



Sustainable Finance and SEE Region

The Banks Association of Türkiye

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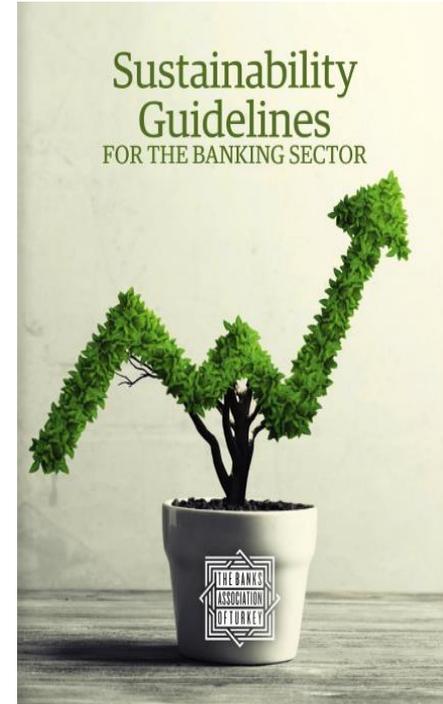
1. Introduction



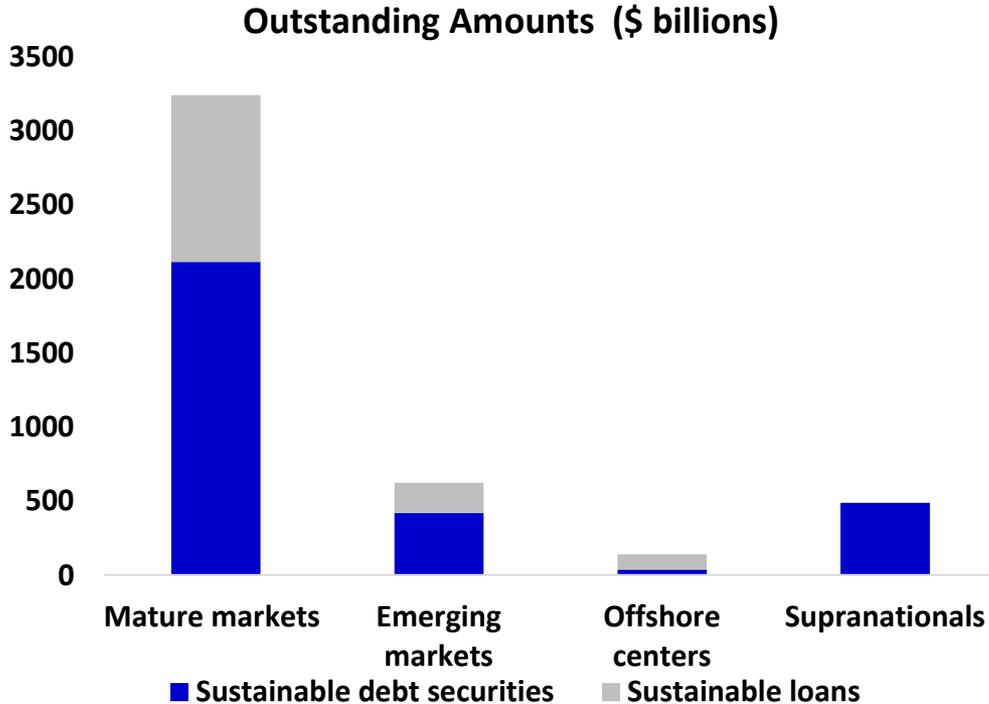
Sustainable Finance

More and more international as well as regional initiatives are accelerating in terms of development finance with specific emphasis on sustainability and greener future. Türkiye having committed to international agreements such as Paris Agreement increasingly works on a greener future with all its aspects, facing challenges.

During this path towards a greener future, naturally our private sector institutions and the banking sector are leading several processes including contributing to government regulations as applicable. We see team work in this regard as the key to our success. This is also true internationally and we value international partnerships and projects as part of the overall team work required to accelerate our efforts.



Sustainable Finance



Source: IIF

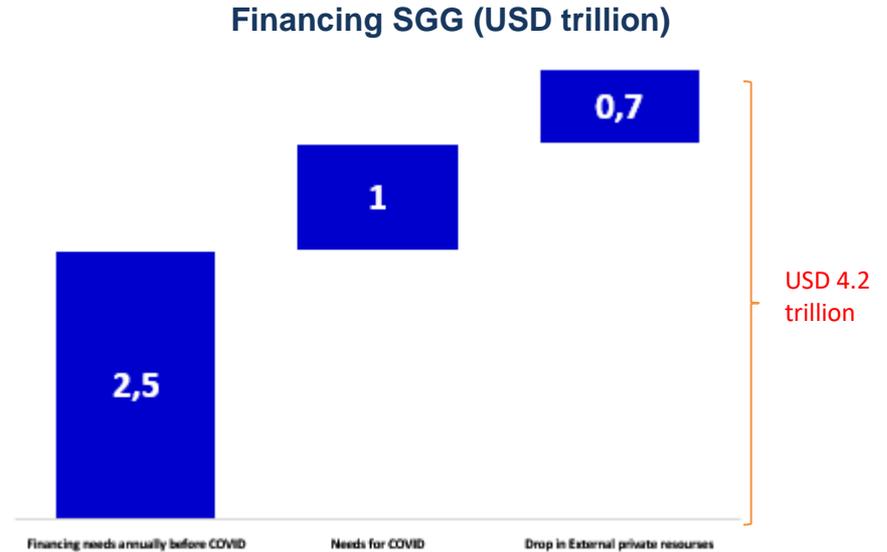
- Environmental, social and governance (ESG- Environmental, Social and Governance) investments have turned into the mainstream all over the world. In this process, the development of a strong 'green finance' and a low-carbon economy model with the said ESG investments are determined as priority targets.
- The market size reached near \$4.5 trillion in Q3 2022, up from \$3 trillion a year ago and \$1.5 trillion in Q3 2020.
- ESG debt issuance in emerging markets remained strong.
- Banks and related organizations have increasingly incorporated ESG factors into their overall operations and governance. In 2021, rulemaking and reporting standardization has also been a key focus, and the process is fast moving, as regulators increasingly make ESG issues a part of their agenda.



Sustainable Finance

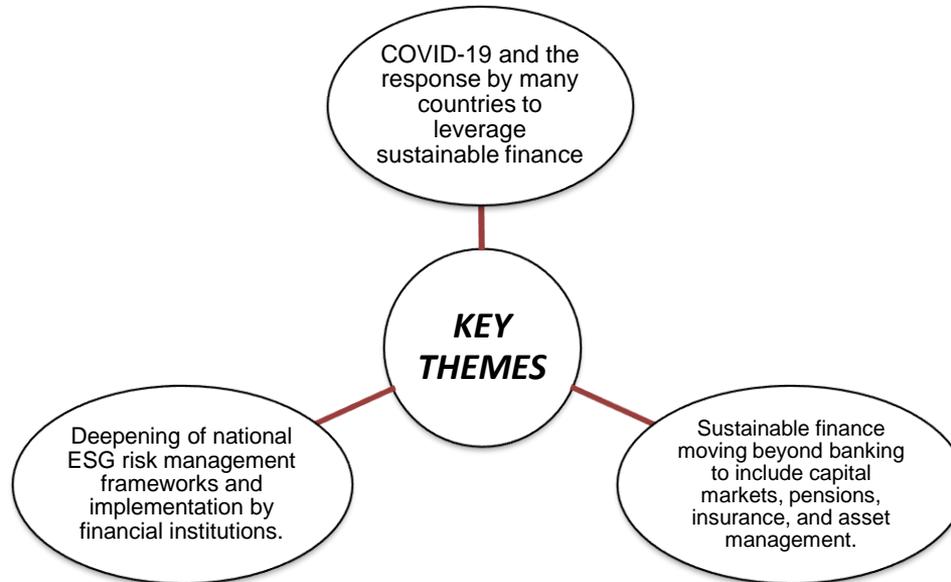
USD 2.5 trillion in financing needs in developing countries to achieve the SDGs, with an additional projected shortfall of USD 1.7 trillion as a result of COVID-19. Aligning just 1.1 percent of global finance with the SDGs could potentially fill that gap.

Although the need is great, the opportunities are also significant. IFC estimates over USD 23 trillion in investment opportunities in green and climate-related sectors and activities that can help achieve national goals aligned with the Paris Agreement and accelerate the global transition to a low-carbon economy.



Sustainable Finance

Most of this capital will come from the private sector, including banks, institutional investors, and capital markets. Particularly, the banks are main actors in green finance and development of green finance instruments to sustain green transition and its economic benefits.



Sustainable Finance

- The growing need for data to understand ESG risk as well as opportunity, which is driving demand for improved disclosure by all parts of the financial sector, including the development of definitions and taxonomies.
- The ever-increasing urgency of climate change and the management of climate risk.
- The popularity of green and climate bonds, which has led to expansion into social and sustainability bonds, as well as broadening from bonds to loans and other financial instruments to mobilize capital for sustainable development objectives.



Sustainable Finance

National and international regulatory frameworks;

- Economic and social dimensions of sustainable finance
- Reporting standards

The regional focus is also extremely important. We need to enhance the partnerships in our neighborhood to sustain the gains to be derived in transition towards greener future. Clearly challenges we face require a considerable effort to solve them and the road ahead is very demanding, especially from view point of development finance which is simultaneously a very competitive terrain.



Sustainable Finance

Additionally, FDI to Balkan countries from Türkiye has accelerated in the recent years, including FDI from financial sector next to other private sector initiatives. For example, out of total of Euro 40 billion investments, Euro 8 billion went to this region with 2021 figures. More interestingly, Turkish private sector has bought and/or opened up banks in this region (SEE/Balkans) Therefore, for us, being part of the regional efforts is equally significant.

When we look into significant developments regarding Sustainable Finance, there are a number of strategies and initiatives through EU as part of our neighborhood and also across the globe which are worth underlining from view point of today's topic. These initiatives are significant in the sense that international financial institutions, international banks are part of these initiatives towards development of new projects and partnerships.



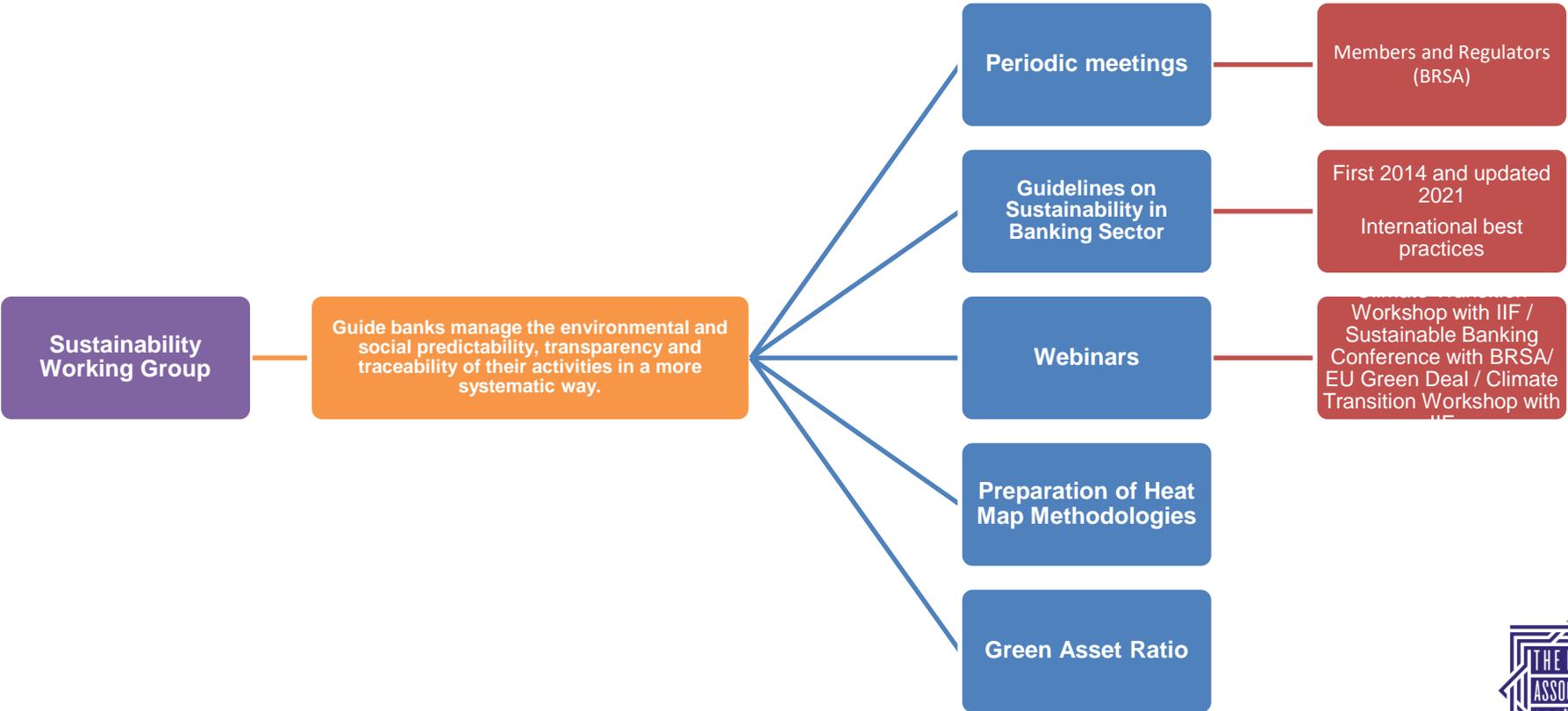
Sustainable Finance

As the Banks Association of Türkiye, we have several ongoing activities regarding sustainable finance including transition finance working closely with our members.

Within this framework, our Association develops activities in order both to inform the sector and to develop best practices with international developments. To this end we have established a Working Group on Sustainability with the participation of our members already back in 2009 and we also updated our 2014 Guidelines on Sustainability in Banking Sector in March 2021.



Sustainable Finance



Sustainable Finance

BRSA's sector-specific "Sustainable Banking Strategic Plan 2022-2025" regarding sustainable finance highlights the recent holistic approach of the industry.

In accordance with the United Nations Sustainable Development Goals and the country's 11th Development Plan (2019-2023) and in an effort to ensure;

- better management of risks and opportunities related with climate and environmental changes, supporting transition to low-carbon manufacturing and investments; and
- contributions to sustainable growth;

Our Association Board of Directors the has made an advisory decision on green finance to share with its members and encourage them to develop inclusive and extensive financial tools to help their clients increase their awareness in the areas and using the methodologies of their choice.



Sustainable Finance

Considering the significance of sustainability extending to all aspects of our lives next to sectoral and professional issues,

Our Association continues to

- closely monitor and share the developments
- work towards enabling it to become part of corporate culture,
- comply with international good practices through following global trends
- **Analyzed several organizations** such as UK Finance, European Banking Federation (EBF), French Banking Federation (FBF), Associazione Bancaria Italiana (ABI), Association of German Banks (Bankenverband), The Dutch Banking Association (NVB), Belgian Savings Banks Association (FEB), and Indian Banks' Association (IBA).

Finally, in August, a report has been published on the website of our Association, under the title of “Green Transformation and Energy”.



Sustainable Finance

Our members considers sustainability as an integrated business model.

- An environmental and social risk assessment system has been established by our banks to conduct project and customer-specific risk assessments.
- Banks carry out their environmental and social risk assessments and monitoring processes in accordance with national and international legislation and global standards.
- By preparing environmental and social action plans, our banks act as an intermediary in the development of their customers' environmental and social capacities. It monitors the environmental and social performance of its customers throughout the loan term.
- Special credit rules for the companies financed, and credit products aimed at reducing foreign dependency on energy resources, which is a heavy burden on the national economy, and minimizing environmental damage, were implemented.



Our Members' Best Practices

Loan Facilities and Other Projects

- Long-term thematic loans are offered to support transition to a low-carbon economy.
- Banks purchase carbon credits to significantly reduce absolute carbon emissions and eliminate the remaining
- Investments in wind, geothermal, solar and biogas/biomass resources are supported in the segment of renewables
- Resource efficiency projects are financed to ensure efficient use of natural resources, reduction of waste, recycling of waste and reduction of carbon emissions.
- Projects for gender equality and employment of women have been supported.

Corporate Operations

- Efforts are in progress to build an environmental and social impact management system.
- Some of our members issue annual reports on their activities within the frame of CDP's Climate Change Program
- Some members are also members of United Nations Net-zero Banking Association established in 2021 based on the objectives of the Paris Agreement
- Our members are willing to do their share of work regarding the forest fires and mucilage in Turkey, which are the results of climate change

Disclosure and Partnership

- The Climate Change Action Plan has been issued to support Turkey's transition to a low-carbon economy and struggle with climate change.
- Our Association and Members take part in working groups and activities organized by the Ministry within the frame of the Green Deal Action Plan.
- Banks offer products and services with environmental and social impacts to raise awareness

International Activities

- United Nations Global Agreement, United Nations Environmental Program Finance Initiative, Sustainable Development Goals and Global Reporting Initiative.
- Members operating in South East Europe offer significant support to sustainable development through major green finance projects.
- Capital-equivalent sustainable bonds, Transition to Low-carbon economy bonds and other bonds related with sustainability as well as Sustainable Lease Certificates are issued in global markets



2. EU Green Deal and South Eastern Europe (SEE) Context



EU Green Deal and South Eastern Europe (SEE) Context

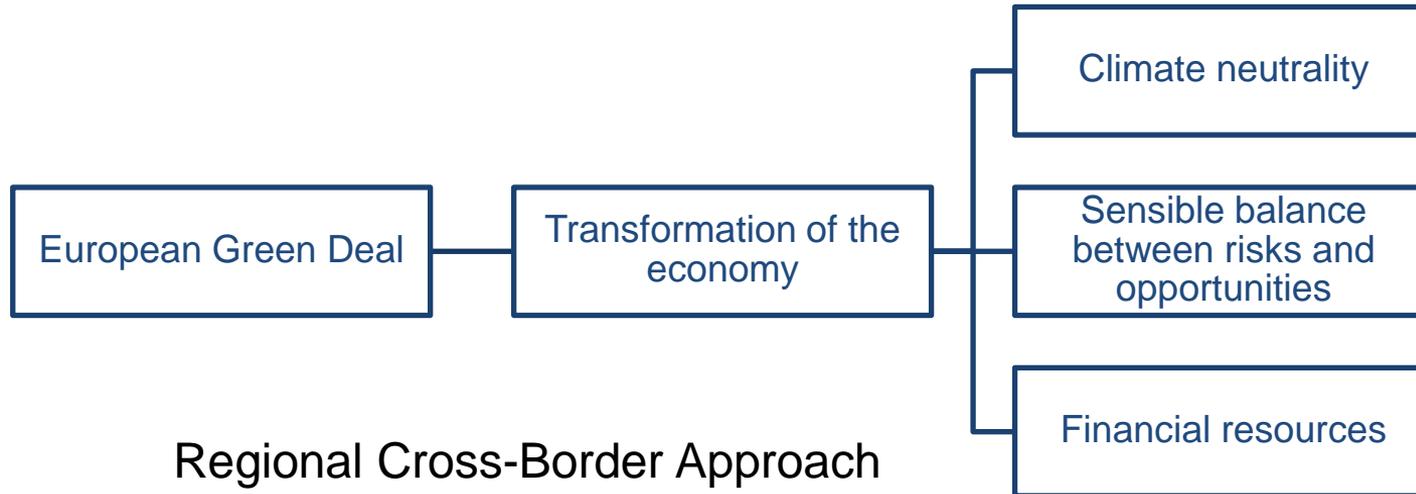
With its ambition for decarbonisation by 2050, the European Green Deal envisages a profound transformation of the economy. Achieving climate neutrality on the European continent will, for a start, require a sensible balance between risks and opportunities across member states and regions, and more importantly, significant financial resources. The European Commission acknowledges that the transition can only succeed if it is conducted in a fair and inclusive way, which should be reflected in policy.

Clearly, implementation of the European Green Deal will require a degree of regional cross-border approach. A regional approach is important to ensure that the transition occurs simultaneously throughout the region in order to avoid, for example, the risk that more ambitious countries replace domestic higher carbon electricity production with other carbon-intensive imports from neighbours.



EU Green Deal and South Eastern Europe (SEE) Context

Decarbonisation by 2050



Regional Cross-Border Approach



3. EU Global Gateway with its EUR 300 Billion Potential



EU Global Gateway

EU Global Gateway.

- Back in December 2021
- The largest global financial donor
- Increasing investments to
 - promoting democratic values and high standards,
 - good governance and transparency,
 - equal partnerships,
 - green and clean, secure infrastructures
 - catalyze private sector investment.

Global Gateway needs to comply with the European Green Deal, is fully aligned with the UN's 2030 Agenda and its Sustainable Development Goals (SDGs) and the Paris Agreement. Thus Global Gateway projects will be instrumental towards enhancing development finance towards a greener future both globally and also from view point of our region with emphasis on dual transition (Digital + Climate)



EU Global Gateway

Global Gateway is based upon on the achievements of the 2018 EU-Asia Connectivity Strategy, the recently concluded Connectivity Partnerships with Japan and India, as well as the Economic and Investment Plans for the Western Balkans, the Eastern Partnership, and the Southern Neighbourhood.

For example; The Western Balkans Investment Plan is a substantial investment package mobilising up to €9 billion of funding for the region. It will support sustainable connectivity, human capital, competitiveness and inclusive growth, and the twin green and digital transition. It has several best practices / flagship projects and these will eventually come under the umbrella of Global Gateway.



4. COP27 and Sustainable/ Green Finance



COP27 and Sustainable/Green Finance

COP27 meeting in Egypt

- Shared concerns of developing countries in green finance and innovative ways are discussed all along to remedy these concerns.
- Beyond securing additional funds, the use of innovative financial tools and mechanisms (e.g. green bonds, environmental impact bonds, debt-for-climate swaps, blended finance mechanisms)

Obstacles

- The limited availability of at-scale, bankable projects to invest in (i.e. projects with a potential to generate measurable, positive returns in a given period of time);
- The absence of a global standardized policy framework as well as a global marketplace for climate finance deals / activities, which can make funding procedures difficult to access and manage for both debtors and creditors;

As a result,

Debt remains the main instrument used to fund climate action in developing countries, rather than equity, grants, and concessional financing. For developing geographies, this adds up to their already unsustainable debt burden, hindering investment at scale in the transition to a low carbon economy and in adaptation and resilience projects. Innovative financial tools & mechanisms are therefore crucial in helping overcome these barriers and ultimately foster climate action.



COP27 and Sustainable / Green Finance

In the case of South Eastern Europe the game changer can be the EU and its development finance strategies, next to private sector and international finance institutions and banks, if viable regional projects are successfully developed. The development of bankable projects is easily said than done especially at a regional scale. So it is time to unite around a common goal and to start these projects as deadlines of transition to greener future are getting nearer. Clearly, along the way EBRD, EIB Global will be significant players next to the banks and the private sector as unifying force for the region



Thank you for your kind attention...

