

**DOCUMENT OF THE EUROPEAN BANK  
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 10 November 2021<sup>1</sup>

**TURKEY**

**ISPARTAKULE – CERKEZKOY RAILWAY LINE**

*[Redacted in line with the EBRD's Access to Information Policy]*

*[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]*

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<sup>1</sup> As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

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## ABBREVIATIONS / CURRENCY CONVERSIONS

<b>AIIB</b>	Asian Infrastructure Investment Bank
<b>AIP</b>	Access to Information Policy
<b>AYGM</b>	General Directorate for Infrastructure Investments
<b>BRI</b>	Belt and Road Initiative
<b>CPI</b>	Consumer Price Index
<b>ECEPP</b>	EBRD Client e-Procurement Platform
<b>EIRR</b>	Expected Internal Rate of Return
<b>EPC</b>	Engineering, Procurement and Construction
<b>ERTMS</b>	European Rail Traffic Management System
<b>ESAP</b>	Environmental and Social Action Plan
<b>ESDD</b>	Environmental and Social Due Diligence
<b>ESIA</b>	Environmental and Social Impact Assessment
<b>ESMP</b>	Environmental and Social Management Plan
<b>ESP</b>	Environmental and Social Policy
<b>EU</b>	European Union
<b>EUR</b>	Euro
<b>FIDIC</b>	Federation of Consulting Engineers
<b>FX</b>	Foreign Exchange
<b>GBVH</b>	Gender-Based Violence and Harassment
<b>GDP</b>	Gross Domestic Product
<b>GET</b>	Green Economy Transition
<b>GHG</b>	Greenhouse Gas
<b>HKRL</b>	Halkali - Kapikule Railway Line
<b>HR</b>	Human Resources
<b>IBA</b>	Important Bird Areas
<b>IFI</b>	International Financial Institution
<b>IMF</b>	International Monetary Fund
<b>INDC</b>	Intended Nationally Determined Contributions
<b>IPPF</b>	Infrastructure Project Preparation Fund
<b>JSC</b>	Joint Stock Company
<b>KBA</b>	Key Biodiversity Area
<b>MDB</b>	Multilateral Development Bank
<b>MoTF</b>	Ministry of Treasury and Finance
<b>MoTI</b>	Ministry of Transport and Infrastructure
<b>MoU</b>	Memorandum of Understanding
<b>RAM</b>	Reliability, Availability, Maintainability
<b>RAP</b>	Resettlement Action Plan
<b>SEP</b>	Stakeholder Engagement Plan
<b>SOE</b>	State Owned Enterprise
<b>SSF</b>	EBRD Shareholder Special Fund
<b>TC</b>	Technical Co-operation
<b>TCDD</b>	Turkish State Railways
<b>TEN-T</b>	Trans European Transport Network
<b>TI</b>	Transition Impact
<b>TRACECA</b>	Transport Corridor Europe-Caucasus-Asia
<b>TRY</b>	Turkish Lira
<b>TSI</b>	Technical Specifications for Interoperability
<b>TUSSIDE</b>	Turkish Institute of Management Sciences
<b>WOP</b>	Without-Project
<b>WP</b>	With-Project

Currency Unit  
1 EUR = 10.43 TRY  
13 October 2021

## PRESIDENT’S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the Republic of Turkey (the “Borrower”) are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign loan in the amount of up to EUR 150 million. The loan proceeds will be used by the Borrower to finance the construction of the 67 km double-track Ispartakule - Cerkezkoy section of the electrified Halkali – Kapikule Railway Line.

The operation will improve Turkey’s railway connectivity with the European Union (“EU”) as the Halkali – Kapikule Railway line is part of the EU’s Trans European Transport Network (“TEN-T”) and provides a link to the border with Bulgaria. It is also the continuation of the first phase of this railway line, from Cerkezkoy to Kapikule, which is funded by EU-IPA Funds. The expected transition impact of the Project is derived from (i) the Well-Governed quality, based on policy dialogue to support restructuring of the railway sector and reform of railway funding; and (ii) the Integrated quality, as the Project will improve Turkey’s domestic and cross-border connectivity driven by increased capacity, improved service quality and ultimately lower transaction costs. The Project is also aligned with the TRACECA initiative, and will further support the enhancement of Eurasian trade corridors.

By promoting rail electrification and decarbonisation of the transport sector, the Project is fully consistent with the Green Economy Transition (“GET”) approach of the Bank and will count 100% towards GET Annual Business Investment (“ABI”). The Project also supports measures to strengthen gender equality in the infrastructure sector, thus qualifying for a Gender SMART Tag based on Gender Additionality.

[REDACTED] Project Implementation support and construction supervision will be loan-funded jointly by the Bank and AIIB.

I am satisfied that the operation is consistent with the Bank’s Country Strategy for Turkey, Transport Sector Strategy, Green Economy Transition Approach 2021-2025, the Strategy for the Promotion of Gender Equality and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed loan substantially on the terms of the attached Report.

**Odile Renaud-Basso**

## BOARD DECISION SHEET

TURKEY – Ispartakule - Cerkezkoy Railway Line DTM ID: 51582	
<b>Transaction / Board Decision</b>	Board approval <sup>2</sup> is sought for a sovereign loan of up to EUR 150 million to the Republic of Turkey (“ <b>Borrower</b> ”) represented by the Ministry of Finance and Treasury of Turkey (“ <b>MoTF</b> ”). The proceeds will be used to finance the construction of the 67 km Ispartakule - Cerkezkoy section of the Halkali - Kapikule Railway Line (the “ <b>Project</b> ”). The Project will be implemented by the Borrower through the General Directorate of Infrastructure Investments (“ <b>AYGM</b> ”), a general directorate operating under the Ministry of Transport and Infrastructure (“ <b>MoTI</b> ”). Turkish State Railways, directly or indirectly through its subsidiaries, (“ <b>TCDD</b> ” or the “ <b>Operator</b> ”) will operate the railway line upon its completion. The Asian Infrastructure Investment Bank (“ <b>AIIB</b> ”) will provide a parallel loan for the Project.
<b>Client</b>	The Borrower is the Republic of Turkey, represented by the MoTF. AYGM is the Project implementing agency.
<b>Main Elements of the Proposal</b>	<p>The Project will involve the construction of a double-track electrified line with a maximum speed of 200 km/hr for passenger services and 120 km/hr for freight. This new line on Turkey’s railway network is part of the EU Trans-European Transport Network (“<b>TEN-T</b>”). The Project aims to facilitate: (a) enhancement of the sustainability and safety of the national transport system; (b) improved efficiency of the transport system; (c) shift to sustainable, accessible and inclusive modes of public transport at the national level.</p> <p><u>Transition impact</u>  <i>Primary Quality – Well-governed:</i> The Project will support the implementation of the railway sector reform in Turkey [REDACTED] <i>Secondary Quality – Integrated:</i> The Project will improve Turkey’s domestic and cross-border connectivity. The Project is part of the TEN-T network and aligned with the TRACECA initiative, and will further support the enhancement of Eurasian trade corridors.  Separately, the Project is estimated to reduce CO2 emissions [REDACTED], resulting in 100% GET ABI.</p> <p><u>Additionality</u>  The Bank’s financial additionality derives from providing financing with a long tenor, not available in the market from commercial sources on reasonable terms and conditions, and from closing the funding gap. Non-financial additionality stems from promoting railway sector reforms, Environmental and Social (“<b>E&amp;S</b>”) and procurement standards of EBRD. Gender additionality arises from a number of measures to be implemented at the level of AYGM and its contractors, addressing challenges related to gender-based violence and harassment as well as career development for women in the infrastructure sector.</p> <p><u>Sound banking:</u> The loan is provided to the Sovereign.</p>
<b>Key Risks</b>	<p><u>Country and repayment risk:</u> Turkey is rated B+ (stable), B2 (negative) and BB- by S&amp;P, Moody’s, and Fitch respectively.</p> <p><u>Railway reform implementation:</u> [REDACTED]</p> <p><u>Other risks</u> include construction and implementation risk, which will be mitigated by the presence of a construction supervisor, Project Implementation Unit (“<b>PIU</b>”), PIU support and an E&amp;S monitor. In order to mitigate E&amp;S risks related to the operation and construction works, an Environmental and Social Impact Assessment (“<b>ESIA</b>”) compliant with EBRD Performance Requirements (“<b>PR</b>”)s has been developed and disclosed for 120 days. The Project will be monitored regularly to ensure compliance with the ESIA and PRs through the appointment of an E&amp;S monitor reporting consultant to the Bank.</p>
<b>Strategic Fit Summary</b>	The Bank will support the modernisation of the railway infrastructure, with the view to promote intermodal transport as well as railway sector reform to provide wider access to the network by private operators. The Project will be important for the connectivity of Turkey and its neighbouring countries. It is consistent with the Bank’s Strategy for Turkey, the Bank’s Transport Sector Strategy, Green Economy Transition Approach 2021-2025 and the Strategy for the Promotion of Gender Equality.

<sup>2</sup> Article 27 of the AEB provides the basis for this decision.

## ADDITIONAL SUMMARY TERMS FACTSHEET

<b>EBRD Transaction</b>	A sovereign loan of up to EUR 150 million to the Republic of Turkey (“Borrower”), represented by the Ministry of Treasury and Finance (“MoTF”). The implementing agency will be the General Directorate of Infrastructure Investments (“AYGM”), a general directorate operating under the Ministry of Transport and Infrastructure (“MoTI”).
<b>Existing Exposure</b>	Total direct sovereign portfolio: EUR 130 million <sup>3</sup> Total state portfolio (incl. sub-sovereign): EUR 627 million [REDACTED].
<b>Maturity / Exit / Repayment</b>	The loan tenor is up to 18 years <sup>4</sup> [REDACTED].
<b>Potential AMI eligible financing</b>	N.A.
<b>Use of Proceeds</b>	The loan proceeds will be used to finance the construction of the Ispartakule – Cerkezkoy section of the Halkali – Kapikule Railway Line. The Project will involve a 67 km double-track electrified line with a maximum speed of 200 km/h for passenger services and 120 km/h for freight. The construction and implementation of the railway line will be monitored by the lenders through a construction supervisor, PIU, PIU support and E&S monitor.
<b>Investment Plan</b>	The total Project cost is estimated at EUR 640 million. In addition to the Bank’s financing, the Asian Infrastructure Investment Bank (“AIIB”) is expected to provide a parallel loan [REDACTED]. The remaining portion [REDACTED] will be financed by the MoTF.
<b>Financing Plan</b>	[REDACTED]
<b>Key Parties Involved</b>	<ul style="list-style-type: none"> <li>• The Republic of Turkey as the Borrower;</li> <li>• The AYGM as the implementing agency;</li> <li>• The MoTI as the implementer of railway reforms;</li> <li>• TCDD, directly or indirectly through its subsidiaries, as the operator of the Project upon its completion;</li> <li>• AIIB as the parallel lender who will co-finance the Project.</li> </ul>
<b>Conditions to subscription / disbursement</b>	<ul style="list-style-type: none"> <li>• The loan agreement shall be duly executed and delivered and all conditions precedent to its effectiveness shall be fulfilled;</li> <li>• A Project Implementation Unit (“PIU”) to be established [REDACTED].</li> </ul>
<b>Key Covenants</b>	<ul style="list-style-type: none"> <li>• [REDACTED] Covenants stipulating compliance with the Bank’s E&amp;S, technical and procurement requirements [REDACTED].</li> </ul>
<b>Security / Guarantees</b>	<ul style="list-style-type: none"> <li>• Sovereign loan</li> </ul>
<b>Other material agreements</b>	<ul style="list-style-type: none"> <li>• Standard Terms and Conditions for the Bank’s Sovereign Operations</li> </ul>
<b>Associated Donor Funded TC and co-investment grants/concessional finance</b>	<p><b><u>Pre-signing:</u></b></p> <p>The following TC assignments supported the preparation of the Project:</p> <ul style="list-style-type: none"> <li>• TC 1. Regulatory Assistance to TCDD [REDACTED].</li> <li>• TC 2. Legal Support for the Restructuring and Commercialisation of TCDD [REDACTED].</li> <li>• TC 3. Environmental and Social Due Diligence for the preparation and disclosure of the Environmental and Social Impact Assessment [REDACTED].</li> <li>• TC 4. Technical Due Diligence studies [REDACTED].</li> </ul>

<sup>3</sup> Direct sovereign exposure of the Bank is to increase up to EUR 323 million including (i) the Project, (ii) the Covid-19 Equipment Emergency Response Project (EUR 130 million – signed in 2020) and (iii) the Green Investments in Buildings: Turkey Project (FRM approved – sovereign loan of up to USD 50 million (c. EUR 43 million) to the MoTF for the benefit of the Ministry of National Education (OpID 51041) with an expected signing in 2022.

<sup>4</sup> Final tenor will be aligned with AIIB and will not exceed 18 years.

	<p><b><u>Post-signing:</u></b></p> <p>TC 5. Environmental and Social Monitor: to provide the EBRD with a clear understanding of the environmental and social (including health and safety, labour conditions and land acquisition) performance of the Project and provide recommendations to improve such performance. [REDACTED].</p> <p>TC 6. AYGM capacity building support on gender equality measures: to strengthen AYGM's capacity to implement gender equality measures by adding a gender expert to the PIU support team. [REDACTED].</p> <p>Substantial cost sharing, in the form of a Parallel Contribution, will be achieved as the consulting services for construction supervision and project implementation support will be funded from the proceeds of the EBRD and AIIB loans. [REDACTED].</p>
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[REDACTED]

## INVESTMENT PROPOSAL SUMMARY

### 1. STRATEGIC FIT AND KEY ISSUES

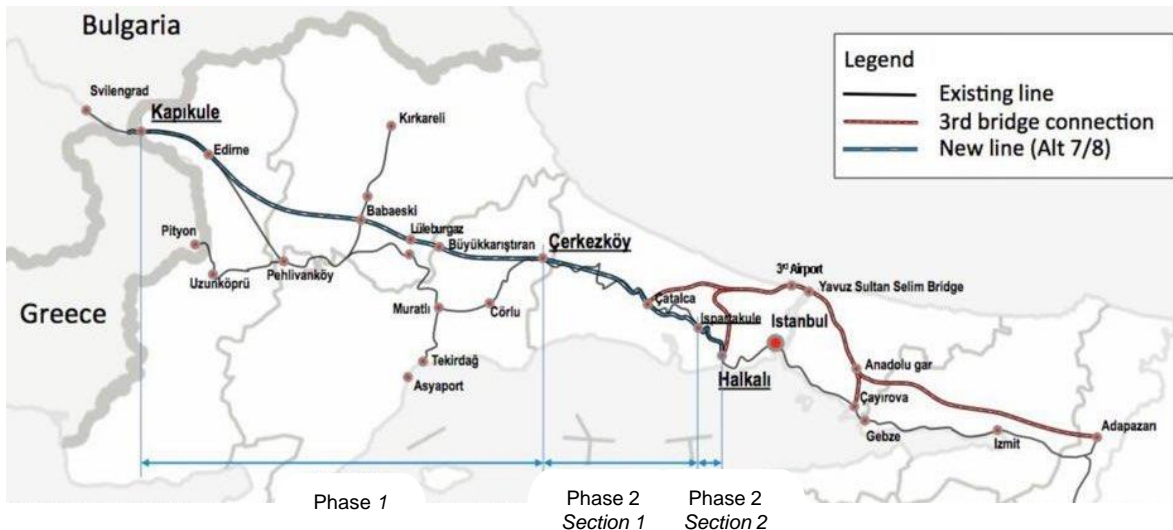
#### 1.1 STRATEGIC CONTEXT

The Halkalı – Kapikule Railway Line project involves the construction of a 229 km high-speed railway line between Halkalı in Istanbul and Kapikule at the Bulgarian border that aims to connect Turkey with Europe as part of the EU Trans-European Transport Network (“TEN-T”) extension plans.

The Halkalı – Kapikule Railway Line is composed of 2 Phases, which are summarised as follow:

- Phase 1 (153 km) covers the section between Kapikule and Cerkezkoy and is currently under construction (funded by EU IPA Funds in the amount of EUR 275 million);
- Phase 2 is comprised of a 76 km line involving the construction from Cerkezkoy to Halkalı is divided into 2 further sections:
  - Section 1: 67 km section between Ispartakule and Cerkezkoy for which the EBRD and AIIB considers providing the financing under the Project;
  - Section 2: 9 km section between Ispartakule and Halkalı, which includes a 6 km twin-bore tunnel under the route of the proposed Kanal Istanbul project (which is currently under development).

**Figure 1: Overview of Halkalı – Kapikule Railway Line Project and its Sections**



The Halkalı – Kapikule Railway Line is an important part of the European rail freight corridor and will attract freight traffic due to the need to carry freight to and from the Anatolian part of Turkey, taking advantage of the Yavuz Sultan Selim Bridge over the Bosphorus.

The Project will be a double-track electrified line with a maximum speed of 200 km/hr for passenger services and 120 km/hr for freight. The principal need for the Project (and the Halkalı – Kapikule Railway Line as a whole) is to increase the freight and passenger rail capacity in the strategically critical area of Thrace and to enhance domestic and cross-border connectivity. The



area is critical as the European-Asian meeting point of the European rail network and could become a bottleneck unless infrastructure is improved. The Project is, therefore, a response to key transport sector policies and strategic infrastructure connectivity initiatives as listed below:

- The Project will be part of the TEN-T, connecting Turkey's railway network to Europe. The Project, together with the Cerkezkoy - Kapikule line, will form one integrated railway system with full interoperability, by providing connections to Sofia (Bulgaria) and onwards through the European rail network, which is located within the Orient / East – Mediterranean corridor of the TEN-T Network. The Project has also been identified as a project of European Interest in the framework of Chapter 21 of the EU-Turkey Accession negotiations by providing missing railway connections, while also supporting the development of larger trade corridors between the EU and Turkey and from Turkey to the Middle East, the Caucasus and Central Asia.
- The Project is also a subcomponent of the Transport Corridor Europe-Caucasus-Asia ("TRACECA") project. The aim of the TRACECA project is to strengthen economic relations, trade and transport in the regions of the Black Sea basin, South Caucasus and Central Asia.
- Additionally, the Project is one of the key major infrastructure projects identified in Turkey's Sector Operational Programme for Transport ("SOPT") (2014-2020), which is based on relevant existing Turkish Government and European Union strategies, including Turkey's 11th National Development Plan for 2019-2023. The SOPT Programme focuses on freight railway activities that are most relevant for extending the TEN-T network, in which the Project is one of the key identified infrastructure investments. According to the 11th National Development Plan of Turkey, the Project, together with the in-construction Cerkezkoy - Kapikule railway, will increase export opportunities, facilitate trade, reduce the costs of transporting goods and materials, and establish a 'flexible, safe, reliable and integrated transport system' for Turkey.
- The project will be compliant with Technical Specifications for Interoperability ("TSI") to ensure interoperability of the rail line of the European Union, as certified through a Notification Body (NoBo) to be appointed. Whilst Turkey, as a non-member of the EU, does not formally have to comply with TSI requirements, the decision to ensure compliance of the whole rail line shall facilitate the development of long distance international passenger and freight operations and support increased rail usage and the expected project benefits.
- The Project is expected to increase passenger volumes on the Cerkezkoy - Halkali corridor [REDACTED]. The shippers will benefit from new services and an improved service level in terms of reliability, and punctuality.

The requirements for the Project are also associated with socioeconomic, demographic and infrastructure demands forecasted for Turkey as well as commitments for trans-national infrastructure policies. Once operational, the railway line will create major benefits for both freight and passenger transportation, including improvement in transport connectivity (speed of connection, coherent intermodal transport connection for domestic and international traffic), increase in traffic and efficiency (volume transported by railways - partial replacement of road transportation, cost reduction due to new infrastructure), safety improvement, and improved level of services in terms of reliability, punctuality and lack of damage. For freight transportation, the Project will provide more economical and reliable transport services,

decreasing the barriers in a corridor of high importance for international import and export activities. For passenger transportation, it will facilitate increased and safer mobility and access, while carbon emissions will decrease and the use of different modes of transport will be promoted.

The Project is GET eligible as per Annex 5, section 3.1.1 of the GET handbook: ‘Zero-direct – emissions fleet and related infrastructure are 100 per cent GET’. It provides climate mitigation benefit in line with GET 2.1 due to the modal shift from a high carbon-intense transport mode, notably road, to a lower carbon intense mode as railway.

In terms of Paris Alignment, railway infrastructure falls into the provisional list of ‘universally aligned activities’ and is consistent with Turkey’s Intended Nationally Determined Contributions (“INDC”) by ‘Ensuring balanced utilization of transport modes in freight and passenger transport by reducing the share of road transport and increasing the share of maritime and rail transport’ and ‘Realizing high speed railway projects’. It is worth to mention that Turkey submitted its INDC in 2015 and signed the Paris Agreement the following year, which was ratified on October 6, 2021.

In addition, the Project will mainstream gender considerations throughout, targeting changes at the level of AYGM, its contractors and sub-contractors. This is in line with the objectives of the EBRD’s Strategy for the Promotion of Gender Equality which seeks to promote women’s equal access to employment and services. Through the Environmental and Social Action Plan (“ESAP”), the Project will address several of the key gender gaps identified, covering both the risk of gender-based violence and harassment (“GBVH”) as well as the need to better promote female talent in the infrastructure sector.

This project contributes to a host of UN Sustainable Development Goals (“SDGs”), namely: SDG 4: Quality Education, SDG 5: Gender Equality, SDG 8: Decent Work and Economic Growth, SDG 9: Industry, Innovation and Infrastructure.

The Project is also consistent with:

- Country Strategy for Turkey by promoting “*Improving the quality of infrastructure via commercialisation and private sector participation*” through the policy dialogue activities for the reforms on the liberalisation of the railway sector in Turkey. As elaborated in the strategy, “*The Bank will support the modernisation of the railway infrastructure, with the view to promoting reform and wider access to the network by private operators.*”
- Transport Sector Strategy which sets that “*Investments in the expansion of national, regional and sub-urban rail infrastructure and signalling, to improve access to markets and services, and create linkages to key transport networks and corridors, including TEN-T, WBCN, CAREC, TRACECA and BRI in the economies where the Bank invests.*” Also, the Project contributes to the Bank’s objectives to “*Scale up investments in less polluting modes, for example, railways to encourage modal shift*” as well as to “*Promote a market-based approach by combining financing of priority public sector transport projects with policy dialogue, capacity building and sector reform requirements.*”

Lessons learned from existing operations with the Borrower – Turkey Covid-19 Emergency Equipment Facility: The Project will be the second sovereign deal in Turkey following the emergency loan which was signed in 2020 with the MoTF to finance the purchase of hospital equipment required for public hospitals to fight the COVID-19 pandemic in Turkey. The implementing ministry was the Ministry of Health (“MoH”). The key lesson learned from this project is the need to ensure the implementing agency has sufficient support to assist with the

procurement of contracts in accordance with the Bank's Procurement Policies and Rules ("PP&Rs"). For this project, the Bank has provided a significant amount of support to AYGM to familiarise them with the Bank's policies and procedures [REDACTED].

## 1.2 TRANSITION IMPACT

### Primary Quality: Well-Governed

Obj. No.	Objective	Details
1.1	<i>The Project mandates a legal change and market liberalisation that enables for the first time large-scale competition or private sector involvement (e.g. open skies legislation, third party access to rail infrastructure or tendering out regulated bus routes)</i>	The first pillar of the railway reform agenda is the adoption of a law for the restructuring of TCDD. The Bank will support [REDACTED] the preparation of this law. [REDACTED]. Separation of the companies and establishing a dedicated joint stock freight company, in conjunction with the agreed railway funding reform, will support liberalisation efforts, and open up space for private sector participation.
1.2	<i>A well-defined public service obligation in line with international practice will be introduced (not a revision to an existing PSO) as one of the first three for national transport infrastructure in the country.</i>	As part of the new structure, the newly established TCDD Passenger JSC and TCDD Infrastructure JSC will have public service obligations to ensure territorial cohesion, in addition to economic and social development across remote areas. [REDACTED].
1.3	<i>A cost recovery tariff methodology is introduced where such a methodology does not exist.</i>	Following restructuring, all explicit or implicit subsidies to TCDD Freight will be abolished. [REDACTED].

### Secondary Quality: Integrated

Obj. No.	Objective	Details
2.1	<i>Provision of new infrastructure between or within regions that are currently inadequately integrated.</i>	The Project will finance the construction of the Ispartakule – Cerkezkoy section of the Halkali – Kapikule Railway Line, involving a 67 km double-track electrified line with a maximum speed of 200 km/h for passenger services and 120 km/h for freight. The Project will improve Turkey's domestic and cross-border connectivity driven by increased capacity, improved service quality and ultimately lower transaction costs. The project will connect the Turkish rail network to Europe as part of TEN-T extension plans. The Project is also aligned with the TRACECA initiative, and it will support further development of the Eurasian trade corridors.

#### Delivery Risks:

The delivery risks are associated with the implementation capacity of MoTI for the railway sector reform. [REDACTED] A team funded small-sized but targeted TC will support the identification of potential organizational and financial transition arrangements, to assess the impact on the government as well as to guide the process. Additional risks relate to the Project

implementation capacity of AYGM. Although AYGM has undertaken similar projects with other international finance organisations (Railway Logistics projects with the World Bank, Cerkezkoy Intermodal Terminal project through the EU –IPA grants), it will be the first Project with EBRD for AYGM. Therefore, the Bank has provided a significant amount of support to AYGM to familiarise them with EBRD policies and procedures. Procurement experts will be in place to support AYGM during the tendering and award of the Project contracts, whilst the PIU support assignment and E&S monitor has been agreed with AYGM to support the construction and supervision activities, and ensure compliance with Bank requirements, during the implementation phase.

### 1.3 ADDITIONALITY

Identified triggers	Description
No triggers identified	n/a

Additionality sources	Description of additionality sources
<b>Financing Structure</b> EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions, e.g. a longer grace period than the market average, restricted foreign currency financing, etc. Such financing is necessary to structure the Project.	The Bank will provide long-term financing with a 18 year tenor for the construction of a high-speed railway line in Turkey. Such long-term sovereign financing is not available from commercial banks.
<b>Financing Structure</b> EBRD investment is needed to close the funding gap. At the same time, EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them.	The funding need for the state's development of the railway infrastructure is large, the proposed loan together with other IFIs cannot address the total financing needs.
<b>Risk mitigation</b> EBRD helps the client to mitigate environmental, social risks through identification of risks related to the depletion of natural capital assets, raw materials and water availability, etc., and to manage these risks.	The Bank's involvement will help mitigate and manage environmental, social risks through due diligence and covenanted ESAP.
<b>Policy, sector, institutional, or regulatory change</b> EBRD's involvement in a project is considered additional when it is designed to trigger a change in the policy, sector, institutional or regulatory framework, or enhance practices at the sector or country level (e.g., an introduction of cost-reflective pricing of energy, water etc.).	The Bank's involvement in the Project has supported the reform process in the railway sector. [REDACTED].
<b>Standard-setting: helping projects and clients achieve higher standards</b> AYGM seeks/makes use of EBRD expertise on best international procurement standards.	The Bank's involvement will help introduce the best international procurement standards into the Project.
<b>Standard-setting: helping projects and clients achieve higher standards</b> AYGM seeks/makes use of EBRD expertise on higher environmental standards, above 'business as usual' (e.g. adoption of emissions standards, climate-related ISO standards etc.).	This is one of AYGM's major linear infrastructure projects where an ESIA has been developed to international standards. Implementation of the ESIA and ESAP requirements in the Project including via construction contracts will help improve

	overall E&S standards, enhance AYGM's E&S practices and procedures and with the support of the PIU consultant will allow AYGM to further develop its internal E&S capacity.
<p><b>Standard-setting: helping projects and clients achieve higher standards</b></p> <p><u>Gender SMART:</u> AYGM seeks/makes use of EBRD expertise on gender standards and/or equal opportunities action plans (e.g. improving women's access to safe transport and/or women-led businesses participation in the client supply chain).</p>	<p>Female participation in the infrastructure and construction sector remains very low. Infrastructure is one of the sectors with the lowest share of women in the workforce, particularly across technical jobs. Discrimination and stereotyping, poor career prospects and a lack of relevant competences all constitute barriers to women's entry and advancement within the sector. In Turkey, women make up only 4% of the construction and engineering workforce.</p> <p>In response to these key challenges, the Project will address key barriers to women's entry and advancement within the sector through a range of targeted measures: (1) AYGM will develop a stand-alone Gender Equality and Gender-Based Violence and Harassment ("GBVH") Action Plan and join – as one of the EBRD's first clients – a large-scale capacity building programme on addressing GBVH risks in Turkey. Given AYGM's central role for infrastructure development in the country, this is expected to result in a major shift in awareness and greater application of best practices across the sector going forward; (2) Under the Project, AYGM will also implement a dedicated internship programme for female university students in engineering, strengthen their collaboration with universities in the Project region and organise a number of outreach and awareness raising workshops to promote women's employment in infrastructure; (3) Contractors on the Project will be required to adopt similar measures to advance women's participation in engineering and construction. AYGM will work with its contractors to ensure that they are trained on GBVH-associated risks, and also support them in adopting their own set of activities to better attract, retain and promote women in the construction sector. These measures will be included in the ESAP and monitored in line with the EBRD's Compendium of Indicators.</p>



#### 1.4 SOUND BANKING - KEY RISKS

<b>Risks</b>	<b>Probability / Effect</b>	<b>Comments</b>
<b><i>Institutional Reform Risk</i></b>	<i>Medium/High</i>	With Technical Cooperation assistance, a review of the legal and regulatory framework and TCDD restructuring options were conducted. [REDACTED]. Currently, MoTI is working on a comprehensive reorganization roadmap. [REDACTED]. The funding reform and regulatory reform are dependent on the successful restructuring. [REDACTED] MoTF will need to procure that MoTI will prepare and take all measures within its control to ensure that the railway restructuring law is submitted to the Parliament [REDACTED].
<b><i>Country and repayment risk</i></b>	<i>Medium/Medium</i>	<p>The proposed transaction is a sovereign loan to the Republic of Turkey, represented by the MoTF as the Borrower. Turkey's credit profile has been negatively affected by recent developments which triggered devaluation of the lira and will have an adverse impact on reducing high inflation. Turkey is rated B+ (stable), B2 (negative) and BB- by S&amp;P, Moody's, and Fitch respectively. Despite the short-term negative outlook, Turkey has strengths, including a large domestic market with high-middle income levels, moderate public debt, favourable demographics, a vibrant private sector and resilient banking sector, according to Fitch.</p> <p><u>COVID impact:</u> In part driven by the relatively low stringency of lockdowns, and in large part by significant credit and monetary stimulus measures adopted in the face of the pandemic, the Turkish economy grew by 1.8% in 2020. Construction, retail and some services sectors have been negatively impacted by the restrictions while the manufacturing sector has been resilient. The IMF expects the Turkish economy to grow by 5.8% in 2021.</p>
<b><i>Implementation Risk</i></b>	<i>Low / Medium</i>	Implementation risk exists given the size and complexity of the Project. The construction costs have been verified by an independent technical consultant. Moreover, tender documents are being revised following the Bank's technical due diligence review, including additional requirements for safety management, Reliability, Availability and Maintainability ("RAM") requirements and functional integration. AYGM has significant experience in delivering infrastructure projects, notably in transport and including ports, airports, logistic centres and national rail and high-speed rail sectors. The risk will further be mitigated by the following requirements that: (1) a PIU acceptable to the Bank has been appointed; (2) support has been assigned to assist the PIU; (3) technical support is provided by an independent consultant in order to review the revised tender documents. The listed mitigations will ensure good project management enforced by AYGM together with the supervision engineer who will oversee the contract implementation.

<b>Financing Completion Risk</b>	<i>Medium / Medium</i>	AIIB will be joint lender to the Project, with MoTI financing the remainder of the project costs. The Halkali - Cerkezkoy project was listed in 2021 Turkey Investment Plan including foreign borrowing and budgetary sources [REDACTED]. Also, the Bank's standard sovereign loan documentation includes an obligation on the Borrower to ensure sufficient funds are available to complete the Project.
<b>Performance risk</b>	<i>Medium / Medium</i>	The actual traffic figures may be lower than the projected numbers specified in the economic evaluation assessment conducted by an independent economic expert, appointed by the Bank. The risk is mitigated by the presence of a sovereign counterparty. Ultimately, this risk is assumed by the Republic of Turkey. The Republic of Turkey has a positive track record of meeting all of its payment obligations and no defaults on any of its debt payments in its history.
<b>Environmental and Social Risk</b>	<i>Low / Medium</i>	The risk arises since the Project is categorised as A with project-specific environmental and social issues. A formalised and participatory Environmental and Social Impact Assessment ("ESIA") has been conducted to meet the Bank's requirement and has been disclosed for 120 days. The Bank has undertaken environmental and social due diligence for the Project to define robust mitigation measures. The Project will be implemented by AYGM, who will engage comprehensive support on E&S matters through the PIU, PIU support and supervision consultants to ensure the requirements of the PRs are met. In addition, a Lenders E&S monitoring consultant will be in place.

## 2. MEASURING / MONITORING SUCCESS

<i>Overall objectives of project</i>	<i>Monitoring benchmarks</i>	<i>Implementation timing</i>
Compliance with design standards and project specifications	Progress Reports, supervision reports, independent assessment as covenanted in the Loan Agreement;	[REDACTED]
On-time project implementation	Completion according to the timeline and within the budget.	[REDACTED]

### Primary Quality: Well-governed

Obj . No.	Monitoring indicator	Details	Baseline	Target	Due date	TC
1.1	Recommended policy or strategy or regulatory framework/ standard agreed by relevant stakeholder(s) [REDACTED]	The draft law will be prepared [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Legal, institutional or regulatory frameworks in target areas improved [REDACTED]	Transformation of TCDD's status [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Public service contract or Public Service Obligation signed and implemented [REDACTED]	TCDD Infrastructure and MoTI to enter into a multi-year infrastructure contract.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.4	Tariff reform in target segment adopted by authorities [REDACTED]	Abolishment of all explicit or implicit subsidies to TCDD Freight.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

### Secondary Quality: Integrated

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	TC
2.1	Physical capacity of the client extended	Construction completed on the Ispartakule – Cerkezoy section of the Halkali – Kapikule Railway Line, an 67 km double-track electrified line.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2.2	Expanded access of infrastructure across regions	Improved connectivity between Turkish and European railway networks	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]



2.3	Net increase in rail infrastructure usage: cargo	The Project is expected to [increase] freight traffic	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2.4	Net increase in rail infrastructure use: passenger	The Project is expected to increase passenger volumes on the Cerkezkoy - Halkali corridor [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2,5	Operational performance of the client: time savings	The Project is expected to lower the transaction cost for the users, as duration of trips between Halkali and Cerkezkoy will decline [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

### Additional Indicators

Indicator type	Monitoring indicator	Details	Baseline	Target	Due date	Donor
Gender Additional Indicators	Practices of the relevant stakeholder improved (equal opportunity practices of the client)	Development and implementation of Gender Equality and GBVH Action Plan; AYGM to join EBRD capacity building programme on GBVH; the total number of people trained on GBVH-associated risks over the course of the Project will also be monitored.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Gender Additional Indicators	Number of women enhancing their skills as a result of training	AYGM will develop and implement a tailored internship and outreach programme for female engineering students; [REDACTED] young women from engineering degrees will benefit from internship opportunities with AYGM over the next five years; a specific focus will also be on increasing outreach to universities in the Project region.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Gender Additional Indicators	Practices of the relevant stakeholder improved (equal opportunity practices of companies in the client's supply chain)	AYGM will support contractors to implement additional measures to promote women in the construction sector, such as mentoring, STEM workshops, apprenticeship and graduate programmes for female students; the total number of women benefitting from such programmes will also be monitored.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Outputs/operational delivery results	Project implementation support completed: Environmental Monitor	EBRD with a clear understanding of the environmental and social (including health and safety, labour conditions and land acquisition) performance of the Project.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Outputs/operational delivery results	The Project is completed within budget and timeline	To be monitored that the Project is implementing as per the budget and within the defined timeline	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

### 3. KEY PARTIES

#### 3.1 BORROWER: THE REPUBLIC OF TURKEY (REPRESENTED BY MOTF)

The proposed transaction is a sovereign loan to the Republic of Turkey, represented by the MoTF.

**Ministry of Treasury and Finance:** will be the Borrower and represents the Republic of Turkey. Turkey's economic and social development performance since 2000 has been positive, leading to increased employment and incomes and making Turkey an upper-middle-income country. However, in the past few years, growing economic vulnerabilities and a more challenging external environment have threatened to undermine those achievements. Turkey is rated B+ (stable), B2 (negative) and BB- by S&P, Moody's, and Fitch respectively and included in the top 20 biggest economies in the world with USD 716 billion GDP in 2020. The Minister of Treasury and Finance is Lutfi Elvan since 10 November 2020.

#### 3.2 IMPLEMENTING AGENCY: AYGM

**General Directorate of Infrastructure Investments:** is responsible for the Project since July 2020, as the implementation agency. AYGM is a General Directorate responsible for infrastructure investments under the MoTI and is in charge of many other infrastructure projects in Turkey. The main responsibilities of AYGM are as follows:

- To prepare or have prepared the transportation and infrastructure project for construction;
- To construct or have the transportation and infrastructure projects to be constructed and transfer the completed assets to the relevant governmental bodies;
- To create PPP models in order to ensure the construction and operation of the transportation and infrastructure projects and negotiate with private sector; and
- To examine or have the projects and specifications of the project to be built by public institutions related to the transportation sector.

**Ministry of Transport and Infrastructure:** is responsible for transport, information and communication services in Turkey. MOTI's mission is to contribute to the improvement of the life quality of society and the development of the country with a balanced, accessible, economical and safe service. MoTI is a general budget institution subject to the Public Financial Management and Control Law numbered 5018, meaning that it could only make expenditures indicated in the Investment Programme of the Republic of Turkey. The current minister is Adil Karaismailoglu who has been serving in the office since March 2020. Prior to his current role, he worked as Deputy Minister of MoTI.

#### 4. MARKET CONTEXT<sup>5</sup>

- Turkey's railway infrastructure is controlled by the MoTI. The primary rail carrier is the state-owned Turkish railways, TCDD, the sole provider of all long-distance/cross-border freight and passenger transport. Although legally liberalised, the vertically integrated structure of TCDD and continued subsidies to TCDD operations are not conducive to entry and competition for rail operations. Korfez Transport and Omsan Logistics are the only private train operators carrying cargo primarily to their related companies' operations at the moment and TCDD Transport plays a dominant role in cargo transportation in Turkey.
- In 2020, 29.9 million tons of freight was transported by rail, with a slight y-o-y increase (vs. 29.3 million tons in 2019) due to Covid-19 outbreak. The private companies are encouraged to carry freight with their own wagons and 10.2 million tons of cargo in 2020 (vs, 10 million in 2019) has been transported by the private owners' wagons.
- TCDD transported 99.5 million passengers in 2020. This activity has been affected significantly due to several weeks of lockdowns in Turkey. In 2019, 164.5 million passengers were transported by rail.
- The total length of the railways in Turkey reached 12,803 km in 2020, comprising of 11,590 km of conventional lines and 1,213 km of high speed lines. The first high speed train in Turkey started to operate in 2009, on a 283 km line between Eskisehir-Ankara.
- Turkey ranked 54th in the Global Competitiveness Index of Railway Infrastructure List prepared in 2019, reflecting its limited infrastructure and underdeveloped commercial focus in the sector.
- To increase the railway network and quality of the infrastructure, the government invested TRY 167.5 billion (EUR 16.3 billion) during the last 18 years. Robust investment will continue to support growth in railway infrastructure over the next decade as the government's Logistics Master Plan published in 2019, with various initiatives and projects, is expected to cost around USD 47.0 billion (EUR 40.6 billion). This will include more than 6,100 km of new high-speed railway over the 2023-2035 to connect various different cities along with improvements to the existing tracks.
- As of 2019, the share of freight and passenger transportation by rail was respectively 4.9% and 1.3% of the overall transportation. The freight and passenger transportation by rail in the country is forecasted to increase by 20% and 15% respectively by 2035 with the planned railway investments.
- Freight railway transport projects have been given priority by the MoTI, with the aim of increasing the transit possibilities both nationally and between Europe-Asia by creating an uninterrupted east-west rail corridor. In November 2019, the first cargo train from Xi'an arrived in Turkey, which continued onwards to Europe via Marmaray tunnel.
- The Project is a continuation of Plovdiv-Kapikule railway line section in Bulgaria and will contribute to international transportation and the economy of the region. The Plovdiv-Istanbul rail line is 374 km-long and currently, is the only rail connection between both countries via the border crossing at Kapikule/Svilengrad. In 2016, Bulgaria completed the modernisation of the Plovdiv – Kapikule line via Dimitrovgrad with a length of 154 km. BGN 424 million (EUR 216.8 million equivalent) was the value of the project that was supported by the European Union under the Operational Programme Transport for 2007-2013.

<sup>5</sup> Source: MoTI Website, Fitch

## **5. FINANCIAL / ECONOMIC ANALYSIS**

### **5.1 FINANCIAL ANALYSIS OF THE BORROWER**

[REDACTED]

### **5.2 FINANCIAL HIGHLIGHTS OF MOTI**

[REDACTED]

### **5.3 SENSITIVITY ANALYSIS**

[REDACTED]

### **5.4 PROJECTED PROFITABILITY FOR THE BANK**

[REDACTED]

## 6. OTHER KEY CONSIDERATIONS

### 6.1 ENVIRONMENT

Categorised A (ESP, 2014). Environmental and Social Due Diligence (ESDD) commenced with a review of the existing approved national Environmental Impact Assessment (EIA), which determined that a more comprehensive Environmental and Social Impact Assessment (ESIA) was required. An E&S disclosure package has been developed in accordance with the EBRD Performance Requirements (PRs) which includes:

- An Environmental and Social Impact Assessment Report (ESIA);
- A Non-Technical Summary (NTS);
- Environmental and Social Management Plan (ESMP);
- A Resettlement Action Plan (RAP), and a Guide to Land Acquisition and Compensation for communities (GLAC); and
- A Stakeholder Engagement Plan (SEP).

This E&S disclosure package has been reviewed by the Bank and disclosed by AYGM and EBRD in English and Turkish for a period of 120 days prior to the EBRD's Board approval in line with the Bank's Access to Information Policy (AIP).

Benefits of the Project include enhanced transport links within the regions and between Turkey and the EU level, creation of jobs during construction and reduced CO<sub>2</sub> emissions associated with a shift of road traffic to rail.

The route of the Project is generally aligned with that of the existing Ispartakule - Cerkezkoy railway with some deviations (e.g. for technical reasons or to avoid resettlement), particularly in the west and does not cross any national or internationally protected areas. The route primarily crosses habitats which are common and widespread in the region and in Turkey. The biodiversity and critical habitat assessment identified Priority Biodiversity Features (PBFs) including oak/hornbeam woodland (74.3ha) and critical habitat supporting six threatened, endemic plant species. The Project crosses two designated Important Bird Areas (IBAs), one of which is a Key Biodiversity Area (KBA): Impacts on the Terkos Basin IBA/KBA are expected to be limited since the Project crosses modified habitat, a significant distance from the wetland habitats supporting the IBA trigger species; the Project crosses the boundary of the Büyükçekmece Lake IBA, in habitats which are not considered to be of high value for the majority of trigger species except the white headed duck for which it is critical habitat. Acoustic and visual disturbance to bird species is not predicted to be significant. Risk of collision of birds with the railway infrastructure and trains during operation will be mitigated by the installation of adapted fencing in areas of high risk. A Biodiversity Management Plan has been developed, which includes specific conservation actions aimed at achieving No Let Loss / Net Gain for PBFs and critical habitat and will be further developed and implemented by the Client.

Noise and vibration impacts have the potential to be significant in certain locations during construction and noise impacts will be managed in line with the national and international standards and good practice mitigation measures such as noise barriers and restriction on working times. Where residual impacts are predicted to be significant residents will be offered the opportunity to temporarily relocate during the construction activity at the cost of the Project. During operations phase, noise and vibration will be mitigated through installation of noise barriers and through specific track design measures.

An assessment of rail and tunnel safety has been undertaken and will be managed in accordance with national and EU standards. A railway safety plan has been developed which includes detailed requirements for management of safety risks including fire safety; ventilation and emergency escape systems; seismic hazards. The final design, construction and operational safety plan will be reviewed by an independent consultant to verify compliance with the required safety and technical requirements. An Emergency Response Framework has been prepared and will be developed into a detailed plan for construction and operation phases.

The Project will be fenced along its entire alignment with controlled access to people where needed through crossings which will pass either under or over the railway, which provides significant mitigation of community health and safety impacts. An occupational health and safety plan will be developed for construction and operation phases. AYGM and TCDD, their contractor and sub-contractors will also be required to manage potential impacts to workers and communities including labour rights of construction workers and their working conditions, health and safety risks to workers and communities and will establish and implement an internal grievance mechanism in line with the Bank requirements. The Project will also identify and address any gender issues, including gender based violence and harassment risks to workers and communities and passengers during operations phase and will develop and implement a stand-alone gender equality and GBVH action plan.

The total area of land affected by the Project is estimated at 503 ha, which will be acquired on a permanent basis for the construction and operation of the railway and associated infrastructure (cuttings, embankments, sidings etc.). Approximately 47% of the land is in private ownership covering 1050 parcels and the majority of these are used for agriculture. The Project is estimated to result in physical displacement of 59 households. A RAP and associated GLAC has been developed in consultation with affected people to define mitigation, compensation and livelihood restoration measures in line with national law and the Bank's requirements (PR5). Detailed compensation, assistance and livelihood restoration measures have been included in the RAP with specific measures to support vulnerable people affected by the Project. The implementation of RAP will be verified through internal and external monitoring activities and a RAP completion audit.

A SEP has been prepared defining various engagement activities during the Project lifecycle including the alternative engagement approaches to mitigate risks related to Covid-19 in line with national authorities and WHO guidance. A grievance mechanism has been established for external stakeholders in line with the Bank requirements. During the disclosure period, consultation meetings, including dedicated meetings for women, were held within the Project area and stakeholders also submitted written and verbal feedback on the Project. No material updates to the ESIA are required in response to the feedback received. The main areas of feedback included highlighting project benefits such as opportunities for employment and improved connectivity and various queries relating to: land acquisition and compensation, including timing of crop valuations; requests for modifications to or provision of additional crossing points over/under the railway; and regarding the possibility of providing additional stations to improve local connectivity. To respond to stakeholder feedback AYGM will need to provide clarifications to affected people on the timing of crop valuation and compensation, review crossing requirements during the detailed design and further communicate to stakeholders regarding the choice of stations on the high-speed line. AYGM will continue to undertake further stakeholder engagement as outlined in the SEP.

The scope of the ESIA includes the Project and the railway section between Halkali - Ispartakule (which is not financed by the Bank) which is an associated facility and will be implemented in accordance with national and Bank E&S requirements as described in the ESIA.

An ESMP has been prepared including the mitigation measures and roles and responsibilities between AYGM, construction contractor and TCDD. The ESMP also establishes a defined process for managing any Project changes. The Construction Contractor will develop a set of environmental and social management plans to implement the mitigation measures identified as part of ESIA/ESMP in line with the Bank requirements. An Environmental and Social Action Plan (ESAP) has been developed and disclosed and the Project will be monitored regularly by independent Environmental and Social consultants to ensure compliance with the ESAP and the PRs. AYGM will receive technical support to enhance its E&S capacity during project implementation through a PIU Consultant and Supervision Consultant.

## **6.2 INTEGRITY**

In conjunction with OCCO, integrity due diligence has been undertaken on all project entities including AYGM as the implementation agency, key AGYM principals and other related parties. [REDACTED] [T]his project does not pose a reputational risk to the Bank. [REDACTED].

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the Project, and the Project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the Project.



**ANNEXES TO OPERATION REPORT**

<b>ANNEX 1</b>	Project Background
<b>ANNEX 2</b>	Economic Evaluation and GHG Assessment
<b>ANNEX 3</b>	MOTI and AYGM Overview
<b>ANNEX 4</b>	Project Implementation
<b>ANNEX 5</b>	Railway Sector Reform

## Annex 1 – Project Background

### *The Halkali – Kapikule Railway Line Project*

The Halkali – Kapikule Railway Line is a strategic project in line with the Turkish national transport strategies and the EU's Country Strategy for Turkey (2014-2020) to establish a smooth, safe, green, smart, accessible, sustainable and inter-operable national transport in line with EU standards with appropriate connections to the TEN-T.

The Halkali – Kapikule Railway Line is an important part of the European rail freight corridor and will attract freight traffic due to the need to carry freight to and from the Anatolian part of Turkey, taking advantage of the Yavuz Sultan Selim Bridge over the Bosphorus. It is one of EU's key interest projects of strategic importance to Europe as it will connect Sofia, Edirne (North-western Turkey) and Kars (East of Turkey) to Azerbaijan, Iran and Georgia, and to Syria and Iraq in the south. The corridor where the project is located is also a subcomponent of the TRACECA project, which aims to strengthen economic relations, trade and transport in the regions of the Black Sea basin, South Caucasus and Central Asia.

The following projects have been completed or are in execution on this corridor for the last 15 years in Turkey:

- Sivas – Kars High Speed Train Project;
- Ankara – Sivas High Speed Project;
- İstanbul – Ankara High Speed Train Project.

A new high-speed railway line between Halkali and Kapikule was first proposed in 2008. In recent years, various options were assessed and evaluated and a preferred option has been selected by the authorities. The Project now consists of 3 sections under 2 separate phases with a total length of 226km:

- Phase 1, between Cerkezkoy - Kapikule Section of 150km; and
- Phase 2, Ispartakule - Cerkezkoy Section of 67km and Halkali – Ispartakule Section of 9km.

Of the 228 km rail lines, 73 km of the line will pass through Istanbul Province, whereas 40 km, 62 km and 54 km will pass through Tekirdağ, Kırklareli and Edirne Provinces, respectively. Both phases (and all three sections) are planned to be TSI-compliant (Technical Specifications for Interoperability), double-tracked, electrified and fitted with the European Rail Traffic Management System ("ERTMS") Level 1, capable of upgrade to Level 2 in the future. The rail link will create a high-speed train track, enabling passenger and freight trains to run at a speed of 200km/h and 120 km/h, respectively.

**Figure 1: Overview of Halkali – Kapikule Line**



i. **Phase 1 : Cerkezkoý – Kapikule Section**

The 153-km Phase 1 consists of the section between Cerkezkoy and Kapikule. It is currently under construction and will provide a high-speed double-track rail link from Cerkezkoy to Kapikule at the Turkey/Bulgaria border. The project is partially funded by the EU-IPA Funds in an amount of EUR 275 million, making it the single-largest EU investment project implemented in Turkey so far. The project will also receive national funds, matching the EU contribution. The grant agreement was signed in February 2019. The tender for Cerkezkoy – Kapikule Section was awarded to Kolin – Salini Group in March 2019 with a bid amount of EUR 524 million for turnkey construction works.

ii. Phase 2 Section 1: Ispartakule – Cerkezkoý Section (the section to be financed by the Bank)

The Project will involve the construction of a new double-track 67km line from Ispartakule to Cerkezkyoy. The construction costs have been verified by an independent technical consultant. [REDACTED].

**Phase 2 Section 2: Halkali – Ispartakule Section** [REDACTED] This section involves the construction of a new double-track 9km line (i.e. two new lines) between Halkali Station and Ispartakule Station. [REDACTED].

## Annex 2 – Economic Evaluation and GHG Assessment

### 1. INTRODUCTION

This Annex presents the economic evaluation of the Ispartakule – Cerkezkoy section of the proposed new high-speed line between Halkali and Cerkezkoy, a part of the Halkali - Kapikule Rail Line (“HKRL”). It first summarises the project and the current transport situation in the corridor served by the project. The second section summarises the forecast passenger and freight demand for the project. The third section discusses the likely impact of the project and develops traffic and operating forecasts with the project. The final section provides an economic evaluation of the project, including a summary of the GHG impacts. [REDACTED].

### 2. PROJECT BACKGROUND

HKRL is an important section in the rail freight corridor linking Europe with the Middle East. Although a direct rail connection has recently been established using the Marmaray Tunnel, this has limited capacity and the HKRL will provide a direct connection at Catalca with the high-speed line planned to connect, via the new airport, with the Anatolian network over the Yavuz Sultan Selim Bridge (the ‘Third Crossing’) over the Bosphorus.

The main centres in the corridor are also served by the O3 motorway (“Otoyol”), a largely six-lane tolled highway also known as the European Motorway in Turkey, as well as the D100 state highway, an east-west road traversing the whole length of Turkey from Kapikule to Iran. There are frequent modern bus services linking the various centres with each other and with Istanbul. [REDACTED].

#### 2.1 Passengers

The conventional line was closed for a period between 2013 and 2015 and domestic passenger services initially resumed with a service between Halkali and the Bulgarian border at Kapikule, with a subsequent service from 2018 between Halkali and Uzunkopru at the Greek border. In 2019, 420,000 domestic passengers travelled over the existing conventional line, equally split between those to/from Cerkezkoy and those from further afield.

The bus provides significant additional transport service along the corridor, over 60 services daily from Cerkezkoy and nearly 40 from Edirne, in spite of higher fares of over twice the rail fare, with an estimated annual patronage of about 1.4 million between Cerkezkoy and Istanbul and 800,000 between Edirne and Istanbul.

In a normal year, rail thus has an estimated modal share of about 12% to Cerkezkoy and about 20% to/from Edirne and intermediate centres.

The Covid-19 pandemic reduced total rail passenger traffic in 2020 in Turkey by 40% but in Marmaray (which includes the project line) the reduction was rather less at 31%.

There are thus reasonable grounds for assuming that traffic will have effectively recovered by 2025, if not before. [REDACTED].

#### 2.2 Freight

Freight traffic within the Halkali – Kapikule corridor is almost entirely to and from Europe. Over the last 15 years, inwards traffic by rail has fluctuated around 1 million tonnes p.a. Prior to 2012, there was a train ferry at Sirkeci which could transfer wagons across the Bosphorus, but this ferry was discontinued as the Marmaray Tunnel was constructed and most<sup>6</sup> rail traffic to and from Asiatic Turkey has since been forced to terminate on the European side (mostly at Halkali). As a result, the average haul distance on the Turkish side has reduced to around 160 km, showing much of the cross-border freight does not even reach Cerkezkoy and is not destined for Asiatic Turkey. Rail exports from Turkey show a similar pattern.

<sup>6</sup> About 15% uses a rail ferry between Tekirdag and Derince.

The rail traffic crossing the border falls into four distinct groups:

- (1) Predominantly local traffic with Bulgaria to and from industries between the border and Cerkezkoy
- (2) Traffic to and from Cerkezkoy. This includes industrial traffic, as well as piggyback traffic from Plovdiv in Bulgaria
- (3) Traffic to and from Asiatic Turkey which uses the rail ferry between Tekirdag and Derince
- (4) Traffic to and from the terminal at Halkali.

Only the last two of these groups would transfer to the Phase 2 section of line.

Total international traffic has grown strongly in the last three years, from 1.3 million tonnes in 2017 to 2.1 million tonnes in 2019 but in 2019 the last two groups only represented 0.7 million tonnes of this. About 100,000 tonnes goes by rail ferry to Derince, near the industrial area of Izmit/Bursa. Traffic to and from Halkali itself has fluctuated around 500,000 tonnes since 2017, reaching 565,000 in 2019. Although two-thirds of the traffic is to or from Hungary, this is merely the terminus of the main operator and much of this freight ultimately originates or terminates in adjoining countries.

Road freight traffic between Turkey and Europe is substantial. About 1,500 vehicles per day (two-thirds of which are Turkish) travel to Europe by land and sea, split evenly between eastern and western Europe. About 40% of Turkish vehicles use the Ro-Ro ferries, but this varies markedly by destination. Almost all vehicles to Eastern Europe go by land while over 70% of those to South Europe (which includes France) go by ferry. Road freight to and from Europe is complicated by the system of annual licence quotas imposed by individual members of the EU, with Austria and the Czech Republic being particularly restrictive. The result is that many Turkish road trailers are sent by ro-ro ferries for onward transport through Europe, typically hauled by local hauliers from the European ports.

The estimated truck volumes, covering both land and ferry, are 5.6 million tonnes of imports and 8.2 million tonnes of exports. The largest commodity in terms of tonnes is machinery and metal manufactures (about one-third of which is cars and trucks), followed by plastics, perishables (largely fruit) and textiles. But much of the freight is relatively low value – under 30%, mostly machinery, miscellaneous, perishable (from Europe) and textiles, has a value over Euro 5,000 per tonne, totalling about 4.0 million tonnes. [REDACTED].

### **Freight forecasts**

Currently about 560,000 tonnes of import/export freight travels as far as Halkali, nearly all to and from Halkali itself.

Until 2012 there was a railferry linking Sirkeci and Hayderpasa, which was carrying around 1 million tonnes prior to its withdrawal in connection with the redevelopment of the Sirkeci line. At that time, there were several through freight services between Anatolian Istanbul and Europe, some of them block trains. With the opening of the Marmaray Tunnel, nightly freight train services are planned to use it. Its capacity, during the period when the suburban services are not operating, is claimed to be 6-7 pairs each night. [REDACTED].

### **3. PROJECT EVALUATION** [REDACTED]

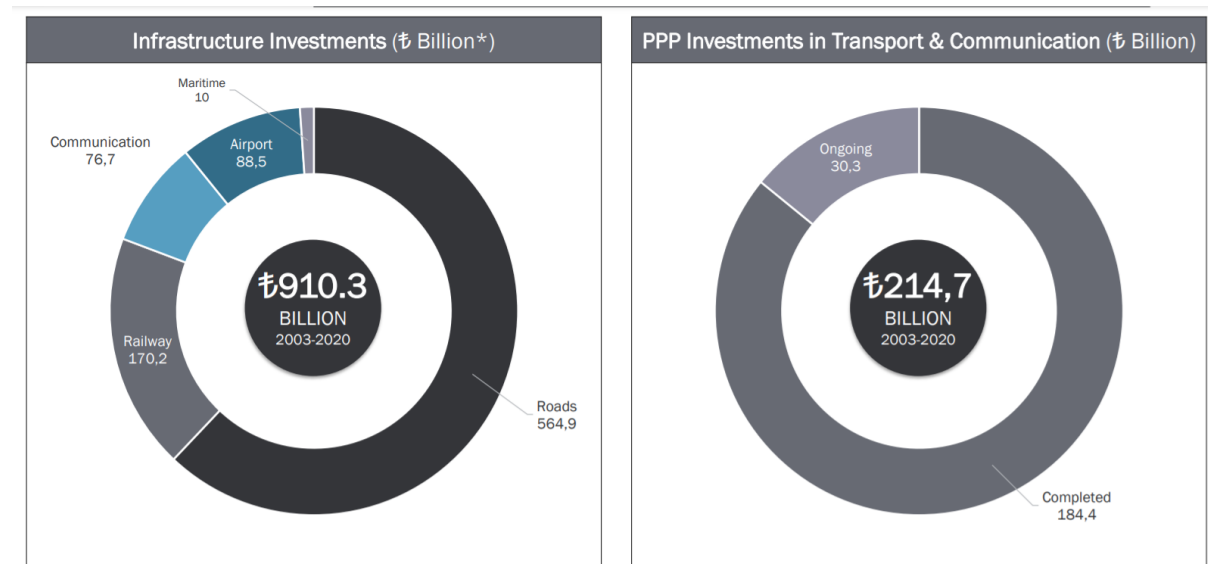
### **4. GHG SAVINGS** [REDACTED]

### Annex 3 – MoTI and AYGM Overview

The Decree-Law 663 regulates organization, duties, powers and responsibilities of the Ministry of Transport and Infrastructure and affiliated institutions. MoTI is responsible for transport, information and communication services in Turkey. MoTI's mission is to contribute to the improvement of the life quality of society and the development of the country with a balanced, accessible, economical and safe service. MoTI is a general budget institution subject to the Public Financial Management and Control Law numbered 5018, meaning that it could only make expenditures indicated in the Investment Programme of the Republic of Turkey. The current minister is Adil Karaismailoglu who has been serving in the office since Mar-20. Prior to his current role, he worked as Deputy Minister of MoTI.

#### Investment activities of MoTI

In the last 20 years, MoTI has implemented various infrastructure projects which enabled a sustainable and connected transport system in Turkey. Some of the highlighted information about that investment are provided below:



[REDACTED]

**Investment activities of AYGM:** AYGM has already completed a number of significant infrastructure projects in the last 10 years. They have previously worked with other IFIs, namely World Bank and EU. Some of the prominent projects that AYGM was responsible body are given below:

- **Rail Logistics Improvement Project** is financed by World Bank in October 2020. The overall objective of the project is to increase rail freight traffic efficiency in main transport corridors in Turkey by improving last-mile rail infrastructure connectivity, enhancing the operational efficiency of logistics centers and strengthening institutional capacity.
- **Marmaray** is a 76.6 km-long intercontinental commuter rail line in Istanbul, Turkey. It comprises a rail tunnel under the Bosphorus strait and the modernization of existing suburban railway lines along the Sea of Marmara from Halkalı on the European side to Gebze on the Asian side. The procurement of new rolling stock for suburban passenger traffic is also part of the project. Construction started in 2004, with an initial target opening date of April 2009. The partial financing was provided by IFIs, namely: the Japan International Cooperation Agency and the European Investment Bank.

- **Filyos Port** is located in the West Black Sea region, Turkey. Within the scope of the port's infrastructure works; 2450 meters of main breakwater, 1370 meters of secondary breakwater, 3000 meters of dock with a depth of 14-19 meters, about 22 million cubic meters of dredging, backfill and fortification works are continuing.
- **Rize-Artvin Airport** is located in the Eastern Black Sea region. 30% of the stone fill breakwater, which is the most important part of the airport built on the sea, has been completed. Considering the entire construction of the airport, more than 11% of the project is completed.
- **Eurasia Tunnel** is a road tunnel in Istanbul, Turkey, crossing underneath the Bosphorus strait. The 5.4 km double-deck tunnel connects Kumkapı on the European part and Koşuyolu, Kadıköy, on the Asian part of Istanbul with a 14.6 km route including the tunnel approach roads. It crosses the Bosphorus beneath the seabed at a maximum depth of 106 m. It was constructed under a PPP structure where EBRD is also one of the financiers.

#### **Other Railway Investments of AYGM**

- **Construction of Junction Lines to Kemalpaşa Industrial Zone:** The project involves the construction of 27 km of railway lines in Kemalpaşa Industrial Zone, which is close to Ankara and İzmir Provinces.
- **Construction of Double-Track Railway Line between Menemen-Aliaga:** The project involves 26 km of double-track electrified line for freight and passenger, in İzmir.
- **Tekirdağ -Muratlı Train Project:** The project is the part of the 31 km of railway line between Tekirdağ Port and Muratlı, in Thrace region.
- **Divriği- Sivas Train Project:** The project involves the construction of 47.5 km of single line railway between Divriği and Sivas, in the Eastern Region of Turkey.



## Annex 4 – Project Implementation

### Procurement classification – *Public (sovereign)*

[REDACTED]. The EBRD financed Project will be implemented through a Project Implementation Unit (PIU) already created by the Client. The Project is jointly co-financed with the AIIB.

By applying PPAD's developed toolkit, the client's risk on procurement has been assessed as “*Moderately High*”. All categories *i.e.* legal framework, organisation of procurement function, support/control systems, staffing, record keeping, procurement planning, procurement cycle, general assessment of the client, and Project risk have been assessed.

*Contract risk assessment*

*“Moderately High”*

#### **Project implementation arrangements:**

The Client established a PIU specific for the Project with a Procurement and Financial Management team gathering specialists who have some previous experience in MDB funded project. It is the first EBRD funded project for the Client with limited previous MDB financed project experience, but the previous involvement in MDB financed project helps to understand IFI specific requirements. [REDACTED] The Construction contract will be supervised by a Consultant procured under the loan who will be the Engineer under FIDIC Red Book.

#### **Procurement arrangements:**

The works, financed from the Bank's loan, will be procured following open tendering procedure in accordance with the requirements of the Bank's Procurement Policies and Rules (PP&R) for public sector operations. It is the first time the Client will be using the EBRD PP&R and the EBRD standard tender documents. The PIU is specifically created for this Project, gathering Client's permanent staff. The Client already recruited a Consultant, financed under national budget, with previous EBRD project funded experience, to provide procurement support to the PIU until the PIU support Consultant, project funded, will join the PIU.

The Client agreed to use EBRD Client e-Procurement Platform (ECEPP) for the Project. A first presentation was delivered to the Client with presentation of the PP&R. An ECEPP specific training has also been delivered to the Client. The Client is now using ECEPP for three tender processes.

The procurement plan includes the following under the loan:

- one Works contracts, that will be subject to prior review by the Bank;
- one Consultancy services contract to monitor and supervise the construction including the implementation of the Environmental and Social Action Plan (ESAP) and Resettlement Action Plan (RAP), etc. that will be subject to prior review by the Bank in accordance with the Bank's PP&R.
- one Consultancy services contract to support the PIU to manage the implementation of the Project that will be subject to prior review by the Bank in accordance with the Bank's PP&R.

It has also been planned to engage a Lender's monitor for Environmental and Social issues funded by EBRD donors to monitor and report on the progress of the implementation of the ESAP directly to the Lenders. [REDACTED].



## **Annex 5 – Railway Sector Reform**

### **Agenda and Policy Dialogue Activities Led by the Bank**

#### ***Liberalisation Efforts in the Turkish Railway Sector***

The introduction of a comprehensive reform package with a focus on liberalisation of the Turkish railway sector has been on the government's agenda for over a decade now. Between 2005 and 2008, the government introduced several laws to kick start the basis of the liberalization, regulation and supervision of the railway sector, as well as introducing separation of the infrastructure and transportation services provided by TCDD. In 2011, the Turkish government announced as part of Turkey's vision for 2023 that it has committed to a railway modernization and construction programme, mainly focusing on connecting all regions of the country through both high-speed and conventional lines. On 1 May 2013, the Liberalisation Law was published in the Official Gazette, which foresaw a transition process to reorganize TCDD and split off the transport side from the infrastructure side. Towards this aim, TCDD Transport was established for passenger and freight operations. TCDD and TCDD Transport were separated both legally and functionally by the Liberalization Law, which resulted in TCDD being the infrastructure provider and TCDD Transport being the operator. Both TCDD and TCDD Transport would be subsidised by annual allocations during the transition period. The legislation provided the framework of the liberalization process without any further actions being taken until very recently.

#### ***Policy Dialogue Activities of the Bank***

With an aim to support TCDD and MoTI in relation to their efforts to liberalise the railway sector in Turkey, the Bank has closely engaged with the authorities over the past few years. [REDACTED].