



# Turkey: Important Player in the Regional Economy

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Vienna

## EIB support to Turkey

# The European Union Financing Institution

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- 1.** The European Investment Bank
2. EIB Lending to Turkey
3. Blended support in favour of SMEs
4. Development of Domestic Financial Markets



## **EIB is the largest International Financial Institution**

- Subscribed capital of EUR 232 bn, owned by EU Member States
- Total Group's assets at end-2011: EUR 472 bn
- Lending amounting to EUR 61bn of new loans (in some 70 countries) in 2011, of which around EUR 54bn in EU and EUR 7bn outside the EU
- EIB extended its highest-ever financial contribution to the real economy by disbursing EUR 60bn in 2011

## **EIB is the largest supranational borrower in capital markets**

- EIB raised EUR 76 bn in 2011
- Rated Aaa and AAA ratings by Moody's and S&P
- Benchmark issuer in the main markets (EUR, USD, GBP, JPY)
- Active role in emerging bond markets (local currency bonds in Central Europe, South Africa, Russia, etc...)



# EIB's lending priorities

## Europe 2020 Strategy

### Investing for a smart sustainable and inclusive growth

- Increase of growth and employment potential
  - Knowledge and Innovation
  - TENs Transport, Energy
  - Competitive and Secure Energy
  - Small and medium-sized enterprises (SMEs)
  - Urban Renewal and Regeneration
  
- Environmental sustainability
  - Environmental Protection
  - Renewable Energy and Energy Efficiency
  - Sustainable Transport – Urban and Inter-Urban



## Value Added of the EIB

- ❖ Support for EU priority objectives
- ❖ Project quality and soundness
- ❖ Financial benefits of EIB funds:
  - ❖ Large amounts
  - ❖ Broad range of currencies
  - ❖ Long maturities
  - ❖ Attractive interest rates
  - ❖ Catalyst for participation of other banking or financial partners
- ❖ Technical assistance
- ❖ Project assessment



# Project Requirements

Projects must:

- Meet at least one of the EIB's lending priorities
- Be technically sound
- Be financially viable
- Show an acceptable economic return
- Comply with environmental protection and procurement regulations



## EIB lending outside the EU

- Outside the EU, EIB support the EU's cooperation and development policies, implementing the financial components of agreements concluded under these policies
- Supports investment projects in some 150 non-member countries throughout the world
- The EIB's terms of reference outside the EU are determined by **multi-annual Mandates** entrusted to the Bank by the EU Member States and the European Parliament, including the Pre-Accession Mandate, the Mediterranean Facility, Eastern Neighbourhood and Central Asia.
- To enhance its support of EU development and cooperation policies, the EIB can lend **outside and in addition to the Mandates** at its own risks.

# The European Investment Bank (EIB)

## ❖ Outside the Union:

### Pre-Accession

- ❖ Candidate Countries: Croatia, Iceland, Former Yugoslav Republic of Macedonia, Montenegro and Turkey
- ❖ Potential Candidate Countries – Western Balkans

### European Neighbourhood

- ❖ Mediterranean Partner Countries (FEMIP)
- ❖ Russia and Eastern Neighbours

### Development

- ❖ Africa, Caribbean and Pacific (ACP, PTOM)
- ❖ South Africa
- ❖ Asia and Latin America (ALA)





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# EIB lending to Turkey: a long-standing partnership

- ❖ EIB has been lending to Turkey since the mid 1960s; with an overall lending volume of close to EUR 15bn over the last decade.
- ❖ Step change in lending activity since 2005, given the status of Turkey as Candidate Country for EU Accession.
- ❖ Turkey ranks first among EIB recipient countries outside EU.
- ❖ EIB's role is to support the country's economic development and assist the country in its pre-accession phase to the EU.
- ❖ EIB stands for tangible contribution to priority projects that make a difference to the population of Turkey. Lending priorities are set in consultation with the Turkish Treasury and EU.
- ❖ As illustrated in the last crisis, the Bank reacts swiftly, adapts its lending to the changing needs in the country and EU priorities.



# Three Pillars of EIB lending in Turkey

## **Public sector support:**

- national flagship transport projects (Istanbul Ankara railway, Bosphorus tunnel, Eurasia Tunnel)
- local infrastructure (water, waste water, light rail, earthquake mitigation)
- human capital (R&D through Tubitak and YÖK; Higher Education Council)
- Climate Change (Afforestation, Energy Efficiency)

## **Corporate sector:**

- energy (including renewables, Combined Heat & Power)
- R&D
- Foreign Direct Investments (telecom, automotive,...)

## **Co-operation with public and private banking sector** focusing on:

- SMEs,
- Energy Efficiency & Renewable Energy,
- environment
- municipal infrastructure

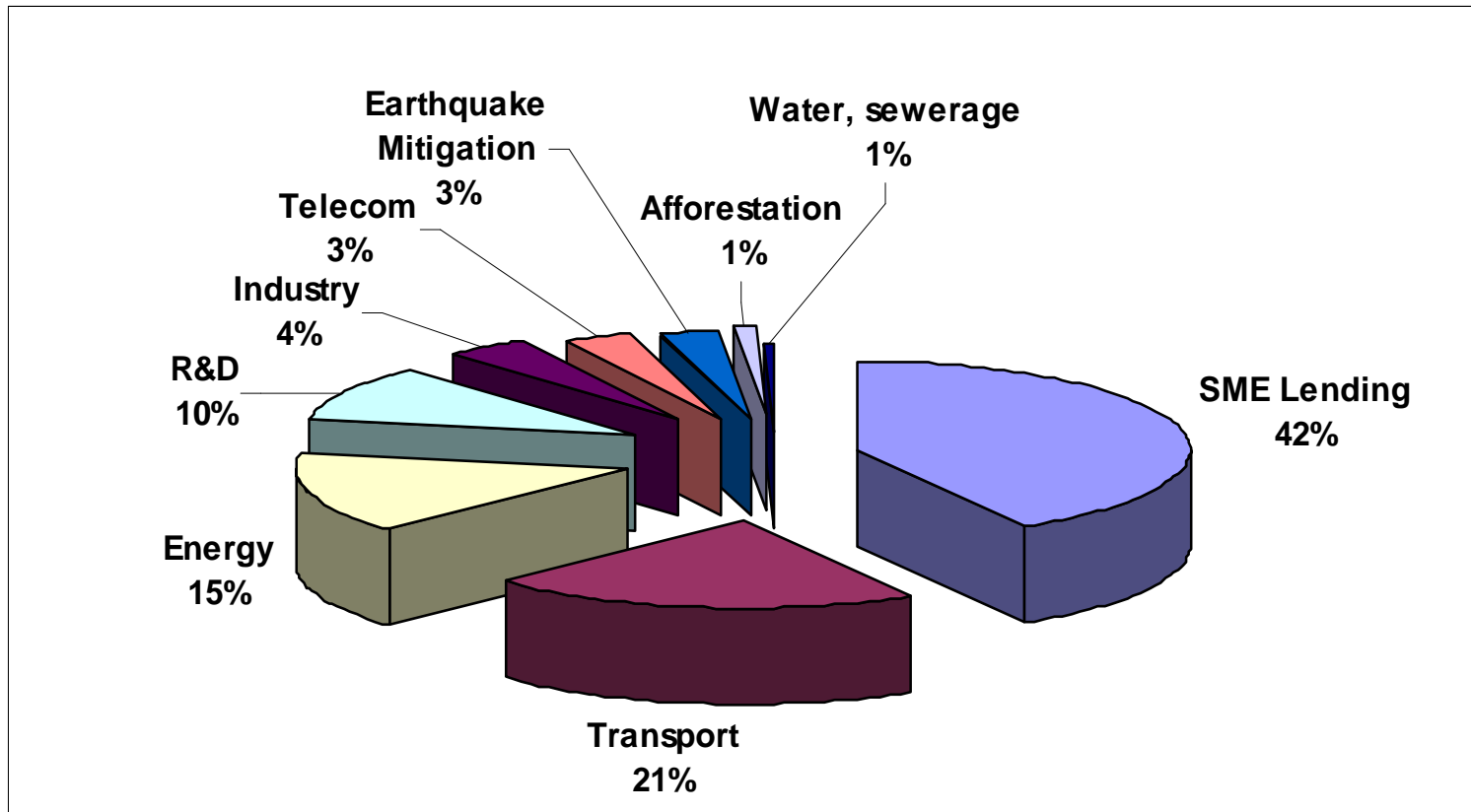
EIB can only reach small / medium sized projects through its extensive co-operation with local banking partners.

EIB works in partnership with the public sector (Undersecretary of Treasury, Line Ministries), the EU, public and private banking groups and corporates.



# Sectoral breakdown of EIB lending to Turkey

## EUR 11.5bn in lending over 5 years (2007-2011)



The SME share in lending increased substantially since mid 2008 as a consequence of EIB's anti-crisis package. Under the Mandate, EIB lending for Transport is close to 40%, SME lending is 20%.



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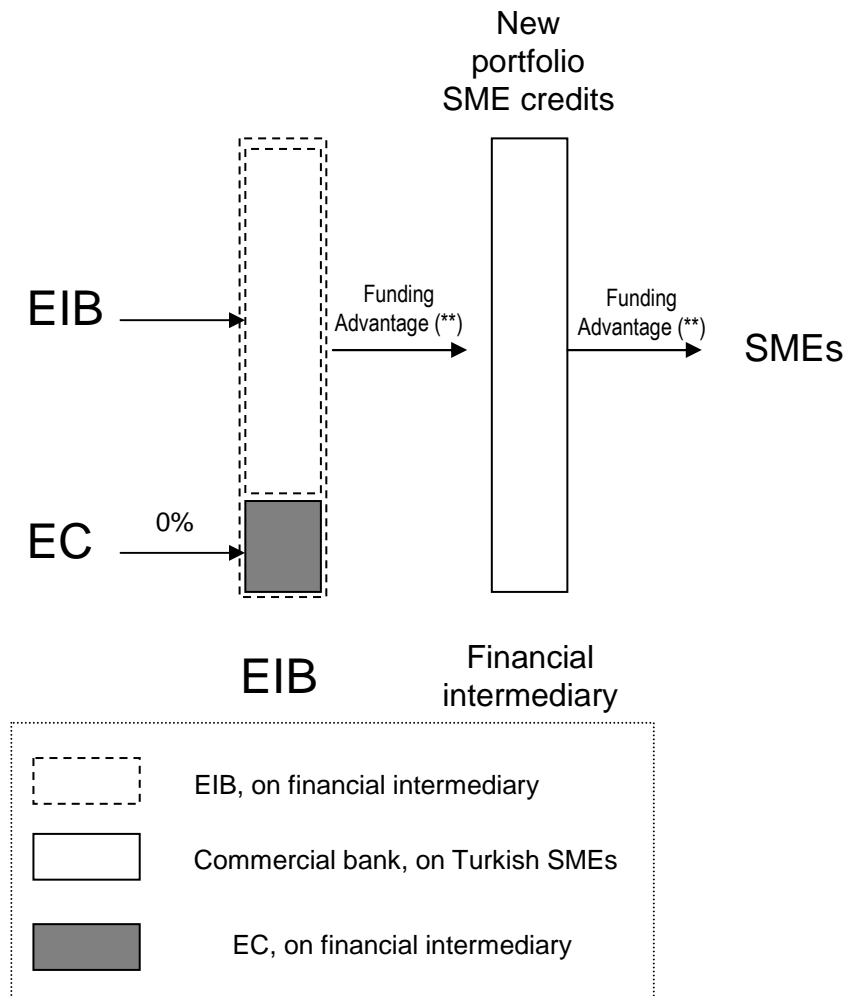


## SME Recovery Support Loan: Description of the Facility

- ❖ The Facility amounted to EUR 150m, combining a loan of EUR 120m funded by EIB and a Community Contribution covered by Pre-accession financial assistance for Turkey for EUR 30m.
- ❖ The Facility will be extended through selected private sector Financial Intermediaries.
- ❖ The funding provided to the Financial Intermediaries will bundle two distinct tranches:
  - Tranche A funded by EIB, provided under EIB conditions and at the prevailing EIB interest rate.
  - Tranche B funded by the Community Contribution is free of interest charge.
- ❖ Each tranche is expected to have a maturity of 5 year bullet.
- ❖ Disbursements to Intermediary Banks can be in EUR or TRY.



## SME Recovery Support Loan: Cash Flow Scheme

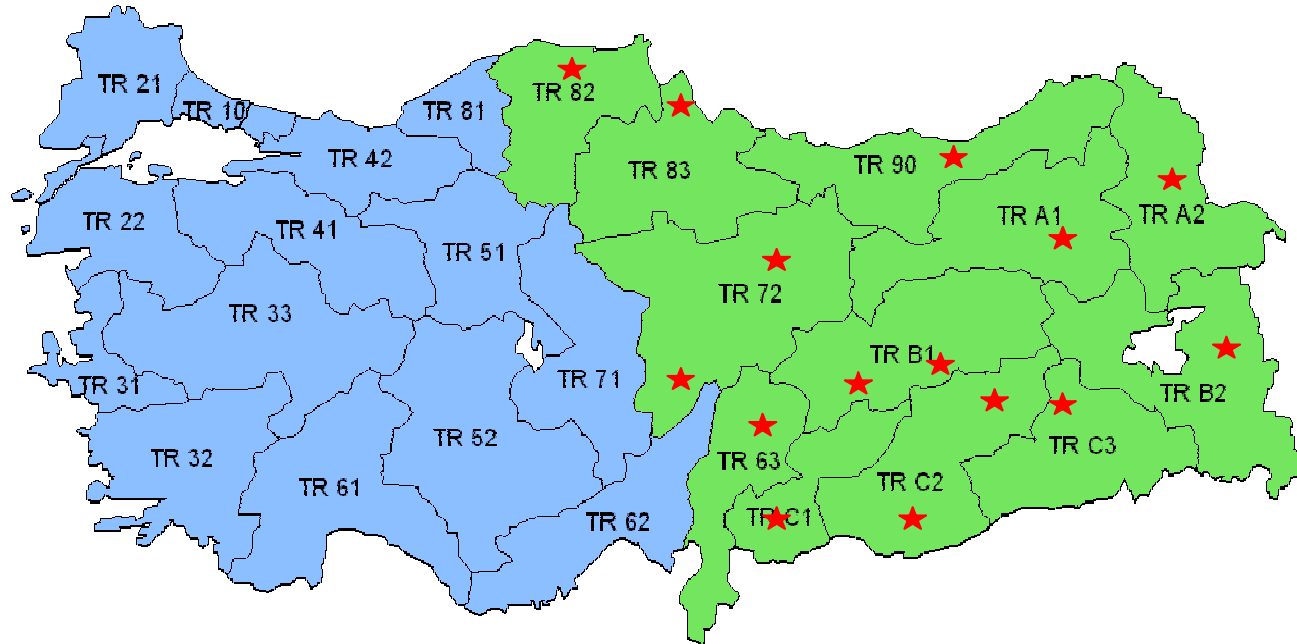


- EC's grant used as 0% interest bearing loan by EIB to blend its traditional "Loan for SMEs"
- Funding of commercial banks in TRY or EUR
- Leverage effect around 1 to 12 (given re-flow of interest free loan)
- The whole system is administered by the EIB



## Greater Anatolia Guarantee Facility

### Target Region: the least developed regions of Turkey



- NUTS II Regions having an income per capita above the 75% of Turkish national average
- NUTS II Regions having an income per capita below the 75% of Turkish national average
- 15 Growth Centres

**Eastern Provinces represent 25% of SMEs in the country, but only obtain 10% of total SME funding**





## Greater Anatolia Guarantee Facility

### Rationale: Building on the strengths and experience of the EIB Group

- ❖ EIB SME funding combined with a partial EIF Guarantee backed by IPA (EC) funds in favour of lending to the weakest economic regions in Turkey Joint EIB and EIF product
- ❖ Tailor-made programme under IPA based on our experience
  - ❖ GAGF - modelled on CIP – SME guarantee and micro-loan window
  - ❖ Standard EIB L4SMEs implemented jointly / in parallel with EIF guarantee
- ❖ New and innovative approach to access to finance in Turkey
  - ❖ Regional focus
  - ❖ Combination of funding and partial guarantee
  - ❖ Both projects emphasise revolving nature and sustainability of financial instrument
  - ❖ Extensive media attention ensures awareness in the target region and stimulate competition between participating banks



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# Development of Domestic Capital Markets:

## Rationale for structured capital market instruments

- ❖ The remit of the EIB is to improve the funding conditions for SMEs or for other eligible projects such as Climate Change investments through its partnership with local banks.
- ❖ In the Turkish market, EIB sees its main advantage in bringing longer-dated funding, enabling both its partner banks and SME / project promoters to improve the maturity matching between asset and liabilities.
- ❖ At the same time, the EIB seeks to promote the development of the local capital markets, both by offering local currency funding and supporting the use of more structured funding and capital markets instruments.
- ❖ As the deposits-to-loans ratio in the banking sector is structurally moving closer to 100%, tapping of alternative funding sources is becoming increasingly important.
- ❖ EIB seeks to leverage its capital market operations: the presence of EIB / IFIs / bilaterals facilitates the broadening of transactions by widening the investor base to commercial investors.



## Diversified Payment Rights: the EIB experience

- ❖ The remittance business is well established in Turkey and DPR securitisations have been a significant means by which Turkey's leading banks raise long-term funds in foreign currency.
- ❖ The DPR structure is particularly well suited to Turkey: the country has a strong and diversified remittance flows, a solid banking sector but still has a relatively low country rating,
- ❖ A significant "pick-up" in rating can be achieved through the high coverage levels, the quality and diversity of the collections and the offshore payment mechanism. Latest DPR issues have been rated up to 4 notches above sovereign rating.
- ❖ At the end of 2008 the investor market for DPR securitisation came to a complete standstill as a consequence of the financial crisis. However these structures have proven to be very resilient to the economic downturn as demonstrated by the upgrade of the notes by all the rating agencies.
- ❖ Since the beginning of 2010 there has been a renewed interest from promotional and commercial banks to re-open the market of DPR securitisation in Turkey. IFC and EBRD together with EIB and a number of bilaterals have paved the way for new operations. In particular in 2011, 3 operations have been completed for Akbank, Denizbank and Yapikredi.
- ❖ Due to a strong credit structure, long maturities (up to 12 years) have been made available, which is compatible with the financing of Renewable Energy projects for instance.
- ❖ EIB has entered into five DPR investments for a total exceeding EUR 650m.



## Covered Bonds: a welcome diversification with significant market potential

- ❖ The Covered Bond structure provides an adequate alternative security structure based on a dual recourse:
- ❖ In many EU countries, the Covered Bond is becoming an increasing way to finance banks and the development of Covered Bonds in Turkey could follow the same trend.
- ❖ Turkey has implemented a strong regulatory framework for this type of operations.
- ❖ As is the case of DPRs, Covered Bonds have been able to attract ratings substantially higher than the sovereign rating (A3) which shows the strength of the structure.
- ❖ The Covered Bonds also enables to achieve longer maturities than those of unsecured TL bonds (6 months to 1 year) or deposits.
- ❖ For EIB it is a particularly suitable way to fund Turkish banks on a medium term basis (3-5 years) in TL, mainly to support their SME lending programmes.
- ❖ As in the case of DPR the cooperation among IFIs (EBRD, IFC, FMO, EIF and EIB) has been very important for the implementation of the first transaction. Covered Bond structures could be extended to a wider range of Turkish banks in 2012.
- ❖ **SEKER BANK LOAN FOR SMEs:** First SME Covered Bond issued in Turkey, breaking new ground for Turkish banks and providing a strong impetus to the development of the domestic capital markets. Other Turkish banks are planning SME Covered Bonds in 2012



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Thank you for your attention

Bruno Denis  
Head of Lending Operations in Turkey