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Report No:

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT *AND/OR*
INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT PAPER

ON A

PROPOSED GRANT

IN THE AMOUNT OF
US$ 4.95 MILLION

TO THE

REPUBLIC OF TÜRKİYE

FOR A

TÜRKIYE PMIF CARBON MARKET DEVELOPMENT PROJECT
15 August 2023

{Energy & Extractives Global Practice}
{Europe And Central Asia Region}

CURRENCY EQUIVALENTS

(Exchange Rate Effective {Feb 24, 2023})

Currency Unit =	USD
US$ 1.35=	SDR 1

FISCAL YEAR
July 1 - June 30

Regional Vice President:	Antonella Bassani
Country Director:	J. Humberto Lopez
Global Director:	Demetrios Papathanasiou
Practice Manager:	Sudeshna Ghosh Banerjee
Task Team Leader(s):	Ayse Yasemin Orucu, Daniel James Besley

ABBREVIATIONS AND ACRONYMS

AM	Accountability Mechanism
CBAM	Carbon Border Adjustment Mechanism
CCDR	Climate Change and Development Report
COVID-19	Coronavirus Disease of 2019
CPF	Country Partnership Framework
CPI	Carbon Pricing Instrument
DoCC	Directorate of Climate Change
EU	European Union
ESCP	Environmental and Social Commitment Plan
ETS	Emissions Trading System
FM	Financial Management
FX	Foreign Exchange
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GRID	Green, Resilient and Inclusive Development
GRM	Grievance Redress Mechanisms
GRS	Grievance Redress Service
LULUCF	Land Use, Land-Use Change, and Forestry
MoEUCC	Ministry of Environment Urbanization and Climate Change
MRV	Monitoring, Reporting and Verification
NCCAP	National Climate Change Action Plan
NDC	Nationally Determined Contribution
ND-GAIN	Notre Dame Global Adaptation Index
OECD	Organization for Economic Cooperation and Development
PIU	Project Implementation Unit
PLR	Performance and Learning Review
PMI	Partnership for Market Implementation
PMR	Partnership for Market Readiness
PPSD	Project Procurement Strategy for Development
PSC	Project Steering Committee
SEA	Sexual Exploitation and Abuse
SEP	Stakeholder Engagement Plan
SH	Sexual Harassment
TA	Technical Assistance
WBG	World Bank Group
WEF	World Economic Forum

BASIC INFORMATION

Is this a regionally tagged project? No		Country (ies)
Financing Instrument Investment Project Financing		Classification Small Grants
Approval Date 15-May-2023	Closing Date 31-Aug-2028	Environmental and Social Risk Classification Low
Approval Authority CDA	Bank/IFC Collaboration No	
Please Explain		

Proposed Development Objective(s)

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

Components

Component Name	Cost (USD Million)
Component 1. Policy Analysis and Roadmap for Development of Carbon Pricing Instruments	0.15
Component 2. Design and Implementation of Carbon Pricing	3.25
Component 3. Cross-Cutting Activities	1.55

Organizations

Borrower :	Republic of Turkiye
Implementing Agency :	Directorate of Climate Change

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	4.95
Total Financing	4.95
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing

Trust Funds	4.95
Partnership for Market Implementation Facility	4.95

Expected Disbursements (in USD Million)

Fiscal Year	2023	2024	2025	2026	2027	2028
Annual	0.15	1.00	1.25	1.00	1.10	0.45
Cumulative	0.15	1.15	2.40	3.40	4.50	4.95

INSTITUTIONAL DATA

Financing & Implementation Modalities

Situations of Urgent Need of Assistance or Capacity Constraints

[ ] Fragile State(s)

[ ] Fragile within a non-fragile Country

[ ] Small State(s)

[ ] Conflict

[ ] Responding to Natural or Man-made Disaster

Other Situations

[ ] Financial Intermediaries (FI)

[ ] Performance-Based Conditions (PBCs)

[ ] Alternative Procurement Arrangements (APA)

[ ] Series of Projects (SOP)

[ ] Contingent Emergency Response Component (CERC)

[ ] Hands-on Expanded Implementation Support (HEIS)

Practice Area (Lead)

Energy & Extractives

Contributing Practice Areas

Climate Change

OVERALL RISK RATING

Risk Category	Rating
Overall	● Moderate

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [✔] No

Does the project require any waivers of Bank policies?

[ ] Yes [✔] No

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Relevant
Community Health and Safety	Not Currently Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
Cultural Heritage	Not Currently Relevant
Financial Intermediaries	Not Currently Relevant

Legal Covenants

Conditions

Type	Financing source	Description
Effectiveness	Trust Funds	The Recipient has prepared and adopted the Project Implementation Manual in a manner satisfactory to the Bank.

Type	Financing source	Description
Effectiveness	Trust Funds	The execution and delivery of this Agreement on behalf of the Recipient has been duly authorized or ratified by all necessary governmental action.

PROJECT TEAM

Bank Staff

Name	Role	Specialization	Unit
Ayse Yasemin Orucu	Team Leader(ADM Responsible)		SCCOP
Daniel James Besley	Team Leader		SCAEN
Tomris Oksar	Procurement Specialist(ADM Responsible)		EECRU
Burak Taskin	Procurement Specialist		EECRU
Salih Kemal Kalyoncu	Procurement Specialist		EECRU
Ayse Seda Aroymak	Financial Management Specialist(ADM Responsible)		EECG2
Ebru Demir Aykan	Social Specialist(ADM Responsible)		SCASO
Emre Dolek	Environmental Specialist(ADM Responsible)		SCAEN
Alan David Lee	Team Member		IECE1
Etkin Ozen	Team Member	finance	EECF2
Eyup Mermer	Team Member		ECCTR
Hiwote Tadesse	Team Member		IECE1
Kathleen Laura Patroni	Team Member	Mitigation policy design	SCCFE
Lisa Lui	Counsel		LEGLE
Marissa Santikarn	Team Member	PMI-Carbon	SCCFE
Mehmet Huseyin Yilmaz	Team Member		IECE1
Ozgur Sarhan	Team Member	Quality/monitoring	IEEES
Selcuk Ruscuklu	Procurement Team		ECCTR
Stephan Claude Frederic Garnier	Team Member		IECDR
Thuy Bich Nguyen	Team Member		IECE1
Ulya Camur	Procurement Team		EECRU
Venkata Ramana Putti	Program Manager	PM	SCCFE

Yevgen Yesyrkenov	Team Member	C Finance	SCCSK

Extended Team

Name	Title	Organization	Location

* *Expected Disbursements (in USD Million) may differ in accordance with revised procurement plans in the course of the implementation stage of the Project.*

TÜRKIYE
TÜRKIYE PMIF CARBON MARKET DEVELOPMENT PROJECT

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I. STRATEGIC CONTEXT

A. Country Context

1. **Türkiye has made significant development progress since 1990, despite having faced with several shocks in particular since 2016**. Fast economic growth tripled income per capita to a peak of US$12,582 in 2013, making Türkiye the world's 16th largest economy. However, since 2016, macroeconomic shocks and adverse geopolitical events have slowed the country's development progress. Poverty rates under the upper-middle income line fell from 42.0 to 10.9 percent between 2003 and 2018 but increased to 12.6 percent in 2019. Unemployment has remained high—over 10 percent since 2015— before declining to 9.7 percent as of January 2023 —and is compounded by low labor force participation, especially for women and youth. High labor informality endures especially in agriculture sector while it declined markedly in non-agriculture sector and, jobs in services sector are growing quicker. Foreign direct investment is estimated to have declined from over 3 percent of gross domestic product (GDP) in 2006 to around 1.1 percent in 2020 and increased to 1.7 percent in 2021, with around half going to real estate since 2018. Low capital growth together with low and declining total factor productivity growth have reduced potential growth to around 4 percent in 2021. Türkiye's inflation surged to 64 percent in 2022, mostly due to soaring energy and food prices. While gross general government debt to GDP fell to a low of 28 percent in 2016, currency depreciation, COVID-19 outlays, and growing borrowing costs drove it to 41.8 percent in 2021 narrowing the government's fiscal space. Nevertheless, the ratio has declined to 31.7 percent in 2022.

2. **An emergent economic recovery starting late 2019 was undermined by the COVID-19 pandemic, but the swift policy response led to a sharp rebound in the economy. Over the course of late 2018 and 2019, the country's economy went through significant adjustments.** Current account imbalances declined significantly, banks and corporates reduced their exposure to foreign currency debt, private sector credit growth resumed, and demand started to recover. By the end of 2019, economic activity was rebounding with strong growth in the fourth quarter but was disrupted by the onset of the COVID-19 pandemic in early 2020. The COVID-19 health crisis quickly turned into a deep economic turmoil all around the world and Türkiye experienced a contraction in GDP (10.3 percent, year-on year) in 2020 Q2. The government responded swiftly to COVID-19 with a large economic stimulus program, which generated a significant increase in economic activity in late 2020 that more than offset the decline recorded earlier in the year. However, the policy frameworks that ensured a strong economic rebound during the pandemic also heightened macroeconomic risks, including rising inflation, currency depreciation and decline in reserve buffers. The economy grew at 11.4 percent in 2021, and remained among the best G20 growth performers in 2022 despite growth slowing to 5.6 percent as exports, investment and manufacturing activity lost momentum in the second half of the year. The country's vulnerability has been exacerbated by the two devastating earthquakes that struck the southern provinces of Türkiye on February 6, 2023, which have reportedly caused the collapse or extensive damage to tens of thousands of buildings, including housing, public buildings and historical structures, and to critical infrastructure in the region. The impact on macro-financial conditions is still unfolding, with implications for growth, labor markets and poverty, the financial sector, and fiscal and external balances.

3. **The February 6, 2023 earthquakes of 7.8 and 7.5 magnitude, followed by more than 7,500 aftershocks and two additional earthquakes, have resulted in the largest such disaster to hit the country in over 80**

years, and have inflicted the heaviest damage in 11 provinces in southern Türkiye. These regions have some of the highest poverty rates in Türkiye and also host more than 1.7 million Syrian refugees, which is almost 50% of the total Syrian refugee population in Türkiye. The earthquakes caused an estimated $34.2 billion in direct physical damages, the equivalent of 4% of the country's 2021 GDP, according to a World Bank rapid damage assessment report which also acknowledges that recovery and reconstruction costs will be much larger, potentially twice as large, and that GDP losses associated to economic disruptions will also add to the cost of the earthquakes. However, the fiscal space generated over the years is an advantage to mitigate the adverse effects of the earthquakes.

4. **The Global Rapid Post-Disaster Damage Estimation (GRADE) Report, which focuses on the direct physical damages in Türkiye, also estimates that 1.25 million people have been rendered temporarily homeless due to moderate to severe damage or complete building collapse.** Direct damages to residential buildings account for 53% ($18 billion) of the total damage, with 28% of damage ($9.7 billion) in non-residential buildings (e.g., health facilities, schools, government buildings, and private sector buildings), and 19% of damage ($6.4 billion) related to infrastructure (e.g., roads, power, water supply). The damage estimates in the report do not include the broader economic impacts and losses for the Turkish economy, or the cost of recovery and reconstruction which could be significantly more than the direct damages and requires a more in-depth assessment.

5. **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 Organization for Economic Cooperation and Development (OECD) countries.

6. **Türkiye's rapid industrialization and urbanization during the last three decades has caused its environmental footprint to increase rapidly.** Total greenhouse gas (GHG) emissions increased from 220 MtCO2e (in 1990) to 564.4MtCO2e (in 2021), with energy (mainly energy production based on coal, natural gas and oil products) and agriculture representing 71.3 and 12.8 percent, respectively, of national GHG emissions without Land Use, Land-Use Change, and Forestry (LULUCF). Even though the Türkiye's GHG emissions have been increasing slower than the country's economic growth and its per capita emissions are lower than in the European Union (EU) or OECD countries, there is a strong case for enhancing mitigation agenda in Türkiye and strengthening country's resilience. According to the country's most recent pledge, its GHG emissions will peak in 2038 at the latest and Türkiye aims to attain net-zero emissions by 2053. Türkiye's commitment is to bring its GHG emissions 41 percent below business-as-usual levels by 2030. The energy sector—which includes the transport, industrial sectors, power and building—is the country's most significant contributor to GHG emissions, amounting to almost 3/4 of total emissions.[1] Türkiye's transport, agriculture and power sectors are less carbon-intensive than the EU average—partly due to the large penetration of renewable energy in Türkiye's power system and low motorization rates. Although, Türkiye is still a highly coal dependent country, it is planned to decrease the share of coal plants in electricity production from 34.5 percent in 2020 to 24.5 percent in 2035 according to Türkiye National Energy Plan through increasing the share of renewables and nuclear energy . The building sector (non-residential and residential) is less energy-efficient than the EU average. Manufacturing is more carbon-intensive than the EU average, exposing Türkiye to risks if the EU introduces the Carbon Border Adjustment Mechanism

[1] World Bank Group Country Climate and Development Report, Turkiye, June 2022

(CBAM). On the positive side, Türkiye's forested landscapes act as carbon sinks, reducing the country's net carbon emissions.

B. Sectoral and Institutional Context

7. **Türkiye's geographic, climatic, and socioeconomic conditions make it highly vulnerable to the impacts of climate change and other environmental hazards, making adaptation and resilience high priorities**. Türkiye has high vulnerability – the country ranks 48th of 182 countries in the Notre Dame Global Adaptation Index (ND-GAIN) country vulnerability index. When seen at the more granular level, the country ranks 63rd out of 192 countries for the country's ability to leverage investments and convert them into adaptation actions. Its transport system is more vulnerable than those of comparable countries, and the country is experiencing increasing water stress, and unprecedented disaster events, such as the 2021 forest fire season. This vulnerability is due to a combination of climate factors, population exposure and socioeconomic factors.

8. **High energy imports and high trade exposure to the EU imposed Türkiye to scale-up mitigation action.** As Türkiye imports 99 percent of its gas and 93 percent of its oil, expanding renewable energy and increasing energy efficiency could generate considerable benefits by decreasing energy imports and expenditure, air pollution and vulnerability to disruptions in global energy markets. The EU Green Deal will strongly influence Türkiye's trade and investment relationship with the EU, including in the context of its customs union. In 2021, Türkiye was both the sixth largest importer from and exporter to the EU, with, respectively, 3.6 and 3.7 percent of extra-EU exports and imports.[2] Given that Türkiye's manufacturing is more carbon-intensive than OECD and EU averages (in 2020, the primary energy intensity for Türkiye was 0.145 TOE/unit of GDP in 2015 US$, while for the OECD it was 0.102 and 0.094 in the EU[3]), the impacts of the EU's CBAM will be significant, especially on high energy intensive sectors such as steel and aluminum initially, and are expected to negatively affect chemicals, petroleum, and mineral products ,if CBAM coverage is expanded.

9. **Against this backdrop, Türkiye has made ambitious climate change commitments.** Climate change strategies are part of Türkiye's EU accession strategy and an essential part of the EU accession negotiations. In addition, it ratified the Paris Agreement in October 2021 and committed to net zero emissions by 2053. It plans to implement an emissions trading system (ETS) in 2024 covering 50 percent of GHG emissions. It plans to finalize an adaptation strategy and a long-term decarbonization strategy in 2023. The next National Development Plan (2024-2028) aims to have climate change as a core component. In July 2021, the government released its Green Deal Action Plan to help Türkiye transition to a sustainable and resource-efficient economy and in response to the comprehensive changes envisaged by the European Green Deal. Some cities and municipalities have introduced local climate change action plans, policies, and measures to strengthen resilience to climate change, while some sectoral policies and plans incorporate aspects or elements of climate change.

10. **In Türkiye, climate change-related issues are regulated through the articles of various laws, but the main climate policy documents are**:
    a. National Climate Change Strategy (2010–23), with short-, medium- and long-term objectives on

[2] *https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Türkiye-EU_-_international_trade_in_goods_statistics*.
[3] Turkiye Department of Energy Efficiency and Environment, "Primary and Final Energy Density", November 2021.

adaptation and mitigation

b. National Climate Change Action Plan (NCCAP) (2011–23), covering key areas, including energy, buildings, industry, transport, waste, agriculture, land use and forestry, and adaptation
c. NCCAP Monitoring System
d. National Climate Change Adaptation Strategy and Action Plan (2011–23)
e. Climate Council Final Declaration (2022)

11. **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 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.

12. Besides the above-mentioned documents, there are other relevant legal and policy documents such as the **Draft Climate Law, Long Term Strategy and Action Plan, and National Green Finance Strategy** which are under preparation to set the ground for the actions to be taken at post-2023 period. Ministry of Environment Urbanization and Climate Change (MoEUCC) has been managing the process to finalize and publish these documents in close collaboration with all relevant stakeholders.

13. **After the ratification of the Paris Agreement, Türkiye has also taken steps to strengthen its institutional arrangements.** Türkiye has announced a 2053 Net Zero target in September 2021 and has taken prompt action to comply with this new target. Those include restructuring the Ministry of Environment and Urbanization (MoEU) as the MoEUCC, establishment of the Directorate of Climate Change (DoCC), and initiation of several major studies such as preparation of the Climate Law, organization of the Climate Council and updating the Nationally Determined Contribution (NDC) in line with the 2053 target.

14. **The Climate Council recommendations reported in February 2022 and final declaration published in June 2022, prioritize the implementation of the ETS in compliance with the updated NDC and EU Directive.** The DoCC is now working towards implementing the ETS and plans to start a pilot in 2024, along with consideration of assessment a carbon pricing expansion and a domestic crediting mechanism in uncovered sectors.

15. **The design and implementation of ETS is expected to be an important contribution to environmental and climate policy in Türkiye, but, it should be strengthened and supported with additional policies and instruments.** ETS is a powerful policy instrument that has developed a sophisticated institutional infrastructure and can serve multiple related policy objectives beyond climate mitigation. Implementation of carbon pricing instruments (CPI) will not only support the decarbonization of the economy but also improve the access to needed finance through contribution of different activities to be taken into account during the design of ETS. Clearly there is recognition that if climate objectives are to be achieved, a lower allowance cap is necessary. More financialization and banking will be necessary to provide market flexibility, so that companies/installations can adjust to increasing emission reductions obligations. The Government must not only provide a credible long term price signal, but also implement additional complementary

incentives that can support decarbonization efforts through technological innovation, and by ensuring access to cleaner fuels, and broadening the number of sectors and facilities affected by carbon pricing.

16. **The sectors, type of gases, and type of activities to be covered by the ETS will be determined in the legislation that establishes the ETS.** The design studies to be conducted for the ETS within this Project, including scope and coverage, timeline, cap, allocation methods, and market flexibility and stability mechanisms, as well as infrastructure will further elaborate on which sectors (e.g., electricity generation, steel production); which specific activities/emission sources (e.g., installations exceeding a certain emissions, capacity, or output threshold); and which gases (e.g., Carbon Dioxide (CO2) Methane (CH4) Nitrous Oxide (N2O) Hydrofluorocarbons (HFCs), Perfluorocarbons (PFCs), and Sulphur Hexafluoride (SF6)) are to be covered and to what extent to be impacted.

17. **Several factors can influence the path that households can be impacted by expansion of carbon pricing, and discussions focus on two main channels: energy prices and employment.** It is important to understand the winners and losers of these policies to guarantee a just transition for the country. With the expansion of carbon pricing, fossil fuel prices will keep rising to meet the net-zero emission targets. Low-income households' budget will be threatened since energy expenditure constitutes a higher share in their budget.

18. **Introduction of carbon pricing is intended to drive a shift away from high-emissions products to low emissions products and processes.** Some firms that compete against these low-emissions substitutes may experience a loss of market share and reduced profits. Moreover, as the costs of firms in these sectors can rise due to carbon pricing, employment can be adversely impacted in these sectors during the transition to low carbon or green energy sources. Addressing skills mismatch and facilitating labor mobility can help workers from brown sectors to find employment in less-carbon intensive sectors. The most important challenge is how governments can reallocate those workers from brown sectors into other sectors during the low-carbon transition. Vocational training programs and on-the-job trainings are potential options however, both options have fiscal implications (i.e. financial support needs) and require capacity to deliver training programs.

19. **The Monitoring, Reporting and Verification (MRV) provides essential information infrastructure and background for carbon pricing in Türkiye.** For the last decade, the adoption and development of the MRV system has progressed substantially, but the national registry system has not yet been established. Partnership for Market Readiness (PMR)-I and PMR-II have been successfully implemented in Türkiye, and the development of an ETS is included in the Government's Medium-Term Economic Program (2023-2025). As a successor of the PMR projects, Partnership for Market Implementation (PMI) can sustain and progress the PMR projects' achievements.

Table 1: PMR and PMI in Türkiye

	PMR I-II (completed)	PMI (follow up)
Cost	US$ 5 Million	US$ 4.95 Million
Implementation duration	2014-2021	2023-2028
Objectives	to implement the MRV system and inform	to support the Government of

	policy decisions on the use of market-based instruments; to support Türkiye in developing the legal, institutional and technical framework for piloting an emissions trading scheme.	Türkiye in development and implementation of carbon pricing mechanisms and to enhance expertise and capacity for implementation.
Outcomes	i) Legislative and institutional framework for piloting an ETS developed ii) Technical framework for piloting an ETS developed iii) The Government staff, private sector and academia capacity strengthened to develop ETS pilot	i) National ETS designed and pilot ETS initiated ii) Expanding carbon pricing instruments assessed iii) Domestic GHG Crediting Instrument designed

C. Higher Level Objectives to which the Project Contributes

20. **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 PMIF program is implemented in collaboration with World Bank Group regions, country management units, and global practices to leverage and support operations. Following the successful 10-year run of the Partnership for Market Readiness (PMR)—which helped over 20 countries establish the necessary building blocks to implement carbon pricing—the World Bank launched the Partnership for Market Implementation (PMI) in 2021 with the goal of putting carbon pricing policies and programs in place in at least 30 countries by 2025. Türkiye has been part of its predecessor project PMR since 2011.

21. **The PMI Project complements and has important synergies with other Bank operations in Türkiye.** The World Bank Group announced, in its Climate Change Action Plan "Supporting Green, Resilient, and Inclusive Development" (2021-2025), 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 in Türkiye through pilots and analytical studies. The Green Growth Project (P174569) which is a programmatic advisory services and analytics and 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 Climate Change and Development Report (CCDR). CCDR is a new analytical tool that the Bank completed for Türkiye in 2022, and will deploy in all countries to capture the interplay between development and climate are among the other related Bank operations. Importantly, this project will be implemented in tandem with the Türkiye Climate Capacity Building Project (P180189) which aims to build the capacity of the DoCC and related agencies to design and implement climate policies and programs. Working closely with this project is important as it will pick up the analytical and capacity building needs not covered in the PMI project. Together these projects will offer a complete capacity building program for the DoCC.

22. **The Project also underpinned by the World Bank Green, Resilient and Inclusive Development (GRID) approach and aligns with the World Bank Global Crisis Response Framework paper**, “Navigating Multiple Crises, Staying the Course on Long-Term Development: The World Bank Group’s Response to the Crises Affecting Developing Countries”. Specifically, it will contribute to Pillar 4 on ‘Strengthening Policies, Institutions and Investments for Rebuilding Better’ to utilize long-term policies to improve development outcomes.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

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

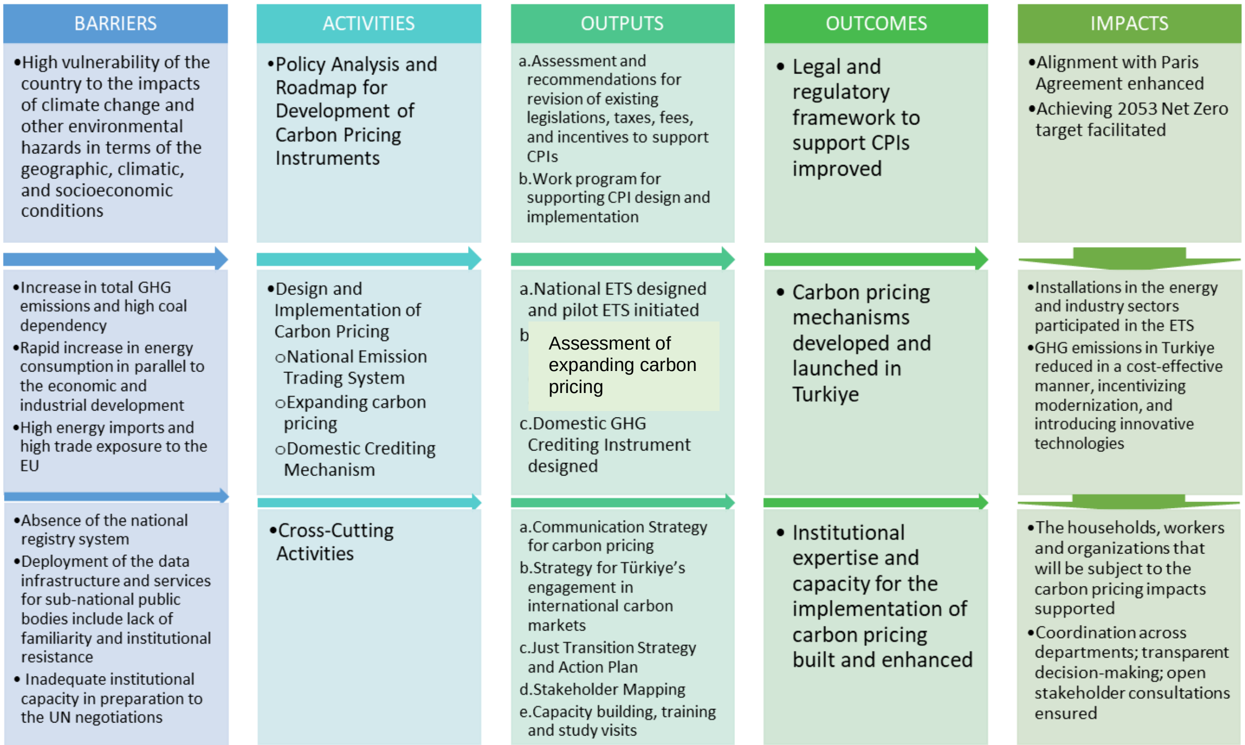
B. Project Beneficiaries

24. Main project beneficiary is the Ministry of Environment, Urbanization and Climate Change and its Directorate of Climate Change. Other relevant government agencies such as Strategy and Budget Office, Ministry of Treasury and Finance, Ministry of Energy and Natural Resources, Ministry of Industry and Technology, etc. will be involved during the project implementation stages and will also benefit from the Project.

C. PDO-Level Results Indicators

25. PMI project will support the Government of Türkiye in developing and launching CPI, namely ETS, carbon tax and domestic crediting mechanism. Expected key results are as following:
    - National ETS designed and pilot ETS initiated
    - Options for expanding carbon pricing instruments assessed
    - Domestic GHG Crediting Instrument designed

26. A Theory of Change for the proposed PMI project is illustrated below:



III. PROJECT DESCRIPTION

A. Project Components

27. **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.

28. **Component 1. Policy Analysis and Roadmap for Development of Carbon Pricing Instruments.** This component aims to set ground and propose recommendations for developing a carbon pricing instrument within the existing legislative, institutional and policy framework of Türkiye including a detailed roadmap and timeline for the planned CPI. Activities will include:

   a. Assessment of existing legislations, taxes, fees, and incentives supporting/hampering effectiveness of carbon pricing.
   b. Development of a list of subsidies, legislations, instruments, taxes, fees, incentives etc. (positively/negatively) that may affect CPIs.
   c. Recommendations for revision of existing subsidies, legislations, instruments, taxes, fees, incentives etc. to support CPIs.
   d. Recommendations and Action Plan for developing institutional capacity.
   e. Analysis of CPIs' interaction with existing legislation (as a cross-cutting issue; analysis in terms of environment, trade, tax law, penal code etc.) and EU's CBAM coverage.

f. Identification of just transition policies to support whole lifetime of the Implementation Support Plan.
g. Development of a work program for supporting CPI design and implementation.

29. **Component 2. Design and Implementation of Carbon Pricing.** The aim of this component will be to support Türkiye for identifying the preferred design of carbon pricing in line with the EU regulations. It will build on and complement prior PMR activities as well as work supported by other donors. It will involve consultations on the options under discussion, outlining the preferred design option and providing a roadmap for implementation.

a. Sub-Component 2.1: National Emission Trading System. Outlining ETS design options, drafting relevant legislative and regulatory documents, modelling the socioeconomic impacts of the ETS and developing emissions intensity benchmarks for Phase 1 of the ETS will be the main thematic areas to be studied within this sub-component. Activities may include:
   i. Review of existing legislation and PMR Projects' outputs
   ii. Outlining design options for the ETS considering EU's CBAM requirements
   iii. Consultation on design options and identification of preferred design
   iv. Development of emissions intensity benchmarks for all ETS sectors
   v. Preparation of draft ETS Legislation
   vi. Modelling of economic and socioeconomic impacts of the ETS and capacity building on modelling
   vii. Technical studies for cap identification and allocation distribution
   viii. Supporting the registry development, operation and maintenance
   ix. Preparation and implementation of ETS Pilot including desk support
   x. Preparation and implementation studies of ETS Phase I including desk support
   xi. Capacity building, training and study visit activities

b. Sub-Component 2.2: Expanding carbon pricing. This sub-component will explore options for expanding the scope of carbon pricing considering the initial ETS coverage. This will include an assessment of a carbon tax, considering converting existing energy and relevant excise taxes to carbon taxes, as well as whether to expand the ETS, assessment of carbon tax to include additional sectors or usage of carbon tax together with ETS. According to the decision to be taken by the Government, relevant support will be provided for the preparation of draft legislation for Türkiye's expanded carbon pricing system.

c. Sub-Component 2.3: Domestic Crediting Mechanism. The government is interested in exploring the development of domestic crediting mechanism to generate offsets for compliance under the Turkish ETS. This sub-component will focus on designing and, as appropriate, implementing a domestic crediting mechanism. The activities may include:
   i. Exploring design options with stakeholders;
   ii. Analyzing how the crediting mechanism would align with voluntary mechanisms already operational in Türkiye
   iii. Synergic analyzing of upcoming Article 6 mechanisms and potential CPIs;
   iv. Identifying preferred design and supporting the development of secondary legislation and crediting methodologies;

v. Supporting the implementation of the crediting mechanism including the preparation of guidance documents.

30. **Component 3. Cross-Cutting Activities.** This component aims to ensure an enabling environment for carbon pricing and markets via conducting communication, stakeholder engagement and capacity building activities, supporting participation in international carbon markets, and ensuring a 'just transition' for those negatively affected. These activities shall run together with Component 2.1 activities. Activities may include the following:

a. Development of a Communication Strategy and its implementation for carbon pricing. This will involve (i) undertaking market research into audiences and potential messaging to inform the strategy; (ii) a publicity and visibility program for PMI project; (iii)capacity building for DoCC staff and stakeholders on carbon pricing.
b. Development of a strategy for Türkiye's engagement in international carbon markets. This includes for Article 6 mechanisms consisting of a decentralized governance and the international transfer of mitigation outcomes to be used by a Party other than the one where the mitigation outcome has occurred; issuing units for use by Parties towards their NDCs; and a framework for non-market cooperation.
c. Development of a Just Transition Strategy and Action Plan covering all necessary sectors for carbon pricing instruments by modelling of socio-economic impacts of ETS and giving technical inputs to ensure a just transition.
d. Stakeholder mapping
e. Support for international negotiations including support for participation to international meetings
f. Study visits
g. Operational costs
h. PIU costs
i. Supply of equipment

B. Project Cost and Financing

Project Components	Project cost	Trust Funds
Total Costs	$4,950,000	$4,950,000
Total Project Costs	$4,950,000	$4,950,000
Total Financing Required	$4,950,000	$4,950,000

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

31. **The DoCC, an affiliate institution of the MoEUCC will be the implementing agency for the project.** The

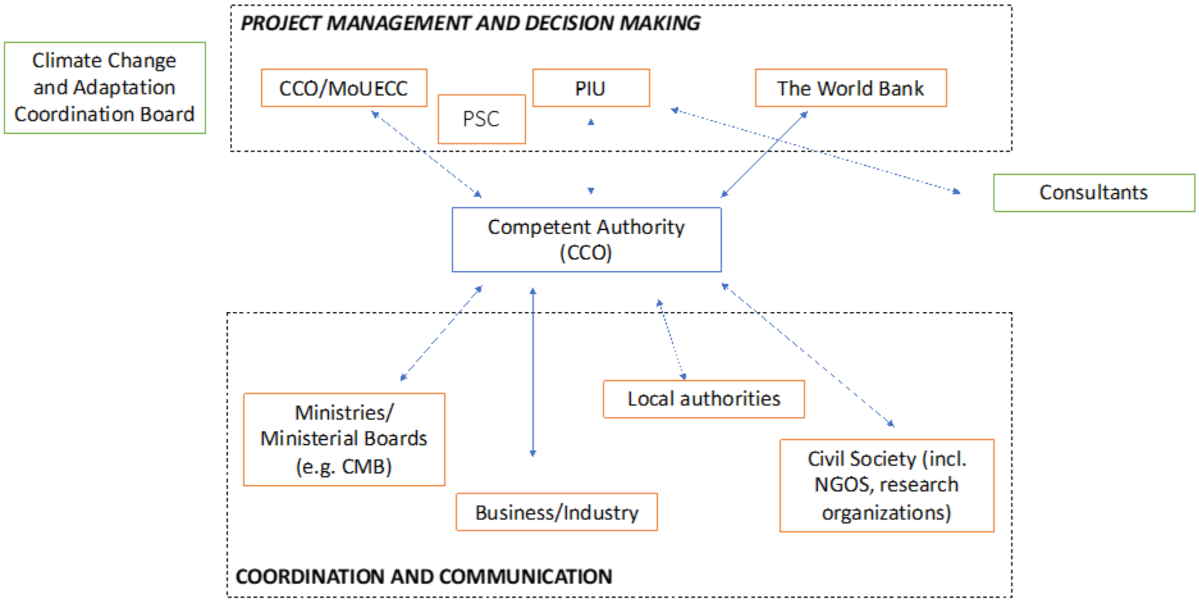
DoCC, among others, is responsible for determining plans, policies and strategies on climate change, monitoring and reporting of greenhouse gas emissions, facilitating climate finance, leading on the international negotiations and related reporting requirements, carrying out studies to determine adaptation needs to climate change nationally, locally and sector wise, implementing climate policies (primarily the emission trading system), carrying out research about technologies and innovative solutions to climate change, and conducting training, capacity building and awareness-raising activities to raise public awareness in the field of climate change. Noting the project focus which corresponds to these main areas of responsibilities, the DoCC will be responsible for project activities.

32. **MoEUCC is the key governmental ministry in charge of development and implementation of national climate change policy** and establishing coordination processes and relevant structures/institutions for efficient climate change policy implementation, especially considering the cross-sectoral nature of climate change policy. Establishing efficient and robust CPIs requires well-coordinated efforts from all stakeholders involved, and therefore mapping all interested stakeholders, defining their roles, and shaping institutional arrangements are of crucial importance for successful project implementation.

33. **The proposed institutional arrangements are based on the previous PMR project implementation in Türkiye, its organizational structure, institutional arrangements, and lessons learned.** Existing inter-ministerial coordination processes and structures will be utilized, where appropriate, and/or new ad-hoc or permanent arrangements will be established, such as high-level ETS coordination panels/councils, technical task forces (e.g., benchmarking sectoral task forces, domestic crediting mechanism task force, registry task force, etc.). Decision-making processes will lie with the Government of Türkiye, as supported by the World Bank and the Project Implementation Unit (PIU) activities.

34. **A Project Steering Committee (PSC) will provide overall leadership, strategic guidance and oversight to the implementation of Project.** The PSC will ensure that the project is effectively implemented in line with its development objectives, results framework, and budget. The PSC will review the progress reports, recommend actions to address any implementation issues and ensure adequate coordination. The PSC will also be responsible for addressing any inter-agency and strategic level issues and risks that may adversely affect the implementation of the project. Members of the PSC could be drawn from a cross-section of stakeholders with mandate, technical interest in and knowledge of climate change, including relevant Government Ministries, Departments and Agencies, private sector bodies, academia, and civil society.

35. **The PIU, within the DoCC, will provide administrative support to project activities.** The PIU will prepare Procurement and Implementation Plans, update the Project Procurement Strategy for Development (PPSD), when required, in order to ensure compliance with World Bank financial management (FM) and procurement regulations and environmental and social requirements; manage procurement following the Procurement Plan; oversee technical inputs from all institutions involved in the project; liaise with the World Bank and monitor and report on progress. The PIU will carry out these responsibilities in close coordination with other substantive areas within the DoCC and the MoEUCC, as well as with other entities relevant to the project. Finally, the PIU will be responsible for monitoring and reporting on project implementation, project results, outputs and performance indicators, to the World Bank. The figure for proposed institutional framework for project implementation is given below:



B. Results Monitoring and Evaluation

36. **The Bank will supervise the project on a semi-annual basis.** Most of the Bank's implementation support team is based in Ankara, which also facilitates close interaction in-between the formal implementation support missions. PIU will report on the progress of project implementation, identified problems and risks and any needs for adjustments in the Project.

C. Sustainability

37. **Climate change is a part of Türkiye's EU accession strategy and an important part of the EU accession negotiations**. The sustainability of the project is enhanced through strong leadership and engagement from the government side. The recommendations and analytical results obtained through the activities, draft legislations, action plans, roadmaps, strategy papers will inform and be embedded into national strategies, legislation, regulations, and beneficiary development plans. The activity results will also contribute to more transparency and ensure a non-discriminatory carbon pricing mechanism. The program is strongly aligned to the Government's long-term strategies and World Bank programs in the country. Institutional sustainability will be addressed by training and increased hands-on experience to strengthen and maintain long-term management skills in project management, communication, policy analysis, as well as better technical and institutional capacities of the key implementing agency and key stakeholders.

38. **Dialogues and cooperation between various stakeholder groups will contribute to the carbon policy development process and implementation support in the country.** The PMI will strengthen facilitation of awareness raising and building support among key stakeholders (both public and private) and the general public for the targeted carbon pricing policy/policy mix in the country. Studying of international experiences, sharing of lessons and insights in the carbon pricing field, particularly, through study tours to countries with effective ETSs would serve as a good opportunity to develop skills, establish robust communication channels with international experts, and present practical experience for government agencies overseeing climate-

related policy development and ETS in Türkiye, as well as key ministries involved in fiscal policy development and implementation.

39. **The PMI project builds on the following key lessons learnt from the PMR projects**:

a. Common agenda: The PMR project was fully aligned with Türkiye's MRV legislation and efforts to be aligned with the EU ETS for EU accession. As such, there was strong buy-in from the Government, industries, and other relevant stakeholders. This critical factor has made Türkiye among the most advanced countries for PMR implementation and for the sustainability of the project outcome.
b. Stakeholder engagement: It is critical for confidence building, data collection, and design and implementation of policy measures. Effective engagement of the stakeholders including private sector along with capacity building catering to their needs made it possible especially for the industries to keep an open mind to different policy measures, give their trust and confidence to the Government, and collaborated willingly and enthusiastically in attending workshops and meetings, providing feedback, and training members of the industry associations.
c. Data collection and management: For the successful implementation of PMI project; data collection and management should be conducted effectively with clear responsibility of parties based on the experiences gained through PMR projects. The models developed in PMR projects might be tailored to the specific needs of Türkiye with the review/update of the developed model assumptions in PMR Phases and with more flexibility for sensitivity analyses needed for policy makers. Lack of required data for more detailed results and normalized benchmarks should be identified and effective collection of detailed, facility specific data should be conducted especially for setting emission cap and allowances.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

40. **The overall project risk is Moderate.** The principal risks to project preparation and implementation are associated with the political and governance, macroeconomic context, and institutional capacity for implementation.

41. **Risks associated with political and governance environment are Moderate**. The sector governance is robust with clear delineation of the policy making and regulatory functions, with MoEUCC as the lead government body and the Coordination Board on Climate Change and Adaptation providing the forum for inter-ministerial and stakeholder coordination. That the project's objectives are embedded in international commitments, such as those stemming from the ratification of the Paris Agreement, helps mitigate risks. The project will work to mitigate the risks by ensuring the broad buy-in of technical activities among various stakeholders.

42. **Risks associated with the macroeconomic context are Substantial.** External risks remain elevated given Türkiye's growing current account deficit, high foreign exchange (FX)-share of public debt, low FX reserves, and high external financing requirements amid tightening global liquidity. There is a risk investor confidence may falter, intensifying pressure on the Lira, external balances, and corporate and bank balance sheets.

However, major steps have been taken and significant progress has been achieved towards financial and macroeconomic stability since end 2021. Recent macroeconomic volatility hinders essential investment—public, private, domestic, and foreign—and associated technological innovation for climate investment by reducing fiscal space, putting pressure on corporate debt positions, raising risk premiums for foreign investors, and destabilizing financial sector intermediation. A more stable macroeconomic environment, and a well-regulated financial sector with appropriate disclosures, are needed to mobilize private investments for climate action and incentivize resilience and low-carbon decisions. The CPIs should align fully with the fiscal and other policies to enhance synergies and avoid countervailing effects. The macro risks should be mitigated by returning to a macro policy framework supporting macro stabilization and buffer accumulation, clearly communicated to investors, and implementation of ongoing corporate debt restructuring. The Bank will continue macro-financial analysis, maintain policy dialogue with economic agencies, and continue to offer technical assistance as requested by the authorities.

43. **Risks associated with sector strategies and policies are Moderate.** The Government expressed a strong commitment, including technical and financial, to the climate change agenda, including through the ratification of the Paris Agreement, committing to net zero emissions by 2053, and strengthening institutional arrangements for climate change issues by drafting important policy documents, such as the NCCAP, and establishing the DoCC under the MoEUCC. While Türkiye has strong climate commitments and has started comprehensive climate planning processes, much of the policy implementation work is yet to be done. The main challenges, here, are selecting and aligning a range of carbon pricing policies, tools and mechanisms with the relevant national and international legislation framework and making sure that all these mechanisms and tools are complementary and not overlapping or overly burdensome for private entities. While this necessitates the building of the government's capacity to do this work, there remains the risk that the government does not follow through with ambitious climate policy. The proposed Project will assist the government in identifying a coherent, consistent, efficient, and effective plan for the CPI implementation through intensive dialogues with the key government agencies based on a fact-based qualitative and quantitative assessment of mainly previous studies and stakeholder consultations. Inter-institutional coordination at the development and implementation stages will be enabled/ensured and institutional capacities of the authorities which have responsibilities on finance, taxation and regulation will be built as well.

44. **Risks associated with institutional capacity for implementation and sustainability are Moderate**. The project will be implemented by the newly established DoCC under the auspices of the MoEUCC. Noting that the roles of the Ministry as well as the DoCC are in the process of being refined and confirmed, there is some risk to the implementation stemming from the current staffing shortages. Such risks will be mitigated by having a strong implementation arrangement in place (including through a well-staffed and competent PIU) and constant and thorough emphasis of the Project activities on capacity development and skills training. In addition, project will utilize the staff capacity built by the PMR project most of which is still retained.

45. **There is a moderate risk that stakeholder commitment to climate change may weaken**. The project has strong support of MoEUCC and the Ministry of Treasury and Finance. The project activities will include institutional strengthening and targeted activities with several stakeholder groups including private sector outside of the DoCC and the MoEUCC. Stakeholder risks associated with the deployment of the data infrastructure and services for sub-national public bodies include lack of familiarity and institutional resistance, particularly at the early stages of implementation. Other risks are related to the engagement of

the counterparts in sharing information. Such risks will be mitigated through project support to a comprehensive institutional strengthening effort, a thorough demand assessment and a detailed stakeholder engagement plan. Building private entities' capacities and awareness in order to ensure buy-in and effective implementation of selected carbon pricing tools will be another mitigation measure related to stakeholder risks.

46. **The consolidated fiduciary risk is Substantial. Procurement risk rated as substantial.** The Project will be carried out in accordance with the "World Bank Procurement Regulations for IPF Borrowers" (dated November 2020), hereafter referred to as the Bank's "Procurement Regulations". The World Bank's "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006, and revised in January 2011 and as of July 1, 2016 (Anti-Corruption Guidelines)" will also apply to the proposed Project. The DoCC in the MoEUCC will be the implementing agency of this project and prepare the Project's PPSD and Procurement Plan in line with paragraphs 4.1, 4.2 and 4.4 of the Bank's Procurement Regulations applicable for the Project. MoEUCC has procurement experience under World Bank financed Projects through its other General Directorates, however, DoCC has no procurement implementation experience under Bank-financed Projects. There is also difficulty at present in Türkiye in securing staff with procurement experience. The PIU will seek to share experiences and, where possible, resources with existing staff in the Ministry. Considering this is a small grant including only technical assistance (TA) activities, DoCC is expected to manage the procurement process in accordance with Bank rules and procedures. The financial management risk for the Project is Moderate. The implementing entity MoEUCC DoCC is newly established and does not have any experience in implementing World Bank financed projects. Additionally, their staff positions are not yet fulfilled. MoEUCC through the PIU housed in other departments is currently implementing two World Bank financed projects with satisfactory financial management arrangements in place. The DoCC will collaborate with the current PIUs to receive support during the preparation and implementation of the Project. Project expenditures will be centralized at DoCC which will be responsible for establishing appropriate budgeting, accounting, reporting and internal control procedures.
47. **There is a moderate risk that project outcomes will have a negative impact on end consumers.** As the project aims to support implementation of the carbon pricing, these policies may impact households due to higher prices for emissions-intensive products. To address this issue this project includes activities to assess the distributional impact of proposed carbon pricing policies with the aim of developing measures, in collaboration with the Ministry of Treasury and Finance and other relevant agencies, to address them.

VI. APPRAISAL SUMMARY

48. **The development impacts.** Carbon pricing is a valuable instrument in the policy toolkit to promote decarbonization transitions. By internalizing the societal cost of GHG emissions, carbon pricing instruments facilitate investments in low-carbon technological innovations, foster multilateral co-operation, and create synergies between energy and climate policies. Thus, the ETS generates incentives to reduce emissions where these are most cost-effective and contributes to achieving climate change mitigation goals. Türkiye plans to use carbon pricing as an important component of its mitigation policy, with its expansion to play a central role in achieving the 2053 net zero target. The project considers local context and regulations, as well as interlinkages with other policy priorities in the country. In the longer term, gradually increasing the stringency of a trading system's cap would contribute more to emissions reductions. As the ETS coverage

increases, mitigation costs are also likely to fall. The project additionally includes institutional strengthening activities that will be instrumental for the Government while developing the right set of carbon pricing instruments and enhancing the ETS.

49. The tentative costs of the PMI TA project are those associated with developing approaches, policy measures, and instruments for ETS pilot implementation to drive GHG emission reduction and expand carbon pricing in the country. The PMI project is designed to bring a range of environmental co-benefits through support to national climate mitigation policies, including not only the co-benefit associated with reducing GHG emissions, but also the possibility of using offsetting mechanisms associated with GHG emission regulation in the ETS that could support air pollutant emission control and/or biodiversity protection through nature-based solutions, as well as could raise revenue from carbon pricing to help smooth the transition to a less carbon intensive economy, making it fairer and more inclusive.

50. **World Bank's comparative advantage and value added.** The World Bank has considerable experience working with and supporting emerging economies to design and deploy carbon pricing and market instruments to facilitate the reduction of emissions. In Türkiye, the Bank has a history of supporting the national ETS strengthening and improvement through the PMR program since 2014. Globally, collaborations with countries through the PMR over the last decade allowed to build on lessons learned and synergies and will enable effective and efficient implementation of the PMI and bring a long-term vision for the viability of carbon markets to its support for policies in the country. The World Bank adds value by assisting Türkiye in accessing the sources of global best practice approaches, facilitating international cooperation on carbon markets, as well as promoting development of a comprehensive knowledge base on carbon pricing instruments and market mechanism. The Bank involvement is, therefore, critical to support the country in designing and implementing the national ETS and expansion of carbon pricing instruments to meet the NDC target and a long-term carbon neutrality goal by 2053.

A. Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

B. Environmental and Social

51. **The environmental risk rating is assessed as Low**. The project overall environmental impact will be positive as the project will support capacity enhancement activities for the DoCC in developing and launching carbon pricing instruments and capacity building for Article 6 mechanisms. The project will entail analytical studies and desk reviews which will not lead to adverse impacts of any kind. There will be no activities which would cause any negative impacts to the quality of land, water, air, biodiversity and cultural heritage. Instead, the project will have positive implications on regulating carbon emissions in a long-term perspective. The advice to be provided to the Government of Turkiye, may have environmental and social implications to be considered for future climate change investments.

52. **Social risk is classified as low** as the project will support mainly PMI Facility instrument development and capacity-building activities. 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. The national law and legislation on SEA/SH are in place and it includes robust measures for addressing SEA/SH risks, including Codes of Conduct for employees and contractors. The risk of forced and or child labor is not expected.

53. **For disclosure of information and consultation of the project activities with the relevant stakeholders, the DoCC prepared a Stakeholder Engagement Plan (SEP) prior to project appraisal.** The SEP identified direct and indirect stakeholders and also other interested parties relevant to the project activities, as well as modalities for the engagement process. The DoCC prepared an Environmental and Social Commitment Plan (ESCP). The ESCP set out the activities to be carried out during project implementation and could be updated during the project if and when needed during the project implementation.

54. All project components will incorporate climate change, gender, and citizen engagement considerations, as follows**:**

55. **Climate Change**. The project will have significant climate change impacts by contributing to both climate change mitigation and adaptation. Türkiye is considerably exposed to climate change risks, with its geographic, climatic, and socioeconomic conditions make it highly vulnerable to the climate change impacts and other environmental hazards, making adaptation and resilience high priorities. In particular, the country is experiencing food security issues, increasing water stress, and unprecedented disaster events, such as the 2021 forest fire season. It is expected that the country will be further exposed to more frequent and severe incidences of floods, more prolonged arid seasons, and a reduction in surface water availability across the country. At the same time, the country is taking on an ambition climate change mitigation agenda, as demonstrated in its international commitments and sectoral plans and policies. The project is supporting both of these aspects through the implementation of carbon pricing instruments and other climate change policies and measures.

56. **Gender**. Türkiye *has a wide gender gap in economic participation and opportunity and has been ranked 133th in the 2021* World Economic Forum (WEF) gender gap index out of 156 countries. A gender analysis specific to the project will be undertaken during project preparation to: (i) identify gender gaps that are relevant to the project, (ii) suggest actions that can be incorporated into the project design and activities to address the identified gender gaps, including monitoring indicators to measure the progress of narrowing the gender gaps throughout project implementation. The proposed project will contribute to the World Bank Group (WBG) Gender Strategy, particularly to Objective 2 on 'Removing Constraints for More and Better Jobs', Objective 3 on 'Removing Barriers to Women's Ownership of and Control over Assets', and Objective 4 on 'Enhancing Women's Voice and Agency and Engaging Men and Boys' through capacity building and empowerment of women in climate negotiations, etc.

57. **Citizen Engagement.** The project will consult with stakeholders during preparation and implementation stages, while project preparation will further explore areas for meaningful engagement with citizens. A citizen engagement and feedback process will be established by the project to enhance accountability and ensure that any complaints relating to the project can be effectively addressed. Details on how the feedback process and mechanisms for engagement and inclusion will be deployed will be elaborated during project preparation. Implementation

arrangements will also include Grievance Redress Mechanisms (GRMs). Citizen engagement specific indicator (e.g., satisfaction of beneficiaries) will be included in the project results framework and monitored.

C. Financial Management and Procurement

58. **Financial management assessment**. The overall responsibility for financial management will be with DoCC under MoEUCC. It will be supported by the PIU, including dedicated experienced financial management/accounting/disbursement specialist (FMS). The FMS will handle daily financial management responsibilities, including planning and budgeting, disbursements, accounting, and financial reporting on project resources. Internal control procedures to be followed for managing project resources will be documented in the *Financial Management Manual* (FMM), to be developed during the project preparation. Consistent with the World Bank-financed projects in Türkiye, the project will follow transaction-based disbursements and produce quarterly Interim Unaudited Financial Reports (IFRs) for monitoring purposes. The procedures and formats for disbursements and IFRs will be agreed during appraisal and documented in the FMM. External auditing of the project will be carried out by Treasury Auditors.

59. The overall responsibility for the project financial management arrangements will be with the DoCC, that is responsible for budgeting and planning, as well as for accounting and financial reporting. However, since the staff of the DoCC has no knowledge and experience in the FM and disbursement procedures of the Bank, they will need to be supported by the FM Specialist to be recruited as part of the PIU.

60. The project will use traditional disbursements method, which is the Statement of Expenditures (SOE) based. The project's Designated Account (DA), in US dollars, will be opened in a financial institution acceptable to the Bank. Other methods of disbursement could include direct payments and special commitments. Further details of the disbursement arrangements, including the DA authorized allocation, will be specified in the Disbursement and Financial Information Letter (DFIL). IFRs will be used for the Project monitoring and supervision. These reports will be prepared by the PIU and submitted to the Bank within 45 days of the end of each calendar quarter.

61. **Procurement assessment**. Procurement under the proposed project will be governed by the World Bank's Procurement Regulations for IPF (November 2020 or any updated version after that) and will be also subject to the World Bank's Anti-Corruption Guidelines (dated July 2016). The procurement approach, procurement risks, arrangements and procurement plan for the project duration recommended by the Recipient will be presented in the Project Procurement Strategy for Development (PPSD). The PPSD is being prepared by the Recipient with the support of the Bank's team and will be finalized before or by project effectiveness. The PPSD and the Procurement Plan will be updated during the project implementation to reflect any substantial changes in procurement approaches and methods to meet the actual project needs.

62. Procurement activities and packages envisaged under the project are mainly of low value and typical for the sector. They mainly include technical support and sector analysis for ETS design and implementation; assessments of carbon pricing; distributional impact analysis; and capacity building activities.

63. Procurement staff at DoCC lacks implementation experience of the World-Bank projects. A Procurement Specialist shall be hired as part of the PIU. The overall responsibility for the project procurement arrangements will be with the DoCC under the MoEUCC. The scope of the proposed project and its implementation following Procurement Regulations will require strengthening of the implementation capacity of DoCC and devoting additional resources

to support DoCC in project oversight and procurement.

D. Paris Alignment

64. **The operation is aligned with the goals of the Paris Agreement on both mitigation and adaptation.** The project will support capacity enhancement activities in developing and launching carbon pricing instruments and capacity building implementing mechanisms of emission trading system (ETS) can be considered universally aligned.

65. **Assessment and reduction of adaptation risks:** Project activities of supporting policy analysis and roadmap for development of carbon pricing Instruments, design and implementation of carbon pricing and national emission trading system are in no risk from climate hazards.

66. The activities for this operation are critical to support the country in designing and implementing the national ETS and expansion of carbon pricing instruments to meet the NDC target and a long-term carbon neutrality goal by 2053 and thus do not harm the national climate objectives and are universally aligned.

67. **Assessment and reduction of mitigation risks:** As the activities are primarily for supporting policy analysis and roadmap for development of carbon pricing Instruments, design and implementation of carbon pricing and national emission trading system they do not have any negative impact on Türkiye's low GHG- emission development pathways.

VII. World Bank Grievance Redress

Grievance Redress. Communities and individuals who believe that they are adversely affected by a project supported by the World Bank may submit complaints to existing project-level grievance mechanisms or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted to the AM at any time after concerns have been brought directly to the attention of Bank Management and after Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's GRS, please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the Bank's A, please visit https://accountability.worldbank.org.

VII. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY : Turkiye
Türkiye PMI Carbon Market Development Project

Project Development Objectives

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

Project Development Objective Indicators

Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
Name: National ETS designed and pilot ETS initiated		Yes/No	N	Y	Semi-annually	Sub-project reports Project progress reports	DoCC/PIU
Description: Identifying, evaluating, and articulating a number of design options for the ETS and support for the pilot implementation phase of ETS							
Name: Expanding carbon pricing instruments		Yes/No	N	Y	Semi-annually	Sub-project reports	DoCC/PIU

Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
assessed						Project progress reports	
Description: Assessment of evaluation of a carbon tax, considering converting existing energy and relevant excise taxes to carbon taxes, as well as whether to expand the ETS, use a carbon tax to include additional sectors or usage of carbon tax together with ETS							
Name: Domestic GHG Crediting Instrument designed		Yes/No	N	Y	Semi-annually	Sub-project reports Project progress reports	DoCC/PIU
Description: Development of a domestic offset crediting instrument							

Intermediate Results Indicators

Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
Name: Number of recommendations for revision of existing subsidies, legislations, instruments, taxes, fees, incentives to support CPIs		Number	0.00	6.00	Semi-annually	Sub-project reports Project progress reports	DoCC/PIU

Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
Description:							
Name: Number of legislative documents drafted for ETS		Number	0.00	2.00	Semi-annually	Sub-project reports Project progress reports	DoCC/PIU
Description:							
Name: Number of legislative and guidance documents drafted for domestic crediting mechanism		Number	0.00	3.00	Semi-annually	Sub-project reports Project progress reports	DoCC/PIU
Description:							
Name: Number of strategy documents and/or roadmaps developed for design and implementation of carbon pricing instruments		Number	0.00	3.00	Semi-annually	Sub-project reports Project progress reports	DoCC/PIU
Description:							

Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
Name: Number of capacity building events on ETS, Article 6 and economic modelling, including workshops, study tours and trainings		Number	0.00	10.00	Semi-annually	Sub-project reports Project progress reports	DoCC/PIU
Number of female participants		Number	0.00	100.00	Semi-annually	Sub-project reports Project progress reports	DoCC/PIU
Description:							

Target Values

Project Development Objective Indicators

Indicator Name	Baseline	End Target
National ETS designed and pilot ETS initiated	N	Yes
Expanding carbon pricing instruments assessed	N	Yes
Domestic GHG Crediting Instrument designed	N	Yes

Intermediate Results Indicators

Indicator Name	End Target
Number of recommendations for revision of existing subsidies, legislations, instruments, taxes, fees, incentives to support CPIs	6.00
Number of legislative documents drafted for ETS	2.00
Number of legislative and guidance documents drafted for domestic crediting mechanism	3.00
Number of strategy documents and/or roadmaps developed for design and implementation of carbon pricing instruments	3.00
Number of capacity building events on ETS, Article 6 and economic modelling, including workshops, study tours and trainings	10.00
Number of female participants	100.00