on the sub-loans from the mid-90s as a result of the special design of the credit line. Most borrowers repaid their loans prematurely for the same reason, which ultimately meant that, from that point in time, the loan terms and conditions were no longer adapted to the given situation. To improve the situation an agreement was reached in 1999 between KfW, THB and the Turkish Treasury according to which sub-loans could also be granted in DEM. For the sub-borrowers this meant a lower real interest rate but, at the same time, the assumption of the exchange risk. The change in conditions led to the disbursement of the remaining funds in the amount of approx. EUR 2 million.

Key Results of the Impact Analysis and Performance Rating

At the time of the final evaluation only one of the sub-loans refinanced via the credit line THB III was non-performing. If, taking this into account, a satisfactory profit situation of the borrowing enterprises is presumed, then the project purpose was formally fulfilled. However, it is probable that for the sub-loans granted in DEM for which the borrowers took on the exchange risk, difficulties will arise when they have to be repaid. According to the documents available the specific investment costs per created job were higher than expected; thus, the overall objective was not achieved.

Most sub-borrowers are large SMEs. Additionally, almost all are former customers of THB. In connection with this the early repayment of most of the sub-loans indicates that following the increase in the real payable interest on the loans refinanced under THB III the sub-borrowers took advantage of more advantageous financing possibilities of THB. Overall it has to be assumed that the majority of the sub-borrowers were not dependent on THB III. Against this background the formal achievement of the project purpose is relativized; it seems questionable whether investments were really induced as a result of THB III that would not have been undertaken without THB III, and therefore whether THB III had any growth and employment effects worth mentioning.

No positive effects of the credit line THB III on THB can be observed. Over the project period the financial situation of THB progressively worsened. THB now needs restructuring and is to be privatized in the medium term. As a state-owned bank it was naturally under the influence of the Turkish government, which used it to carry out subsidized loan programmes without reimbursing the interest subsidies. The loan technology of THB, which is based on a conventional system of securitization, is not suited to provide new customer groups – in particular small enterprises – with access to loans. The regional concentration of the sub-loans on comparably well-developed regions is also an indication that THB did not handle the credit line any differently than its other business. The expectation stated in the project appraisal report that the credit line THB III would be able to reach a target group that until that time had not had access to loans from THB was thus not met.

The project did not pursue any environmental and resource protection goals. In view of the limited effects of the credit line on growth and employment, it can be assumed that THB III did not have any major poverty-reducing effects. Gender-specific aspects were not relevant.

Since the project purpose has only been formally achieved and it must be concluded that primarily companies that were not dependent on receiving sub-loans were actually granted loans, the **effectiveness** of the project is rated **inadequate** (partial evaluation: rating 4).

Based on the fact that the effects of THB III on growth and employment are minimal for the reasons stated above, it must be said that the utilization of the funds had insufficient macroeconomic benefit. Consequently, the **efficiency** of the project is also rated **inadequate** (partial evaluation: rating 4).

Since THB III neither provided new customer groups with access to loans nor had any positive effects on THB, the project's **relevance** is **clearly insufficient**. Due to its inadequate macroeconomic effects the same applies to the project's **significance** (partial evaluation: rating 5).

Taking the above mentioned partial criteria into account, the project is rated as having **inadequate developmental effectiveness** (rating 4).

General Conclusions applicable to all Projects

In retrospect it must be noted that refinancing a credit line for SMEs out of FC-funds makes little sense if it is not simultaneously ensured by way of corresponding agreements concerning the maximum company size or other indicators that those companies get access to credits which otherwise would not. If this is not ensured, substitution effects – as observed in the case at hand – are inevitable.

The fact that THB now needs to be restructured is a further indication of the fact that the political risks with which a promotional bank under the direct control of State institutions is faced cannot be controlled if the national fiscal policy is significantly distorted.

Legend

Developmentally successful: Ratings 1 to 3	
rating 1	Very high or high degree of developmental effectiveness
rating 2	Satisfactory degree of developmental effectiveness
rating 3	Overall sufficient degree of developmental effectiveness
Developmental failures: Ratings 4 to 6	
rating 4	Overall, no longer sufficient degree of developmental effectiveness
rating 5	Clearly insufficient degree of developmental effectiveness
rating 6	The project is a total failure

Criteria for the Evaluation of Project Success

The evaluation of a project's "developmental effectiveness" and its classification into one of the various levels of success described in more detail below during the final evaluation concentrate on the following fundamental questions:

- Are the **project objectives** reached to a sufficient degree (aspect of project **effectiveness**)?
- Does the project generate sufficient **significant developmental effects** (project **relevance** and **significance** measured by the achievement of the overall development-policy objective defined beforehand and its effects in political, institutional, socio-economic and socio-cultural as well as ecological terms)?
- Are the **funds/expenses** that were and are being employed/incurred to reach the objectives **appropriate** and how can the project's microeconomic and macroeconomic impact be measured (aspect of **efficiency** of the project concept)?
- To the extent that undesired **(side) effects** occur, are these tolerable?

We do not treat **sustainability**, a key aspect to consider for project evaluation, as a separate category of evaluation but instead as a cross-cutting element of all four fundamental questions on project success. A project is sustainable if the project-executing agency and/or the target group is able to continue to use the project facilities that have been built for a period of time that is, overall, adequate in economic terms or to carry on with the project activities on its own and generate positive results after the financial, organizational and/or technical support has come to an end.