A cleaner sea in the south, a faster commute in the north, new city transport in the west, helping women-led businesses in the centre, restructuring SMEs in the east and saving energy throughout. The EBRD has invested in a lot of change in Turkey since we started operations in 2009. This brochure tells that story.

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A small key opens big doors

A pomegranate tree can yield a good harvest in four or five years. The analogy is not.

A pomegranate tree can yield a good harvest in four or five years. The analogy is not. For the EBRD has been investing in Turkey since 2009, and we are now beginning to see the fruits of our labour. Today, in terms of annual business volume, Turkey has become the second biggest country of EBRD operations. We invested more than one billion euros in Turkey in 2012 and are well on the way to increasing that figure this year.

Turkey is not a newcomer on the global economic stage. Other countries are carefully watching Turkey’s economic reform and increasing political clout. It has powerful contracting and construction, automotive and textile industries, and its companies are rapidly expanding abroad.

But further growth will require new effort. Turkey needs to lessen dependence on imported energy and to increase greener domestic production, from wind farms to gas-fired plants. It wants private and foreign investment for the country’s massive infrastructure and utility programmes. And its dynamic family-owned, mid-sized companies are beginning to open up to outside investors for further expansion.

Compared to these needs, one billion euros a year of EBRD investment might not seem like that much. But as we say here in Turkey, ‘a small key opens big doors’. We catalyse investments - every EBRD euro is supplemented by €2.2 from other sources - and we devise creative financing structures and credit lines which are replicated by other businesses and banks. We bring crucial know-how to private sector participation in sectors like infrastructure and public utilities. And we are always looking for new ways to support Turkey’s sustainable development.

We also believe that among the biggest of Turkey’s underutilised resources is the country’s educated and determined women.

Full democracy and market economics can only be realised with equal opportunities for both women and men. We are working to provide those opportunities.

The EBRD has had some great successes in Turkey, and we see great opportunities for further investments that will generate wealth and improve people’s lives. In these pages, we try to share this knowledge. You will hear from bankers who specialise in projects in Turkey and from our partner companies, as well as from people in Turkey whose lives are changing for the better because of what we do.

So, to paraphrase the Turkish folk hero Nasreddin Hoca, may those of you who already know tell those of you who don’t!
Turkey: The EBRD story

**In Numbers**

- **€2.7 bn** Total EBRD investment in Turkey
- **€1 bn** Investment in 2012

**Sector Breakdown (€ million)**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
<th>Investment (€ million)</th>
</tr>
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<tbody>
<tr>
<td>Energy</td>
<td>18%</td>
<td>€438.2</td>
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<tr>
<td>Financial Institutions</td>
<td>46%</td>
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<tr>
<td>Bank Lending</td>
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<td>Small Business Finance</td>
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<td>Financial Institutions</td>
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<tr>
<td>Manufacturing and Services</td>
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<td>Information and Communication Technologies</td>
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<td>Agriculture</td>
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<tr>
<td>Agribusiness</td>
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<tr>
<td>Infrastructure</td>
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<tr>
<td>Municipal and Environmental Infrastructure</td>
<td>17%</td>
<td>€431.6</td>
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<tr>
<td>Transport</td>
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<td>€431.6</td>
</tr>
</tbody>
</table>

**Our Work in Turkey**

- **Istanbul**
  - European tunnel connecting Europe and Asia under the Bosphorus (page 21).
  - Ayşin Kaygılı is one of 30,000 families around Turkey who cut their energy bills in half thanks to an EBRD scheme (page 9).
  - Sisli Group: producing domestic appliances company increased energy efficiency by 12 per cent. EBRD financing through TÜBBFF credit line (page 8).

- **Tuzla**
  - Topaki Pet, the first and leading Turkish pet food producer. EBRD financing: €4 million (page 10).

- **Eskişehir**
  - Hisarlı, agricultural machinery and tractor cabins maker, EBRD investee company (page 16).

- **Bursa**
  - New city light rail EBRD-financed branch (€70 million) connects university and its hospital to city centre (page 15).
  - Kallım Boz, producer of precision sheet tubing for automobiles. EBRD financing helped launch a new high-precision tube (page 17).

- **Balıkesir**
  - Bursa wind farm, the largest in Turkey. Financing arranged by the EBRD: €115 million (page 7).

- **Akhisar**
  - Kesirköşk, a poultry producer, aims to promote EU-compliant animal welfare standards together with the EBRD (page 14).

- **Bursa**
  - Iletim Construction Isolation, owned by Handan Ildie. EBRD financing through credit line for women entrepreneurs (page 12).

- **Mersin**
  - Mersin city is building a wastewater treatment plant. EBRD financing: €20 million plus technical assistance (page 18).

- **Gaziantep**
  - New compressed natural gas (CNG) buses for the city (page 18).

- **Tarsus**
  - Ali Badur, farmer, was able to receive a loan quickly thanks to an innovative client assessment model (page 15).

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Energy to grow

Energy generation through investment in renewable energy (like wind and hydro) and high-efficiency gas-fired plants - which are less carbon-intensive than coal. This is achieved through direct investment in large wind farms via credit lines, tailored for medium-sized renewable energy generators.

The EBRD also has an extensive programme for promoting energy efficiency - saving businesses money in the long run, and making them more competitive. Credit lines for businesses and households support this, as do pioneering schemes by which clients pay for energy improvements from savings on their bills.

To date, we have invested more than €1.2 billion in sustainable energy in Turkey - almost half of our total portfolio in the country. EBRD-funded renewable energy generators already produce about 7,000 GWh annually; that's the equivalent of lighting all homes in a city of four million people.

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Keeping the bread warm: saving energy for business

The leading Sinbo brand of domestic appliances uses 12 per cent less energy thanks to an EBRD-financed upgrade, supported by donors.

Sinbo’s baking machines - or ‘Bread Makers’ - are known and loved not only in Turkey but in many other countries, including Russia, where making healthy organic bread at home is increasingly popular. Bread Makers are just one of hundreds of appliances produced from this leading domestic appliances company. In Turkey and in 60 other countries, Sinbo offers products from pressure cookers, non-stick pans and irons to massagers and blood pressure monitors.

Like many successful Turkish companies, Sinbo started as a one-man shop in 1997. The founder, Mehmet Demir, studied in Austria and worked with a leading Japanese company in Turkey; these experiences taught him that innovation is the way to growth.

Sinbo Group got where it is today through strong research and development, hi-tech process engineering and state-of-the-art warehousing and logistics. In 2012, the group had approximately 800 employees and an annual turnover of €250 million. And in this family-owned company, modernisation is set to continue: the founder’s two eldest daughters will soon graduate from top international business schools and plan to join the company to take a stake in its future.

Sinbo’s Bread Makers can keep the bread warm for an hour, using little energy. The brand is proud of how energy efficient its products are. Now the company has applied the efficiency principle to their own production facilities in Avcılar, outside Istanbul. With an US$ 1.7 million loan from an EBRD credit line, the company upgraded equipment and cooling systems, replaced old motors and lighting, built a new large warehouse to replace old, small and drafty ones and insulated the rest of the factory.

In total, the group obtained about US$ 10 million from the EBRD’s energy efficiency credit line. Following the upgrade, Sinbo’s appliances are now made using 12 per cent less energy. Because energy is so expensive in Turkey, this saving is already reducing costs and helping Sinbo Bread Makers - and hundreds of other products – become more competitive at home and abroad.

The EBRD’s credit line, the Turkish Sustainable Energy Financing Facility, or TurSEFF, targets businesses like Sinbo and individual households. Loans, from hundreds of dollars to up to US$ 5 million in size, are distributed via Turkish commercial banks. The EBRD has already lent over US$ 260 million (€202 million) for hundreds of industrial projects and tens of thousands of families via this credit line, which is more affordable thanks to grants and co-financing from the Clean Technology Fund and the EU.

Businesses and households can also contribute to a country’s energy security. Improvements financed by the EBRD’s TurSEFF credit facility alone have already saved as much energy for Turkey as that produced by US$ 145 million of imported oil.

Heat for homes

The EBRD’s “vendor financing” scheme provides EBRD money through partner banks for small-scale energy efficiency investments. The borrowers, mainly individuals, repay the cost of improvements using savings from lower energy bills.

One homeowner who benefited is Aygün Kayıkal. Thanks to the scheme, the 22-year-old building in Istanbul where she lives had external insulation installed in 2011. “Our heating bill was slashed by half,” she says. Around 30,000 families across Turkey have already reduced their energy bills by an average of 50 per cent through vendor financing. Many companies - like insulation producer and installer ODE Yalıtım who did the work for Aygün – are involved in helping others save energy and money while making a profit for themselves.

HELping Turkey’s green growth

Link to the video: http://bcove.me/fgmwa588

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SINBO UPGRADED COOLING SYSTEMS, REPLACED OLD MOTORS AND BUILT A NEW WAREHOUSE.
Supporting SMEs: the spirit of entrepreneurship

Dynamic smaller companies can be more innovative than industry giants. They need more access to credit, and this is where we help.

The overwhelming majority of Turkish companies are small or medium-sized and mostly family-owned. Micro, small and medium businesses feed most families, accounting for 80 per cent of employment, and generating over 60 per cent of exports. Yet they account for only one-quarter of bank lending. Together with Turkish partner banks, the EBRD is working successfully to change that. Through our credit lines, the Bank has financed many thousands of businesses around the country — especially in underdeveloped regions — to those businesses in the agribusiness sector, those wishing to invest in energy businesses across Turkey. Working out the best way to raise a business’s profile. Besides, we work as a team. We are constantly in touch with bankers from the EBRD’s Local Enterprise Facility* and with Riverside to discuss our growth plans.

* Local Enterprise Facility (LEF) is a €400 million proprietary vehicle for investments in SMEs in the Balkans, Turkey and the southern and eastern Mediterranean (SEMED) region.

Tropikal Pet takes a bigger bite of the market

Izzet Saban, CEO, Tropikal Pet

Everywhere else in the world the pet food market is dominated by multinationals. In Turkey, the market leader is Tropikal Pet, a medium-sized, domestic company. Our pet food market is small. Most of our animals work for a living. But as the middle class is growing, so is pet ownership — and our business.

As an MBA student, I never thought my career would revolve around cats and dogs. But when I came home after working in Paris, where everybody seems to be out walking a dog, I realised that nobody was making pet food in Turkey. It was our chance to be first.

In 1999, two families, Salari and Saban (my family), established a new company, Tropikal Pet. At first we imported pet food. But it soon became clear that we needed a factory. The first opened and obtained an EU certificate in 2005. Today our two brands – Champion and Goody – are leaders in the market.

I love being involved in all aspects of our business. I even try the dried cat food sometimes. (It doesn’t taste of much, and anyway we have a modern lab which does a better job of testing the product.) So it was tempting to keep the business in family hands. But when you want to seriously expand, you need serious partners.

Our next challenge is broadening access to finance for SMEs by shifting the focus of credit analysis from collateral and relationships to cash flow.

Co-financing increases our reach

Co-financing with other banks is the way forward for the EBRD in its efforts to reach many more clients around the world. One such bank is TIBK (Turkey’s industrial development bank). We have already committed €100 million which we will distribute jointly to food and packaging producers. One typical client: the food packaging company Baran Ambalaj.

In Izmir, owned by Seza Baran and her two sons - produces bags for dry food like coffee and flexible packaging for products like chocolate. With our €1.9 million loan, Baran Ambalaj has purchased machinery to launch a new line of large plastic packaging which is to be used not only in the food industry, but also in the textile and cement industries.

Financing small, thinking big

Oksana Pak, EBRD Senior Banker, Financial Institutions

Thanks to our experience, we know many of the tricks to SME financing. So do Turkish banks. Before the financial crisis, Turkish banks were increasing their lending to small and medium-sized businesses. During the crisis, however, SMEs were hit harder than the larger companies, as the banks moved their focus back to larger borrowers.

Since the EBRD’s arrival in 2009, we have been working with Turkish banks to re-establish growth in the SME portfolio and very successfully. Through our credit lines to partner banks, we have so far disbursed over €370 million to loans to over 22,000 micro, small and medium-sized businesses. And this number is growing daily. We help with the know-how to lend to smaller clients in more difficult regions.

Another challenge is the short tenor of loans for SMEs. This reflects average tenors of deposits in the Turkish banking system of around 60 days. Many entrepreneurs have short-term loans with more than one bank and are in a constant process of refinancing. One of our instruments — first loss guarantee, supported by EU donor funds — helps to reduce the risk of loss, which allows banks to lend for longer.

Our next challenge is broadening access to finance for SMEs by shifting the focus of credit analysis from collateral and relationships to cash flow.
Tough as nails

Turkish women business owners deserve credit. We are here to provide it - through dedicated credit lines

Handan Ilköz is used to people's surprise when they learn that this smiling, softly-spoken lady runs a construction business. Her company, İzodem Construction Isolation, trades in building supplies and insulation and also specialises in installing wall partitions and dropped ceilings. She employs about 30 staff (21 men and nine women) and has a shop, warehouse and office on a small side street in the north-western Turkish city of Bursa.

Handan qualified as a physiotherapist but the military coup of 1980 led to a hiring freeze in Turkish hospitals, so instead she started a business with her husband. Together, they built a small construction company and raised three children.

In 2008, just as the crisis hit the economy, Handan's husband died. Closing down the business at a time when her staff would have struggled to find other work was unthinkable for Handan, and she decided to tough it out.

She managed to keep the company afloat, and today the orders are coming in steadily from her network of customers, made up of both commercial and municipal contractors.

Recently, Handan applied for and received a loan worth 50,000 Turkish lira (€21,000) via Garanti Bank. The loan comes from an EBRD-funded credit line for women entrepreneurs.

"I hate having debt," she says. "But sometimes contractors are late with payments, especially in the aftermath of the crisis. And I need to pay my staff. That's why I need access to credit which is both affordable and approved quickly."

"Before applying for a loan through this scheme for women business owners, I shopped around with about six banks, but this financing was the most attractive."

Turkey: The EBRD story

FOR A WOMAN WHO IS JUST STARTING, A DEDICATED CREDIT LINE LIKE THIS WOULD BE INVALUABLE.

Handan employs 30 people - 21 men and nine women

Turkish families are largely geared towards supporting their sons in opening businesses. Daughters, meanwhile, are often expected to contribute from their salaries to help their brothers, rather than focusing on their own entrepreneurial ambitions.

"Established businesswomen like myself can get a loan through a normal route, albeit more expensively," Handan says. "But for a woman who is just starting, a dedicated credit line like this would be invaluable."

Attitudes are, however, slowly changing. Handan believes that if she had been a new graduate today, she would have been able to open a private physiotherapy clinic. Her two daughters qualified as a psychiatrist and a management consultant and found jobs easily.

İzodem Construction Isolation has just received a sub-contract to build offices in a new stadium that the city is building for its celebrated football team, Bursaspor.

Handan doesn't follow football, but if Bursa starts hosting international matches, no doubt this connection with the stadium will give Handan's builders – who are all fans of the beautiful game – huge bragging rights.

The EBRD has launched two credit lines for women entrepreneurs, for the total of €80 million, with a focus on businesses outside the main centres.

Helping Turkish banks go greener

Sustainability means that tomorrow's generations are helped, not hindered, by our actions today. It literally means investing in the future. EBRD financing comes with conditions relating to environmental and social issues. These conditions also ensure that projects are compliant with EU regulations and future targets. After working with the EBRD, one of our partner banks, Garanti, has adopted the philosophy of environmental and social responsibility and low carbon and created a new sustainability department.

Most other private partner banks now have environmental and social requirements that go beyond government standards, and are in line with the EU. But one, Denizbank, went further and adopted the so-called "Equator Principles" - the most progressive framework for assessing and managing environmental and social risks based on World Bank guidelines.
Go Team Turkey

Turkey’s economy can become more competitive by adopting new standards, saving energy and developing medium-sized businesses in remote areas.

The competitiveness of its industries and services is a constant concern for any economy, be it post-industrial or a young growing tiger. Turkey has already a lot going for it – for instance, its construction sector is known throughout the region. Labour productivity is high, even though the price of labour is not particularly low.

The EU accession programme underlies reform in many sectors. Joining the European Customs Union in 1995 confronted Turkish industry with competition. Turkish companies had to adopt new standards and improve their productivity to survive. That big drive – no doubt hard for many – has made many industries competitive, be it post-industrial or new technology, research and development.

One of the challenges is to develop medium-sized companies in regions far from large commercial centres. Those companies need better access to finance, higher business and corporate standards, modern marketing and investment in R+D.

Agribusiness stands out as a sector with unrealised potential. The Turkish government has launched a reform programme addressing issues such as land tenure, and it has started to adopt international standards, modern marketing and actively promoting animal welfare standards.

Since almost all energy is imported and expensive, saving it is one of the most effective ways to increase the competitiveness of virtually every industry in the country. Short-term lending is well developed. So the EBRD provides long-term funding and actively looks for opportunities to promote the deepening of domestic capital markets.

EU is the biggest donor for EBRD projects in Turkey. Technical assistance is also funded by the USA, Spain, Austria and the Slovak Republic. Total grants to date: €24.4 million.

EBRD credit line helps a farmer seize bargains

Ali Bozkurt loves pomegranates. But the real money is in corn.

To get bargains on seeds, he needs banks to approve loans quickly.

Yapi Kredi Bank approved Ali’s loan in just three days thanks to Captpool, the innovative client assessment model for agricultural loans developed by the EBRD, with the assistance of donor funds from the United States and EU. This model – which analyses many factors from local microclimate to the type of crops, yields, prices for produce and expenses – allows the loan officer in a local bank branch to establish the creditworthiness of a farmer quickly, without involving agricultural specialists.
Hisarlar: from a blacksmith to a powerhouse

Hisarlar is a company with a dream that goes back a generation. Now major producers of agricultural machinery tailored to Turkish soil, as well as suppliers of parts to global giants from the machinery to the household goods and automotive sectors. And now Kalibre Boru is a leading producer of precision steel tubes for Turkey’s automotive industry, employing over 350 qualified workers and engineers.

The late 1970s were a tough time in Turkey. Widespread strikes and a petroleum crisis meant that many industries were fighting for survival. Among them were textile factories, in the city of İzmit, which ran out of imported bobbins and foreign currency to buy them. But a local engineer Şefil Ünan knew he could help them.

With two friends, also engineers, Şefil started a workshop to make those bobbins. Soon, their products were in demand by the household goods and automotive sectors. And now Kalibre Boru is a leading producer of precision steel tubes for Turkey’s automotive industry, employing over 350 qualified workers and engineers.

The history of Kalibre Boru reflects the industrial history of Turkey’s recent decades, and illustrates how to turn every challenge into an opportunity in order to become more competitive. The EBRD's appetite for, and expertise in, equity investments distinguishes us from other development banks. We help to mitigate the risk of lack of risk capital, not only by supporting private equity funds that invest in our region, but also as a direct equity provider to enterprises.

A lot of business in Turkey is family-owned. Whether it’s the first, second or third generation in charge, it can be difficult to contemplate bringing in outsiders as co-owners. But as more companies realise the benefits of opening up, we see many great examples of companies bringing investors on board and benefitting everyone in the process.

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The companies whose the EBRD has become a shareholder say our arrival has contributed a lot. They welcome the presence of independent directors on their boards and the international accounting practices, yet mention our experience and relationships in other countries in the region that can become important markets for them.

Opening a business to a broader audience demands change. As Turkey’s businesses become more international, attracting foreign capital and lenders requires international standards of corporate governance and transparency.

As a global partner, the EBRD is happy to help out and share the risks and rewards of this new and exciting journey.

Venture capital for Turkish hi-tech

Millets of history aside, Turkey now telling and showing the world how modern it is. One-third of the population uses online banking, over half is on Facebook. Innovative high-tech products and web services are already required by businesses and consumers. The EBRD’s new €100 million venture capital investment programme has now become available to early and growth-stage technology companies throughout the region, including Turkey. The team is already on the ground in Istanbul and looking for business.
Public utilities: cleaner, faster, greener

Improving the quality of people’s lives through investment is what the EBRD is about. A well-run city, with good transport, clean water, modern hospitals and breathable air is a better place to live and do business.

Our goal in Turkey is to help municipal utility providers invest in more efficient and cleaner services. We see massive investment needs in the sector. In water and wastewater alone, Turkey needs to invest billions of euros to meet EU standards. Solid waste management and public transport needs are also substantial. This means big potential for private sector investors.

We believe the way forward for municipalities is to adopt commercial approaches and create financially independent utilities companies to run water, transport and other services. This provides the opportunity to involve private sector companies under private public partnership (PPP) schemes, including build-operate-transfer schemes and similar mechanisms. The larger municipalities are already moving in this direction, and the government programme for investment in new healthcare infrastructure is based on PPPs. The EBRD offers long-term finance and technical assistance to support these approaches.

So far we have financed projects such as the extension of a light rail network in Bursa in the west, a wastewater treatment plant being built in the city of Mersin in the south, CNG (compressed natural gas) buses in Gaziantep, and the privatisation of municipal firms in Istanbul. We are currently working on a project that would modernise municipal ferry operations in Izmir, Turkey’s third biggest city, through financing the purchase of new ferries and the upgrade of wharves.

Wastewater treatment means clean sea for Mersin

Yachts bob gently on the Mersin marina – almost all with Turkish flags. Leisure boats are still a new sight in the southern city of Mersin (population one million). It may be a major commercial shipping centre but the city is better known for its industrial zones than tourism, despite sharing the Mediterranean coast with the nearby resort of Antalya. But Mersin does want an attractive beach for its citizens, and soon it will have one.

Until a few years ago Mersin had no choice but to dump its wastewater into the sea. Today, Mersin wants to be known not only as a major commercial shipping centre but the city, through financing the purchase of new ferries and the upgrade of wharves.

The busy north-western city of Bursa is proud of its heritage. It was the first capital of the Ottoman Empire, and much of the architecture has survived. But it also means that Bursa is a city planned in and for the Middle Ages. Bursa is also proud to be a green city, so it was a very logical step – though by no means easy – for the city to introduce a light railway, one of the cleanest and fastest modes of urban transport.

Light rail has been a massive project. Engineer Eren Kural, Bursa’s Head of Rail, says that consulting the community, thinking through the 40-kilometre route, redesigning surrounding streets, changing the old pipes and cables along the way, and extending the electronic ticket system (already in existence in Bursa long before the likes of London) meant a lot of work and needed a lot of financing. This was obtained from commercial banks, a state bank and multilateral banks, including the EBRD (€170 million loan plus technical assistance) and the European Investment Bank (€100 million).

The EBRD financing covered the branch that connects the city centre to Bursa’s impressive university, with its famous hospital. At the busy “University” light rail station, students and older people disembark the train before walking safely to the campus via a subway. It used to be different: commuters had to run from one cramped bus to another to make their lecture or doctor’s appointment. “I have received so many emails and texts saying thank you for the new tram!” says Eren Kural.

Light rail is also firmly connected to the city’s dream of the future. “For Istanbul football teams, Bursa is a major threat”, says Cavit Cali, the head of the municipality’s finances and a big fan of the celebrated Bursaspor team. In a few years Bursa wants to participate in a bid to receive major international tournaments. The city is building a new football stadium: its location was chosen strategically near a new light rail station.

New light rail in Bursa for students, patients and fans

The southern cities of Adana, Tarsus and Mersin are looking into just such a scheme. Sludge from local wastewater treatment plants can be supplied to local cement producers.

A lot of industrial waste can be easily converted into a valuable raw material. A recent EBRD loan to Refesa Silvermet for US$ 49 million will help the company build a zinc recycling plant in Adana. The company was formed by Befesa Zinc, a well known zinc recycler in Europe, and Silvermet, the Canadian specialist in treating electric arc furnace dust.

Another area where the EBRD can make a difference is glass recycling. A programme co-led by the EBRD in under way its best and easiest way to introduce bottle and sheet glass recycling in Turkey, and pilot the concept in selected municipalities. A major commercial partner for this study is Sipavec, a client of the EBRD, the leading Turkish and regional glass producer.

With these activities, Turkey is pioneering the implementation of the Sustainable Resource Initiative that the EBRD has recently launched across all its countries of operations.

Above: At the “University” station. Travel for students and patients is faster and safer
Privatisation: letting the market do the job

Private sector investment is driving Turkey’s recent performance and growth. The government’s reform agenda, which provides a basis for this growth, has privatisation at its heart.

Yet, a significant portion of the Turkish economy remains in state hands - most notably parts of the banking sector, railways, key parts of the energy sector and municipal services. Privatisation has a role to play in some of these, and the government is also looking to the private sector for the construction of new roads, hospitals and schools.

We share the Turkish government’s belief in goals such as energy independence, efficient transport across a large and diverse country and clean air and water for a young and growing population. We have already directly supported privatisation deals in power distribution, gas distribution and urban ferry transport. More is to follow.

Privatisation brings sharper, more efficient management and investors with expertise and capital. Non-renewable energy generation remains majority state-owned. But private companies are actively building new capacity, including renewables, thanks to a recently passed renewable energy law - with financing including renewables, thanks to a recently passed renewable energy law - with financing and support from the EBRD, other international financial institutions, and increasingly from commercial sources of private finance for infrastructure. We believe there is both opportunity and demand for PPPs. What needs to be done for private investment to take off? The local corporate bond market needs to deepen, regulations need to be reviewed and the local institutional investor base needs to grow. The Turkish government is working to address some of these issues. For instance, steps to create a project-friendly environment for build-operate-transfer (BOT) schemes were welcomed by the private sector. Public institutions are also beginning to accept more risk and to switch to more internationally-recognised provisions.

Investment in infrastructure can be a catalyst for further economic growth. After the recent financial crisis, interest has grown in new sources of private finance for infrastructure. Many governments, including Turkey’s, are working to maintain investment while limiting public spending by attracting private finance.

Over the past 15 years, the EBRD has funded a series of public-private partnerships (PPPs) in the infrastructure sector throughout our region of operations, including roads, airport terminals, ports, urban transport, energy and water/wastewater systems.

In Turkey, we have just started work on projects of national importance and in supporting best practice in the privatisation process. We will continue to help create bankable financing structures. We have already done this with the Eurasia tunnel project under the Bosphorus, which can be used as a blueprint for other deals, and with the Izmir airport project, where two international banks (UnCredit and Siemens bank) co-financed the construction of a domestic terminal through an EBRD–backed loan.

Some 13 million people live in Turkey’s largest city. But getting around Istanbul isn’t always easy for the tens of thousands of commuters who have to use ferries or cross the Bosphorus by bridge every day.

Now the EBRD is participating in a landmark infrastructure project – the Eurasia Tunnel – to be built under the Bosphorus strait.

Currently, 400,000 vehicles a day are using the existing transport facilities across the Bosphorus. When the tunnel is built, that capacity will be increased by another 100,000. For the average commuter it will mean reduced journey times, less congestion and more choice in getting to and from work. The tunnel will be nearly five and a half kilometres long, be built 25 metres below sea level and is due to be completed in 2017. The Eurasia tunnel will link Europe with Asia. But the project is also symbolic on another level. It will be the first road PPP agreed under the new Turkish Public Private Partnership Initiative for infrastructure. So now the Turkish government will have a template for funding more of the projects required to fill the country’s infrastructure gap.

As for the project’s financing, we are investing US$150 million in debt. The EIB is supporting it alongside us, with funding of US$350 million. A package of financing and guarantees will be also provided by Korea’s Eximbank and K-Sure with SMBC, Standard Chartered and Mizuho participation. Work on the ground will be carried out by ATAS, a consortium established by a Turkey-Korea joint venture.

Why PPPs?  

Huseyin Gahan, EBRD Principal Banker, Transport

Turkey is the fastest growing EBRD market. We expect to invest €1.2 billion in 2013 - up from €150 million in 2009, the first year of our operations in the country.

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Before we arrived in Turkey, the EBRD counted over 30 Turkish companies among its leading clients, and supported their investment in our other countries of operations.

Now that the Bank is fully present on the ground in Turkey, we can do even more to help cross-border trade and investment. We lend to and invest in Turkish companies expanding abroad: some examples are Anadolu Efes Breweries, which operates in countries ranging from Russia to Turkmenistan; Anadolu Endustri Holding, which constructed a vital renewable energy project in Georgia; the Paravani Hydropower Plant, and Lemi invest’s Shopping Mall development in Moldova.

Now we are introducing our clients in the Turkish automotive industry to our contacts in Russia. We help both big companies and small. At the same time as lending money to a leading glass producer, Şişecam, to build factories in Russia and Bulgaria, we financed one of their suppliers – an innovative glass mould maker Özen İş Makina – through a credit line for small and mid-sized businesses. Özen İş Makina, a family firm where the father and son run the production and the daughter runs marketing – have just expanded to Russia and Bulgaria too.

We also support regional trade: we run an extensive trade facilitation programme where İş Bank is one of our most active partners.

For thousands of years, Istanbul has been a hub for merchants doing business between east and west. At the EBRD, we are doing the same, using Istanbul’s great flight connections and trade links to reach places further away. Today, the EBRD’s Early Transition Countries Istanbul Hub was created so that we can be closer to our clients, finance more projects and help those countries move further along the road to market economies.

Working with bankers from other EBRD teams, we signed 25 deals in 2012 ranging from a loan for a bank in Kyrgyz Republic to equity in the leading electronics retailer in Mongolia.

The EBRD also aims to support Turkish companies and banks that want to invest in these countries. Many of our projects in early transition countries are supported by donors, particularly the European Union.

The EBRD was created in 1991 to help the new democracies, emerging from behind the Iron Curtain, to make their way towards market economies.

Until Turkey, all our countries of operations were post-communist. When the Turkish government invited the EBRD to start investing here, and our shareholder governments approved the move, we worked hard to transfer our knowledge, accumulated by many years of work in eastern Europe and Central Asia, to Turkey, a country that has never known communism.

After four years of working in Turkey, we are proud of our success. We have met all our business objectives, established close relationships with businesses and authorities, and created a portfolio that strongly supports Turkey’s transition to a full market economy.

We have shown that our operational model can be applied to a new and very different country. Even when the challenges (such as privatisation or energy efficiency) were similar, we found some new ways – like close partnerships with the very dynamic and innovative commercial banking sector – to address them.

After the so-called Arab Spring, the international community has tasked the EBRD with moving into four countries of the southern and eastern Mediterranean (SEMED) region – Egypt, Jordan, Morocco and Tunisia. We are in the process of formally accepting them as countries of EBRD operations; meanwhile, we have already started investing through a new EBRD SEMED fund, as well as offering technical assistance. Our lessons from Turkey are already helping us develop ways to be at our most effective in this new region of operations.

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We have shown that our operational model can be applied to a very different country.

The Family owners of Özen İş Makina plan to upgrade their equipment with an EBRD loan.

The EBRD story
WE ARE ALWAYS LOOKING FOR NEW WAYS TO INVEST IN TURKEY’S FUTURE
MICHAEL DAVEY, EBRD DIRECTOR, TURKEY

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