



Sustainable Finance Turkey Challenges, Opportunities & Accomplishments

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Sustainable Finance, Opportunities

- Significant amount of funding to be mobilized for green transition of economies
- New financial products and markets in transition process
- Supporting brand image of the firmsç
- Intermediation by finance industry for public and international funds channeled to green projects
- Access to long term funding at preferable costs through green/social bond issuances and securitisation of green loans
- Potential incentives to be provided by public authorities (capital adequacy, provisions, collaterals, intermediation costs etc.



Sustainable Finance - Challenges

- A challenging macroeconomic environment (high inflation and high nominal interest rates, and a volatile exchange rate),
- Short termism prevalent in financial markets. Short term planning horizons lead to under-allocation of resources towards long-term climate-resilient projects,
- Short-term funding structure of banks,
- A low national savings rate, small institutional investor base
- Analytical work to address the lack of data about the short, medium, and long-term effects of physical and transitional impacts of climate change on economy and social systems.
- Public and private financial institutions capacity building needs for sustainable data production, verification mechanisms and integrating climate considerations into all aspects of their operations.
- Lack of green project pipeline. Limited expertise in the market and lack of ability to identify and classify projects



Sustainable Finance

- Aligning the financial system with Sustainable Development Goals, mobilization of private finance for sustainable growth requires new approaches. These approaches include
- “non-financial reporting requirements”,
- “green finance definitions”,
- “green classifications/taxonomies for green investments/projects”,
- “impact reporting” and “verification, assurance services

Apart from finance sector alignment, for Turkey, being an export-oriented economy, alignment with ongoing global developments in addressing climate change and pursuing sustainability and green growth, notably in line with the European Green Deal is essential.



Sustainable Finance - Incentives

- Key Policies to Incentivize Green Finance
 - (i) support for sustainable data production, sustainable disclosure by companies.
 - (ii) clear regulatory framework for innovative sustainable finance instruments,
 - (iii) being supportive to tackle with greenwashing concerns capacity building for verification sector,
 - (iv) set of incentives for green finance such as discount on administrative fees, fund for verification cost, supporting institutional investor demand for sustainable finance products and credit enhancement possibilities such as bond guaranty fund.



Sustainable Finance Accomplishments, Turkey

- As its first step in sustainable finance development and assessing/managing climate risk, in October, 2020 the CMB has introduced sustainable reporting for listed companies.
- Sustainable reporting is not mandatory yet. CMB's first signal, involvement in sustainability which is a requirement for companies "explain why you have not complied it" has triggered vivid interest on the corporate sector on sustainability.
- Sustainability reporting step is helpful for companies to start building their sustainability profile and first understand what information/data is missing, secondly what can be the meaning of this ignorance, this makes up initial assessment and managing of climate risk.
- Non-financial reporting enhances producing sustainability data, strategy and risk management for corporate sector.



Sustainable Finance Accomplishments, Turkey

- Since 2016 Turkish development banks and major financial institutions have been issuing green and sustainable bonds abroad in hard currency.
- Recently issuance of sustainable financial instruments are extended to domestic market and non-financial issuer type with a cumulative volume exceeding 4 billion USD.
- In order to provide standardization and regulatory clarity to for sustainable finance instruments, CMB has drafted a Green Bond and Green Sukuk Guide based on the International Capital Market Association's (ICMA) Green Bond Principles and announced for consultation 3.11.2021. Publication of this draft guide by December 2021 is a commitment of the CMB according to national Green Deal Action Plan and 2021 Economy Reform Program.
- Adoption of green bond regulatory framework will be a key starting point for accelerating the development of green bond issuances by providing transparency, clarity and raising awareness thereby encouraging market participants to issue and invest in green bonds.



Sustainable Finance – Accomplishments, Turkey

- Borsa Istanbul has a Sustainability Index as of 2014 and in 2021 by a renewed methodology, Borsa Istanbul Sustainability Index will provide continuous sustainability rating data to the market.
- Apart from mobilization of private finance for sustainable development in Turkey, sovereign green bond programs are planned for realising sustainable investments and low-carbon economy transition via public finance.
- Green Deal action plan, July 2021, coordinates all relevant public, private actions for supporting Turkey's transition to a sustainable, resource-efficient and green economy in line with country's development goals compatible with the transformation policies in the world economy, especially in the EU.



Climate Risks – International Cooperation

- Sustainable finance is more than funding SDGs but also about identifying sustainable risks, identifying vulnerabilities of the corporate sector and financial institutions.
- Sustainability integrated domains are; sustainable reporting, sustainability rating, sustainability assurance, responsible investing, sustainable indices. Since countries are building their policies for the green transition of their economies and accordingly green finance infrastructures, comparative assessment from an international perspective is valuable.
- The markets' or countries' exposure to climate risks and development phases for responding risks are different though lessons learned can be helpful for new initiatives.
- Feedback on issues such as standardization, adaptation by SMEs, emerging market capacity development, institutional investor interest on sustainable finance is essential.



Sustainable Finance – International Cooperation

- 28-30 June 2021 CMB–World Bank “Green Finance Workshop” involving all public, private key institutions operating in Turkey's green and sustainable finance space who are interested in moving the climate and green agenda forward. Apart from the WB, ICMA and IFC have also contributed to the Workshop discussions for taxonomies, disclosures, and reporting standards to achieve transparency in investment decisions.
- CMB follows up international work for sustainable finance at the G20, OECD and IOSCO level.



Sustainable Finance - Turkey

THANK YOU...

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