

Helping Turkey Mobilize €500 Million in Long-Term Financing from Commercial Markets Amid the Crisis

In a time of great financial volatility, a €250 million IBRD Loan Guarantee helped Turkey raise €500 million in long-term financing from international markets for state-owned Türk Eximbank.

The guarantee supported Türk Eximbank in extending lower-cost, long-term funding to export-oriented small and medium enterprises (SMEs), which have been severely affected by the COVID-19 shock and have broadly lost access to financing.

Background

Turkey's development goals critically depend on strong export growth, which requires Turkish export-oriented enterprises to become more competitive by improving productivity, expanding product range, and enhancing product quality to command higher prices in export markets. Access to long-term finance is critical for expansion into new markets for Turkish exporters.

Due to the global COVID-19 pandemic, financial and insurance/reinsurance markets have become less accessible and more expensive over 2020-21. Especially for emerging economies, borrowing costs have spiked, limiting the ability of Turkish banks to support export-oriented enterprises. SMEs in Turkey are more vulnerable to fluctuations in the business cycle and are more susceptible to credit rationing.

Financial Objectives

- Unlock capacity for lenders and potential insurers, particularly reluctant to participate in a context of financial market uncertainty caused by the pandemic and macroeconomic volatility.
- Reduce the borrowing cost and extend the maturity for Türk Eximbank by providing capital relief to lenders under the Basel III framework, with 50% of loan notional guaranteed by IBRD.



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- Provide diversification of Türk Eximbank's funding program and expand its existing lender pool.
- Support Eximbank improving its yield curve to be able to access longer term finance in the future without credit enhancement.

Financial Solution

A €250 million IBRD Partial Credit Guarantee was arranged to mobilize €500 million of private capital from global lenders. The guarantee assisted Türk Eximbank in achieving a longer maturity and lower all-in cost than was available without a guarantee. The transaction doubled the volume of financing raised relative to IBRD's committed credit exposure and counted against the private capital mobilization target of the World Bank.

Türk Eximbank is using the financing to extend sub-loans to private small and medium-sized (fewer than 250 workers) and large (250-1000 workers) export-oriented firms.

World Bank's Role

Working closely with the World Bank Infrastructure Finance, and PPPs & Guarantees (IPG) Group, and the Finance, Competitiveness & Innovation Global Practice (FCI), the Treasury team supplied critical capital markets know-how. IBRD's Triple-A credit enabled significant improvement of Türk Eximbank's borrowing terms, both cost, and tenor. Specifically, the Bank deal teams engaged in the following activities:



CASE STUDY

External Evaluation:

- Led discussions with over 20 financial institutions, including the US, European, Asian, and Middle Eastern banks, half of them new to Eximbank's portfolio of lenders.
- Sounded the private insurance market, touching over two dozen risk insurers, either individually or through an insurance broker.

Arrangement of the lenders, insurers, and negotiation of terms:

- Designed the tender and supported Eximbank in further refining the transaction parameters and loan structure.
- Negotiated the most competitive terms with lenders and insurers in close consultation with Türk Eximbank.
- Secured the support and approval of the Turkish Treasury to develop and finalize the transaction.
- Facilitated the documentation and execution of the transaction in the very challenging and tight market, following Türk Eximbank's selection of the global commercial banks

Indemnity Agreement Commercial Loan Guarantee Agreement

Outcome

The transaction was structured in two tranches. On June 12, 2020, Türk Eximbank secured €380 million in long-term financing from ING, Standard Chartered, and Societé General against a partial IBRD Guarantee of €190 million. This was followed a year later by the second tranche of €120 million financing from ING and Deutsche Bank, on May 25, 2021.

Both tranches achieved significant maturity extensions of 10 years, in a market where Turkish banks typically borrow from global lenders at no more than one or two years of maturity and primarily in the form of relationship-based syndications.

The operation also resulted in a loan facility that provided 1/3 of the cost prevailing in the market for BB-rated Turkey Eximbank on an unsecured basis.

This transaction was the first of its kind completed with a state-owned Turkish bank and the first IBRD guarantee project in Turkey.

Summary of Financial Terms		
	First Tranche	Second Tranche
Effective Date	June 12, 2020	May 25, 2021
Type of Guarantee	IBRD Partial Credit Guarantee	IBRD Partial Credit Guarantee
Coverage	50% of principal at maturity	50% of principal at maturity
Amount	€190 million	€60 million
Term	10 years	10 years
Grace period	2 years	2 years
Structure	Amortizing	Amortizing

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Transaction Structure