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Technical Assistance for Assessment of Türkiye's Potential on Transition to Circular Economy

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Financing Circular Economy

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Circular Economy Workshop
Date, Ankara, Türkiye



FINANCE

Financing Circular Economy

October 4, 2022

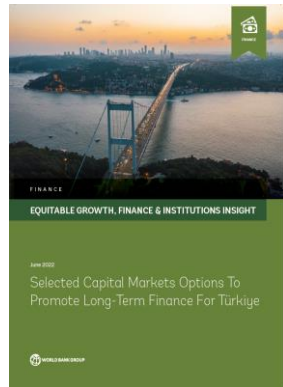
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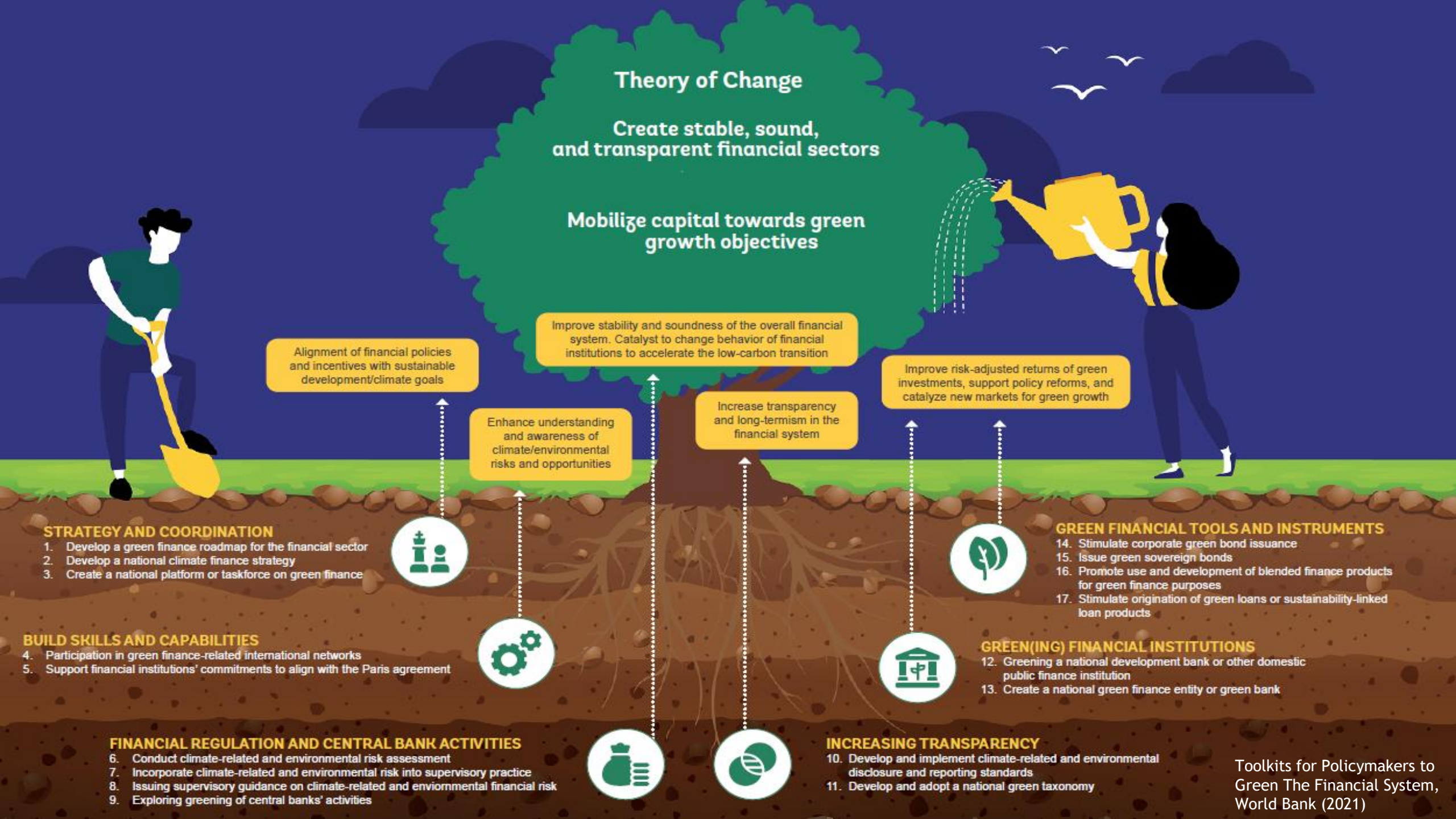
The financial sector needs to mobilize capital for the green transition, yet green finance is at an early stage

- Banks dominate the financial system (90% of assets; total banking sector assets/GDP is 122%).
 - The total size of the institutional investors, insurance sector, pension funds, and mutual funds add up to only 6% of GDP.
- Both structural and cyclical factors have exposed the banking system, the corporate sector, and the economy to considerable risks.
 - *Structural: High FX debt at short maturities (banks and corporates), liability dollarization, low savings rate*
 - *Cyclical: High inflation, volatile exchange rate, high corporate leverage*
- Having access to more lira-denominated **long-term funding** would reduce banks' and corporates' exposures to short-dated and FX-denominated debt, reducing rollover risks and lowering financial stability risks (see [Türkiye Economic Monitors](#)).
- Türkiye needs to invest **\$165 bn over 2022-40** in the RNZP in addition to the \$482 bn baseline in the power, residential, and transport sectors ([CCDR, 2022](#)).
- Half will need to come from the private sector, yet green finance is falling short of what is required.
- Green finance comprises bank lending for renewable energy largely. Türkiye is lagging behind peer emerging markets in terms of green bond issuance ([Selected Capital Markets Options for Türkiye](#)).
- Green capital market instruments will benefit from financial stability and a more enabling regulatory and policy framework (e.g., taxonomy for green or sustainable investments) - see [Unlocking Green Finance](#) and [Selected Capital Markets Options for Türkiye](#).



There is an increasing momentum to build a green finance ecosystem, building on the Economic Reform Program and declarations made by the Climate Council

- The strong drive for sustainable finance by the public sector (including Türkiye's ratification of the Paris Agreement) and the increasing appetite by international investors (e.g., as incentivized by the EU Green Deal) present opportunities and challenges.
- Financial sector authorities have accelerated their efforts:
 - BIST has made steps toward promoting sustainability
 - CMB also introduced sustainability principles for listed companies in 2020
 - CMB issued Guidelines on Green Debt Instruments in 2022 (with IBRD advisory support);
 - MoTF is considering the issuance of a sovereign thematic bond and issued a Sustainable Finance Framework in November 2021;
 - BRSA issued a Sustainable Banking Strategy for 2022-25;
 - MoECC is working on a national green finance strategy and green taxonomy in coordination with other stakeholders; and
 - Konya Climate Council developed an initial road map for a green finance framework which recently became publicly available.
- A unified green taxonomy, modeled on prevailing taxonomies such as the one in the EU, as well as standardized disclosure requirements would foster transparency and boost public and private investment to finance the transition.



Theory of Change

Create stable, sound, and transparent financial sectors

Mobilize capital towards green growth objectives

Alignment of financial policies and incentives with sustainable development/climate goals

Improve stability and soundness of the overall financial system. Catalyst to change behavior of financial institutions to accelerate the low-carbon transition

Improve risk-adjusted returns of green investments, support policy reforms, and catalyze new markets for green growth

Enhance understanding and awareness of climate/environmental risks and opportunities

Increase transparency and long-termism in the financial system

STRATEGY AND COORDINATION

1. Develop a green finance roadmap for the financial sector
2. Develop a national climate finance strategy
3. Create a national platform or taskforce on green finance



BUILD SKILLS AND CAPABILITIES

4. Participation in green finance-related international networks
5. Support financial institutions' commitments to align with the Paris agreement



FINANCIAL REGULATION AND CENTRAL BANK ACTIVITIES

6. Conduct climate-related and environmental risk assessment
7. Incorporate climate-related and environmental risk into supervisory practice
8. Issuing supervisory guidance on climate-related and environmental financial risk
9. Exploring greening of central banks' activities



GREEN FINANCIAL TOOLS AND INSTRUMENTS

14. Stimulate corporate green bond issuance
15. Issue green sovereign bonds
16. Promote use and development of blended finance products for green finance purposes
17. Stimulate origination of green loans or sustainability-linked loan products

GREEN(ING) FINANCIAL INSTITUTIONS

12. Greening a national development bank or other domestic public finance institution
13. Create a national green finance entity or green bank

INCREASING TRANSPARENCY

10. Develop and implement climate-related and environmental disclosure and reporting standards
11. Develop and adopt a national green taxonomy



There is increasing momentum to build a green finance ecosystem, building on the Economic Reform Program and declarations made by the Climate Council

- Creating an overall strategy or roadmap on green, blue, or sustainable finance would align financial sector policies, regulations, and incentives with environmental and climate goals.
- A roadmap covering both the risks and opportunities of climate change can help prioritize actions and coordinate the activities of different stakeholders, including financial and environmental policy makers, regulators, and financial institutions. It would also provide clear signals to potential investors and help create an enabling environment for increased green investment—for example, though sustainable, green, or blue bonds or sukuks.
- Disclosure requirements and a green, blue, or sustainability-based taxonomy can foster transparency and boost public and private investment to finance the transition.
- National development banks and the Credit Guarantee Fund can be highly effective in mobilizing private finance for the green transition, including through financial innovation and de-risking instruments
- More generally, de-risking investments by maintaining a stable macrofinancial environment, and targeted guarantees and temporary cost-reducing incentives to bond issuances can play a role.
- Insurance/Pension Funds should be encouraged for greener investments.
- Risk solutions can help improve protection: Specific instruments include catastrophe bonds and/or expansion of homeowner, private and municipal asset insurance, catastrophe insurance risk pools, contingent financing, and weather-related parametric insurance.
- If blended climate finance is mobilized, municipalities could play an important role in low-carbon, climate-resilient urban development.

IBRD's climate offering focuses on three pillars



Data, Disclosure & Reporting

- **Taxonomies and reporting standards** to support transparency for climate-risk informed investments



Risk Management

- **Climate risk finance instruments** to protect households, businesses and governments against climate shocks and disasters
- **Prudential regulations & stress testing** to manage risk, increase financial stability, and incentivize greener investments



Green Finance

- **Green finance instruments** (e.g., green bonds, green housing finance) to allow for investments that have a positive climate impact and financial return
- **Green investors** to support institutional investors in incorporating climate into their investment strategies

Analytical & Advisory Services (e.g., FSAPs, Climate and Disaster Risk Finance Diagnostics)

Global Discussions (e.g., FSB, TCFD, NGFS, G7, G20, InsuResilience Global Partnership, Coalition of Finance Ministers)

Lending

SUMMARY: Potential Policy Actions to Promote Thematic Bonds and Sukuks

Recommendation	Lead Agency(ies)	Priority	Timeline
Green Finance Ecosystem and Sustainable Finance for Capital Markets with a Focus on Thematic Bonds/Sukuks			
Develop a unified green taxonomy	Ministry of Environment and Climate Change	H	ST
Designate a coordinating entity that takes the lead on the sustainable finance agenda, including the establishment of a taxonomy for the financial sector and development of a green finance ecosystem	MoTF	H	ST
Facilitate deal sourcing (especially for SMEs) and co- investments	CMB	H	ST
Conduct thematic bond literacy and awareness activities aimed at both prospective issuers of and investors in Turkish thematic bonds	CMB, BIST	M	LT
Evaluate and consider establishing financial incentives for issuers of thematic bonds/sukuks, including incentives for financial institutions (such as banks) to issue thematic bonds and on-lend to greening SMEs, and the removal of disincentives (such as tax)	MoTF, CMB, BIST	M	ST/MT
Introduce an assurance and certification system for thematic bond/ sukuk verifiers	CMB	H	MT
Enable and encourage institutional investors to invest in thematic bonds/sukuks	CMB	H	ST/MT
De-risking Instrument for Bonds			
Conduct consultation with development partners and market participants on the planned bond guarantee fund program; evaluate the feasibility and design of the bond guarantee fund, drawing lessons and experience from past and existing programs	CMB, MoTF	H	ST

SUMMARY: Potential Policy Actions to Promote Equity Finance

Recommendation	Lead Agency(ies)	Priority	Timeline
Private Equity			
Review the role of the state in private equity investment to identify potential areas of expansion and create a level playing field	CBRT, MoTF, relevant state- owned investors	H	MT
Create platforms to facilitate deal sourcing (especially for SMEs) and co-investments	CMB, relevant associations	M	MT
Enhance awareness and knowledge for private equity	CMB, relevant associations	M	LT
Evaluate a strategic private equity investment fund to target areas of gap, including green investment, and conduct a feasibility study	MoTF, CMB	H	MT

IBRD engages in 50+ countries on climate related financial risks & opportunities

Morocco

- CAT DDO / Risk Financing Strategy
- Climate stress test
- Supervisory guidelines / regulations and monitoring
- Taxonomy
- Training and events

Colombia

- Taxonomy + green standards
- Climate stress testing
- Climate + ESG reporting standards investors and issuers

South Africa

- Disaster Risk Finance diagnostic
- FSAP climate analysis
- Climate stress test
- Supervisory guidelines and monitoring
- Training and events

The Philippines

- CAT DDO
- FSAP climate analysis
- Typhoon stress test
- Supervisory guidelines and monitoring
- Taxonomy, ESG reporting/disclosure guidelines/ monitoring, guidelines for institutional investors
- Training and events

Malaysia

- Assessment of biodiversity risks
- Supervisory guidelines
- Taxonomy
- Workshops and seminars
- Green Sukuk



Disclosure & Reporting



Risk management



Green Finance



This project is co-funded by the European Union and the Republic of Türkiye

Thanks for your attention.



Türkiye Döngüsel Ekonomi

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