Turkey – sun, wind and political risk

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It's tiresome as hell, repetitive to a fault and dull as ditchwater. Aren't you just sick of the daily force-feed news that X offshore wind farm is the biggest ever, zero bids will soon have developers paying for the privilege, Y solar park achieved the lowest rate, and panels are so cheap they will be handing them out for free with tubes of sun lotion?

Groundbreakers and landmarks are surpassed on a weekly basis to the extent they're becoming as yawn-worthy as the next leap in technology for electric vehicles (which we also read… because it's all rather interesting).

Glib perhaps – but news fatigue has long been settling in on this exciting market as breathless hacks report continued upward / downward spirals in the mistaken belief there's a Pulitzer Prize in it.

Far more interesting is where the opportunity lies – which countries (the more challenging, the better) are forging ahead with renewable energy agendas and which technologies are leading the charge.

A quick scan of the globe and it's good to see that Australia finally got the renewable memo; Egypt – in spite of a challenging political environment – has achieved great things; Saudi Arabia is throwing its weight behind solar; Taiwan is forging ahead with offshore wind; Jordan is the first Middle East country to commit meaningfully to battery storage; Dubai's planning the world's largest CSP (oh cripes, here we go again)… the list is not endless, but it's lengthy.

So, in this environment it's good to identify a market that pops its head above the parapet with a challenging – yet achievable – programme that will set the scene for considerably more investment in the years to come.

And that's Turkey with its wind and solar programme.

Turkish political environment

Without scampering too far down the political line – a bad idea in a bar, at the dining table or on a public forum where you can be endlessly savaged for daring to point out the starkly obvious – can we agree that the climate in Turkey is far from ideal?

If you want to argue the point, please address this to our friends at World Bank who kindly publish the *Political Stability Index* (latest one for 2016). In this document, you will be delighted to find Turkey sits 184 out of 194, nestling comfortably between Ukraine and Burundi… but a clear two places ahead of that rum bunch in the Democratic Republic of Congo.

Specialist risk consultancy *Control Risks*, gives Turkey a political risk score of 7 out of 10 – 10 being the highest risk – in its Economic and Political Risk Evaluator. This is a survey produced jointly with Oxford Economics and places it 147 out of 164 countries. This political risk score also goes into the overall risk score which, alongside economic risk, gives Turkey 6.2 placing it 116 out of 164.

Since the failed coup in July 2016, the government's legal crackdown has taken a negative toll on the investment climate and relations between Turkey, not to mention the US and EU. In January, Turkey extended its state of emergency for the sixth consecutive time.

The ratings agencies have quite a lot to say on the matter. Moody's last month (7 March) downgraded Turkey's long-term issuer and senior unsecured debt ratings to Ba2 from Ba1, changing its outlook to Ba2 stable. Meanwhile, S&P in February affirmed its sovereign rating at BB foreign and BB+ local currency, with a negative outlook.

The Moody's downgrade was based on: "Continued loss of institutional strength, as evidenced by further erosion in the effectiveness of monetary policy and further delays in implementing core structural economic reforms."

Moody's continues: "The increased risk of an external shock crystallizing given the country's wide current account deficits, higher external debt and associated large rollover requirements in the context of heightened political risks and rising global interest rates."

President Recep Tayyip Erdogan's government is well aware of this situation and has taken a raft of measures to counteract any impact on the investment climate and relations. It has taken decisive action to shore up the banking system, introducing incentives and cutting red tape.

This action is stood up by a lot of activity in Turkey belying the above views. Since the start of 2017, *IJ* has recorded financial closes on nine social infrastructure and transport transactions.

Social infra (deals closed in 2017):

- Istanbul Ikitelli Integrated Health Campus PPP which closed in October and won an IJGlobal award
- Bursa Integrated Health Campus PPP – closed October
- Izmir Bayrakli Integrated Health Campus PPP – closed June
- Manisa City Education and Research Hospital PPP – closed May
- Gaziantep Integrated Health Campus PPP – closed May
- Kocaeli Integrated Health Campus PPP – closed March

Transport (closed in 2017):

- North Marmara Motorway (282km) – closed February

This year alone, we have seen two Turkish transport projects close (both February 2018):

- North Marmara Motorway PPP – 88km Kinali-Odayeri Section
- North Marmara Motorway PPP – 169km Kurtkoy-Akyazi Section

While Turkey is viewed in a dark light by many – particularly on the political stability front – it has seen more deals close in the last year-and-a-quarter than most other nations, deploying a shed-load of capital from international and national sponsors and lenders.

What about renewables…?

There are a bunch of renewable energy projects working their way through the system in Turkey. IJ's database has a good number logged, but they tend to be smaller – ranging from the 32.3MW Belectric Turkey Solar Projects to the 60.7MW Artvin Cuneyt Hydropower Plant and at 100MW the New Generation Power International Geothermal Plant.

However, the ones that really grab the attention have to be the 1GW solar and wind projects brought to market by the Turkish government acting through YEKA for which JP Morgan is rumoured to be acting as financial adviser.

They are:

- Siemens, Kalyon and Turkerler Wind Farm

- Karapinar Solar PV

Turkey has gone about bringing these projects to market in an interesting way. First of all, it is making publicly-owned land – resource areas – available for wind and solar projects, taking a lot of pain out of the process for bidders.

Good news is that the Turkish government owns a lot of land and it has the bit between the teeth to continue driving on its renewable energy agenda – so we can expect to see a lot more projects like these 1GW pathfinders in the coming years. It is also conducting essential research (wind and solar) at the sites prior to launching projects.

Given the number of bidders it pulled in for these first projects – international players acting alongside local heavyweights – there will be no lack of competition going forward.

Further, the required amount of domestic content – understood to be 65% - will come as a fillip to the national economy, possibly making Turkey a construction hub for neighbouring markets… not that the Turkish one isn't vast enough to justify it on its own.

To make deals bankable, the projects come with 10-year power purchase guarantees (some confusion on this point with others saying it is 15 years for solar, but 10 for wind). It is understood that – at this stage – there is no plan to extend these guarantees.

The government is using these guarantees as a key driver to ramp up the size of projects and attract international developers as well as finance.

YEKA's 1GW wind project was competed under a Dutch auction model with the 65% domestic production rate including tech components. To achieve this, Siemens will build a factory in Turkey and it is thought that all turbines will have a minimum capacity of 2.3MW.

The Siemens consortium offered the lowest price at $3.48 per KW-hour, winning the deal alongside local partners – Turkish construction giants Kalyon and Trukeler.

It beat off competition from:

- Vestas with local partner Enerjisa
- GE partnering with Fina Enerji
- Goldwind with Akfen Holding and Beycelik
- Enercon – Polat Energy and Limak Energy
- Nordex – İklim Elektrik Yatirim, MKS Marmara and Zorlu Energy
- MingYang – Ilk Construction
- Senvion Wind Energy Solutions – IC Ictas Energy

Much the same process was run by YEKA for the 1GW solar project that will be built in the Karapınar Energy Specialized Industrial Zone – land owned by Energy and Natural Resources the Ministry. It was won by the Turkish-South Korean consortium of Kalyon-Hanwa.

After 19 rounds of hard-fought bidding, Kalyon-Hanwa secured the transaction with an offer of 6.99 cents per kWh, beating bids from:

- Hareon Solar with Limak and CMEC
- AKC and Güneş
- Solargiga and Çalık Enerji

As to domestic impact, the Kalyon-Hanwha Group is understood to be creating an R&D centre in Turkey that will employ 100 permanent technical personnel.

International appetite

When it comes to international appetite for this well-executed programme, the proof of the pudding is – as always – in the eating. Look at the international bidders partnering with Turkish organisations.

Wind:

- Siemens
- GE
- Vestas
- Goldwind
- Enercon
- Nordex
- MingYang
- Senvion Wind Energy Solutions

Solar:

- Hanwa Group
- Solargiga
- AKC
- Hareon Solar

With plenty of support from the ECAs there should be no lack of enthusiasm from lenders. As for the advisory community, it is in place and they are positioning themselves to advise on what looks to be a healthy pipeline.

Speaking this week to lenders, there is a lot of enthusiasm – tempered with caution – for the Turkish market. Given the accrued experience of having closed a good number of social infra / transport deals, they are already reasonably comfortable.

“The goal is to remove yourself from Turkish risk and this is a bit of a double-edged sword because on the one side you are happily supporting transactions, but on the other side you are aware of the political situation,” says one old chum.

As such, he says, continued ECA support is essential for future involvement.

Another points out: “The main misgivings we have are around currency and political risk. Without pegging to the US dollar, none of these projects would be viable for international banks.”

He adds: “Pegging – and its continuation – is a concern for international lenders, especially given the tenors that sponsors are looking for in Turkey. On top of that, Turkish banks have been very aggressive in the market and we have heard of local lenders going longer than the 10-year tariff regime.”

Yet another chips in: “It’s a difficult market, but in general we’re keen on it and we have already been involved on the PPP side. We haven’t been able to make it work on the renewables side, but with ECA cover, this will be possible.”

So – a fantastic opportunity for renewable energy sponsors, a veritable bean feast for the advisers and a growing playing ground for international project finance lenders… if they can squeeze in next to the Turkish lenders.

I take it all back, it’s a fantastic place.