

The Role of European Export Credit Agencies in Financing Rail Infrastructure Development in Türkiye

Rail is set to play a significant role in Türkiye's transition to a low-carbon future, as it works towards reducing greenhouse gas emissions by 41% through 2030 and becoming net zero by 2053.

Compared with other modes of transport, such as road and air, rail is one of the most environmentally sustainable, which is why the Turkish government has made the development of the country's rail sector a priority.

Plans include increasing the share of railways in transportation to 6.2% by 2053, up from just one percent today, which will reduce the environmental impact of transportation in Türkiye, improve safety, increase capacity and reduce travel times.

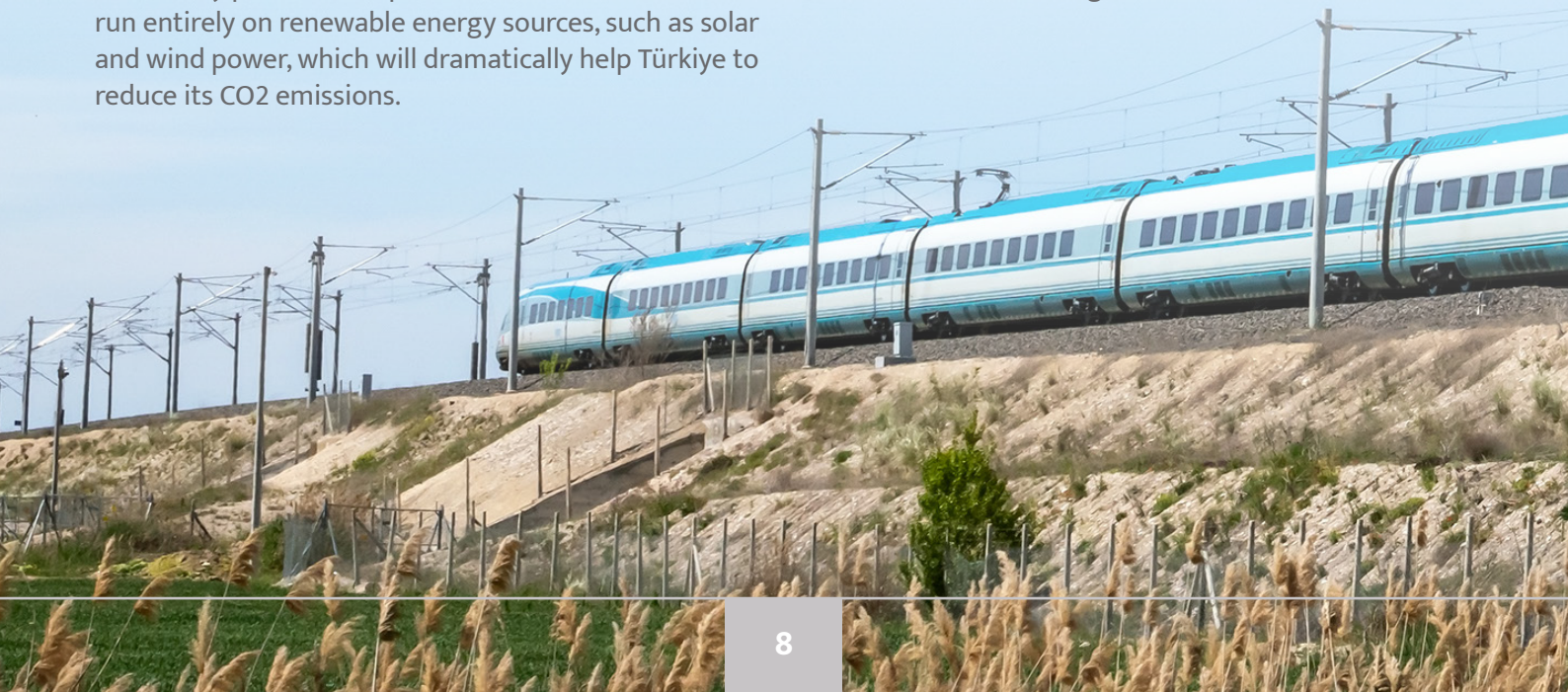
A particular area of focus is high-speed rail (HSR). Electrically powered, it's possible for HSR networks to run entirely on renewable energy sources, such as solar and wind power, which will dramatically help Türkiye to reduce its CO2 emissions.

Developing Türkiye's High-Speed Rail Infrastructure

Türkiye currently has approximately 8,000 miles of railway network, 770 of which make up the country's existing HSR network. The first HSR line began operating in 2009, and the government plans to have almost 3,500 miles of HSR line operational by 2025.

This is no small task however, particularly because of Türkiye's topography, which requires the building of expensive tunnels and viaducts in order to provide the long, straight and smooth paths high-speed trains need to operate.

Capital is also a challenge for the country, which like many others, faces economic difficulties post-pandemic. Furthermore, Türkiye must still rebuild after February's 7.8-magnitude earthquake near the Türkiye-Syria border, which means large infrastructure investments



like railway building might not be considered as important as the reconstruction of houses and ensuring communities have access to electricity and clean water.

Large-scale infrastructure investments also need support from the international market, which can take time to arrange, and require certain environmental and social prerequisites. Such roadblocks have slowed progression down, but mindsets are again refocusing on the development of Türkiye's high-speed rail infrastructure and the benefits it will bring.

Railway Financing and the Role of European Export Credit Agencies (ECAs)

Co-operation with ECAs is extremely important for the financing of Türkiye's high-speed rail projects as, with ECA financing, a bank provides a loan and the government of the exporting nation provides a guarantee to mitigate the bank's risk.

ECA-covered loans have advantages for all parties involved. While the investor or importer can enjoy attracting long-tenor financing from international institutions, the suppliers have the advantage of

mitigation against the risk of non-payment. Decreasing such risks enables European manufactures and European banks to enter markets that might otherwise have been considered too high-risk.

A pre-requisite for the usage of this scheme is the consideration of the right sourcing of equipment and services from the very beginning by the respective engineering, procurement and construction contractor (EPC) as this drives the process with the respective ECAs. The EPCs are advised to build up an understanding of the respective sub-supplier base as early as possible, which ensures the structuring of the debt financing in a timely manner.

A huge game-changer for electrified rail development funding is the modification to the Organisation for Economic Co-operation and Development's (OECD) arrangement on officially supported export credits which came into place this July.

Previously projects in the rail sector had restricted tenors of construction plus 14 years for repayment, but now any green rail projects, which includes electrified railway and infrastructure projects, have seen tenors extended to construction plus 22 years. This can make such projects more viable to many countries.

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Several ECAs already play a key role in the development of the Turkish railway sector. A recent example comes from **the UK Export Finance (UKEF), which provided a 2.1bn EUR guarantee for the construction of Ankara-İzmir HSR.**

The deal obtained reinsurance from international ECAs including Servizi Assicurativi del Commercio Estero (SACE) in Italy, Swiss Export Risk Insurance (SERV) in Switzerland and Österreichische Kontrollbank (OeKB) in Austria.

Another example is **the EUR 39 million SERV-covered loan for the financing of five Stadler locomotives for the Turkish shipping and logistic group Arkas Lojistik.** These are part of Arkas Group's Railport Project, an inland terminal that provides intermodal cargo services in Türkiye.

KfW IPEX-Bank was closely involved in the financing of both of these projects.

KfW IPEX-Bank and Its Role in Türkiye

ECA-covered financings are one of KfW IPEX-Bank's areas of expertise. It currently manages a 25 billion EUR portfolio of ECA-covered loans by working with 20 ECAs worldwide and completes between 2–4 billion new ECA-covered transactions per year.

The bank has proven its ECA expertise by not only arranging ECA-covered financings in Türkiye, but also railway projects in other countries such as India, Egypt and Tanzania.

In addition to having supported ECA-covered financing in these challenging markets, the bank has provided its expertise in compliance with environmental and social standards for greenfield infrastructure projects.

KfW IPEX-Bank has had a representative office in Türkiye since 2004, which is now headed by Yasemin Kuytak, and is supporting European exports to the country as well as financing several sectors. Currently roughly half of its commitments are in renewable energy, while another 11% lie within the transportation sector.

An expert in financing passenger and freight transport projects, the bank is open to share its expertise in worldwide projects.

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