

FINANCING THE GREEN TRANSITION

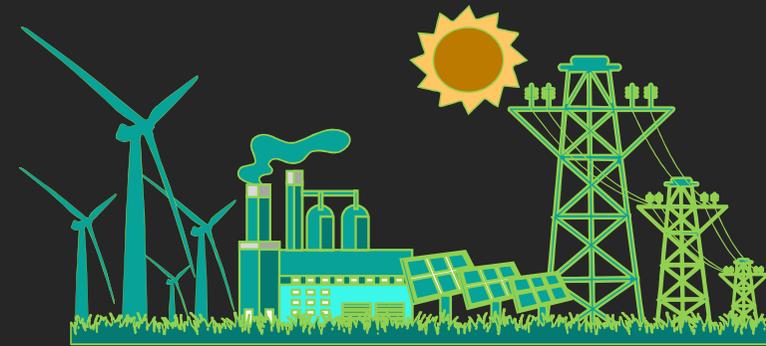
Opportunities and Challenges



Banking Regulation and Supervision Agency

Green Finance

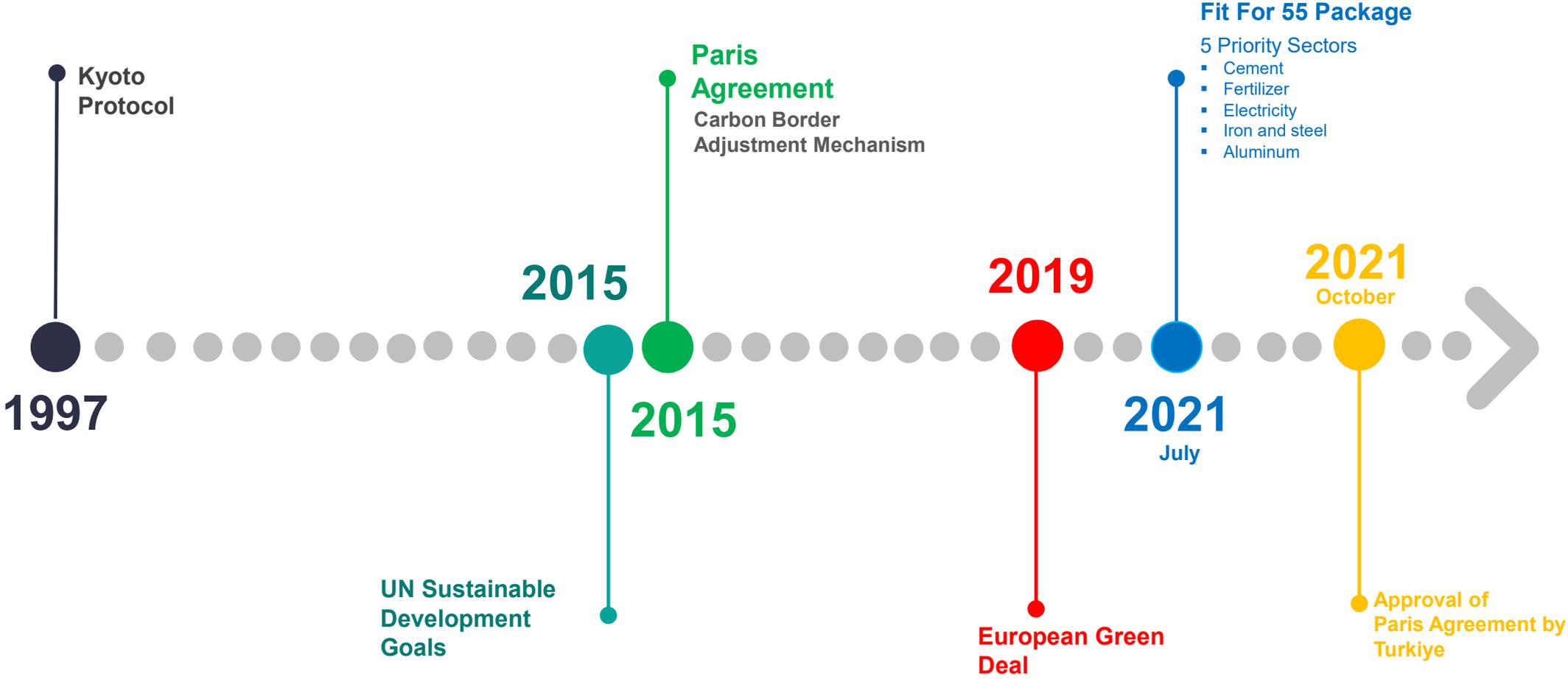
Financing of activities for solving environment-related problems, especially climate change.



NEED FOR GREENING THE ECONOMY

- Industrialization
- Liberal-capitalist production model
- Population growth
- Consumption economy
- Increase greenhouse gas emissions
- Global warming
- Climate crisis

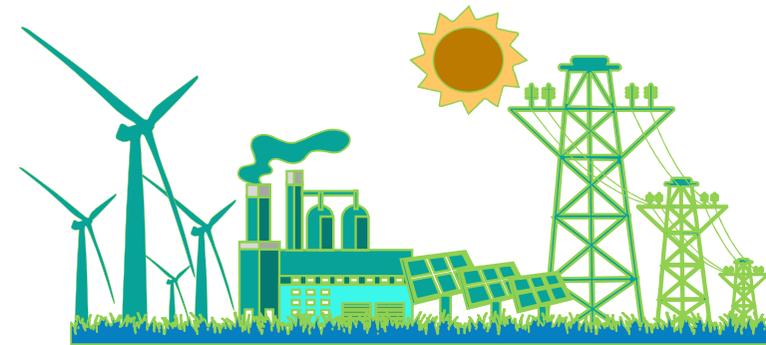
Cornerstones



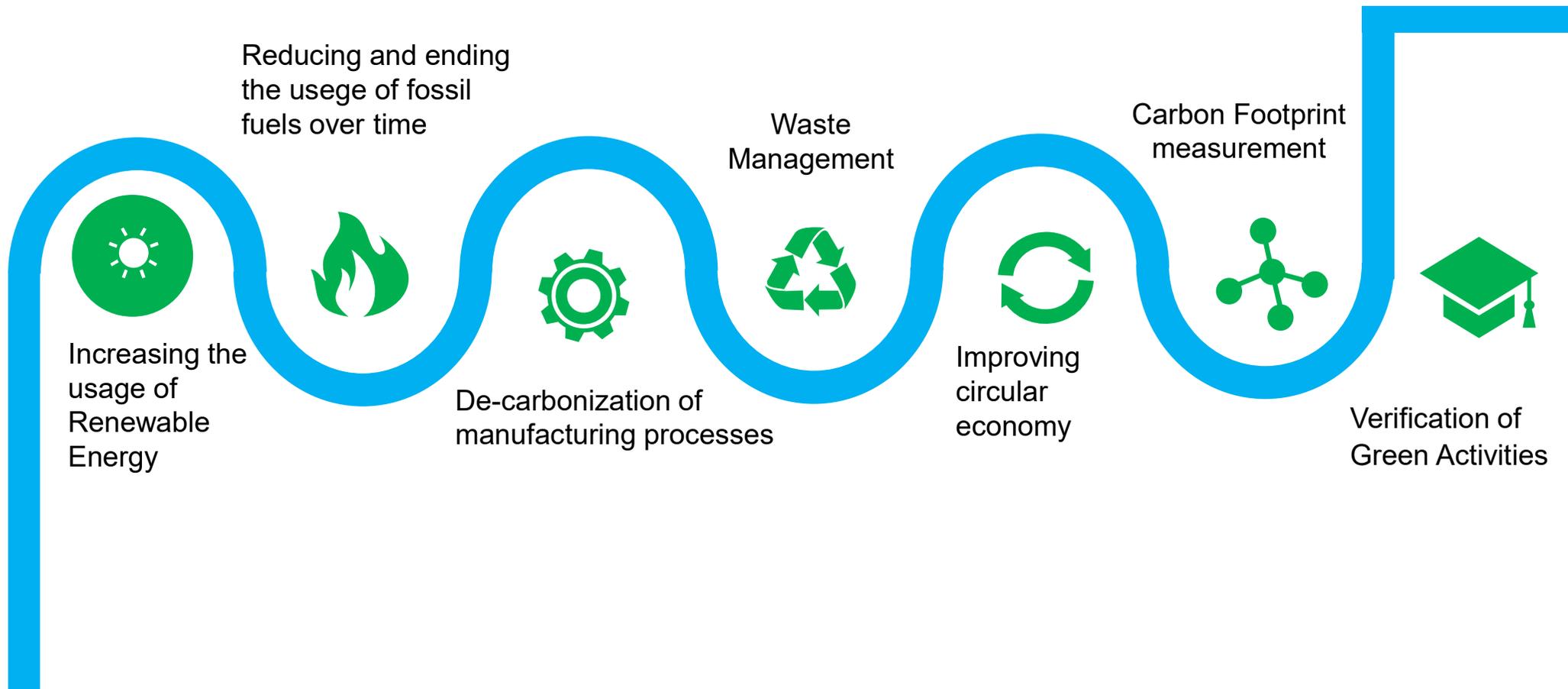
PURPOSE

Struggling With Climate Change and Environmental Problems

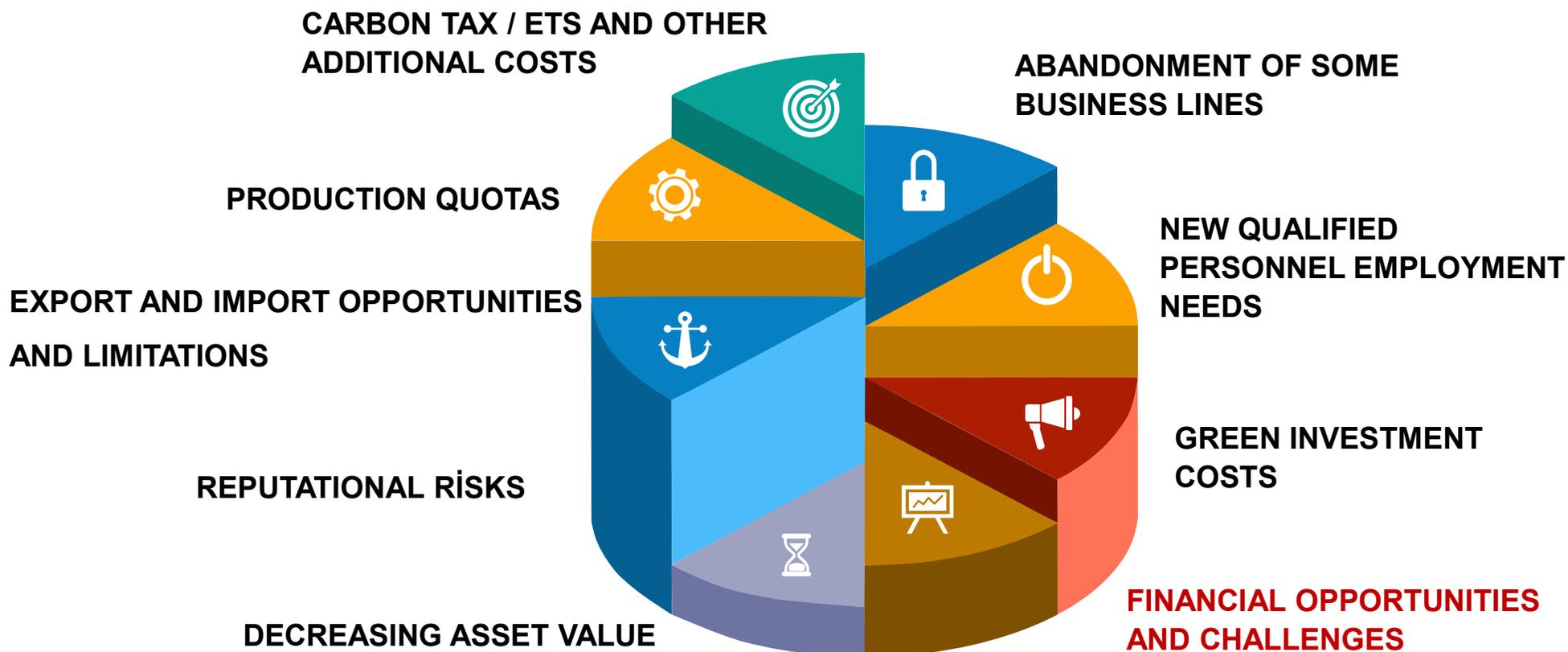
- Increasing energy efficiency
- Protection of biodiversity and fresh water resources
- Development of carbon sink areas
- Prevention of pollution and building an environment free from toxic waste
- Development of urban sustainability
- **DE-CARBONISATION OF ECONOMY**



DE-CARBONIZATION OF PRODUCTION PROCESSES



WHAT WILL GREEN TRANSFORMATION BRING?



Green Finance Function

- Forcing the real sector to green transformation
- Providing financial funds for green economic transformation



Green Financing Resources



Banks and Other Financial Institutions



Green Capital Market Instruments



Public Loans and Grants



European Union Funds (IPA, Horizon, EIC, ...)



International Development Institutions (EBRD, EIB, IFC, AFD, ...)



International Markets (Institutional Investors)

Requirements



01 LEGAL INFRASTRUCTURE

02 TAXONOMY

03 MEASUREMENT, VERIFICATION AND REPORTING

04 RISK MANAGEMENT

05 DATA

1- LEGAL INFRASTRUCTURE

- ▶ 2020 - CMB - “Sustainability Principles Compliance Outline”
- ▶ 2021 - BRSA - “Guidelines On Credit Granting And Monitoring”
- ▶ 2021 - Ministry of Treasury And Finance - “Sustainability Finance Framework”
- ▶ 2021 - CMB - “Guidelines on Green Debt Instruments, Sustainable Debt Instruments, Green Lease Certificates and Sustainable Lease Certificates”

2-TAXONOMY

Taxonomy

A systematic classification for directing financial investments to green activities

EU Taxonomy

- Adopted in June 2022.
- Technical document preparations continue.
- Expected to enter into force in 2023.

Taxonomy Discussions

- Natural gas and nuclear energy

National Taxonomy

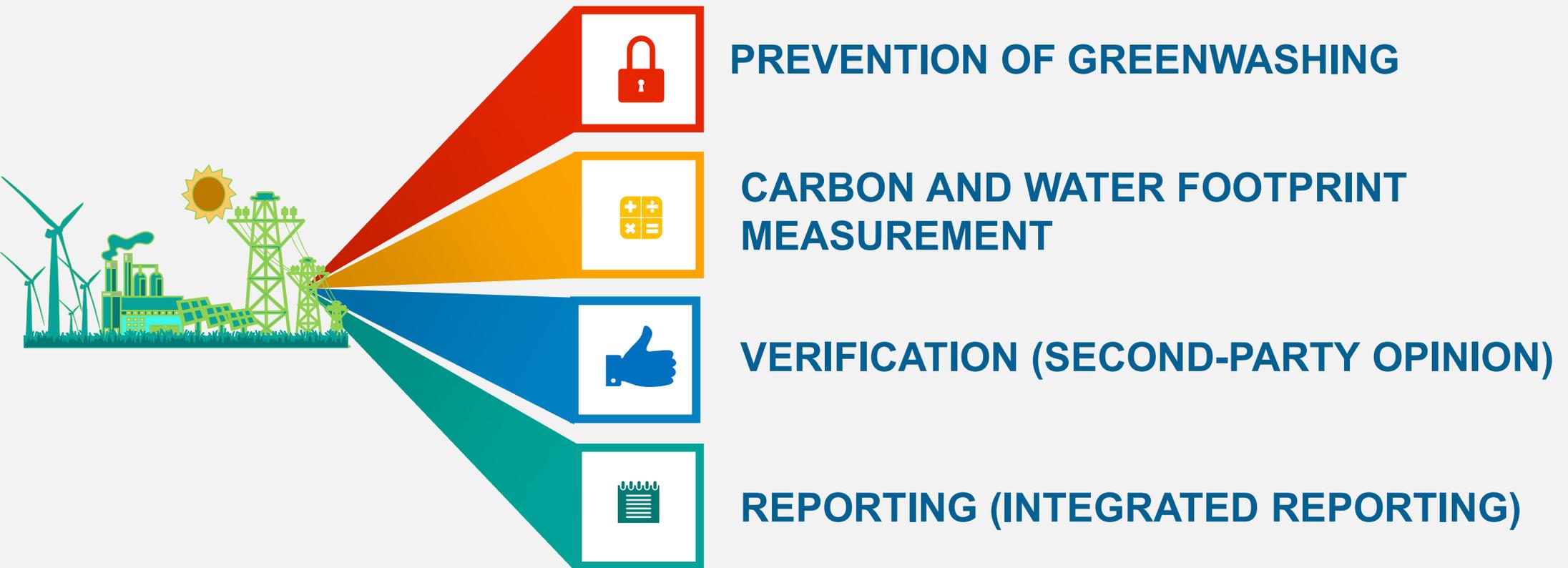
- Under the responsibility of the Ministry of Environment, Urbanization and Climate Change
- Envisaged to be completed in the last quarter of 2023.

EU Taxonomy -Troubling Aspects

- Do not cover all fields of economic activity
- Binary system: non-green activities not classified as risk



3- MEASUREMENT, VERIFICATION AND REPORTING



4- Risk Management



▶ IMPORTANCE

A tool to drive financial institutions towards green activities.

▶ APPROACH OF THE BASEL COMMITTEE

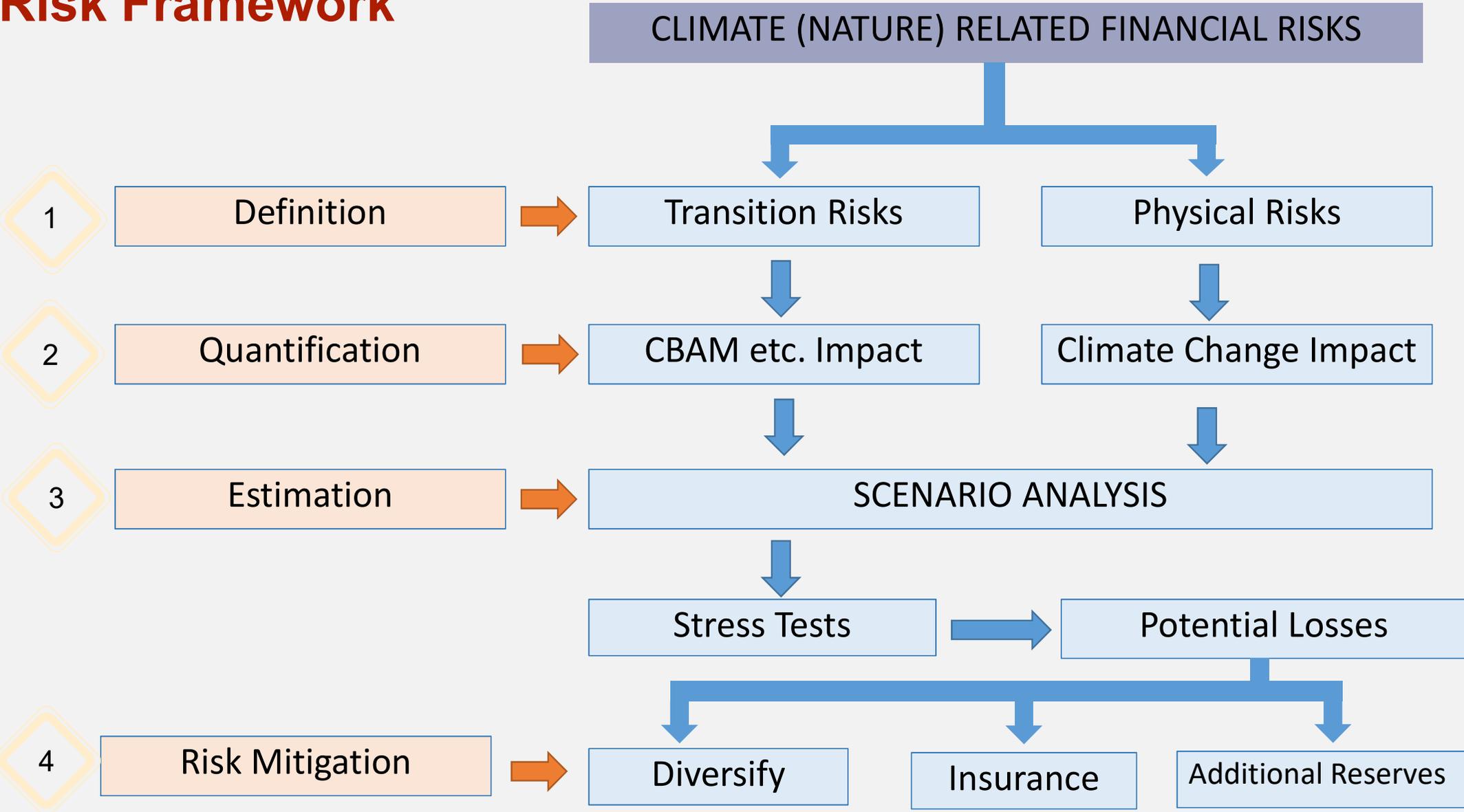
Green Support Ratio → Green Asset Ratio

▶ EXPECTATIONS FROM AUTHORITIES

For the measurement, analysis and management of climate-related financial risks;

- Creating risk management framework
- Determining and resolving data gaps
- Application of the risk framework to financial institutions

Risk Framework



Physical Risks: Economic costs or financial losses due to climate change and the resulting extreme natural events (acute risks, chronic risks and indirect effects).

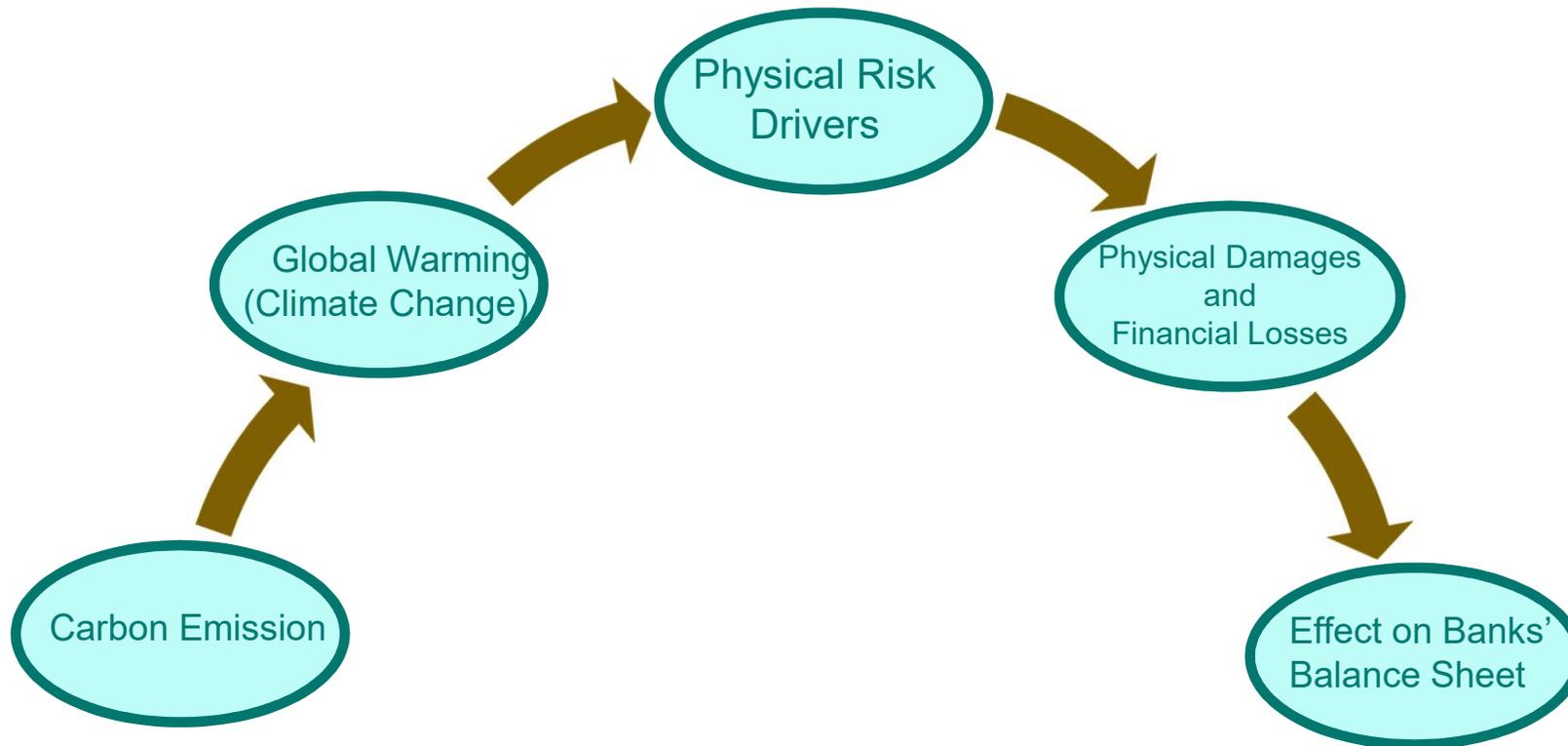
Physical Risk Drivers: Climate change events such as floods and hail that lead to physical risks and financial losses on the general economy and financial sector.

Transition Risks: Possibility of loss and damage related to the process of adjustment towards a low-carbon economy.

Transition Risk Drivers: Include changes in public policies, legislation and regulation, changes in technology and changes in market and customer sentiment related to the transition to a low-carbon economy.

Transmission Channel: The process by which physical and transition risks affect banks directly or indirectly through the activities of exposed parties.

Physical Risk Transmission Channel



5- Data

Taxonomy

Carbon emission values
(on the basis of business)

Climate Data (By province –
temperature and extreme
weather events e.g.)

Trade losses data for transition
risks (by the fields of activity)

Financial losses data (by the
fields of activity and regions)

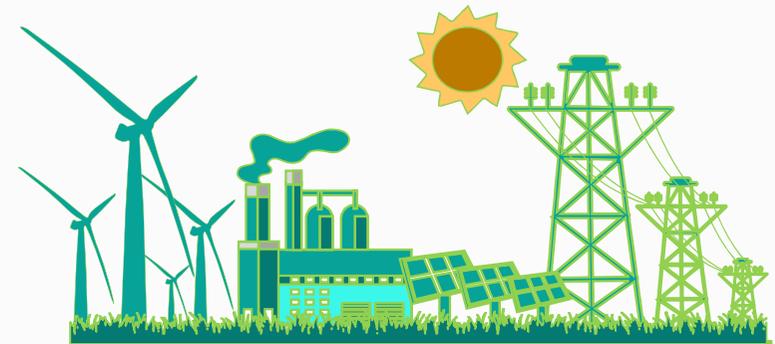
STEPS TAKEN

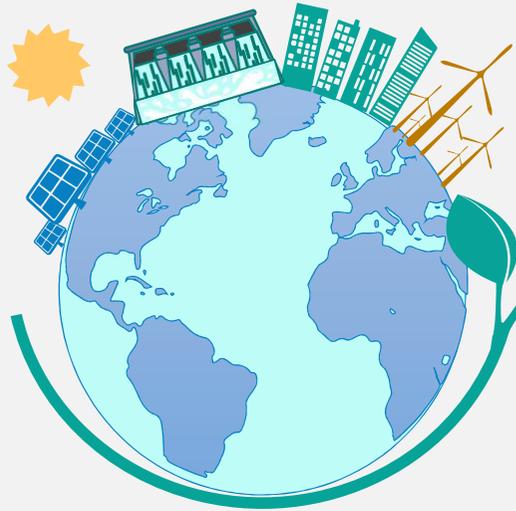
- Sustainability Guidelines for the Banking Sector (2014-2021) **Banks Association of Türkiye (BAT)**
- IFC Sustainable Banking and Finance Network (SBFN) membership (2015) **BRSA**
- “Global Compact Turkey Declaration of Sustainable Finance” **8 UN Global Compact member banks:** (2017)
- Turkish Banking Sector Sustainability Survey (2018) **BRSA**
- Increasing Housing Finance With High Energy Performance (2019) **BRSA**
- Basel Committee on Banking Supervision “Task Force on Climate-Related Financial Risks” (TCFR) membership (2020) **BRSA**
- Guidelines On Credit Granting And Monitoring (2021) **BRSA**
- Sustainable Banking Strategic Plan (2021) **BRSA**
- Sustainable Banking Working Groups (2021) **BRSA-BAT**



GREEN FINANCE IN TURKEY

- The works in all fields are at the phase of starting
- Limited amount of fund provided by green credit and capital market instruments
- There's a strong desire and rapid development.
- The most important barrier is macroeconomic conditions.





POTENTIAL CHALLENGES

Towards a zero carbon economy;

- Green Inflation
- Global slowdown in economic activity
- Need for self- sufficiency
- Need for a planned economy
- First accelerating, then decelerating of financial flows

ADVANTAGES



RENEWABLE ENERGY POTENTIAL

- Geographically strong renewable energy source
- Increasing solar and wind energy investment (%68 of total energy loans)

STRATEGIC LOCATION

- Close location to EU market
- Location on the natural gas line route

DYNAMIC REAL SECTOR STRUCTURE

- SMEs based economy
- Well distributed sectoral structure

BANKING SECTOR IMPACT

- Effective transforming power (role)
- High adaptation capacity
- A prepared and willing industry

WHAT TO DO?

GREEN DEAL ACTION PLAN & CLIMATE COUNCIL

A

COORDINATION SHOULD BE PROVIDED AMONG SECTORS AND INSTITUTIONS

B

DETAILED PLANS SHOULD BE PREPARED ON THE BASIS OF THE SECTOR

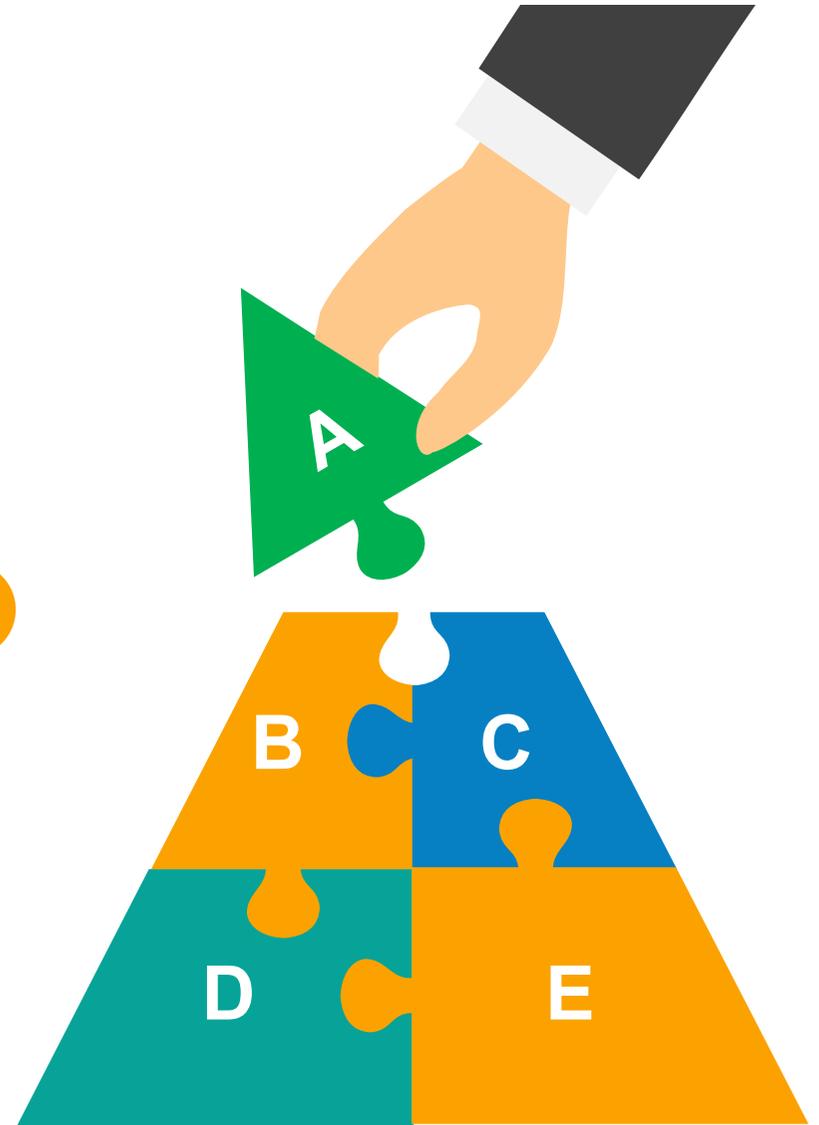
C

REAL SECTOR AWARENESS SHOULD BE INCREASED

D

GREEN TRANSFORMATION FINANCIAL PLAN SHOULD BE PREPARED

E



Roadmaps

GREEN DEAL ACTION PLAN

- BRSA Sustainable Banking Strategic Document
- Preparation of National Taxonomy
- CMB Green Bonds Guide
- MTAF Sustainability Finance Framework
- Finance Office Green Sukuk Guide

CLIMATE COUNCIL

- Preparation of national green finance strategic document
- Creation of working groups
- Establishment of a platform for data sharing
- Preparation of a guide for green financing incentives

GREEN FINANCE INCENTIVES

- ❑ Differentiation by carbon emission reduction
- ❑ Keeping the public cost of the incentive low
- ❑ Not to spoil the market mechanism
- ❑ Not causing wealth transfer

CONCLUSION

- Green financial activities should be defined (creation of taxonomy)
- Climate-related financial risks should be managed effectively
- The confidence of domestic and foreign (abroad) investors should be provided to increase green investments.

THANK YOU



**BANKING REGULATION AND
SUPERVISION AGENCY**