



Project Information Document/ Identification/Concept Stage (PID)

Concept Stage | Date Prepared/Updated: 25-Sep-2018 | Report No: PIDC168797



BASIC INFORMATION

A. Basic Project Data

Project ID	Parent Project ID (if any)	Environmental Assessment Category	Project Name
		C - Not Required (C)	PARTNERSHIP FOR MARKET READINESS II Project
Region	Country	Date PID Prepared	Estimated Date of Approval
EUROPE AND CENTRAL ASIA	Turkey	25-Sep-2018	
Financing Instrument	Borrower(s)	Implementing Agency	Initiation Note Review Decision
Investment Project Financing	Republic of Turkey	Ministry of Environment and Urbanization	The review did authorize the preparation to continue

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PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	2.00
Total Financing	2.00
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing

Trust Funds	2.00
Partnership for Market Readiness	2.00

B. Introduction and Context

Country Context

- Turkey is an upper middle-income country with a Gross Domestic Product (GDP) of US\$860 billion in 2016.** From 2000 to 2016, per capita GDP in Turkey nearly tripled and is close to US\$11,000 in 2015. Turkey's growth rate accelerated from 3.2% in 2016 to 5.1% in the first half of 2017, supported by an extensive fiscal stimulus. Turkey quickly rebounded from the 2009 global financial crisis, enjoying high growth rates until 2015, at the expense of large external and internal imbalances. It experienced a sizeable current account deficit to keep the investment rate above 25% of GDP. While these investment rates helped it catch up, there is still room for improving the quality of investments as



more than half of spending was in construction. Prudent fiscal management has been a cornerstone of Turkey's good economic performance, but accommodative monetary policy has amplified the effects of cheap foreign finance, exacerbating internal and external vulnerabilities, with persistent current account deficits and an inflation rate above target, which all materialized into a foreign exchange crisis in August 2018.

2. **A series of adverse economic developments in July and August resulted in a sharp depreciation of the Turkish lira, which on August 13, 2018 fell to 7.21 to the US dollar (intraday).** On August 10, 2018, On August 10, 2018, the lira suddenly depreciated by more than 14%, in response to a complex interplay of domestic economic conditions (an overheating economy with persistently high inflation and a growing current account deficit), geopolitical factors, and a lack of confidence in the government's (divided) policy response to these issues. In response, on August 13, 2018 the central bank returned to its unorthodox stance of forcing banks to seek liquidity through the late liquidity window instead of the normal repo rate, thereby effectively raising the cost of finance by 150 bps.
3. **Turkey's development agenda focuses on a vision of stable growth, a more equitable income distribution, and increased global competitiveness as the country transforms into an information society and completes European Union (EU) harmonization.** Development priorities are therefore clustered around improved competitiveness and employment, equitable human and social development, efficient provision of high-quality public services, and energy security and efficiency, with an emphasis on the reduction of regional disparities.
4. **The Government is pursuing a wide range of economic policies and structural reforms to achieve Turkey's development goals and realize sustainable growth.** Turkey's overarching development goals are outlined in its 10th five-year Development Plan (DP) for 2014-2018, which was launched in 2014. The 10th DP follows many of the same priorities that were pursued under the 9th DP, underscoring Turkey's sustained commitment to a broad set of reforms and development programs. Implementation of successive DPs has been commendable. The 10th DP priorities include green growth, which is to be achieved by *"new jobs, income sources, and development of products and technologies presented by eco-friendly approaches within such sectors as energy, industry, agriculture, transportation, construction, services and urbanization."* The DP identifies, as a policy choice, the increased role of the private sector, local governments, and non-governmental organizations in tackling climate change impacts.
5. **Priorities related to sustainable environment have been elaborated on in various strategy documents.** These include the Electricity Market and Security of Supply Strategy (2009), the National Climate Change Strategy Document (NCCS, 2010-2020), the National Climate Change Action Plan (NCCAP, 2011-2023), the Energy Efficiency Strategy (2012) and the successive Energy Efficiency Action Plan (2016). Building on these strategies and successful fundamental energy sector reforms over the last decade, Turkey is moving decisively to develop an increasingly reliable and efficient energy supply while mitigating climate change impacts.
6. **Since 2009 Turkey has stepped up its international engagement on climate change.** Turkey ratified the United Nations Framework Convention on Climate Change (UNFCCC) in 2004 and its Kyoto Protocol in 2009. Turkey put forward its INDC target to the UNFCCC Secretariat in September 2015, committing to achieve emission reductions of up to 21% from the BAU by 2030, which means a pledge of reducing greenhouse gas (GHG) emissions up to 246 million tons by the target year.



Sectoral and Institutional Context

- 1. Sustainable development is an important policy priority for the Turkish government as expressed within the Ninth and the Tenth Five-Year Development Plans; it is also aligned with Turkey's EU accession strategy.** Achieving sustainable development through green growth has been emphasized as a policy priority in the two recent Five-Year Development Plans. Turkey's ongoing accession process within the European Union also involves regulations of GHG emissions as part of the environmental *acquis*. Although GHG emissions per capita in Turkey are still low, its growth rate has been the highest among Annex 1 countries in the UNFCCC. The national GHG inventory submitted to the UNFCCC Secretariat in April 2017 reveals that the total GHG emissions in 2015 expressed in CO2 equivalent were 475.1 million tons, excluding LULUCF. Turkey's per capita GHG emission for 2015 amounted to 6.07 ton CO2 equivalent. The energy sector had the largest share with 71.6%, followed by the industrial processes and product use with 12.8%, waste sector with 3.5% and agriculture with 12.1%.
- 2. Turkey's Climate Change Strategy and Action Plan provide the framework for increased domestic efforts on climate change in key sectors.** The Strategy and Action Plan identified national priorities for mitigating GHG emissions and building resilience through managing impacts and encouraging mitigation and adaptation to climate change. The Plan covers key sectors in line with national development priorities: energy, transport, industry, waste, land use, agriculture, and forestry. While incorporating existing plans to develop medium and long-term targets in these sectors, it does not include cost and resource requirement estimates or establish specific emission reduction targets. The broad Strategy and the Action Plan gain further significance when considered in combination with the concrete implementation actions in, among others, the energy sector, with strong climate change co-benefits. As a result, Turkey has requested the World Bank's development policy and investment lending support for its climate change program.
- 3. A formal organizational structure has been established for climate change as called for in the Climate Change Strategy.** Climate Change and Air Management Coordination Board (CCAMB), which is the coordination and decision-making body on climate change issues in Turkey, consists of Undersecretary-level representatives from all line ministries and chaired by the Ministry of Environment and Urbanization. Several technical Working Groups are working under the Board, including one on the carbon markets coordinated by the Ministry of Environment and Urbanization (MoEU). The MoEU is responsible for the implementation and updating of the Action Plan. The Climate Change Department (CCD) within the MoEU is the main department directly responsible with climate change related activities.
- 4. The Climate Change Action Plan includes a range of actions necessary for establishing a carbon market in Turkey.** They include, *inter alia*, monitoring and reporting of GHG emissions in all key



sectors, identifying GHG reduction potentials and cost curves, and making legal and institutional arrangements needed to establish a carbon market. The establishment of a carbon market is also one of the main pillars of the Istanbul Financial Center Strategy and Action Plan, which aims to transform Istanbul into a regional financial center in the Middle East, North Africa, and Eurasia regions. A working group with representatives from the MoEU, the Capital Markets Board of Turkey, Borsa Istanbul, Istanbul Gold Exchange, Turkish Derivatives Exchange, and ISE Clearing and Settlement Bank has been formed to work on the technical issues and submit recommendations to the Government regarding the establishment of a carbon market.

5. **In April 2012, Turkey adopted legislation to design and implement a robust, installation level greenhouse gas emission Monitoring, Reporting, and Verification (MRV).** The MoEU issued the “Regulation on Monitoring of GHG Emissions” in April 2012. This regulation was supported with the “Communiqué on Monitoring and Reporting of GHG Emissions” (July 2014) and the “Communiqué on Verification of GHG Reports and Accreditation of Verifying Bodies” (April 2015). The MRV regulation mandates all installations with over 20 MW combustion capacity and certain production levels to monitor their own GHG emissions and have them verified by third parties and submitted to the MoEU. Obligated installations submitted their first monitoring plans to the MoEU by October 2014, and their first verified emission reports by October 2017 (both for 2015 and 2016). As of today, a total of about 700 installations shared their monitoring plans through the online GHG registry system and approved by the MoEU.
6. **Starting 2014, Turkey has been engaged in a number of projects in order to fully implement its MRV system.** The PMR Phase I Project in Turkey has been instrumental in piloting and enhancing the implementation of the MRV regulation, a key foundation to any effort towards the development of carbon pricing instruments. Support from the German Government funded – GIZ – Project, has complemented the PMR Phase I activities. Together these projects have helped Turkey meet the challenging tasks of adapting the MRV system to the national and sectoral context and putting together and delivering training to the industry, service providers (verifiers, accreditors, etc.), and regulators on the implementation of the MRV system within a specified timeframe.
7. **Coordination with GIZ is expected to continue through Phase II.** The Ministry will continue to cooperate with the German Government under a successive phase of GIZ financing, in which the activities will be formulated to complement the PMR work.
8. **Turkey’s INDC target of reducing emissions up to 21% by 2030 covers all sectors within the economy – namely, energy, industrial processes and products use, agriculture, land use land-use change and forestry, and waste.** It also targets seven greenhouse gases (GHGs), which are CO₂, CH₄, N₂O, HFC, PFC, SF₆, and NF₃. In 2015, Turkey carried out a modeling study to determine the most suitable target aligning both the development and climate objectives of the country’s economy. To this end, the government used bottom-up TIMES model to identify the most cost-effective measures in sectors to reduce emissions and put Turkey on a lower carbon path.
9. **Turkey’s INDC highlights the use of carbon credits from international market mechanisms to achieve its 2030 mitigation target in a cost-effective manner.** This objective requires the establishment of a domestic legal, institutional and technical infrastructure prior to becoming part of an international market. While Turkey has not made a final decision on the specific use and scope of carbon pricing or market-based mechanisms to address GHG emissions, the MRV Regulation and the



supporting online GHG registry comprise the most important underpinning towards the implementation of any carbon pricing and market-based instrument (MBI).

Relationship to CPF

1. **The PMR project is included in the World Bank’s current FY18-FY21 Country Partnership Framework (CPF) for Turkey.** The project will support the strategic objective of “increased sustainability of infrastructure assets and natural capital.”

C. Project Development Objective(s)

Proposed Development Objective(s)

The Project Development Objective (PDO) is to support Turkey in developing the legal, institutional and technical framework for piloting carbon pricing.

Key Results

1. One or several carbon pricing mechanisms are "pilot ready" in Turkey, with emission trading system (ETS) simulation completed;
2. Technical, legal and institutional framework package to pilot carbon pricing mechanisms is submitted to the Climate Change and Air Management Coordination Board.

D. Preliminary Description

Activities/Components

The PMR is a grant-based, capacity building multi-donor trust fund that provides funding and technical assistance for the collective innovation and piloting of market-based instruments for greenhouse gas emissions reduction. Turkey joined the PMR in 2011 and was the first country to sign a Grant Agreement with the World Bank. The PMR Implementation Phase II is expected to build on the activities conducted under the PMR Phase I Project.

The Project will include four components:

Component 1: Formulation of the necessary legal and institutional underpinnings for piloting an ETS (US\$.35 million);

This component aims to provide technical assistance and input for the MoEU to draft the legal and administrative documents, which will establish the most required legal and institutional frameworks to start an ETS pilot. Those legal documents will determine, in particular, the roles and responsibilities of different institutions that will be involved in the pilot scheme – including potential new structures. The draft legal documents developed will be used by the ministries and agencies involved to develop the actual legislation.”



The major output of this component, “*Technical assistance to develop the legislative and institutional underpinnings*”, will be a “Draft Climate Change Law”[1] as a primary legislation, in addition to secondary legislative outputs such as “Draft Carbon pricing/ETS Regulation” and other relevant pieces of legislation as a result of the prioritization activity, i.e.; market oversight legislation, auctioning regulation, etc.

All draft legal documents will be presented to the CCAMCB and other high-level decision makers to inform political discussions based on sound and fully fleshed proposals. At the end of the process, Turkey will be in a position to ensure that the most substantial legal and institutional frameworks are in place for establishing, operating and governing a robust ETS.

Component 2: Improving the technical underpinnings for piloting an ETS in Turkey (US\$1.1 million);

Establishment of an ETS requires a robust technical infrastructure and capacity. The 1st Phase of PMR Turkey has already assessed an implementation roadmap for an ETS pilot in Turkey. Within the light of that roadmap, this Phase will carry out the technical aspects that are necessary to initiate an ETS pilot. Those technical aspects include:

- **Identification of an ETS cap and a national allocation plan:** Determining the cap and development of a national allocation plan are the most important steps to start an ETS at the national level. The current MRV data will be utilized to decide the scope, allocation methodology and sector contributions to the cap.
- **Upgrading of the current MRV register into an ETS registry:** Since, 2015 the MoEU has been running an online MRV register successfully. This register needs to be upgraded to include various elements of “cap & trade” in a secure environment.
- **Development of an ETS simulation:** ETS simulation would provide crucial support in increasing the capacity and comprehension of the public and private sector on how an ETS could work and how they could benefit from such a scheme. Utilization of an ETS simulation prior to piloting would also help creating a supportive environment towards ETS.
- **Development of complementary technical underpinnings:** This activity will be reserved for technical needs that arise throughout the course of the initial stakeholder and expert feedback meetings.

The list of technical underpinnings to be developed under this phase might be revised in light of the legislative work undertaken under Component 1 and stakeholder meetings.

Component 3: Stakeholder Training, Consultation/Engagement and Public Awareness Activities (US\$0.22 million)

This component will include (i) conferences, workshops, and training supporting the activities under Components 1 and 2; (ii) consultation meetings with stakeholders; and (iii) public awareness activities (media, high-level public/private meetings, etc.) and development of strategic communication materials.



Component 4: Coordination and Expert Support (US\$0.28 million and US\$0.045 million in-kind contribution from the Turkish Government)

The MoEU will continue to operationalize the second phase of the PMR Project through the project implementation unit (PIU) which was established under the previous phase. The PIU consists of a project coordinator, a project assistant, a procurement specialist, and a financial management specialist.

The Project will include operating costs of US\$ 50k.

SAFEGUARDS

E. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		X	
Natural Habitats OP/BP 4.04		X	
Forests OP/BP 4.36		X	
Pest Management OP 4.09		X	
Physical Cultural Resources OP/BP 4.11		X	
Indigenous Peoples OP/BP 4.10		X	
Involuntary Resettlement OP/BP 4.12		X	
Safety of Dams OP/BP 4.37		X	
Projects on International Waterways OP/BP 7.50		X	
Projects in Disputed Areas OP/BP 7.60		X	

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