



# Project Information Document/ Identification/Concept Stage (PID)

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Concept Stage | Date Prepared/Updated: 22-Feb-2023 | Report No: PIDC273929



**BASIC INFORMATION**

**A. Basic Project Data**

Project ID	Parent Project ID (if any)	Environmental and Social Risk Classification	Project Name
P180248		Low	Türkiye PMI Carbon Market Development Project
Region	Country	Date PID Prepared	Estimated Date of Approval
EUROPE AND CENTRAL ASIA	Turkiye	22-Feb-2023	
Financing Instrument	Borrower(s)	Implementing Agency	
Investment Project Financing	Ministry of Treasury and Finance	Climate Change Office, Ministry of Environment, Urbanization and Climate Change	

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**PROJECT FINANCING DATA (US\$, Millions)**

**SUMMARY**

<b>Total Project Cost</b>	4.95
<b>Total Financing</b>	4.95
<b>Financing Gap</b>	0.00

**DETAILS**

**Non-World Bank Group Financing**

Trust Funds	4.95
Partnership for Market Implementation Facility	4.95

**B. Introduction and Context**

Country Context

**Turkey is a large, upper-middle-income country with a strong record of inclusive growth, but recent shocks threaten the economic and social gains made since the early 2000s.** During the last two decades, Türkiye urbanized dramatically, opened to foreign trade and finance, maintained strong macroeconomic and fiscal policy frameworks, and harmonized many laws and regulations with European Union (EU) standards. The



decrease in poverty has been remarkable, and other indicators of wellbeing (life expectancy, adult literacy, school enrollment, and access to public services such as water and sanitation) have also improved.

**The geographic, climatic, and socioeconomic conditions of the country make it highly vulnerable to the impacts of climate change and other environmental hazards, making adaptation and resilience high priority areas.** Türkiye has high vulnerability in 9 out of 10 climate vulnerability dimensions, compared with a median of 2 out of 10 in other OECD countries.

**Türkiye aims to contribute to the collective efforts to combat climate change in line with its national circumstances and capabilities.** Türkiye is listed in Annex I to the United Nations Framework Convention on Climate Change (UNFCCC). However, Decision 1/CP.16 recognized the special circumstances of Türkiye and placed Türkiye in a different situation than the other Parties included in Annex I. As a party to the UNFCCC, a signatory to the Paris Agreement, and having ratified the Paris Agreement as of October 2021 Türkiye updated its NDC (for 2030) in late 2022 to 41% from a previous 21%. Türkiye has also announced the goal to reach net zero emissions by 2053.

#### Sectoral and Institutional Context

**In Türkiye, climate change policy is regulated through the articles of various laws, but the main climate policy documents (most are being updated in 2023) are:**

- National Climate Change Strategy (2010–23), with short-, medium- and long-term objectives on adaptation and mitigation
- NCCAP (2011–23), covering key areas, including energy, buildings, industry, transport, waste, agriculture, land use and forestry, and adaptation
- NCCAP Monitoring System
- National Climate Change Adaptation Strategy and Action Plan (2011–23)

**Türkiye's national climate change plan is embodied in the National Climate Change Strategy, which was approved in May 2010. The implementing plan for the strategy was released in July 2011 as the National Climate Change Action Plan (NCCAP) 2011-2023.** Climate change targets are also included in national development plans. The NCCAP includes goals, objectives and actions under sections for mitigation and adaptation. Under the mitigation section, there are plans outlined for the energy, industry, waste, buildings, transportation, land-use and forestry, and agriculture sectors. Under the adaptation section, plans are outlined for water resources management, agriculture and food security, ecosystem services, biodiversity and forestry, natural disaster risk management, and public health sectors. The Government is working on an updated Climate Strategy to be effective from 2023.

**Türkiye ratified the Paris Agreement with a declaration on October 7, 2021, and the Agreement came into force on November 10, 2021, and updated its Nationally Determined Contributions (NDC) during COP 27 in Sharm el-Sheikh.** The NDC was updated to 41% in line with recently announced 2053 net-zero targets. Türkiye's emissions were 530 million tons of carbon dioxide equivalent in 2020, representing a 1%



share of global emissions. The electricity sector accounted for 24% of total emissions followed by the manufacturing sector at 21%. Transportation recorded 16%, buildings held a 13.8% share and waste 11%. The agricultural sector was responsible for 9% of emissions and the remaining 5% stemmed from the shipping, oil and gas sectors in Türkiye.

**After the ratification of the Paris Agreement, the main focus of Türkiye has been directed on drafting detailed plans and adopting policies to achieve her goals.** Türkiye has announced a 2053 Net Zero target in September 2021 and has taken action to comply with this new target. Those include restructuring the Ministry of Environment and Urbanization (MoEU) as the Ministry of Environment Urbanization and Climate Change (MoEUCC), establishment of the Climate Change Office (CCO), and initiation of several major studies such as preparation of the Climate Law, organization of the Climate Council and updating the NDC in line with the 2053 target. The technical studies on the Draft Climate Law are currently ongoing by the relevant authorities of Türkiye.

**The Climate Council recommendations reported in February 2022 and final declaration published in June 2022, emphasize on the prioritization of implementation of the Emission Trading System (ETS) in compliance with the updated NDC and EU Directives.** While Türkiye is yet to make a final decision on which carbon pricing instrument or market-based mechanism will be used to address GHG emissions, the Monitoring, Reporting, Verification (MRV) Regulation and the supporting online GHG registry are the most important pillars towards the implementation of any carbon pricing and market-based instrument.

**The MRV legislation provides essential information infrastructure and background for carbon pricing in Türkiye.** For the last decade, the adoption of the MRV and its communique is the main progresses, but the national registry system has not been set yet. PMR-I and PMR-II have been successfully implemented in Türkiye, but the political environment to apply emissions trading and a carbon tax is not explicitly announced. As a successor of the PMR projects, PMI can sustain the PMR projects' current achievements and continue collaborating with the government side.

#### Relationship to CPF

**The PMI project is in line with the World Bank's FY18-FY21 Country Partnership Framework (CPF) for Türkiye** which was initially designed to cover the FY18–21 period but has been updated and extended to include FY22–23 through the Performance and Learning Review (PLR). The PMI project supports the objective 9 of the extended CPF which is “climate action”.

**The PMI Project complements and has important synergies with other Bank operations in Türkiye.** The World Bank Group announced a target for 35% of its financing to have climate co-benefits globally, on average, over the next five years in December 2020. Within this strategic context of World Bank Group, Türkiye PMI Project complements the activities that have been successfully undertaken by the PMR Phase I and II Projects, the core objective of which was to increase the level of readiness towards implementing carbon policies and market based instruments (MBIs) in Türkiye through MRV pilots and analytical studies. The Green Growth Project which is a series of climate and green growth analytics focused on what is



required to build a green and climate informed economy and how to enable private investment for climate action and the CCDR (Climate Change and Development Report) which is a new analytical tool that the Bank will deploy in all countries to capture the interplay between development and climate are among the other related Bank operations. The CCDR analyzed the costs and benefits of achieving Türkiye's net zero scenario through a carbon tax that complements specific sectoral interventions and highlights crucial role of carbon pricing in achieving climate goals. The CCDR recommends to use combinations of carbon pricing through carbon taxes or emissions trading systems (ETS), regulations, and non-price policies to shift economies toward a lower-emitting path. For pricing policies, instruments vary in terms of coverage, levels, or rebates in specific sectors. It is also important to carefully consider options for recycling the revenues through, for example, lower public debt, lower tax rates on existing direct or indirect taxes, or direct transfers to compensate the public for higher prices or incentivize technological innovation or adoption.

### **C. Project Development Objective(s)**

#### Proposed Development Objective(s)

The PDO is to support the Government of Türkiye in development and implementation of carbon pricing mechanisms and to enhance expertise and capacity for carbon market implementation.

#### Key Results

PMI project will support the Government of Türkiye in developing and launching carbon pricing instruments, namely ETS, carbon tax and domestic crediting mechanism. Expected key results are as following:

- National ETS designed and pilot ETS implemented
- Expanding carbon pricing through designing carbon tax assessed
- Domestic GHG Crediting Instrument designed

### **D. Preliminary Description**

#### Activities/Components

This Project will build on Türkiye's Implementation Support Plan setting out the scope and focus areas of the PMI project to design and implement proposed carbon pricing instruments, based on the analytical work and through the stakeholder consultations to be undertaken as part of this Project.

#### **Activity 1. Carbon Pricing in Country's Development Policy Mix**

- Identification of interactions between carbon pricing alternatives and existing legislation, policies and institutions
- Recommendations for carbon pricing policies to be integrated into country's development policy framework



## **Activity 2. Political commitment, capacity building and supporting structures for Carbon Pricing**

- Support for decision-making process regarding carbon pricing instrument (CPI) by developing a work program for design and implementation phases
- Development of a roadmap and timeline for CPI implementation including roles and responsibilities of institutions

## **Activity 3. Developing and Launching CPIs**

### **Activity 3.1 National Emission Trading System (ETS)**

- Review of existing legislation and PMR Projects' outputs and conduct a gap analysis
- Outlining design options for the ETS
- Development of emissions intensity benchmarks for all ETS sectors
- Preparation of draft ETS Legislation
- Modelling of economic impacts of the ETS
- Supporting the registry development
- Implementation of ETS Pilot and stock taking
- Preparation for the implementation of ETS Phase I

### **Activity 3.2 Carbon Tax**

- Assessment of expanding carbon pricing to include a carbon tax mechanism
- Support for preparation of draft legislation for carbon tax

### **Activity 3.3 Domestic Crediting Mechanism**

- Design of a domestic crediting mechanism
- Development of draft primary and secondary legislation, standards & methodologies for selected sectors
- Implementation of crediting mechanism, including guidance documents

## **Activity 4. Cross-Cutting Activities**

- Development of a Communication Strategy for carbon pricing including a publicity and visibility program for PMI components
- Development of potential roadmaps for Türkiye on Article 6 mechanisms considering updated policies and information
- Development of a Just Transition Strategy and Action Plan for carbon pricing instruments



Environmental and Social Standards Relevance

E. Relevant Standards

ESS Standards

Relevance

ESS 1	Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10	Stakeholder Engagement and Information Disclosure	Relevant
ESS 2	Labor and Working Conditions	Relevant
ESS 3	Resource Efficiency and Pollution Prevention and Management	Relevant
ESS 4	Community Health and Safety	Not Currently Relevant
ESS 5	Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
ESS 6	Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
ESS 7	Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
ESS 8	Cultural Heritage	Not Currently Relevant
ESS 9	Financial Intermediaries	Not Currently Relevant

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Legal Operational Policies

Safeguard Policies

Triggered

Explanation (Optional)

Projects on International Waterways OP 7.50

No

Projects in Disputed Areas OP 7.60

No

Summary of Screening of Environmental and Social Risks and Impacts

Potential direct environmental and social risks and impacts on human populations and/or the environment related to the project activities are anticipated to be minimal or negligible and primarily limited to the health and safety (OHS) of project workers undertaking the tasks. The environmental and social impacts are expected to be mostly positive as the project will support studies related to the use of technologies that will result in reduced air and greenhouse gas emissions and increased energy efficiency. The project overall environmental impact will be positive as the project will support capacity enhancement activities for the CCO in developing and launching carbon pricing instruments and capacity building for Article 6 mechanisms. Activities that may cause significant pollution or adverse impacts on cultural heritage and biodiversity will not be supported by the project. The social impacts and risks of the project will be associated with labor and working conditions. Indirect social impacts may be related to the transition from fossil fuels which the country's economy mostly depends on, and which could exacerbate the ongoing challenges of the country in employment. The project is not expected to have any significant impacts on vulnerable groups. There will be



no activities that would require new land use or land acquisition or that may affect the livelihoods. The sexual exploitation and abuse (SEA) and sexual harassment (SH) risks are assessed as low at this stage.

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### Borrower/Client/Recipient

Borrower : Ministry of Treasury and Finance

### Implementing Agencies

Implementing Agency : Climate Change Office, Ministry of Environment, Urbanization and Climate Change

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