ASIAN INFRASTRUCTURE INVESTMENT BANK

Oct. 27, 2026

Climate Policy-Based Financing

Approval Program Document

P001131 Türkiye: Türkiye Climate Action Acceleration Program (TCAAP) and P001185 Türkiye Climate Action Acceleration Program — Supplemental Financing under the Energy, Food Security and Economic Resilience Facility (TCAAP-SF)

Currency Equivalents[1]

As of Sep. 1, 2026

Currency Unit – Turkish Lira (TRY)
USD1.00 = TRY48.28
TRY1.00 = USD0.02

Fiscal Year

Jan. 1 – Dec. 31

Abbreviations

AIIB	Asian Infrastructure Investment Bank
AGEP	Just Transition Policies Expert Group
BRSA	Banking Regulation and Supervision Agency
CBAM	Carbon Border Adjustment Mechanism
CBRT	Central Bank of the Republic of Türkiye
CCACB	Climate Change and Adaptation Coordination Board
CCASAP	Climate Change Adaptation Strategy and Action Plan
CCDR	Country Climate and Development Report
CCMSAP	Climate Change Mitigation Strategy and Action Plan
CMB	Capital Markets Board of Türkiye
COP	Conference of the Parties
CORSIA	Carbon Offsetting and Reduction Scheme for International Aviation
CPBF	Climate Policy-Based Financing
DNA	Designated National Authority
DOCC	Directorate of Climate Change
EBRD	European Bank for Reconstruction and Development
EIA	Environmental Impact Assessment
EMRA	Energy Market Regulatory Authority
EPİAŞ	Energy Exchange Istanbul
ES	Environmental and Social
ESF	Environmental and Social Framework
ESP	Environmental and Social Policy
ETS	Emissions Trading System
EU	European Union
FX	Foreign Exchange
GDF	General Directorate of Forestry
GDP	Gross Domestic Product
GHG	Greenhouse Gas
IFC	International Finance Corporation
IMF	International Monetary Fund
MDB	Multilateral Development Bank
LCCAP	Local Climate Change Action Plan
MOAF	Ministry of Agriculture and Forestry
MOEUCC	Ministry of Environment, Urbanization and Climate Change
MOH	Ministry of Health
MOTF	Ministry of Treasury and Finance
MOTI	Ministry of Transport and Infrastructure
MRV	Monitoring, Reporting, and Verification
MW	Megawatt

[1] Average between buying and selling forex rates, Central Bank of Türkiye, Sep. 1, 2026.

NDC	Nationally Determined Contribution
NUTS	Nomenclature of Territorial Units for Statistics
OECD	Organisation for Economic Co-operation and Development
OSP	Official Statistics Programme
PBL	Policy-Based Lending
PFM	Public Financial Management
PMI	Partnership for Market Implementation
PPM	Project-Affected People's Mechanism
SAF	Sustainable Aviation Fuel
SHGM	Directorate General of Civil Aviation
SMEs	Small and Medium-Sized Enterprises
TCAAP	Türkiye Climate Action Acceleration Program
TCAAP-SF	Türkiye Climate Action Acceleration Program — Supplemental Financing under the Energy, Food Security and Economic Resilience Facility
TURKSTAT	Turkish Statistical Institute
UNFCCC	United Nations Framework Convention on Climate Change
WB	World Bank

Executive Summary

The Türkiye Climate Action Acceleration Program (TCAAP), together with its Supplemental Financing under the Energy, Food Security and Economic Resilience Facility (TCAAP-SF), supports Türkiye's implementation of its Second Nationally Determined Contribution (NDC 3.0) and Climate Law through policy and institutional reforms in sustainable finance, sectoral decarbonization, and climate resilience. The TCAAP addresses critical gaps in the regulatory, institutional, and financing architecture needed to translate Türkiye's climate commitments into measurable outcomes and mobilize investment for a low-carbon and climate-resilient economy. The TCAAP-SF is intended to sustain the pace of these reforms under the pressure arising from the recent developments in the Middle East.

AIIB's USD800 million standalone CPBF supports the Government's climate reform agenda through three strategic pillars: (a) Pillar 1 – Sustainable Finance; (b) Pillar 2 – Sectoral Decarbonization; and (c) Pillar 3 – Climate Resilience. The reforms strengthen the enabling environment for sustainable finance, accelerate decarbonization across key sectors, and enhance institutional capacity and policy frameworks to address climate risks to water, ecosystems, health, and other vulnerable sectors. Coordinated through the Ministry of Treasury and Finance (MOTF), the Program has been designed in close complementarity with ongoing development partner programs, with deliberate mapping of policy actions to maximize mutual reinforcement and avoid duplication.

The USD800 million TCAAP-SF complements the Program by preserving the fiscal space needed for reforms amid the pressures arising from the situation in the Middle East. Building on the Program's existing policy matrix and institutional relationships, the TCAAP-SF disburses against the same 12 prior actions and results framework, providing timely financing while safeguarding progress on climate reforms and essential development spending.

The Program also deepens AIIB's longstanding engagement in Türkiye, consolidating the Bank's engagement from an investment-focused relationship into a comprehensive strategic climate partnership. Building on AIIB's portfolio in energy, transport, urban resilience, and disaster response, TCAAP provides an upstream platform for policy dialogue and helps align Türkiye's investment pipeline with its climate objectives, creating a foundation for follow-on climate and infrastructure investments.

Program Summary

<table>
<tr><td>Program No. and Name</td><td colspan="3">P001131 Türkiye Climate Action Acceleration Program (TCAAP)

P001185 Türkiye Climate Action Acceleration Program — Supplemental Financing under the Energy, Food Security and Economic Resilience Facility (TCAAP-SF)</td></tr>
<tr><td>AIIB Member</td><td colspan="3">Türkiye</td></tr>
<tr><td>Borrower</td><td colspan="3">Republic of Türkiye</td></tr>
<tr><td>Guarantor</td><td colspan="3">Not Applicable</td></tr>
<tr><td>Program Implementation Entity</td><td colspan="3">Ministry of Energy and Natural Resources, Türkiye; Ministry of Treasury and Finance, Türkiye; Ministry of Environment, Urbanization and Climate Change, Türkiye</td></tr>
<tr><td rowspan="2">Proposed AIIB financing (USDm)</td><td rowspan="2">CPBF (TCAAP): USD800 million
Facility (TCAAP-SF): USD800 million</td><td>Instrument type/subtype</td><td>Loan/Direct Sovereign</td></tr>
<tr><td>Currency of financing requested</td><td>US Dollar or EUR equivalent</td></tr>
<tr><td>Sector (Subsector)</td><td>Multi-sector (Multi-subsector)</td><td>E&S Category and Comments (if any)</td><td>Not applicable</td></tr>
<tr><td>Program Objective</td><td colspan="3">The objective of the Türkiye Climate Action Acceleration Program (TCAAP) is to support the implementation of Türkiye’s Second Nationally Determined Contribution (NDC 3.0) and Climate Law, through policy and institutional reforms in sustainable finance, sectoral decarbonization, and climate resilience.</td></tr>
<tr><td>Program Description</td><td colspan="3">Türkiye has delivered one of the most sustained economic transformations among emerging economies, yet its growth model remains structurally dependent on fossil fuel imports, making energy the single largest driver of its current account deficit and a source of growing external vulnerability. As the world's 17th largest greenhouse gas (GHG) emitter, Türkiye faces mounting external pressures on two fronts. The European Union's Carbon Border Adjustment Mechanism (CBAM) directly threatens its most carbon-intensive export sectors, while the current situation in the Middle East has widened its energy import bill and added to fiscal pressure. At the same time, Türkiye faces acute physical climate risks across water, ecosystems, and health. Türkiye has responded with its most substantive climate legislative framework to date, anchored in Climate Law No. 7552 and NDC 3.0.

A critical gap nonetheless persists: the regulatory, fiscal, and institutional architecture needed to operationalize the Climate Law and channel capital toward NDC targets remains incomplete. The TCAAP addresses this gap directly, financing the policy and institutional reforms, coordinated through the Ministry of Treasury and Finance (MOTF) and designed in deliberate complementarity with ongoing partner programs, that translate Türkiye’s legislative commitments into measurable climate outcomes. A Supplemental Financing of USD800 million under AIIB’s Energy, Food Security and Economic Resilience Facility complements the Program by protecting this reform momentum against the fiscal pressure created by the conflict. It disburses against the same 12 prior actions and the same results</td></tr>
</table>

	matrix as the parent CPBF, bringing combined AIIB financing to USD1,600 million. The TCAAP comprises 12 prior actions across three mutually reinforcing pillars: **Pillar 1 — Operationalizing the Carbon Market and Green Finance Regulatory Measures:** Operationalize Türkiye's emissions trading system (ETS), establish a green finance regulatory architecture, and mobilize public and private capital toward low-carbon and climate-resilient activities. **Pillar 2 — Accelerating Sectoral Decarbonization Pathways:** Accelerate implementation of mitigation policies across energy, industry, transport, and monitoring frameworks, translating NDC commitments into binding sector-specific regulatory and institutional action. **Pillar 3 — Institutionalizing Adaptation Across Water, Nature, and Health:** Institutionalize local climate governance, strengthen water and agricultural resilience, expand carbon sink coverage, and embed climate risk into national health systems across 81 provinces.		
Implementation Period	Start Date: Dec. 20, 2026 End Date: Dec. 31, 2028	**Expected Loan Closing Date**	Dec. 31, 2028
Co-financing type	Standalone	**Following other Financier's E&S Policy?**	No
Lead financier	Standalone	**Following other Financier's Procurement Policy?**	No
Financing Plan	Proposed amount of AIIB financing (USD m): USD1,600 million • CPBF (TCAAP): USD800 million • ERF (TCAAP-SF): USD800 million		
Policy Assurance	To be obtained before submitting for financing approval.		

Risk	
Key Risks	**Mitigation Measures**
1. Risk of climate policy reversal and delays in issuing secondary regulations.	1. Most prior actions are anchored in Climate Law No. 7552, which requires a parliamentary majority to reverse. Reform durability is reinforced by binding CBAM exposure, which creates economic lock- in beyond political cycles.
2. Macroeconomic volatility (inflation, currency, fiscal pressure, regional instability, energy import dependence).	2. Continued fiscal discipline, low debt, adequate external buffers; the macroeconomic policy framework is adequate (Section 3.A presents the assessment).

3. Uneven local implementation capacity across the 81 provinces.	3. AIIB will deploy targeted technical assistance in priority provinces, complemented by the Ministry of Environment, Urbanization and Climate Change central coordination and Climate Law implementation mechanisms.
ECap	USD158.39 million (9.90%)

Strategic Alignment	
Alignment with AIIB's thematic priorities	Green Infrastructure
Alignment with AIIB's strategies	Energy, Transport, Water, Sustainable Cities, and Health

Key Outcomes			
Indicator	**Unit of measure**	**Baseline (2026)**	**Target**
ETS-covered facilities registered in the Transaction Registry and baseline emissions reports submitted under the four regulations.	Number	0 (2026)	180 (2027)
Number and capacity (MW) of renewable energy projects (disaggregated into wind and solar power) that have obtained production licenses.	Number	0 (2026)	Eight solar PV projects with a total capacity of 650 MW to obtain licenses by the end of 2026, and six wind projects with a total capacity of 1,150 MW to obtain licenses in the first quarter of 2027.
Provinces having established Climate Change Coordination Boards under the new Regulation.	Number	0 (2026)	≥ 40 of 81 provinces (2028)

Climate Action		
Climate Finance	Adaptation Finance (USDm)	USD512.00
	Mitigation Finance (USDm)	USD1,088.00
	Dual Benefit (USDm)	USD336.00
	Total (USDm)	USD1,600.00

President	Jiayi Zou
Chief Investment Officer	Konstantin Limitovskiy
Director General	Xiaohong Yang
Manager	Hong Wei, Evren Dilekli
Project Team Leader	Nat Pinnoi, Senior Investment Officer
Co-PTL	Alain Chhuor, Investment Officer
Project Team Members	Kathreen Miralles, Investment Officer Lixiang Wang, Investment Officer Bekir Armutlu, Capacity Support Officer (Secondee) Manuel Cervero Bárcena, Investment Officer Vladimir Hecl, Senior Environment Specialist Ercan Ozbulut, Social Development Specialist Yi Geng, Senior Financial Management Specialist Chandra Mishra, Procurement Specialist Conor Barry, Senior Economist Nancy Mubima, Senior Counsel Luiz Eduardo Rodrigues, Counsel David Hartcher, Senior Finance Officer Samet Sevket Bulut, Climate Specialist Robert Beschel, Senior Governance Advisor Mark Sundberg, CPBF Senior Advisor Sedef Aydas, Senior Project Advisor Ozge Genc Cakar, Governance Consultant Dicle Kubra Cetin, Environmental Engineer Consultant Jiaming Yu, Senior Project Assistant

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1. Program Context

1.1 **Background and Development Constraints.** Türkiye has delivered one of the most sustained economic transformations among emerging economies over the past two decades. Gross domestic product (GDP) grew from approximately USD239 billion in 2002 to USD1.6 trillion in 2025, with real GDP growth averaging 5.4% per year from 2002 to 2025, propelling the economy to upper-middle-income status and establishing it as the world's 16th largest economy, with a population of around 86 million.[2] This trajectory has been powered by a dynamic private sector and Türkiye's strategic geographic position at the crossroads of Europe, Asia, and the Middle East. Manufactured goods represent around 94% of merchandise exports, the majority of which are destined for the European Union (EU).[3] However, this growth model carries a structural vulnerability: fossil fuels account for around 81% of Türkiye's primary energy supply, which is almost entirely imported, making energy the largest driver of the current account deficit[4] and a chronic source of pressure on foreign currency reserves. Addressing this structural dependency through climate policy reform and carbon pricing thus serves Türkiye's macroeconomic stability agenda and its long-term export competitiveness, while also supporting its climate commitments.

1.2 Türkiye faces mounting external pressures that are compressing the timeline for climate-related economic reforms. The EU Carbon Border Adjustment Mechanism (CBAM), which entered its operational phase in 2026, directly targets Türkiye's most carbon-intensive export sectors such as steel, cement, aluminum, and fertilizers, with annual cost exposure estimated at between EUR138 million and EUR2,500 million depending on carbon price trajectories.[5] The current situation in the Middle East introduces a second immediate pressure: the resulting rise in global energy prices has widened Türkiye's energy import bill by an estimated USD10 billion in 2026, unsettled its disinflation path, and added to fiscal and external-account pressures, reflected in gross international reserves falling from USD218 billion in January 2026 to USD188 billion by August.[6] Together, these external pressures underscore the same underlying imperative: reducing Türkiye's structural exposure to imported fossil fuels through credible domestic climate policy reform strengthens its economic security while advancing its climate commitments.

1.3 **Climate Change Challenges and Vulnerabilities.** With its carbon-intensive energy and manufacturing sectors, Türkiye is the world's 17th largest greenhouse gas (GHG) emitter and faces some of the most acute physical climate impacts in the Mediterranean region. Türkiye is classified as water-stressed under the Falkenmark Index, with per capita freshwater availability of approximately 1,313 cubic meters (m^3) per year (2022) projected to decline to 1,069 m^3 by 2050 as population reaches 100 million,[7] placing agricultural productivity, urban supply, and industrial operations under increasing pressure. Heatwaves are intensifying in

[2] World Bank. The World Bank in Türkiye.
[3] Government of Türkiye, Turkish Statistical Institute (TurkStat). Foreign Trade Statistics. 2024; Presidency of the Republic of Türkiye, Presidency of Strategy and Budget. 2023. Twelfth Development Plan (2024–2028).
[4] Government of Türkiye, Ministry of Energy and Natural Resources. 2024 National Energy Balance Tables.
[5] European Bank for Reconstruction and Development (EBRD) and Government of Türkiye, Ministry of Environment, Urbanization and Climate Change. 2023. Potential Impact of the Carbon Border Adjustment Mechanism on the Turkish Economy.
[6] Government of Türkiye, Ministry of Treasury and Finance. 2026. https://www.fitchratings.com/research/sovereigns/fitch-revises-turkiye-outlook-to-positive-affirms-at-bb-23-01-2026Development Policy Letter.
[7] Water Efficiency Strategy Document and Action Plan within the Framework of Adaptation to Changing Climate (2023 – 2033)

frequency and duration, and wildfire risk across the Aegean and Mediterranean coasts ranks among the highest in the Mediterranean basin, with recent fire seasons causing significant economic and ecological losses. A total of 8,274 meteorological disasters were recorded between 2010 and 2021.[8] In 2023 alone, 1,475 such events were registered,[9] the highest number observed since 1940. Climate-related disasters are estimated to result in annual average losses of around 2.2% of GDP, with projections indicating losses could rise to 2.8% and 3.2% under moderate and high climate scenarios, respectively.[10] Türkiye's 8,483-kilometer (km) coastline contains several low-lying areas that are particularly vulnerable to sea level rise.[11] These physical risks are compounded by Türkiye's high seismic exposure, a combination that few other major emerging economies face at comparable scale.

1.4 **Government Strategies, Programs and Priorities.** On the climate front, Türkiye has responded with its most substantive climate legislative framework to date. Climate Law No. 7552 (Climate Law), enacted in July 2025, establishes the legal architecture for a national emissions trading system (ETS), local climate planning across 81 provinces, and sectoral decarbonization mandates. Türkiye's Second Nationally Determined Contribution (NDC) 3.0, submitted in November 2025, commits to reducing its GHG emissions by 466 million metric tons of carbon dioxide equivalent (MtCO2e) compared with the business-as-usual scenario, limiting GHG emissions to 643 MtCO2e by 2035, and achieving net-zero by 2053. Türkiye's role at the Conference of the Parties (COP) 31 in November 2026 places these commitments under heightened international scrutiny. The Ministry of Labor and Social Security has established the Just Transition Policies Expert Group (AGEP), with thematic working groups on women's empowerment, energy, skills alignment, and social dialogue commencing operations in 2026, ahead of Türkiye's planned announcement of a National Just Transition Strategy at COP31. To support this reform agenda, Türkiye is benefiting from significant coordinated support from development partners, aligned with its national climate priorities, providing a strong foundation for the implementation of recent climate policies and legislation. Partner engagement has focused on analytical work, technical assistance, guarantees, and investment financing, supporting both mitigation and adaptation efforts.

1.5 Despite these efforts, a critical gap persists. The regulatory and institutional architecture required to operationalize Türkiye's Climate Law and channel capital toward its NDC targets remains incomplete. Although the Climate Law establishes the legal basis for an ETS and the Carbon Market Board has been created, the secondary regulatory framework—covering allocation rules, Monitoring, Reporting, and Verification (MRV) interfaces, fiscal treatment of carbon revenues, and CBAM compliance mechanisms—has yet to be finalized. As a result, domestic carbon pricing remains non-operational just as CBAM exposure is beginning to materialize. Local adaptation planning exists as a legal mandate without institutional substance. The Climate Law requires Local Climate Change Action Plans (LCCAPs) across 81 provinces, yet capacity varies greatly and no regulatory framework, coordination mechanism, or planning methodology has been established. In addition, nature-based solutions for wildfire mitigation, drought resilience, and ecosystem restoration remain

[8] Government of Türkiye. 2024. Climate Change Adaptation Strategy and Action Plan 2024-2030.
[9] Turkish State Meteorological Service (MGM). 2024
[10] Government of Türkiye. 2024. Climate Change Adaptation Strategy and Action Plan 2024-2030.
[11] Kurt, S. and Li, X. 2020. Potential Impacts of Sea Level Rise on the Coasts of Turkey. *Journal of Environment and Earth Science*, 10 (5). pp. 40-47.

fragmented across sectoral agencies, outside NDC accounting systems, and without the governance framework needed to mobilize finance or generate verifiable climate outcomes.

1.6 The Government of Türkiye has absorbed much of the economic pressure arising from the current situation in the Middle East through temporary, targeted measures rather than a permanent policy intervention. The sliding-scale fuel-tax mechanism was reintroduced by Presidential Decree on March 4, 2026 (only the second time since 2018). The mechanism provides a temporary cushion against fuel-price pass-through, with an estimated total cost of TRY400 billion (USD8.3 billion) by the time it terminates on Oct. 1, 2026.[12] In addition, a separate pre-existing subsidy for household natural gas and electricity consumption, budgeted at approximately TRY305 billion (USD6.3 billion) for 2026, had already been scheduled for a gradual phase-down before the recent developments in the Middle East, but this schedule was revised in April. Officials estimated that the cost could rise to TRY925 billion (USD19.2 billion) if elevated energy prices persist[13]. While necessary to protect households and firms in the near term, this response has two limitations: it leaves Türkiye's structural fossil-fuel exposure unaddressed and competes directly with the fiscal space needed for climate-aligned public investment to address that exposure at its source.

1.7 Through the Türkiye Climate Action Acceleration Program (TCAAP or the Program), the Asian Infrastructure Investment Bank (AIIB) is supporting Türkiye's ambitious climate reform to address the gap in the regulatory and institutional architecture required to achieve Türkiye's NDC targets and operationalize Türkiye's Climate Law. In addition, the Program provides critical financing support to help sustain the Program's reform momentum and protect climate policy gains during the current period of heightened fiscal and economic pressure arising from the situation in the Middle East, resulting also in the safeguarding of other essential development programs, including those supporting Türkiye's climate transition objectives.

1.8 AIIB's stand-alone CPBF has been designed to be complementary with ongoing partner programs; it has been carefully mapped to ensure mutual reinforcement and avoids duplication. Coordinated through the Ministry of Treasury and Finance (MOTF) as the whole-of-government anchor, the Program is structured across three mutually reinforcing pillars: (a) operationalizing carbon market governance, including the fiscal integration of carbon revenues and the CBAM compliance architecture; (b) establishing the sectoral decarbonization implementation framework across the energy and transport sectors; and (c) institutionalizing subnational climate resilience planning, water security, nature-based solutions governance, and climate-health risk management. Through the Program, AIIB supports the policy architecture needed to translate Türkiye's legislative commitments into operational measures and enable partner investments to deliver measurable climate outcomes.

[12] Reuters. 2026. The Sliding Scale Mechanism Means Giving Up Approximately 400 Billion Tl in Revenue – Şimşek/NTV. Sep. 18; Government of Türkiye, Digital Tax Office. Public Announcement. May 6.
[13] Türkiye Today. 2026. Türkiye Raises Electricity, Gas Bills by up to 25% on Rising Energy Costs. April 3.

2. Program Description

A. Program Overview

2.1 **Development Objectives.** The TCAAP supports the implementation of Türkiye's NDC 3.0 and Climate Law, through policy and institutional reforms in the areas of sustainable finance, sectoral decarbonization, and climate resilience.

2.2 **Scope and Eligibility**. The proposed Program will focus support and actions in three pillars:

(a) **Operationalizing the Carbon Market and Green Finance Regulatory Measures.** To operationalize Türkiye's ETS, establish a green finance regulatory architecture, and mobilize public and private capital toward low-carbon and climate-resilient activities.

(b) **Accelerating Sectoral Decarbonization Pathways.** To accelerate the implementation of mitigation policies across energy, industry, transport, and monitoring frameworks, translating NDC commitments into binding sector-specific regulatory and institutional action.

(c) **Institutionalizing Adaptation Across Water, Nature and Health.** To institutionalize local adaptation governance, strengthen water and agricultural resilience, protect and expand carbon sinks, and integrate climate risk into health systems across Türkiye's 81 provinces.

2.3 The TCAAP is fully consistent with Türkiye's internationally recognized Climate Framework, including its NDC 3.0. Türkiye's Climate Law provides the legislative architecture within which all PAs are anchored. The Climate Change Mitigation and Adaptation Action Plans (2024-2030) and the 2053 Long Term Climate Strategy further confirm the coherence of the Program with Türkiye's climate transition framework. All PAs are directly traceable to these recognized climate commitments and contribute to their operationalization.

2.4 The 2025 Article IV Consultation of the International Monetary Fund (IMF), concluded on Feb. 6, 2026, confirms that Türkiye's macroeconomic framework is adequate to support this operation.[14] Inflation declined from 49.4% in September 2024 to 31.8% in July 2026. Real GDP growth was 3.6% in 2025 and is forecast at 2.9% in 2026. The fiscal deficit improved from 4.7% to 2.9% of GDP in 2025 and public debt at 23.7% of GDP remains one of Türkiye's most significant macro-financial strengths. The IMF notes downside risks from global trade uncertainty and still-elevated inflation. Fitch Ratings revised Türkiye's sovereign outlook to Stable from Positive in April 2026, citing the decline in international reserves since the onset of the conflict in the Middle East, before affirming the rating at 'BB-' with a Stable Outlook in July 2026. These developments indicate that, notwithstanding continued external vulnerability, Türkiye's underlying credit profile has held through the shock.

2.5 **Proposed Financing**. The Government of Türkiye has requested AIIB to finance the Program as a stand-alone operation of USD1,600 million, including USD800 million from the Facility. The full amount will be disbursed in a single tranche upon completion and verification

[14] IMF. 2026. Republic of Türkiye: 2025 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the Republic of Türkiye.

of all PAs. A single-tranche approach is appropriate, given the strong government ownership of the reform program, the advanced implementation status of most of the PAs under MOTF coordination, and the absence of material uncertainty regarding sequencing.

2.6 The financing amount for the Program has been determined based on Türkiye's overall projected financing requirements, the financial costs and benefits of the Program, and the availability of and access to alternative financing, and reflects the scale and cross-cutting ambition of Türkiye's climate reform agenda. The financing amount provided from the Facility helps address the unanticipated financing gap arising from the needed response to the impact of the current situation in the Middle East: the combined exposure of the sliding-scale fuel-tax mechanism and the delayed household energy-subsidy reduction is estimated at approximately TRY1.02 trillion (USD21.1 billion) under an adverse price scenario, against which USD800 million represents approximately 3.8%. Combined AIIB financing of USD1,600 million remains approximately 0.1% of GDP.

2.7 **Eligibility under the Facility**. The Program is aligned with the requirements set forth in the Decision to Support AIIB's Policy-Based Financing in Eligible Crises to access financing under the Facility, which authorizes the provision of supplemental financing to projects under preparation to address the fallout of the recent developments by providing critical financing support to help sustain the Program's reform momentum. It is targeted, in that it responds to an energy-import-price shock transmitted through a documented widening of the energy import bill (estimated at USD10 billion in 2026) and a decline in gross international reserves. It is temporary, the government's response has been delivered through time-bound measures rather than permanent subsidies. The sliding-scale fuel-tax mechanism is scheduled to terminate on Oct. 1, 2026, and the household energy subsidy was already on a pre-conflict phase-down path. It is aligned with the green transition, in that it is attached to a climate reform program rather than to general budget relief and disburses only against verified climate prior actions. In addition, it is countercyclical and exit-defined, in that it is single-tranche, non-renewable, and closes with the parent operation on Dec. 31, 2028. It is noted that the fuel-tax measure will expire before the first disbursement. The fiscal cost it has already generated, the household energy subsidy running through 2026, and the reserve position are the exposures that the TCAAP-SF addresses, and the operation is not premised on the continuation of the measure itself.

2.8 **Strategic Fit for AIIB.** The TCAAP aligns with AIIB's Articles of Agreement, meets the CPBF objective, satisfies the eligibility criteria for a stand-alone CPBF, supports the Bank's Corporate Strategy, and contributes to its climate financing targets. The Program fully aligns with AIIB's Green Infrastructure thematic priority by supporting the government in operationalizing its carbon market and green finance architecture, mobilizing public and private capital toward low-carbon activities, and accelerating the transition to a climate-resilient economy anchored in Türkiye's NDC 3.0 and Climate Law. The TCAAP will directly contribute to several of AIIB's sector strategies, including the Energy Sector Strategy: Sustainable Energy for Tomorrow, the Transport Sector Strategy: Sustainable and Integrated Transport for Trade and Economic Growth in Asia, the Water Sector Strategy, the Sustainable Cities Strategy: Financing Solutions for Developing Sustainable Cities in Asia, and the Health Strategy: Tomorrow's Infrastructure for Health by enabling policies to decarbonize hard-to-abate sectors such as industry and by enhancing Türkiye's climate resilience.

2.9 As the Program is prepared as a stand-alone operation, AIIB has carried out a comprehensive assessment confirming that the government has the strong capacity and ownership required to design and implement the supported policy measures. The prior actions are anchored in the Climate Law and NDC 3.0, ensuring that the reform program reflects Türkiye's own legislative and strategic framework rather than externally imposed conditionalities. Türkiye has prior policy-based financing experience with the World Bank (WB), including the 2014 Sustaining Shared Growth Development Policy Loan (USD500 million) and the 2017 Resilience and Inclusive Growth Development Policy Financing (USD400 million), confirming the government's institutional track record and absorption capacity for this instrument. The TCAAP has been designed in coordination with the WB's Partnership for Market Implementation (PMI) program to ensure complementarity and avoid duplication, while simultaneously articulating AIIB's distinct contribution. AIIB has mobilized a multidisciplinary cross-departmental team of staff complemented by national and international consultants with deep knowledge of Türkiye's institutions and political economy, to conduct policy dialogues and undertake technical and fiduciary assessments.

2.10 The TCAAP aligns with and reinforces AIIB's existing portfolio in Türkiye, representing the Bank's most cross-cutting operation in the economy to date. It builds on AIIB's longstanding engagement with Türkiye, with financing spanning energy, transport, urban resilience, and disaster response. In February 2025, AIIB and the government formalized a USD5 billion Multi-year Rolling Pipeline (MYRP) investment program for 2025–2027, within which the TCAAP serves as the policy-based financing component alongside a pipeline of green investment operations. By operationalizing carbon market governance, green finance regulation, sectoral decarbonization frameworks, and local climate planning, the TCAAP is expected to generate a more conducive regulatory environment for climate investment across industrial decarbonization, water resilience, climate-resilient infrastructure, and healthcare—sectors that are explicitly identified in Türkiye's Twelfth Development Plan (2024–2028) as national priorities.

2.11 **Creating an Enabling Environment for Private Sector and Infrastructure Investment.** Türkiye's target of 120 gigawatts of installed renewable capacity by 2035 sits within a far larger financing challenge: the WB's 2022 CCDR estimates Türkiye needs USD68 billion in additional investment by 2030 to deliver its climate transition, about half from private sources — a scale that exceeds what public and multilateral project financing can deliver alone. AIIB's own portfolio in Türkiye — renewable energy and energy efficiency facilities financed through TSKB and TKYB, and investments in hydropower, wind, geothermal, and solar projects totaling hundreds of megawatts of installed capacity — demonstrates that private capital responds where conditions allow, but project-by-project financing cannot on its own remove the systemic barriers that have constrained investment at the scale the target requires. The Program's reforms address these barriers directly, at the policy level. Without a binding carbon price, private decarbonization investment competed directly against cheaper, unabated production; Türkiye's ETS establishes the compliance framework under which covered facilities meet defined decarbonization targets, converting decarbonization from a discretionary cost into a market requirement. Renewable energy developers previously faced permitting and licensing processes whose timeline and outcome were difficult to predict, complicating financial close for capital-intensive, long-horizon projects; the streamlined permitting process under the 2025 Electricity Market Law and Renewable Energy Law amendments, together with the transparent, competitive YEKA tender process, removes this

uncertainty across the market rather than deal by deal, as demonstrated by the 1,800 MW of wind and solar capacity awarded under the 2025 YEKA tenders. In aviation, the absence of a blending requirement meant no guaranteed demand existed to justify investment in SAF production capacity; Türkiye's SAF mandate creates predictable, compliance-driven demand, supporting private investment in production and associated supply-chain infrastructure. Addressing these barriers at the regulatory level positions the Program to crowd in private capital at a scale that complements AIIB's own direct investments.

2.12 **Increasing Adaptation Finance.** The TCAAP strengthens Türkiye's capacity to mobilize adaptation finance by integrating climate resilience considerations into institutional frameworks and fiscal instruments. Pillar 3's local governance architecture, which establishes Climate Change Coordination Boards and LCCAPs across 81 provinces, creates the institutional foundation for program identification, preparation, and financing at the provincial level, generating an adaptation investment pipeline that is currently lacking. The National Water Plan of Türkiye (2026–2035) advances water security governance in the most climate-stressed agricultural basins and establishes the policy and institutional framework needed to attract international adaptation finance for irrigation modernization and drought-resilience investments. In addition, the carbon sink and nature-based solutions governance framework creates the legal and market conditions necessary to support ecosystem restoration initiatives linked to carbon-credit revenues and international climate-finance mechanisms.

2.13 **Paris Alignment and Climate Finance.** The Paris Agreement Alignment (PAA) assessment was carried out based on the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New Operations: Policy-Based Lending Operations, Version 1.0, June 2023. An operation needs to be aligned with both the mitigation and climate adaptation and resilience goals of the Paris Agreement to be considered "Paris-aligned." The Program is assessed as aligned with both the mitigation (BB1) and adaptation and resilience (BB2) goals of the Paris Agreement. It supports the implementation of Türkiye's NDC 3.0 and Climate Law by (a) operationalizing the carbon market and green finance regulatory measures, (b) accelerating sectoral decarbonization pathways, and (c) institutionalizing adaptation across water, nature, and health.

2.14 Based on the joint MDB methodologies for tracking climate mitigation and adaptation finance, USD800 million, equivalent to 100% of AIIB financing, qualifies as climate finance. This comprises USD256 million in climate adaptation finance, equivalent to 32% of AIIB financing, and USD544 million in climate mitigation finance, equivalent to 68% of AIIB financing. Of the total climate finance amount, USD168 million is assessed as delivering dual adaptation and mitigation benefits. A detailed overview of the climate finance estimate and assessment of the Program's alignment with the Paris Agreement is included in Annex 4.

2.15 As the TCAAP-SF supports the same policy actions and reform commitments as the parent CPBF and is of equal size, the same climate finance attribution applies. Accordingly, combined TCAAP financing, comprising the USD800.00 million parent CPBF and the USD800.00 million TCAAP-SF, totals USD1,600.00 million in climate finance, equivalent to 100.00% of combined AIIB financing. This includes USD1,088.00 million in climate mitigation finance (68.00%) and USD512.00 million in climate adaptation finance (32.00%), of which USD336.00 million (21.00%) delivers dual adaptation and mitigation benefits.

2.16 **Value Addition by AIIB.** Türkiye's unique position as a carbon-intensive, EU Customs Union member, and an upper-middle-income economy assuming the COP31 presidency while operationalizing its first national carbon market, makes this Program both timely and strategically impactful. AIIB brings relevant experience on carbon markets from its engagement with AIIB Members with established ETS frameworks, including China, and from its growing CPBF portfolio across Brazil, Kazakhstan, and Uzbekistan. AIIB's experience provides Türkiye with institutional reference points on ETS registry design and MRV architecture that complement the more technical ETS design support provided by the WB's PMI and the EU's Instrument for Pre-accession Assistance (IPA) III. AIIB also brings significant operational experience from financing renewable energy and climate investment projects, including in Türkiye, which informs the design of reforms that enhance project bankability and help mobilize private capital. AIIB has leveraged its analytical work on nature-based solutions and climate-health infrastructure to support the governance reforms under Pillar 3 and will facilitate knowledge exchange drawing on relevant Member experiences in local climate planning and green budgeting. Targeted technical assistance will be deployed in priority reform areas where AIIB's contribution is distinct and additive.

2.17 The TCAAP's design benefits from AIIB's growing analytical and operational knowledge base applied to Türkiye's specific climate geography and reform context. AIIB's 2023 Asian Infrastructure Finance report, "Nature as Infrastructure," informs AIIB's assessment of Pillar 3's carbon sink governance, where forest and non-forest carbon sink areas together represent a largely untapped climate asset. AIIB's 2025 Asian Infrastructure Finance report, "Infrastructure for Planetary Health," which urges infrastructure development to prioritize health, climate, and nature, informs the Bank's approach to Pillar 3's climate-health governance prior action. On water, AIIB's operational experience from the Türkiye: Water Efficiency and Climate Resilience for Results (Results-Based Financing)—financing modern irrigation systems and flood control infrastructure through Türkiye's General Directorate of State Hydraulic Works (DSİ)—provides direct institutional knowledge of DSİ's implementation capacity and water governance systems that informs AIIB's assessment of Prior Action 3.3's feasibility. AIIB's 2026 Asian Infrastructure Finance report "Where the Water Flows: Water as Infrastructure," published concurrently with Türkiye's National Water Plan, further reinforces AIIB's analytical positioning on water governance as a critical climate adaptation priority.

2.18 The TCAAP-SF complements the TCAAP by sustaining the Program's reform momentum at a moment of economic pressure created by the current situation in the Middle East. Drawing on the TCAAP's existing policy matrix, results framework, and institutional relationships with the MOTF and line ministries, it is delivered at the point in the reform cycle when it is needed. Its link to the continuation of the Program's existing prior actions, rather than to general budget relief, signals continued multilateral confidence in Türkiye's reform trajectory through a period of external pressure.

2.19 AIIB's strategic value to this operation extends beyond financing and to helping shape Türkiye's wider climate policy and financing landscape. Through the Bank's support for an integrated, cross-sectoral reform agenda, AIIB helps strengthen the institutional and policy foundations required for a whole-of-government climate transition, recognizing that such a transition requires coordinated action across government institutions beyond those responsible for climate and environmental policy. This upstream engagement complements

sectoral investments by creating an enabling environment for the effective mobilization, coordination, and deployment of climate finance from public, private, and MDB sources.

2.20 **Value Addition to AIIB.** The TCAAP consolidates AIIB's substantial engagement in Türkiye, evolving it from an investment-focused relationship into a comprehensive strategic climate partnership, spanning policy, investment, and results-based financing. The upstream policy dialogue and analytical work provided by the CPBF operation places AIIB in a strategic position to strengthen Türkiye's MYRP of climate-aligned investments. As a G20 economy assuming the COP31 presidency, Türkiye provides AIIB with a high-visibility platform to demonstrate its role as a credible climate policy partner at the international level. The Program generates significant institutional learning: supporting ETS operationalization in an upper-middle-income economy with deep EU trade exposure creates a replicable model that is directly applicable to other AIIB Members navigating carbon market development and CBAM-equivalent trade pressures, particularly across Central Asia, the South Caucasus, and the Middle East. More broadly, the TCAAP marks an important step in demonstrating AIIB's capacity to deliver complex, multi-pillar whole-of-government policy operations alongside its investment mandate. Finally, the reforms under the TCAAP will help unlock sectors for private investment, which AIIB can further support through its non-sovereign financing instruments.

2.21 This Program is among AIIB's first applications of Supplemental Financing under the Facility to a stand-alone CPBF operation, extending the Bank's toolkit to combine CPBF with crisis-response financing within a single reform program. The operation is expected to generate valuable institutional learning on sustaining policy reform implementation during periods of fiscal stress, which can inform the design of future Facility-supported operations for other Members facing similar external shocks.

2.22 **Whole-of-Bank Approach.** Adopting a whole-of-Bank approach has been central to the preparation of the TCAAP, mirroring the whole-of-government coordination that the Program supports in Türkiye. AIIB has mobilized a multidisciplinary, cross-departmental team of staff, complemented by national and international consultants, to conduct policy dialogue, technical and fiduciary assessments, and capacity-building support. Designated AIIB departments have engaged closely with counterparts across the MOTF, the Directorate of Climate Change, and relevant line ministries to ensure that prior action design reflects the technical requirements, institutional capacities, and implementation realities of each reform area.

2.23 **Complementarities and Synergies with Other Operations.** The proposed CPBF serves as the policy anchor of AIIB's broader engagement in Türkiye. The operation complements ongoing and planned investments under AIIB's MYRP through a number of priority reform-to-investment pathways, in each case addressing the upstream policy, regulatory, or institutional barrier that constrains investment. The National Water Plan and River Basin Management Plans under Prior Action 3.3 establish the planning basis for irrigation efficiency investment. The Local Climate Change Action Plan framework under Prior Action 3.1 creates the local planning basis for urban and climate resilience investment. The YEKA renewable energy pipeline under Prior Action 2.2 increases transmission capacity requirements that AIIB could support. The climate-health governance framework under Prior Action 3.4 creates the institutional basis for climate-health infrastructure investment. Complementary support from development partners will help facilitate effective implementation of the reform program and support the development of downstream

investment opportunities. By providing fast-disbursing budget support, the operation also helps preserve fiscal space for climate-aligned public investment that could otherwise be displaced by conflict-driven stabilization spending.

2.24 Türkiye is benefiting from significant and coordinated support from development partners, aligned with its national climate priorities. Partner engagement has focused on analytical work, technical assistance, guarantees, and investment financing, while the TCAAP's contribution focuses on the fiscal integration, institutional governance, and whole-of-government coordination dimensions of climate reform. A 2021 Memorandum of Understanding (MOU) among Türkiye, the WB, France, Germany, United Nations (UN) agencies, the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD) established a framework of up to USD3.2 billion in financing and technical assistance aligned with Türkiye's NDC and Long Term Climate Strategy.[15] On carbon market and green finance, the WB's PMI supports ETS technical design and MRV capacity building with a pilot phase expected in 2026. The EU IPA III supports legal transposition of EU climate standards and CBAM readiness, and the IFC's USD100 million climate transition bond has validated private market appetite for green finance instruments, collectively providing the foundations upon which the TCAAP's carbon revenue fiscal integration, green taxonomy, and green budgeting architecture can build.[16] On sectoral decarbonization, the EBRD's USD5 billion Türkiye Industrial Decarbonisation Investment Platform (TIDIP) platform and the WB's USD1 billion renewable energy program provide the investment financing that TCAAP's industrial certification framework and sectoral regulatory standards are designed to enable and channel.[17] On climate resilience, the WB has committed USD400 million for forest resilience[18] and a EUR360 million private-sector adaptation guarantee,[19] while the EU-Türkiye Climate Change Grant Program finances local climate action projects, and the EU has separately provided technical assistance and climate risk data supporting LCCAP preparation in pilot provinces, both operating within the local governance architecture and nature-based solutions regulatory framework.[20]

2.25 **Lessons Learned.** The TCAAP builds on lessons from CPBF operations approved since the instrument's introduction in June 2024, drawing on a rapidly growing body of institutional experience that has been carefully applied to Türkiye's specific reform context.

- **Strong ownership is the most reliable predictor of reform sustainability.** AIIB's experience in Members such as Bangladesh, Brazil, Egypt, Kazakhstan, and Uzbekistan suggests that CPBFs anchored in Member-led reform programs with whole-of-government champions demonstrate stronger implementation momentum and greater resilience to political transition. The TCAAP reflects this lesson directly: most prior actions are grounded in Türkiye's Climate Law, coordinated through the MOTF as the whole-of-government anchor, and embedded in NDC 3.0 and the Twelfth Development Plan.

[15] WB. 2022. Towards a Greener and More Resilient Türkiye. July 28.
[16] IFC. 2025. IFC Partners with QNB Türkiye on First-of-its-Kind Transition Bond to Spur Productivity and Competitiveness in Türkiye. Dec. 8.
[17] EBRD. 2024. Türkiye Launches Industrial Decarbonisation Investment Platform. Nov. 25.
[18] WB. 2024. World Bank and Government of Türkiye Kickoff a $400 Million Project to Make the Country's Forests More Resilient. May 30.
[19] WB. 2025. World Bank Steps Up Climate Action in Türkiye with Major Guarantee for Resilience Project. June 30.
[20] United Nations Development Programme (UNDP). 2024. Applications Open for EU-Türkiye Climate Change Grant Programme to Support Local Climate Action. Nov. 6.

- **Prior actions must target operationalization**. The most effective CPBFs use primary legislation as the anchor that provides legal authority and political durability to reforms, while concentrating the prior actions on the secondary regulatory instruments, fiscal frameworks, and institutional mechanisms that make legislation functional and verifiable. Legislative enactment alone, without accompanying operationalization measures, risks falling short of delivering measurable climate outcomes. The TCAAP reflects this lesson: Türkiye's Climate Law serves as the primary legislative anchor within which most prior actions are grounded, while the Program's prior actions are deliberately concentrated on secondary regulation, fiscal integration, and governance architecture that bridge the gap between the legal framework and operational delivery.

- **Carbon market reforms require careful sequencing and complementary technical support.** Operationalizing ETSs is among the most technically complex reform areas in policy-based financing, requiring coordinated development of regulatory frameworks, institutional capacity, and fiscal architecture. The TCAAP reflects this lesson by sequencing Pillar 1 prior actions to establish foundational governance frameworks before operationalizing market mechanisms. The Program also builds on the WB PMI's ongoing technical assistance, ensuring that AIIB's policy support complements rather than substitutes for specialized ETS design capacity.

- **Local implementation requires its own institutional architecture.** National regulatory frameworks without accompanying provincial governance mechanisms, coordination structures, and capacity support risk facing implementation gaps at the local level. The TCAAP addresses this risk by making the local climate governance architecture—the provincial Climate Change Coordination Boards and LCCAP regulatory frameworks—a prior action rather than an assumed downstream outcome, recognizing that without an explicit regulatory and coordination framework, the Climate Law's local mandate risks remaining unimplemented across Türkiye's 81 provinces.

- **Türkiye's structural economic interests reinforce reform durability alongside legislative and international commitments.** A distinctive feature of the TCAAP relative to all predecessor CPBF operations is that domestic carbon pricing reform is directly linked to Türkiye's export competitiveness through the CBAM, creating economic incentives for implementation and sustainability that are independent of political cycles and stronger than climate commitments alone. The Program capitalizes on this by explicitly addressing the CBAM compliance architecture under Pillar 1, a dimension absent from all previous CPBF operations that significantly reduces the risk of reform reversal.

- **Green transition requires regulatory reforms that simultaneously strengthen public governance frameworks and reduce private sector investment risk.** Climate policy reforms that establish clear carbon price signals, investment classification standards, and certification systems, alongside public governance and fiscal architecture, create enabling conditions for private capital mobilization at scale. The TCAAP reflects this by combining public governance reforms with private sector-

facing instruments, including the green taxonomy, industrial green transition certification, and the sustainable capital markets framework.

- **Robust monitoring frameworks enable tracking of policy commitments and the measurement of outcomes.** Embedding monitoring capacity within program design is essential to program credibility and climate impact verification, as demonstrated in Brazil's NDC monitoring and MRV frameworks for its carbon market, Uzbekistan's MRV system, and Egypt's GHG MRV reform. The TCAAP's results framework is built around quantitative indicators with defined baselines and targets, and the digital climate monitoring system under the Climate Change Mitigation Strategy and Action Plan (CCMSAP) is institutionalized as a prior action under Pillar 2, ensuring that measurement capacity is a reform output, not an assumed precondition.

B. Policy Actions, Results and Sustainability

2.26 **Reform Areas, Prior Actions, Expected Results, and Analytical Underpinnings.** The TCAAP comprises 12 prior actions across three mutually reinforcing pillars. Pillar 1 establishes the carbon market and green finance regulatory architecture, the foundational market signals, and fiscal instruments on which the Program rests. Pillar 2 translates those signals into binding sectoral decarbonization action across energy, industry, and transport. Pillar 3 addresses the physical climate risks that threaten the economic foundations and institutionalizes adaptation governance across water, nature, and health.

2.26.1 **Pillar 1. Operationalizing the Carbon Market and Green Finance Regulatory Measures.** Pillar 1 operationalizes Türkiye's carbon market and green finance regulatory architecture—the foundational market signals and fiscal instruments through which NDC 3.0 commitments are translated into measurable economic incentives and investment flows. The five prior actions are sequenced from the primary ETS legislative foundation through the full regulatory stack, MRV data infrastructure, and green investment classification, culminating in a whole-of-government green finance strategy anchored in the MOTF.

(a) **Prior Action 1.1.** To establish the statutory foundation for climate mitigation through emission trading instruments (Carbon Market), the Grand National Assembly has enacted Climate Law No. 7552, which entered into force upon publication in Official Gazette No. 32951, dated July 9, 2025. The Climate Law creates the Carbon Market Board, designates the Energy Exchange Istanbul (EPİAŞ) as the ETS Market Operator, and designates the Directorate of Climate Change (DOCC) as the Designated National Authority (DNA).

(1) **Rationale.** Delivering Türkiye's NDC 3.0 targets and managing CBAM exposure, estimated at between EUR138 million and EUR2,500 million annually, require a domestic carbon pricing instrument and a designated authority for Article 6 cooperation, neither of which existed in primary legislation before the enactment of Climate Law No. 7552.

(2) **Significance of the Prior Action.** The Climate Law is the legal anchor of the entire TCAAP. It allocates clear institutional roles across regulatory design (Carbon Market Board), market operation (EPİAŞ), and

international cooperation (DOCC) as DNA, and provides the legal authority from which all subsequent Pillar 1 reforms derive.

(3) **Expected Results.** The Carbon Market Board became operational following its inaugural meeting on Jan. 15, 2026, during which it adopted its Working Procedures Directive. EPİAŞ and DOCC are formally designated. The associated result indicators (RI1-RI3) are presented jointly with those of Prior Action 1.2 and are set out in the Prior Action 1.1 row of the Policy and Results Matrix (Annex 1).

(4) **Analytical Underpinnings.** (Annex 2).

(b) **Prior Action 1.2**. To operationalize Türkiye's Emission Trading System (ETS), the Borrower has issued the following implementing regulations under Climate Law No. 7552: (1) the ETS Regulation published and as evidenced in the Official Gazette No. 33353 dated Aug. 27, 2026; and (2) the Regulation on Transparency and Market Manipulation in Energy and Environmental Markets published and as evidenced in Official Gazette No. 33168, dated Feb. 14, 2026. Together with three further implementing regulations — the Carbon Market Operation Regulation, the Carbon Crediting and Offsetting Regulation, and the ETS Revenue Management and Utilization Regulation — these instruments provide the regulatory stack required for the launch of the ETS pilot phase.

(1) **Rationale.** The Climate Law sets the framework but does not specify operational rules. International experience from ETSs in the EU, China, and Korea shows that carbon markets become functional only once the secondary regulatory stack, covering allocation, MRV, trading, offsets, and revenue use, among others, is fully in place.

(2) **Significance of the Prior Action.** Prior Action 1.2 converts the ETS from a legal construct into an operational market, delivers the regulatory certainty that industry needs to prepare for compliance, and creates the domestic carbon cost recognition mechanism that allows exporters from Türkiye to claim deductions under CBAM rules by aligning implementation timing with the EU CBAM operational phase. The enacted Market Manipulation Regulation already provides part of this certainty by establishing surveillance rules in advance of pilot launch.

(3) **Expected Results.** By June 30, 2027: (i) the Carbon Market Operation Regulation is published in the Official Gazette; and (ii) the Carbon Crediting and Offsetting Regulation and the ETS Revenue Management and Utilization Regulation are published in the Official Gazette. By April 30, 2027: at least 180 ETS-covered facilities are registered in the Transaction Registry with baseline emissions reports submitted under the four regulations.

(4) **Analytical Underpinnings.** (Annex 2).

(c) **Prior Action 1.3**. To strengthen the data infrastructure underpinning Türkiye's ETS and national climate accounting, the Borrower has integrated MRV data into the calculation of emissions from cement production under the Industrial Processes and Product Use (IPPU) Sector as evidenced by its publication on the UNFCCC official website on April 15, 2026.

(1) **Rationale.** Türkiye's national GHG inventory has historically relied on top-down sectoral estimates rather than facility-level data, limiting the granularity and auditability of emissions reporting in carbon-intensive sectors. Integrating MRV data for cement production—one of the largest industrial emissions sources and a priority ETS sector—establishes the methodological precedent for extending facility-level integration economy-wide.

(2) **Significance of the Prior Action.** Cement-sector MRV integration is the first operational bridge between ETS compliance monitoring and national GHG inventory compilation, demonstrating the data architecture that the Turkish Statistical Institute (Turkstat) will extend to the full facility-level MRV database and to alignment with the UN Global Set of Climate Change Statistics and Indicators.

(3) **Expected Results.** By Dec. 31, 2026, the national indicator set is mapped to the UN Global Set of Climate Change Statistics and Indicators and is integrated into the Official Statistics Programme (OSP) 2027–2031. By Dec. 31, 2027, a facility-level MRV database is established and is integrated into Turkstat's national GHG inventory compilation process.

(4) **Analytical Underpinnings.** (Annex 2).

(d) **Prior Action 1.4**. To build the regulatory foundation for channeling capital toward sustainable activities, the Borrower has issued the Turkish Green Taxonomy Regulation, as evidenced by its publication in the Official Gazette No. 33380, dated Sep. 24, 2026. Building on this taxonomy, the government has also established the Climate-Related Financial Risk Supervision Framework, embedding climate risk into prudential banking supervision through: (1) the BRSA Guideline on the Management of Climate-Related Financial Risks; (2) the Communiqué on Banks' Green Asset Ratio Calculation; (3) the BRSA Decision on Green Loan-To-Value Ratios; and (4) the incorporation of the IFRS S2 GHG Emissions Disclosure amendments into national legislation.

(1) **Rationale.** Türkiye's climate transition is estimated to require USD68 billion in additional investment by 2030, the majority of which must be mobilized from private capital. The financial system is heavily bank-centric, with banks holding more than 90% of total financial assets. Approximately 45% of bank lending is concentrated in regions exposed to high climate hazards, while the five most carbon-intensive sectors account for nearly half of total credit. In this context, aligning bank and capital-market disclosures with a binding national taxonomy is a structural prerequisite for mobilizing climate-aligned finance at scale. The absence of a binding national taxonomy has constrained the ability of Türkiye's banks, capital markets, and institutional investors to identify, price, and report climate-aligned investments. This limitation is particularly binding given Türkiye's high degree of financial integration with the EU, where the EU Taxonomy increasingly governs cross-border green capital flows. The same concentration of climate-exposed lending also constitutes a prudential risk: without a supervisory framework requiring banks to measure and disclose climate risk exposures, credit risk from physical and transition hazards remains unpriced in the banking system.

(2) **Significance of the Prior Action.** The Taxonomy converts climate policy into investable asset classes. It provides the Capital Markets Board of Türkiye (CMB) and the BRSA with a regulatory foundation to mandate taxonomy-aligned reporting, ensures interoperability with EU Taxonomy disclosures for international investors, and establishes the common definitional framework through which the Green Finance Strategy (Prior Action 1.5) and downstream sectoral instruments (Pillars 2 and 3) operate coherently. The Climate-Related Financial Risk Supervision Framework complements this by providing the BRSA the supervisory tools needed, including mandatory climate risk disclosure, asset-ratio reporting, and periodic stress testing, to price and monitor climate-related credit risk across the banking system.

(3) **Expected Results.** By Dec. 31, 2026, the Türkiye Climate Stress Test Phase 2 report is completed.

(4) **Analytical Underpinnings.** (Annex 2).

(e) **Prior Action 1.5.** To establish a government-wide framework for aligning public and private financial flows with Türkiye's climate transition objectives, the Borrower, through its Ministry of Treasury and Finance (MOTF), has issued the National Green Finance Strategy and Action Plan 2026–2029 (the "Strategy"), as evidenced by its publication in the Official Gazette No. 33300, dated July 4, 2026.

(1) **Rationale.** Türkiye's capacity to mobilize the investment that its climate transition requires is constrained by three structural gaps: (i) a financing gap too large for public resources alone to close, (ii) a fragmented policy and incentive environment that does not yet consistently channel finance toward climate-aligned activities, and (iii) a budgetary architecture that cannot systematically track the alignment of public spending with climate commitments. The Climate Law (Prior Action 1.1), ETS regulations (Prior Action 1.2), and the Taxonomy (Prior Action 1.4) provide the individual instruments of the green finance architecture, but no single framework articulates a coherent government-wide strategy linking them to investment targets and institutional responsibilities. The Strategy fills this gap, anchored in the MOTF as the whole-of-government coordinator.

(2) **Significance of the Prior Action.** Prior Action 1.5 institutionalizes whole-of-government coordination of green finance. The Strategy defines strategic priorities, institutional responsibilities, and measurable targets for mobilizing green finance across the economy. Comparable strategies demonstrate that anchoring such frameworks in the MOTF with budget authority materially accelerates green capital mobilization. The Strategy positions Türkiye to communicate a coherent investment proposition ahead of its COP31 presidency.

(3) **Expected Results.** The completed Strategy is published. By Dec. 31, 2027, the green budgeting regulation and guidance is completed, with climate and environmental perspectives integrated into central-government budget preparation and implementation. By Dec. 31, 2028, at least 70% of the actions from the National Green Finance Strategy and Action Plan 2026–2029 are implemented, completed, and reported.

(4) **Analytical Underpinnings.** (Annex 2).

2.26.2 **Pillar 2. Accelerating Sectoral Decarbonization Pathways.** The reforms under the Pillar 2 support the operationalization of Türkiye's carbon market by strengthening emissions tracking systems, advancing emissions reductions in key sectors, and establishing the regulatory frameworks that will enable sectors to prepare for and comply with carbon pricing. Türkiye has introduced a coordinated set of reforms to accelerate the implementation of its climate and energy transition objectives across key sectors. The three prior actions under this pillar focus on NDC implementation governance (Prior Action 2.1), large-scale renewable energy deployment (Prior Action 2.2), and aviation decarbonization (Prior Action 2.3).

(a) **Prior Action 2.1.** To operationalize Türkiye's NDC 3.0 commitments through a digitally monitored implementation framework, the Borrower, through the Climate Change and Adaptation Coordination Board, has made the CCMSAP digital monitoring system operational in December 2025 as evidenced by its availability in the national Climate Portal since December 2025.

(1) **Rationale.** Credible NDC implementation requires a clear sectoral action framework aligned with committed targets, a robust monitoring system to track progress in real time, and an indicator set consistent with international reporting standards. The Climate Change and Adaptation Coordination Board decided on Sep. 10, 2025 to update the CCMSAP to reflect NDC 3.0's 2035 targets. This update provides this governance architecture, converting national commitments into sectoral obligations with defined actions, deadlines, and accountability mechanisms.

(2) **Significance of the Prior Action.** The updated CCMSAP converts NDC 3.0 into a governable policy program with clear sectoral action assignments, deadlines, and accountability mechanisms. The digital monitoring system and its integration with facility-level MRV data under Prior Action 1.3 together constitute the cross-pillar data architecture on which ETS compliance, NDC reporting, and climate policy adjustment all depend. This shift toward digital MRV systems enables the assessment of implementation gaps in real-time. It also provides the analytical basis for adjusting policy instruments as needed to remain on track toward achieving national climate objectives.

(3) **Expected Results.** By Dec. 31, 2026, the CCMSAP is updated with NDC 3.0 2035 targets, and 2025 monitoring data is integrated into the Climate Portal. By March 31, 2027 (target under confirmation), at least 85% of the CCMSAP 2026 actions are tracked in real time through the digital monitoring system.

(4) **Analytical Underpinnings.** (Annex 2).

(b) **Prior Action 2.2.** To increase Türkiye's proportion of electricity sourced from renewable resources, the Grand National Assembly has enacted the 2025 amendments to the Electricity Market Law (No. 6446) and the Renewable Energy Law (No. 5346), as published and evidenced in the Official Gazette No. 32965, dated July 24, 2025.

(1) **Rationale.** Power generation is a dominant contributor to Türkiye's energy-related GHG emissions, which account for approximately 73% of non-land-use GHG, making scaling up renewable energy central to achieving NDC 3.0 targets. Türkiye's dependence on imported fossil fuels for power generation—exposed acutely when gas, coal, and oil prices surged by 700%, 180%, and 110%, respectively, between mid-2020 and mid-2022—makes accelerated renewable deployment simultaneously a climate, energy security, and current account imperative. Fragmented permitting across multiple regulatory frameworks has been a documented constraint on deployment rates, while competitive auction mechanisms have proven effective internationally in driving cost reductions and accelerating financial close for new capacity.

(2) **Significance of the Prior Action.** The 2025 amendments consolidate zoning-plan approvals, building permits, and licensing processes under a unified ministerial authority, reducing the permitting period for wind and solar projects, removing the principal regulatory bottleneck that has constrained the pace of renewable energy deployment. The extension of an 85% discount on permit and easement fees through 2030 strengthens the financial attractiveness of new renewable capacity development. The 1,800 MW YEKA tenders, comprising 1,150 MW onshore wind and 650 MW solar PV completed in November and December 2025, implement a least-cost power sector investment pathway by procuring additional renewable energy capacity through a competitive auction model. The successful award of 1,800 MW through competitive YEKA tenders demonstrates the operationalization of a transparent and competitive renewable energy procurement framework. Beyond expanding renewable-generation capacity, the auctions strengthen market confidence, attract private investment, improve price discovery, and advance the transition toward a more competitive and resilient electricity sector. The 2025 amendments improve the enabling environment for the YEKA tenders and increase the likelihood that awarded projects will be developed on time and at lower cost, thereby establishing an enhanced model for successive renewable capacity tender rounds.

(3) **Expected Results.** Number and capacity (MW) of renewable-energy projects, disaggregated by wind and solar power, obtaining production licenses under the amended permitting framework and YEKA program eight solar PV projects totaling 650 MW by Dec. 31, 2026, and six onshore wind projects totaling 1,150 MW by March 31, 2027.

(4) **Analytical Underpinnings.** (Annex 2).

(c) **Prior Action 2.3.** To align Türkiye's aviation sector with the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) framework, and accelerate sustainable aviation fuel adoption, the Borrower, (i) through the Ministry of Transport and Infrastructure (MOTI), has issued the Sustainable Aviation Fuel Directive (SHT-SAF), as evidenced by its publication on the Directorate General of Civil Aviation (SHGM) official website on June 26, 2025; and (ii) through the DOCC has issued the Procedures and Principles for the Authorization of Carbon Credits under CORSIA, as evidenced by the

publication on its official website on July 2, 2026, to authorize Türkiye-origin credits as eligible for CORSIA compliance.

(1) **Rationale.** Aviation accounts for approximately 15% of Türkiye's transport sector GHG emissions and represents a hard-to-abate subsector for which carbon pricing and electrification are insufficient in the near term. As a CORSIA participant and major aviation hub connecting Europe, Asia, and the Middle East, Türkiye faced tightening international sustainability requirements for its carriers without a binding domestic SAF framework. This creates regulatory uncertainty that constrains SAF market development and exposes carriers from Türkiye to a growing risk of losing market access as international aviation sustainability requirements become stricter. CORSIA compliance also depends on the availability of eligible offset units—without a domestic authorization pathway, carriers from Türkiye would need to rely exclusively on foreign-origin credits, foregoing the market and revenue benefits of its own emission reduction and removal activities.

(2) **Significance of the Prior Action.** The SHT-SAF Directive establishes the regulatory stack for aviation decarbonization, comprising the annual per-liter lifecycle emission-reduction obligation, eligibility and sustainability criteria, monitoring, and enforcement. The directive complements the broader carbon market and green finance architecture by extending decarbonization to a hard-to-abate sector. By integrating SAF within the broader climate policy framework, the Program strengthens the reform package and supports implementation of Türkiye's NDC 3.0 through a more comprehensive decarbonization strategy. The directive requires airlines operating CORSIA-covered international flights departing from Türkiye to use a minimum amount of SAF and places parallel obligations on jet fuel suppliers in Türkiye, including domestic refiners, to source SAF to meet annually published emission-reduction targets, rather than relying solely on conventional jet fuel. The directive thus turns SAF adoption from a voluntary choice into a legal requirement. This is expected to increase the demand for cleaner fuel and help develop the domestic SAF market. The alignment with CORSIA adds international accountability and helps protect Türkiye's carriers' market access. The carbon credit authorization procedure complements this by establishing Türkiye as a credit-issuing jurisdiction under CORSIA and creating a domestic revenue stream from emission-reduction and removal activities, including, prospectively, forest and non-forest carbon sink areas under Prior Action 3.2, that would otherwise accrue to foreign credit programs.

(3) **Expected Results.** By Dec. 31, 2026 for the second annual announcement (the first announcement having already been made on Sep. 6, 2025), SHGM's annual minimum per-liter emission-reduction value is announced on schedule, and the verified lifecycle emissions reduction achieved through SAF uplift on international departures meets or exceeds the announced target. By Dec. 31, 2027, the volume, in tons of carbon dioxide equivalent (tCO_2e), of Türkiye-origin carbon credits

authorized by DOCC as CORSIA-eligible units announced, against a quantitative target to be set by the Carbon Market Board.

(4) **Analytical Underpinnings.** (Annex 2).

2.26.3 **Pillar 3. Institutionalizing Adaptation Across Water, Nature, and Health.** Pillar 3 institutionalizes adaptation governance across the three domains where Türkiye's physical climate exposure is most acute and institutional capacity is still nascent: water, ecosystems, and health. The four prior actions translate Türkiye's legislative adaptation commitments under the Climate Law and NDC 3.0 into operational governance frameworks at the national and local levels. Pillar 3 connects to Pillar 1 through carbon sink governance. Forest and non-forest carbon credits generated under Prior Action 3.2 can enter the ETS crediting mechanism established under Prior Action 1.2, creating market-based incentives for ecosystem conservation.

(a) **Prior Action 3.1.** To operationalize local climate governance under the Climate Law and equip provinces with the evidence base for climate-resilient planning, the Borrower has issued the Regulation on Local Climate Change Action Plans and Provincial Climate Change Coordination Boards, which entered into force upon publication in Official Gazette No. 33330, dated Aug. 4, 2026. Serving as a scientific basis for provincial climate planning, NUTS-1 level climate risk assessment and projections, covering all statistical regions, were completed on July 3, 2026. The Climate Change Adaptation Strategy and Action Plan (CCASAP) digital monitoring system, which tracks sectoral adaptation action through the national Climate Portal, has been operational since December 2025.

(1) **Rationale.** The Climate Law mandates LCCAPs and Climate Change Coordination Boards across 81 provinces as the primary governance instrument for translating NDC commitments into local action. Türkiye's climate vulnerability spans nine of 10 dimensions against an Organisation for Economic Co-operation and Development (OECD) median of 2—with impacts falling disproportionately on lower-income groups least able to prepare for or recover from extreme events—demanding differentiated, locally-grounded adaptation responses that centralized governance cannot deliver. Before this prior action, no secondary regulatory framework defined the requirements, methodology or institutional architecture for provincial plans, and the absence of granular public risk data at local level constituted a binding constraint on local adaptation planning. NDC 3.0's adaptation commitments similarly required a monitorable strategy of their own: integrating the updated CCASAP into the same digital architecture as the CCMSAP brings adaptation action tracking to an equivalent level as mitigation.

(2) **Significance of the Prior Action.** The Regulation on Local Climate Change Action Plans closes both gaps simultaneously: it legally binds coordination boards across all 81 provinces while connecting national commitments to the local decision-makers responsible for land use, infrastructure, public health, and emergency response. Publicly available NUTS-1 climate risk data—compiled from six global climate models

downscaled to 3-kilometer resolution—provides the evidence base prerequisite for protecting critical public assets, agriculture systems, and water resources against rising temperatures, intensifying floods, and sea level rise.

(3) **Expected Results.** By Dec. 31, 2026, the updated CCASAP that reflects NDC 3.0 2035 targets is published. By Dec. 31, 2028, at least 40 of 81 provinces have established Climate Change Coordination Boards and the LCCAPs under the new Regulation. Six provinces (Antalya, Elazığ, Isparta, Kahramanmaraş, Kastamonu, and Ordu) are undertaking preparatory work ahead of the Regulation's publication.

(4) **Analytical Underpinnings.** (Annex 2).

(b) **Prior Action 3.2.** To strengthen the integrity and expand the capacity of Türkiye's land-based carbon sinks in support of its 2053 net-zero pathway, the Grand National Assembly enacted Law No. 7584, entitled "the Law on Amendments to the Soil Conservation and Land Use Law and Certain Other Laws", as published and evidenced in the Official Gazette No. 33286, dated June 20, 2026.

(1) **Rationale.** Forests currently offset 15%–20% of Türkiye's total GHG emissions, yet the Resilient and Net Zero Pathway requires materially expanded sequestration capacity, and the 2021 fire season, which reversed nearly 20 million tCO_2e in a single year, demonstrated the fragility of relying on existing forest cover alone to deliver that capacity. Realizing additional, durable sequestration therefore requires a legal basis for actively establishing and managing new carbon-sink forests.

(2) **Significance of the Prior Action.** Law No. 7584 gives the GDF an explicit, carbon-market-linked mandate to establish and manage carbon-sink forests, providing the legal foundation on which the secondary legislation and implementation activities tracked under this prior action's expected results can proceed. It also opens a second avenue for carbon-sink expansion beyond forest land through a complementary regulation for non-forest areas, which is also tracked as an expected result for this prior action.

(3) **Expected Results.** By Dec. 31, 2026, the Regulation on Carbon Sink Areas in Non-Forest Lands is published in the Official Gazette, and secondary legislation on the establishment, scope, planning, and management of carbon-sink forests under Additional Article 21 of the Forest Law are developed and brought into force. By Dec. 31, 2028, at least 50,000 hectares of non-forest land are designated and registered as carbon sink areas. During the 2026–2027 period, following the entry into force of the secondary legislation, implementation activities for the identification, project development, and establishment of carbon-sink forests in forest and non-forest areas have commenced.

(4) **Analytical Underpinnings.** (Annex 2).

(c) **Prior Action 3.3.** To strengthen the resilience and efficiency of water resources under a drying climate, the Borrower has established a three-part water-governance framework, comprising: (1) the National Water Plan 2026–2035,

enacted by Presidential Decree (Presidential Decision No. 11063), and published in the Official Gazette on March 14, 2026; (2) River Basin Management Plans for priority basins as evidenced by their publication in Ministry of Agriculture and Forestry's (MOAF) 2025 Annual Administrative Activity Report; and (3) the Procedures and Principles on Xeriscape Landscaping Applications, approved by Presidential Decision No. 10502, published in Official Gazette No. 33051, dated Oct. 18, 2025, and correction published on Oct. 21, 2025.

(1) **Rationale.** Water governance is Türkiye's most economically consequential adaptation priority: a 10% climate-driven reduction in water supply is estimated to cost approximately 6% of GDP. Per capita freshwater availability is projected to decline from 1,313 cubic meters (m^3) (2022) to about 1,069 m^3 per year by 2050. Over two-thirds of Türkiye's 25 river basins already face severe scarcity, and the 2025 drought was the worst in over 50 years. Agriculture accounts for approximately three-quarters of total water consumption, yet subsidy frameworks have historically rewarded water-intensive production, requiring financial incentives and regulatory instruments to drive behavioral change at scale. Urban and peri-urban green-space irrigation adds further pressure to already-stressed basins, particularly outside the agricultural season, making non-mains, drought-tolerant landscaping a necessary complement to basin- and farm-level measures.

(2) **Significance of the Prior Action.** The National Water Plan 2026–2035 establishes the first nationally coherent, climate-adapted water governance framework, integrating demand management, multipurpose storage, irrigation modernization, and freshwater diversification across all sectors. River Basin Management Plans for 12 priority basins provide the technical building blocks for basin-level climate adaptation, incorporating water quantity and quality improvement, sediment management, and ecosystem restoration. The agriculture support payment mechanism under Presidential Decision No. 8859, already operational since September 2025 and financed through Türkiye's existing annual agricultural support budget, directly incentivizes farmers to shift toward lower-water-demand crops in water-stressed basins, operationalizing behavioral change at the farm level where regulatory instruments alone are insufficient. The Xeriscape Landscaping Decision extends this demand-management logic beyond agriculture to public and semi-private green spaces, reducing reliance on mains water for urban landscaping and complementing the National Water Plan's demand-side measures; in parallel, the Woody Plant Guidelines for Reflecting Urban Identity and Supporting Climate Change Adaptation, completed for all 81 provinces of Türkiye at the end of 2025, provide province-specific guidance on drought-tolerant, low-water-demand, and high carbon-sequestration woody species.

(3) **Expected Results.** By Dec. 31, 2028, at least 21 of the 25 river basins with completed River Basin Management Plans have incorporated climate adaptation measures, and at least 225,000 farmers in water-stressed basins have received agricultural support for shifting to lower

water-demand crops under the Presidential Decision No. 8859 payment scheme. By Dec. 31, 2026, the Xeriscaping Plant Species List for all eight ecological regions is prepared and a pilot field study is completed. By Dec. 31, 2027, and Dec. 31, 2028, agricultural irrigation efficiency rises to 55% and 56% respectively (baseline 53% in 2025), and industrial water recovery/recycling rates are raised to 9% and 11% respectively (baseline 7% in 2025).

(4) **Analytical Underpinnings.** (Annex 2).

(d) **Prior Action 3.4.** To institutionalize climate change as a systematic public health governance priority, the Borrower, through its Ministry of Health, has established: (i) the Climate Change and Health Impacts Unit as evidenced by the approval letter referenced E-19020089-020-287921825 and dated Sep. 11, 2025, from the Ministry of Health; and (ii) the Climate Change and Health Scientific Advisory Board as evidenced by the approval letter referenced E-19020089-129-294086840 and dated Dec. 3, 2025, from the Ministry of Health.

(1) **Rationale.** Rising temperatures are projected to expose several cities in Türkiye to weeks with temperatures exceeding 40°C under a scenario of 2°C of global warming, with climate-related health costs estimated at USD2.7 billion in annual GDP losses by 2030. Until 2025, Türkiye's health system lacked a dedicated institutional unit to oversee this issue, a systematic climate-health risk assessment covering all regions, and a binding framework for provincial health preparedness governance. The spread of vector-borne diseases, food insecurity, and climate-driven displacement represents compounding risks that are systematically underrepresented in health investment planning.

(2) **Significance of the Prior Action.** The Climate Change and Health Impacts Unit and the Scientific Advisory Board, established in September and December 2025, respectively, create the dedicated institutional architecture for climate-health governance within the Ministry of Health (MOH). The National Program and Action Plan for Reducing the Adverse Effects of Climate Change on Health operationalizes this framework by establishing binding and measurable responsibilities at the provincial level, supported by designated climate-health focal points across 81 provinces. Embedding a climate-health section within LCCAPs, in consultation with Provincial Health Directorates, further links this prior action to the local planning architecture established under Prior Action 3.1. This helps ensure that climate-related health risks are addressed within the same provincial governance structure as broader adaptation planning, rather than in parallel with it.

(3) **Expected Results.** By Dec. 31, 2026, the National Program and Action Plan for Reducing the Adverse Effects of Climate Change on Health is published with measurable targets and provincial implementation obligations and all 81 provinces with designated climate-health focal points have completed the annual training cycle. By Dec. 31, 2028, at least 40 provinces with LCCAPs (or updates) have incorporated a climate-health section, prepared in consultation with Provincial Health Directorates.

(4) **Analytical Underpinnings.** (Annex 2).

2.27 **Development Financing Needs and Budget Support.** Türkiye's climate transition requires investment well beyond current public expenditure capacity. The WB's 2022 Country Climate and Development Report (CCDR) estimates that achieving Türkiye's resilient net-zero development pathway requires an additional USD68 billion over 2022–2030, bringing total investment requirements to USD165 billion over 2022–2040, across energy, industry, transport, water, and adaptation. Against this investment requirement, Türkiye's fiscal space is constrained by ongoing consolidation: the central government's fiscal deficit stood at 2.9% of GDP in 2025 (from 4.7% in 2024), compounded by fiscal pressures created by the current situation in the Middle East, and by external financing needs remaining substantial at USD259.7 billion in 2025, driven primarily by short-term debt rollover and energy imports. Multilateral development bank (MDB) financing and international capital markets therefore play a necessary complementary role. The 2021 MOU framework committed up to USD3.2 billion from the WB, IFC, EBRD, France, and Germany in financing and technical assistance for Türkiye's climate agenda, a partial response to the scale of identified investment needs. The TCAAP supports the regulatory and fiscal reforms that are necessary to attract and efficiently deploy private and public climate investment at the required scale. The financial stakes of the reforms supported are quantifiable: CBAM exposure of between EUR138 million and EUR2,500 million annually for Türkiye's export industries creates a direct fiscal and economic rationale for carbon pricing reform, while ETS operationalization is expected to generate recurring carbon revenue flows for the government.

2.28 The operation is consistent with Türkiye's debt-carrying capacity. Türkiye's public debt is low by peer standards and sustainable. At USD800 million for the parent operation, complemented by USD800 million in Supplemental Financing under the Facility, the combined TCAAP financing reflects the scale and cross-cutting ambition of the reform program, as well as the scale of the fiscal pressure it responds to, across a USD1.6 trillion economy. At approximately 0.1% of GDP combined, the financing amount remains proportionate to the economy's size and consistent with Türkiye's debt-carrying capacity. The government's crisis response sliding-scale mechanism's estimated TRY400 billion (USD8.3 billion) cost, combined with the potential incremental cost of delayed household subsidy reduction, estimated at up to approximately TRY620 billion (USD12.8 billion) above its already budgeted baseline, represents a combined fiscal exposure of up to approximately TRY1.02 trillion (USD21.1 billion) under an adverse price scenario. AIIB's USD800 million Facility contribution represents approximately 3.8% of this combined exposure. A full macroeconomic assessment is provided in Section 3.A.

2.29 **Consultations and Collaboration with Development Partners and Stakeholders.**

2.29.1 **Consultation with Stakeholders.** The TCAAP is anchored in Türkiye's government-owned climate reform agenda, which has been subjected to stakeholder engagement through established institutional channels. The Climate Law followed Türkiye's constitutional legislative process, including committee review by the Grand National Assembly's Environment and Natural Resources Committee and full parliamentary deliberation. The Carbon Market Board, established under the Climate Law as the ETS governance body, was constituted with representation from relevant public institutions, industry associations, and

technical bodies. The Twelfth Development Plan (2024–2028), within which the TCAAP's climate governance reforms are embedded, was prepared through Türkiye's standard national planning consultation process involving regional development agencies, local governments, and civil society organizations. During program preparation, the MOTF conducted structured consultations with all relevant line ministries to identify priority reform areas and inform the design of prior actions across all three pillars, ensuring that the Policy and Results Matrix reflects the operational priorities and institutional capacities of implementing agencies. AIIB has maintained direct policy dialogue with the MOTF, the Ministry of Environment, Urbanization and Climate Change (MOEUCC), the Ministry of Energy and Natural Resources (MOENR), the MOTI, and the MOH during program preparation, complementing the government's institutional processes and ensuring that the design of the prior actions reflects the operational realities of implementing institutions across all three pillars.

2.29.2 **Collaboration with IMF and other Development Partners.** The TCAAP macroeconomic framework assessment is grounded in the IMF's February 2026 Article IV Consultation. AIIB has additionally consulted with the IMF in April 2026 to discuss the impact of the crisis, and will further coordinate with the Fund throughout the preparation and implementation of the program. Coordination with development partners has been undertaken during program preparation to ensure complementarity and prevent duplication. The partner coordination process, including with the WB's PMI program, will be documented at appraisal, confirming the delineation of each partner's contribution relative to the TCAAP prior actions and the additionality of AIIB's distinct reform areas.

2.30 **Implementation Arrangements.** The MOTF serves as the Program Executing Agency and—in collaboration with the DOCC—has formed a dedicated team to coordinate program preparation with AIIB and ensure alignment across relevant ministries, departments, and institutional entities. Program implementation will rely on established institutional mechanisms for coordinating climate policy. Overall climate strategy is coordinated by the Climate Change and Adaptation Coordination Board (CCACB, İklim Değişikliği ve Uyum Koordinasyon Kurulu), chaired by the MOEUCC. Within the MOEUCC, the DOCC serves as the nodal agency for the climate agenda, providing the technical implementation backbone for the reform program across all three pillars.

2.31 Pillar 1's carbon market and green finance reforms are implemented through DOCC (ETS regulation and Article 6 cooperation), EPİAŞ (market operation), EMRA (market surveillance), and CMB, BRSA, and KGK (green finance and financial risk supervision)—arrangements that reflect the pillar's dual regulatory and financial-sector character. Pillar 2 is implemented through the DOCC (mitigation strategy and monitoring) and the MOTI with SHGM (aviation decarbonization). Pillar 3 is implemented through the DOCC and MOEUCC (local climate governance), the Ministry of Agriculture and Forestry, the General Directorate of Forestry (carbon sink governance), the Ministry of Agriculture and Forestry, with the Ministry of Environment, Urbanization and Climate Change (water-resource management), and the MOH with Provincial Directorates of Health (climate-health governance).

2.32 Cross-pillar coordination operates through the CCACB's sector-specific sub-working groups, which convene the implementing agencies for mitigation and adaptation, respectively: the Mitigation Sub-Working Group (last convened on June 30, 2026) and the Adaptation Sub-Working Group (convened on July 13–14 and 16–17, 2026). These groups provide a standing mechanism through which Pillar 1 and Pillar 2 mitigation actions and Pillar 3 adaptation actions are reconciled at the technical level between full CCACB sessions. Monitoring is centralized through the national Climate Portal, the digital monitoring system underpinning both the CCMSAP (Pillar 2) and the CCASAP (Pillar 3), which tracks sectoral action implementation in real time and provides the data architecture through which the DOCC, as the nodal agency, can monitor cross-pillar progress rather than relying solely on periodic reporting.

2.33 **Sustainability.** The TCAAP's reform sustainability rests on three mutually reinforcing foundations. First, legislative anchoring: most prior actions are grounded in the Climate Law, enacted by Parliament in July 2025 following full constitutional deliberation, providing a legal basis that requires a parliamentary majority to reverse. Second, economic self-interest: Türkiye's CBAM exposure of between EUR138 million and EUR2,500 million annually creates a quantified fiscal cost to reform reversal that is independent of political cycles, providing Türkiye's carbon-intensive export industries a direct commercial stake in domestic carbon pricing operationalization. Third, international accountability: Türkiye's COP31 presidency in November 2026 and NDC 3.0 commitments under the Paris Agreement create reputational costs to reversal that reinforce domestic incentives. To address implementation capacity risks, AIIB will deploy targeted technical assistance in particular prioritizing provincial capacity for climate action planning under Prior Actions 3.1 and 3.4, as the strongest basis for downstream adaptation financing, alongside institutional capacity strengthening more broadly as regulatory ambition expands.

3. Program Appraisal

A. Macroeconomic Policy Framework

3.1 **Background**. Türkiye's economy is large, diversified, dynamic, and business-oriented, with an income per capita of around USD18,103 (or around USD47,000 in purchasing power parity terms). Since the early 2000s, it has experienced robust growth, driven by a strong focus on development, macroeconomic stability, sound fiscal frameworks, trade openness, and institutional reform. Over the same period, income per capita has more than quadrupled and poverty levels have declined significantly. However, from 2016 to 2023, Türkiye's sovereign credit rating deteriorated, reflecting a reliance on short-term stimulus to boost growth, unconventional and unanticipated policies, declining foreign exchange (FX) reserves, high dependence on external financing, and rising geopolitical risks. This created financial vulnerability and led to periods of poor market sentiment and macroeconomic stress, including during 2021-2023 when the currency lost two-thirds of its nominal value, while inflation peaked at over 80%. During that time, Türkiye also faced several adverse shocks, including a surge in global energy prices and a devastating earthquake.

3.2 **Recent Economic Developments.** Since mid-2023, policies have been normalized, and the interest rate increased to a high of 50%. Policy tightening has yielded results, and the economy has been gradually rebalancing. Growth slowed in 2024, as anticipated, to 3.3%, and increased slightly to 3.6% in 2025, supported by still-strong domestic demand. The inflation rate was around 31.5%, as of August 2026, while interim inflation target stood at 24%, and the policy rate stood at 37% as of July 2026. According to Central Bank of the Republic of Türkiye (CBRT), inflation is forecast to be 28% by the end of 2026, mainly due to rising import prices of diesel oil and natural gas.[21] The CBRT is keeping the target inflation rate steady at 24% and 15% for 2026 and 2027, respectively. The current account deficit shrank to 1.9% of GDP in 2025, reflecting lower energy prices and strong export and tourism revenues. FX reserves increased, peaking at almost USD220 billion in January 2026, spreads declined, and external financing conditions improved. While the fiscal deficit widened in 2023 and 2024, the government successfully implemented fiscal consolidation in 2025, including through expenditure restraint and the broadening of the tax base, which protected debt sustainability and helped in rebalancing the economy.

Table 1. Selected Economic and Financial Indicators of Türkiye

Selected Economic Indicators	2023	2024	2025	2026*	2027*	2028*	2029*	2030*
GDP growth 1/	5.0	3.3	3.6	2.9	3.6	3.8	4.0	4.0
Inflation (end-of-period) 1/	64.8	44.4	30.9	23.0	19.0	15.0	15.0	15.0
Fiscal balance	-5.1	-4.7	-2.9	-3.4	-3.7	-3.5	-2.9	-2.8
Public debt	28.3	23.6	23.7	25.5	26.9	27.3	27.4	28.0
Public financing needs (gross)	7.6	6.6	5.2	5.9	6.1	6.3	6.6	6.6
Current account balance	-3.6	-1.0	-1.9	-2.8	-2.5	-2.2	-1.8	-1.4
External debt	37.54	33.9	32.6	35.6	36.2	35.2	34.4	33.9

[21] Central Bank of the Republic of Türkiye (CBRT). 2026. Inflation Report 2026-III. Aug. 13.

Selected Economic Indicators	2023	2024	2025	2026*	2027*	2028*	2029*	2030*
External financing needs (gross)	20.5	17.3	16.5	18.2	18.3	17.9	17.7	17.6
FX reserves (USD billion) 2/	140.9	155.2	184.0	164.4	..	..	..	..
Exchange rate (TRY/USD) 2/	29.4	35.3	42.94	47.6	..	..	..	..

Sources: IMF (WEO Apr and Jul 2026, country report 26/43); in percent of GDP, except where noted; '*' = projections
Notes: 1/ Percent change, year-on-year; 2/ end-of-period, most recent data from central bank, as of July 31, 2026.

3.3 **Outlook and Risks.** Due to the current situation in the Middle East, the economy in 2026 is projected to continue expanding, but at a slower pace of 2.9%, assuming a gradual resolution. This is a downward revision by 1.2 percentage points (ppts) from earlier projections. Subsequently, growth is expected to gradually converge to around 4.0% in the medium term. However, inflation is increasingly entrenched, and curbing it is taking longer than expected; tight monetary policy may be needed to bring inflation down to target levels. Other risks to Türkiye's macroeconomic outlook include global policy uncertainty, regional developments, and volatile market sentiment, which remains sensitive to domestic and global political and policy developments.

3.4 Recent developments in the region have complicated the government's economic stabilization program and present significant economic challenges, foremost among which are rising energy prices, as Türkiye imports over 90% of its crude oil and natural gas. The impact is materializing through higher inflation pressures (disinflation has stalled and reversed, with inflation up by around 1 ppt, inflation expectations by around 2 ppts, and the interim inflation target raised from 16% to 24%), a wider current account deficit (with additional energy import costs of up to USD10 billion), and a larger fiscal deficit. However, the economy is now better positioned to withstand these pressures. The government is accommodating the shock, with FX intervention and energy subsidies. With additional financing, the impact is likely to be negative yet manageable, unless the situation persists longer than anticipated. In that case, the balance of payments could come under more serious strain, increasing pressure for higher interest rates and currency depreciation, which would have a more adverse impact on growth.

3.5 **Debt Sustainability and Sovereign Credit.** According to the IMF, Türkiye's public debt is sustainable and projected to stabilize at around 28% of GDP over the medium term. Key factors supporting debt sustainability include the government's strong balance sheet, continued access to financial markets, a proven track record of economic resilience, and a dynamic economy with substantial growth potential. Likewise, Türkiye's external debt is expected to remain sustainable over the medium term. The shift toward more conventional policies has improved resilience and creditworthiness. Since 2023, S&P, Fitch, and Moody's have upgraded Türkiye's credit rating by two to three notches, to "BB-/Ba3." Following the onset of the conflict in the Middle East, Fitch revised its outlook to Stable from Positive in April 2026 and affirmed the rating at "BB-" with a Stable outlook in July 2026; S&P and Moody's have maintained their outlooks at Stable. The key factor behind the rating upgrades was the strengthening record of effective policymaking, economic resilience, and reduced external vulnerability.

3.6 **Adequacy of the Macroeconomic Policy Framework**. AIIB assesses Türkiye's macroeconomic policy framework as adequate for the purpose of this operation. Since 2023, the policy framework has been normalized. The overall policy mix is set forth in the government's three-year Medium-Term Plans, updated annually. The most recent Medium-Term Plan covering 2027-2029 emphasizes a continued and gradual rebalancing of the economy by managing short-term trade-offs between inflation and growth, with lower growth targets than in previous plans, signaling that price stability remains a priority.

3.7 While Türkiye does not have explicit fiscal targets, the Eurozone budgetary criteria (debt below 60% of GDP and a deficit below 3% of GDP) have been used as indicative benchmarks. Fiscal discipline has been maintained, with deficits averaging around 3% of GDP over the past decade. Fiscal policy has been generally countercyclical, with periodic deteriorations ultimately corrected. Deficits of around 3% of GDP are expected to continue in the medium term. Public debt is low by peer standards and is expected to remain stable. Türkiye continues to enjoy uninterrupted access to financial markets.

3.8 The primary objective of the central bank is price stability, with supporting growth and employment as important secondary goals. Financial stability is an additional objective. Since 2026, a regime targeting inflation has been in place. Since 2021, the inflation target has been 5%. In recent years, the target has been overshot by a wide margin, as reducing inflation from its peak of over 80% in 2022 and navigating the difficult trade-offs between disinflation and growth have taken longer than anticipated. The interim target for 2026 is currently 24%. The general commitment to price stability is demonstrated by a tight monetary stance, with positive real interest rates. That said, even tighter policies may be needed to achieve more decisive disinflation. The exchange rate is officially floating and market determined. FX interventions and other measures have been taken at times to prevent excessive volatility, contributing to a relatively smooth exchange-rate path in recent periods.

3.9 Economic policies operate in the context of a robust private economy. Türkiye's private sector has shown resilience in navigating the volatile environment. Large firms report adequate liquidity, positive short-term net FX positions, and sufficient natural hedges against currency volatility for their negative long-term FX exposure. Despite recent shocks, capitalization, liquidity, and profitability in the banking sector remain adequate and stable. Domestic banks and corporations have been able to roll over their funding, even amid high market uncertainty and stress. Financial stability is supported by sustained confidence among residents and their willingness to maintain deposits in domestic banks.

3.10 **IMF Views.** Türkiye does not have an IMF program. In its February 2026 Article IV report, the IMF noted Türkiye's success in curbing inflation, reducing macroeconomic imbalances, and improving confidence while preserving growth. The current policy mix continues to balance disinflation with steady growth. However, inflation remains above target, and the economy remains vulnerable to shocks. A tighter policy mix, combined with ambitious structural reforms, may be needed to achieve targeted inflation levels, further strengthen external buffers, and support inclusive medium-term growth.

B. Institutional Capacity

3.11 Türkiye has a well-established set of institutions for coordinating climate policy and implementation. At the apex, overall climate strategy is coordinated by the CCACB. The CCACB is chaired by the MOEUCC and supported by 22 permanent members drawn from several government agencies, including the Ministry of Foreign Affairs, MOENR, MOTF, the Ministry of Education, the MOH, the Ministry of Industry and Technology, and the MOAF. Within the MOEUCC, the DOCC serves as the nodal agency for the climate agenda. The DOCC has a relatively broad remit, including tracking international treaties and negotiations, formulating domestic policies and strategies on climate change, conducting modeling, analytical work, and risk assessments, and advancing public education and awareness. The DOCC will play a critical role in implementing several milestones in the TCAAP operation, including six of the prior actions, more than any other agency.

3.12 Article 10 of the Climate Law creates a Carbon Market Board to oversee implementation of the ETS. It will also be chaired by the Minister of the MOEUCC. In addition to the ministries mentioned above, the Carbon Market Board will include the Chairs of the Capital Markets Board, the Energy Market Regulatory Authority, and the Energy Exchange Istanbul. The legislation allows for other public institutions, civil society organizations, professional associations, universities, and private sector representatives to attend meetings upon invitation, although they are not allowed to vote. Beyond the Board, a National Advisory Committee consisting of representatives from the private sector and civil society will assist with guiding policy development and promoting transparency.

3.13 The Climate Law seeks to strengthen accountability for local authorities and assign more responsibility to the local government. Under Article 7, each province and municipality is mandated to establish provincial coordination committees to oversee local climate initiatives. They are required to adopt customized LCCAPs that address both mitigation and adaptation by the end of 2027. One of the key implementation challenges will be significant variations in capacity and resources across local governments. Major cities, such as Istanbul, have sophisticated and ambitious climate action plans, while smaller cities and non-metropolitan provinces could struggle to meet these targets. Capacity-building support for local governments is already being provided with the support of the EU and the United Nations Development Programme (UNDP). AIIB will work with these and other development partners to support peer-to-peer learning and knowledge dissemination.

C. Public Financial Management and Disbursement

3.14 **Public Financial Management (PFM).** Türkiye has a well-established PFM framework anchored in Law No. 5018 on Public Financial Management and Control, with overall stewardship exercised by the MOTF. Core PFM functions—budget formulation, treasury operations and budget execution—are centralized and supported by a Treasury Single Account, enabling consolidated cash management and timely execution of budgeted expenditures. Fiscal information, including budget execution and fiscal outturns, is produced regularly and disclosed through government and parliamentary processes, providing an adequate level of transparency for budget support operations.

3.15 The overall PFM architecture is functioning as intended, the government is advancing important reforms, including enhanced guidance on internal controls, improvements in reporting practices, and continued digitalization of treasury and accounting systems.

3.16 For the purposes of the proposed CPBF and Facility, AIIB assesses that Türkiye's PFM system provides reasonable assurance that the proceeds will be used for the intended budgetary purposes and not for excluded expenditures. The operation does not rely on earmarked transactions or project-specific FM arrangements. FX and fund-flow arrangements are sound: loan proceeds will be credited to the government's accounts at the CBRT and recorded in the budget in accordance with national procedures. Auditing of public finances will continue under existing constitutional and legal arrangements.

3.17 **Disbursements.** The Financing will be disbursed in a single tranche upon confirmation that all agreed have been completed. Loan proceeds will be disbursed in foreign currency to an account at the CBRT, where they will initially augment official foreign exchange reserves. The CBRT is responsible for FX reserve management and conducts FX operations in accordance with the prevailing monetary and exchange rate policy framework. The MOTF will record the local-currency equivalent of the proceeds in the budget in line with national procedures. These arrangements provide reasonable assurance of the proper management of CPBF proceeds.

D. Environmental and Social Aspects

3.18 AIIB's Environmental and Social Framework (ESF, June 2024), including the Environmental and Social Policy (ESP) and Environmental and Social Exclusion List (ESEL), applies to all prior actions under this Program. The program team has conducted an initial assessment of likely environmental and social (ES) effects of the Program, considering Türkiye's already well-developed national environmental, financial, and social governance systems. These include the Environmental Law No. 2872 and Environmental Impact Assessment (EIA) Regulation (latest revised in March 2026), Climate Law No. 7552 (2025), BRSA prudential and climate risk supervision framework, MOEUCC permitting and inspection systems, labor and social protection frameworks, and sectoral regulatory institutions (EMRA, CMB, MOAF, MOTF, and MOH).

3.19 These systems already provide a strong baseline for ES risk management. They include mandatory EIA screening for infrastructure and industrial investments, integrated environmental permitting, stakeholder consultation and grievance redress mechanisms, emissions monitoring and reporting systems, financial-sector supervisory frameworks for climate and environmental, social, and governance (ESG) risk, and structured labor market and social protection systems. The Climate Law further strengthens this architecture by embedding emissions reduction, ETS implementation, carbon pricing, adaptation planning, and inter-institutional coordination across sectors.

3.20 Overall, Türkiye has robust and comprehensive national systems covering most ES risks across planning, permitting, implementation, and monitoring stages. As reflected in the CPBF ES matrix, most risks under the Program are not associated with gaps in regulatory coverage but rather with transition management challenges, uneven implementation capacity across

regions, and distributional adjustment pressures arising from the scale and pace of the green transition.

3.21 Accordingly, the Program is expected to have predominantly positive ES effects with low-to-moderate residual risks. These residual risks are primarily associated with implementation capacity, coordination across institutions, and distributional impacts, rather than the absence of regulatory safeguards. They remain manageable within existing systems and are further supported by targeted capacity strengthening and monitoring under the Program.

3.22 **Environmental Aspects.** The Program is expected to generate strong positive environmental outcomes by strengthening and operationalizing Türkiye's existing climate governance and environmental regulatory framework rather than introducing new environmental safeguard systems.

3.23 Türkiye already maintains a mature environmental regulatory architecture, including Environmental Law No. 2872, mandatory EIA procedures, sectoral permitting systems under the MOEUCC, and climate governance instruments under the Climate Law. The EIA system ensures structured ex-ante screening of environmental impacts of infrastructure and industrial investments, including biodiversity, pollution, land use, and resource efficiency considerations, with mitigation hierarchy application and public consultation requirements broadly aligned with EU EIA Directive principles. In parallel, ETS, MRV systems, and national GHG inventory improvements significantly strengthen emissions monitoring, transparency, and policy responsiveness.

3.24 The likely positive environmental effects of the Program include significant long-term reductions in GHG emissions through the establishment and operationalization of the ETS, accelerated deployment of renewable energy capacity reducing fossil fuel dependence and improving energy system emissions intensity, improved ecosystem restoration and carbon sequestration through non-forest carbon sink governance and associated land-use policies, strengthened water resource resilience through basin-level planning and demand management instruments, and improved alignment of financial flows with environmentally sustainable activities through the green taxonomy and national green finance strategy.

3.25 Neutral environmental effects arise primarily from the institutional and regulatory nature of most prior actions, which do not have direct physical environmental footprints but instead influence environmental outcomes indirectly through downstream investment decisions and compliance incentives.

3.26 Likely adverse environmental effects are limited and are primarily associated with localized land-use change, biodiversity impacts, and ecosystem fragmentation linked to renewable energy expansion, as well as potential land-use and management risks in newly designated carbon sink areas outside forest regimes. These risks are already mitigated through Türkiye's existing EIA system, Environmental Law No. 2872, Forestry Law No. 6831, Nature Conservation Law No. 2873, and Agricultural Land Protection Law No. 5403, which was updated by the Regulation on the Protection and Use of Agricultural Land (Official Gazette No. 33214, April 4, 2026), restricting solar power plant (GES) investment on protected

agricultural land classes, as well as through MOEUCC environmental inspection and enforcement systems, which require environmental assessment, mitigation planning, and stakeholder consultation for relevant investments. However, consistent with the CPBF assessment, cumulative-impact assessment capacity and the consistency of biodiversity offset implementation remain areas of evolving practice, particularly in relation to large-scale renewable energy development corridors and landscape-level planning.

3.27 Overall, environmental risk is assessed as low to moderate, with strong net positive environmental outcomes driven by the Program's structural alignment with Türkiye's climate policy and environmental governance framework.

3.28 **Social Aspects.** The Program is expected to deliver significant positive social outcomes through expanded employment opportunities in green sectors, improved resilience to climate-related risks, enhanced public health protection, and strengthened access to climate-related financial and social services.

3.29 Türkiye already has a well-developed social protection and labor market system, including active labor market policies implemented through the Turkish Employment Agency (İŞKUR), unemployment insurance and reskilling programs, agricultural subsidy schemes under the MOAF, support mechanisms for small and medium-sized enterprises (SMEs), and financial safety nets such as credit-guarantee schemes. These systems provide an important baseline for managing distributional impacts associated with structural economic transformation and industrial transition.

3.30 Likely positive social effects include job creation in renewable energy, green industry, carbon markets, and climate adaptation sectors; improved rural livelihoods through water management and climate-resilient agricultural support schemes, enhanced public health protection through heat-health action planning and climate-health governance systems; and improved access to climate finance and investment opportunities through taxonomy-aligned financial instruments.

3.31 Neutral social effects are associated with the primarily regulatory and institutional nature of most prior actions, where social impacts emerge indirectly through downstream implementation and economic adjustment processes rather than through immediate policy adoption.

3.32 Likely adverse social effects are mainly transition-related and include potential job displacement in carbon-intensive sectors such as cement, steel, refining, and energy-intensive manufacturing; uneven access for SMEs to green finance due to varying compliance capacity, regional disparities in adaptation and implementation readiness; and potential exclusion risks for informal workers and vulnerable groups during the transition process. These risks are mitigated through existing systems, including İŞKUR retraining and labor-market programs, social assistance mechanisms, agricultural subsidy systems, SME support instruments, and regional development agency programs. However, as also reflected in the CPBF matrix, the effectiveness of these mitigation systems varies across regions and sectors, and a fully institutionalized Just Transition framework remains under development.

3.33 Overall, social risk is assessed as moderate, with strong positive development outcomes expected if existing labor, social protection, and financial support systems are effectively coordinated and complemented by targeted transition support mechanisms.

E. Gender Aspects

3.34 The Program is expected to generate positive gender-differentiated effects, particularly through increased participation of women in green labor markets, improved access to climate resilience services, and reduced time burdens associated with improvements in water, health, and energy systems.

3.35 Türkiye already has gender equality policies embedded in labor market programs, including İŞKUR employment initiatives with gender-disaggregated targets and social protection systems that provide a baseline for inclusion. The Ministry of Labor and Social Security's AGEP includes a dedicated Women's Empowerment thematic working group, established in 2025 alongside groups on energy, skills alignment, and social dialogue, providing an institutional channel through which gender considerations in the broader green transition are being addressed. However, consistent with the CPBF assessment, gender mainstreaming in climate finance, ETS-related employment transitions, and industrial decarbonization remains uneven and continues to evolve.

3.36 Likely positive gender effects include expanded opportunities for women in emerging green sectors and services, improved access to climate adaptation and resilience services at the household and community level, and indirect benefits from improved water, energy, and health system efficiency that reduce unpaid care burdens.

3.37 Likely adverse gender effects include limited participation of women in technical and industrial green transition roles, barriers for women-led SMEs in accessing green finance instruments and capital markets due to compliance and collateral constraints, and uneven access to reskilling and transition support programs in rural and industrial regions. These risks are partially mitigated through existing labor-market and social-protection systems, but gender-specific targeting within climate finance and industrial transition programs remains uneven and requires further strengthening.

3.38 Overall, the Program presents strong potential for gender-positive outcomes, provided that gender-responsive targeting and implementation measures are systematically strengthened across climate, labor market, and financial sector instruments.

F. Monitoring, Oversight and Accountability

3.39 **Monitoring and Oversight.** The MOTF, as the Program Executing Agency, will report to AIIB on the implementation progress of the Policy and Results Matrix, drawing on the national Climate Portal as the standing data source for indicator tracking, working in coordination with other entities such as the DOCC, as necessary. AIIB will conduct periodic monitoring to ensure that the policy actions specified in Annex 1 continue to be implemented and are not reversed. At the Program's closure, the AIIB team will verify the achievement of outcome indicators to assess medium-term policy impact. AIIB will monitor and oversee the

implementation of the ES aspects of the Program and address any issues that arise during the Client's implementation of the Program, including the implementation of actions identified to address shortcomings in Türkiye's national systems.

3.40 **Governance and Anti-Corruption.** The Policy on Prohibited Practices applies to the Program. The loan agreement will incorporate adequate provisions to provide: (a) a definition of Excluded Expenditures in accordance with AIIB's Operational Policy on Financing; (b) that the CPBF may not be used to finance Excluded Expenditures, as well as expenditures with respect to which AIIB determines that misuse of resources, theft, or corrupt, fraudulent, collusive, obstructive, or coercive practices have occurred; and (c) recourse to the Bank in the event that the CPBF is used to finance Excluded Expenditures.

3.41 **Know Your Counterparty (KYC) Due Diligence.** The Program Team, in collaboration with the AIIB KYC Team and the Bank's designated external KYC service provider has completed a comprehensive KYC assessment for the TCAAP and the TCAAP-SF. This assessment encompassed all identified counterparties as well as non-contractual entities involved in the transaction. The TCAAP and the TCAAP-SF have been assigned a KYC risk rating of low, based on the risk scoring of the evaluation. The KYC workflow has been duly finalized and approved via the IO KYC Portal. No indicators of significant money laundering, terrorist financing, sanctions violations, bribery or corruption, tax transparency issues, or other financial crime exposures were identified during the course of the assessment.

3.42 **Grievance Redress and Bank's Project-Affected People's Mechanism (PPM).** Türkiye has an established national grievance system through the Presidential Communication Center (CIMER), which enables citizens to submit complaints and requests electronically and receive formal responses from relevant public institutions. The AIIB's Policy on the PPM applies to this Program. The PPM has been established by AIIB to provide an opportunity for an independent and impartial review of submissions from project-affected people who believe they have been or are likely to be adversely affected by AIIB's failure to implement the ESP in situations when their concerns cannot be addressed satisfactorily through the program-level grievance redress mechanism or the processes of AIIB's Management. Information on AIIB's PPM is available at: https://www.aiib.org/en/about-aiib/who-we-are/project-affected-peoples-mechanism/how-we-assist-you/index.html.

G. Risks and Mitigation Measures

Table 2. Summary of Risks and Mitigating Measures

Risk Description	Assessment (H/M/L)	Mitigation Measures
Preparation Risks		
Political and Governance		
▪ Inherent political risks to climate policy reversal and delays in issuing secondary regulations	M	▪ Most prior actions are anchored in Climate Law No. 7552, which requires a parliamentary majority to reverse. Reform durability is reinforced by Türkiye's binding CBAM exposure, which creates economic and reputational lock-in beyond political

Risk Description	Assessment (H/M/L)	Mitigation Measures
		cycles. ▪ The two-year program period is designed to provide a realistic timeframe to implement the prior actions.
Macroeconomics		
▪ Inflation, currency volatility, fiscal pressure, or external financing shocks, exacerbated by the current situation in the Middle East and high energy import dependence, could compress fiscal space for climate reforms.	M	▪ Continued fiscal discipline, credible monetary policy, exchange rate flexibility, and maintenance of adequate external buffers.
Technical Designs		
▪ Technical complexity of MRV-inventory integration (Prior Action 1.3), the Green Taxonomy (Prior Action 1.4), and land-based carbon sink governance (Prior Action 3.2) may produce design weaknesses or uneven enforcement.	M	▪ Designs draw on the WB CCDR (2022), IMF Article IV (2025), the MOEUCC's CBAM impact analysis, the WB's PMI ETS modeling, and AIIB's analytical work, and align with established international references (EU ETS, EU Taxonomy, IPCC 2006/2019, ICAO CORSIA, ISSB).
Implementation Risks		
Implementation Capacity		
▪ Local implementation capacity is different and may constrain delivery against results indicator targets.	M	▪ AIIB will support targeted technical assistance in priority provinces, sequenced against the phased provincial roll-out of Climate Change Coordination Boards. The early-warning indicator for this risk is the number of provinces with boards established against the phased schedule.
Fiduciary Governance		
▪ There are system-level challenges related to internal control effectiveness, financial reporting quality, and governance pressures in a volatile macroeconomic environment.	M	▪ The operation relies on Türkiye's existing national systems that provide reasonable assurance for budget support, while recognizing ongoing system-wide reform needs. These risks are mitigated by strong central institutions, transparent budget disclosure practices, independent audit arrangements, and continuous policy dialogue with AIIB and other development partners.
Environmental and Social		
▪ Residual risks include transitional job displacement in carbon-intensive industries, uneven SME	M	▪ Türkiye's national systems—Environmental Law No. 2872, the EIA Regulation (revised March 2026), Climate Law No. 7552, BRSA supervision, İŞKUR labor programs, and

Risk Description	Assessment (H/M/L)	Mitigation Measures
access to green finance, regional disparities in adaptation readiness, and localized land-use pressures from renewable energy expansion.		support schemes for SMEs—substantially mitigate residual risks. The Ministry of Labor and Social Security's Just Transition Policies Expert Group (AGEP), through its Skills Alignment and Social Dialogue working groups, provides an institutional mechanism for managing workforce transition risk, independent of the TCAAP.
Supplemental Financing		
▪ Combined exposure against a single results matrix. Combined AIIB financing of USD1,600 million disburses against one set of 12 prior actions, concentrating exposure on a single verification event.	M	▪ All 12 prior actions are completed or substantially advanced and verifiable against published instruments. Verification protocols and the evidence standard for each prior action have been agreed with the MOTF. Combined financing remains at approximately 0.1% of the GDP and within Türkiye's assessed debt-carrying capacity. The early-warning indicator for this risk is the prior action verification status at negotiation.

4. Next Steps

Milestones	Actual or Expected Completion Dates
Screening	March 18, 2026
Concept Review	June 3, 2026
Appraisal Review	Aug. 24, 2026
Negotiation	September 2026
Board Approval	Oct. 22, 2026
Loan Signing	November 2026
Effectiveness	December 2026
First Disbursement	December 2026

Annex 1: Policy and Results Matrix (PRM)

Overall Program Objective: To support the implementation of Türkiye's NDC 3.0 and Climate Law, through policy and institutional reforms in the areas of sustainable finance, sectoral decarbonization, and climate resilience.

Prior Action	Implementing Agency	Results			
		Indicator	Unit of measurement	Baseline	Target
Pillar 1: OPERATIONALIZING THE CARBON MARKET AND GREEN FINANCE REGULATORY MEASURES					
Prior Action 1.1. To establish the statutory foundation for climate mitigation through emission trading instruments (Carbon Market), the Grand National Assembly has enacted Climate Law No. 7552, which entered into force upon publication in Official Gazette No. 32951, dated July 9, 2025. The Climate Law creates the Carbon Market Board, designates the Energy Exchange Istanbul (EPİAŞ) as the ETS Market Operator, and designates the Directorate of Climate Change (DOCC) as the Designated National Authority (DNA).	Directorate of Climate Change Energy Market Regulatory Authority (EMRA) Energy Exchange Istanbul (EPİAŞ)	RI1: Carbon Market Operation Regulation published in the Official Gazette	*RI1: Y/N*	*RI1: N*	RI1: Yes, June 30, 2027
		RI2: Carbon Crediting and Offsetting Regulation and ETS Revenue Management and Utilization Regulation published in the Official Gazette	*RI2: Y/N*	*RI2: N*	RI2: Yes, June 30, 2027
Prior Action 1.2. To operationalize Türkiye's Emission Trading System (ETS), the Borrower has issued the following implementing regulations under Climate Law No. 7552: (1) the ETS Regulation published and as evidenced in the Official Gazette No. 33353 dated Aug. 27, 2026; and (2) the Regulation on Transparency and Market Manipulation in Energy and Environmental Markets published and as evidenced in Official Gazette No. 33168, dated Feb. 14, 2026.		RI3: ETS-covered facilities registered in the Transaction Registry and baseline emissions reports submitted under the four regulations.	*RI3: Nb*	*RI3: 0*	RI3: ⩾ 180 facilities registered and reporting April 30, 2027

Prior Action	Implementing Agency	Results			
		Indicator	Unit of measurement	Baseline	Target
Together with three further implementing regulations — the Carbon Market Operation Regulation, the Carbon Crediting and Offsetting Regulation, and the ETS Revenue Management and Utilization Regulation — these instruments provide the regulatory stack required for the launch of the ETS pilot phase.					
Prior Action 1.3. To strengthen the data infrastructure underpinning Türkiye's ETS and national climate accounting, the Borrower has integrated MRV data into the calculation of emissions from cement production under the Industrial Processes and Product Use (IPPU) Sector as evidenced by its publication on the UNFCCC official website on April 15, 2026.	Directorate of Climate Change Turkish Statistical Institute (Turkstat)	RI 1: Facility level MRV database established and integrated into Turkstat's national GHG inventory compilation process. RI 2: National indicator set mapped to UN Global Set of Climate Change Statistics and Indicators integrated into Official Statistics Programme (OSP) 2027-2031	*RI1: Y/N* *RI2: Y/N*	*RI1: N* *RI2: N*	RI1: Yes, Dec. 31, 2027 RI2: Yes, Dec. 31, 2026
Prior Action 1.4. To build the regulatory foundation for channeling capital toward sustainable activities, the Borrower has issued the Turkish Green Taxonomy Regulation, as evidenced by its publication in the Official Gazette No. 33380, dated Sep. 24, 2026. Building on this taxonomy, the government has also established the Climate-Related Financial Risk Supervision Framework, embedding climate risk into prudential banking supervision through: (1) the BRSA	Directorate of Climate Change Capital Markets Board of Türkiye (CMB) Public Oversight, Accounting and Auditing Standards Authority (KGK)	RI1: Türkiye Climate Stress Test Phase 2 report completed.	*RI1: Y/N*	*RI1: N*	RI1: Yes, Dec. 31, 2026

Prior Action	Implementing Agency	Results			
		Indicator	Unit of measurement	Baseline	Target
Guideline on the Management of Climate-Related Financial Risks; (2) the Communiqué on Banks' Green Asset Ratio Calculation; (3) the BRSA Decision on Green Loan-To-Value Ratios; and (4) the incorporation of the IFRS S2 GHG Emissions Disclosure amendments into national legislation.	Banking Regulation and Supervision Agency (BRSA)				
Prior Action 1.5. To establish a government-wide framework for aligning public and private financial flows with Türkiye's climate transition objectives, the Borrower, through its Ministry of Treasury and Finance (MOTF), has issued the National Green Finance Strategy and Action Plan 2026–2029 (the "Strategy"), as evidenced by its publication in the Official Gazette No. 33300, dated July 4, 2026.	MOTF	RI1: Green budgeting regulation and guidance completed, and climate/environment perspectives integrated into central-government budget preparation and implementation. RI2: Actions from the National Green Finance Strategy and Action Plan 2026–2029 are implemented, completed, and reported.	*RI1: Y/N* *RI2: %*	*RI1: N* *RI2: 0*	RI1: Yes, Dec. 31, 2027 RI2: ⩾70% of actions are implemented, completed, and reported by Dec. 31, 2028
Pillar 2: ACCELERATING SECTORAL DECARBONIZATION PATHWAYS					
Prior Action 2.1. To operationalize Türkiye's NDC 3.0 commitments through a digitally monitored implementation framework, the Borrower, through the Climate Change and Adaptation Coordination Board, has made the Climate Change Mitigation Strategy and Action Plan's (CCMSAP) digital monitoring system operational in December 2025 as evidenced by its	Directorate of Climate Change	RI1: CCMSAP updated to reflect NDC 3.0 2035 targets with 2025 monitoring data integrated into Climate Portal.	*RI1: Y/N* *RI2: %*	*RI1: N* *RI2: N*	RI1: Yes, Dec. 31, 2026

Prior Action	Implementing Agency	Results			
		Indicator	Unit of measurement	Baseline	Target
availability in the national Climate Portal since December 2025.		RI2: Share of CCMSAP 2026 actions tracked in real time through the digital monitoring system.			RI2: ≥ 85% of actions tracked by March 31, 2027
Prior Action 2.2. To increase Türkiye's proportion of electricity sourced from renewable resources, the Grand National Assembly has enacted the 2025 amendments to the Electricity Market Law (No. 6446) and the Renewable Energy Law (No. 5346), as published and evidenced in the Official Gazette No.32965, dated July 24, 2025.	Ministry of Energy and Natural Resources	No. and capacity (MW) of renewable energy projects (disaggregated into wind and solar power) that have obtained production licenses	Nb	*0*	Eight solar PV projects with a total capacity of 650 MW to obtain licenses by the end of 2026, and six wind projects with a total capacity of 1,150 MW to obtain licenses in the first quarter of 2027
Prior Action 2.3. To align Türkiye's aviation sector with the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) framework, and accelerate sustainable aviation fuel adoption, the Borrower, (i) through the Ministry of Transport and Infrastructure (MOTI), has issued the Sustainable Aviation Fuel Directive (SHT-SAF), as evidenced by its publication on the Directorate General of Civil Aviation (SHGM) official website on June 26, 2025; and (ii) through the DOCC has issued the Procedures and Principles for the Authorization of Carbon Credits under	MOTI Directorate of Climate Change	RI1: SHGM announces the annual minimum per-liter emission-reduction value on schedule, and the verified lifecycle reduction achieved through SAF uplift on international departures meets or exceeds the target.	*RI1: Y/N*	*RI1: N*	RI1: The second announcement published by December 2026

Prior Action	Implementing Agency	Results			
		Indicator	**Unit of measurement**	**Baseline**	**Target**
CORSIA, as evidenced by the publication on its official website on July 2, 2026, to authorize Türkiye-origin credits as eligible for CORSIA compliance.		RI2: Volume (tCO_2e) of Türkiye-origin carbon credits authorized by DOCC as CORSIA-eligible units. Target to be defined and announced by the Carbon Market Board by Dec. 31, 2027.	*RI2: Nb*	*RI2: 0*	RI2: DOCC announces the volume of Türkiye-origin carbon credits authorized by DOCC as CORSIA-eligible units by Dec. 31, 2027
Pillar 3: INSTITUTIONALIZING ADAPTATION ACROSS WATER, NATURE AND HEALTH					
Prior Action 3.1. To operationalize local climate governance under the Climate Law and equip provinces with the evidence base for climate-resilient planning, the Borrower has issued the Regulation on Local Climate Change Action Plans and Provincial Climate Change Coordination Boards, which entered into force upon publication in Official Gazette No. 33330, dated Aug. 4, 2026. Serving as a scientific basis for provincial climate planning, NUTS-1 level climate risk assessment and projections, covering all statistical regions, were completed on July 3, 2026. The CCASAP digital monitoring system, which tracks sectoral adaptation action through the national Climate Portal, has been operational since December 2025.	Directorate of Climate Change Ministry of Environment, Urbanization and Climate Change (MOEUCC)	RI1: Provinces having established Climate Change Coordination Boards and the LCCAPs under the new Regulation. RI2: CCASAP updated to reflect NDC 3.0 2035 is published	*RI1: Nb* *RI2 : Y/N*	*RI1: 0* *RI2: N*	RI1: ≥ 40 of 81 provinces by Dec. 31, 2028 RI2: Yes, Dec. 31, 2026
Prior Action 3.2. To strengthen the integrity and expand the capacity of Türkiye's land-based carbon sinks in	Ministry of Environment,	RI1: Regulation on Carbon Sink Areas in the lands	*RI1: Y/N*	*RI1: N*	RI1: Yes, Dec. 31, 2026

Prior Action	Implementing Agency	Results			
		Indicator	Unit of measurement	Baseline	Target
support of its 2053 net-zero pathway, the Grand National Assembly enacted Law No. 7584, entitled “the Law on Amendments to the Soil Conservation and Land Use Law and Certain Other Laws”, as published and evidenced in the Official Gazette No. 33286, dated June 20, 2026.	Urbanization and Climate Change (MOEUCC) Ministry of Agriculture and Forestry (MOAF) General Directorate of Forestry (GDF)	outside forest estate published in Official Gazette. RI2: Non-forest land officially designated and registered as carbon sink areas under the new Regulation. RI3: Secondary legislation on the establishment, scope, planning and management of carbon sink forests under Additional Article 21 of the Forest Law developed and brought into force. RI4: Following the entry into force of the secondary legislation, implementation activities for the identification, project development and establishment of carbon sink forests in forest and non-forest areas commenced.	*RI2: Hectares* *RI3: Y/N* *RI4: Y/N*	*RI2: 0* *RI3: N* *RI4: N*	RI2: ≥ 50,000 hectares designated by Dec. 31, 2028 RI3: Yes, Dec. 31, 2026 RI4: implementation activities initiated by: 2026–2027

Prior Action	Implementing Agency	Results			
		Indicator	Unit of measurement	Baseline	Target
Prior Action 3.3. To strengthen the resilience and efficiency of water resources under a drying climate, the Borrower has established a three-part water-governance framework, comprising: (1) the National Water Plan 2026–2035, enacted by Presidential Decree (Presidential Decision No. 11063), and published in the Official Gazette on March 14, 2026; (2) River Basin Management Plans for priority basins as evidenced by their publication in Ministry of Agriculture and Forestry's (MOAF) 2025 Annual Administrative Activity Report; and (3) the Procedures and Principles on Xeriscape Landscaping Applications, approved by Presidential Decision No. 10502, published in Official Gazette No. 33051, dated Oct. 18, 2025, and correction published on Oct. 21, 2025.	Ministry of Agriculture and Forestry (MOAF) Ministry of Environment, Urbanization and Climate Change (MOEUCC)	RI1: River basins with completed River Basin Management Plans incorporating climate adaptation measures.	*RI1: Nb*	*RI1: 12 (December 2025)*	RI1: ≥ 21 of the 25 river basins by Dec. 31, 2028
		RI2: Farmers in water-stressed basins receiving agricultural support for shifting to lower water-demand crops under Decision No. 8859 water restriction payment scheme.	*RI2: Nb*	*RI2: 105,000 (cumulative 2023, 2024, 2025)*	RI2: ≥ 225,000 farmers supported (cumulative 2026, 2027, 2028) by Dec. 31, 2028
		RI3: Xeriscaping Plant Species List for all 8 ecological regions prepared.	*RI3: Y/N*	*RI3: N*	RI3: Yes, Dec. 31, 2026
		RI4: Agricultural irrigation efficiency raised.	*RI4: %*	*RI4 : 53 (2025)*	RI4: Agricultural irrigation efficiency raised to 55% by Dec. 31, 2027, and 56% by Dec. 31, 2028

Prior Action	Implementing Agency	Results			
		Indicator	**Unit of measurement**	**Baseline**	**Target**
		RI5: Water recovery/recycling rate raised.	*RI5: %*	*RI5: 7 (2025)*	RI5: Water recovery/recycling rate raised to 9% by Dec. 31, 2027 and 11% by Dec. 31, 2028.
Prior Action 3.4. To institutionalize climate change as a systematic public health governance priority, the Borrower, through its Ministry of Health, has established: (i) the Climate Change and Health Impacts Unit as evidenced by the approval letter referenced E-19020089-020-287921825 and dated Sep. 11, 2025, from the Ministry of Health; and (ii) the Climate Change and Health Scientific Advisory Board as evidenced by the approval letter referenced E-19020089-129-294086840 and dated Dec. 32025, from the Ministry of Health.	MOH and Provincial Directorate of Health Directorate of Climate Change	RI1: National Program and Action Plan for Reducing the Adverse Effects of Climate Change on Health published with measurable targets and provincial implementation obligations.	*RI1: Y/N*	*RI1: N*	RI1: Yes, Dec. 31, 2026
		RI2: Provinces with designated climate-health focal points completing annual training cycle under the Ministry of Health program.	*RI2: Nb*	*RI2: 0 (2025)*	RI2: 81 provinces by Dec. 31, 2026
		RI3: Percentage of provinces that have Local Climate Change Action Plans (or LCCAP updates) incorporating a climate-health section — prepared	*RI3: %*	*RI3: 0*	RI3: ≥ 40 of 81 provinces by Dec. 31, 2028

Prior Action	Implementing Agency	Results			
		Indicator	Unit of measurement	Baseline	Target
		in consultation with the Provincial Health Directorate.			

* YEKA is a program launched to develop large-scale renewable energy projects (mainly solar and wind) through competitive tenders. The government identifies specific zones (YEKA sites) with high renewable potential (e.g., solar irradiation, wind capacity). Projects are awarded through auctions, such as based on the lowest electricity price (per kilowatt-hour).

** CORSIA was adopted in 2016 by the International Civil Aviation Organization (ICAO), the United Nations body responsible for international aviation. Under CORSIA, airlines must offset emissions growth above a baseline level by purchasing eligible carbon credits or using approved lower-carbon fuels.

Annex 2: Prior Actions and Preliminary Analytical Underpinnings

Prior Action (PA)	Analytical Underpinnings
Pillar 1 – Operationalizing the Carbon Market and Green Finance Regulatory Measures	
PA 1.1: To establish the statutory foundation for climate mitigation through emission trading instruments (Carbon Market), the Grand National Assembly has enacted Climate Law No. 7552, which entered into force upon publication in Official Gazette No. 32951, dated July 9, 2025.	• Türkiye's NDC 3.0 and 2053 Net-Zero Long-Term Climate Strategy. • Paris Agreement, in particular, Article 6. • World Bank State and Trends of carbon pricing reports, various years. • World Bank Partnership for Market Readiness (PMR) and Partnership for Market implementation (PMI) – Türkiye program. • European Bank for Reconstruction and Development (EBRD). 2023. Potential Impact of the Carbon Border Adjustment Mechanism on the Turkish Economy. • Comparative reviews of EU ETS, Korea ETS, and China national ETS governance.
PA 1.2: To operationalize Türkiye's Emission Trading System (ETS), the Borrower has issued the following implementing regulations under Climate Law No. 7552: (1) the ETS Regulation published and as evidenced in the Official Gazette No. 33353 dated Aug. **27,** 2026; and (2) the Regulation on Transparency and Market Manipulation in Energy and Environmental Markets published and as evidenced in Official Gazette No. 33168, dated Feb. 14, 2026.	• Paris Agreement, in particular, Article 6 and Article 13. • World Bank PMR and PMI – Türkiye program. • EU ETS Directive and Phase 4 reform package. • Korea ETS Master Plan and Allocation Plan. • IMF Staff Climate Notes on carbon pricing and fiscal integration of carbon revenues.
PA 1.3: To strengthen the data infrastructure underpinning Türkiye's ETS and national climate accounting, the Borrower has integrated MRV data into the calculation of emissions from cement production under the Industrial Processes and Product Use (IPPU) Sector as evidenced by its publication on the UNFCCC official website on April 15, 2026.	• IPCC 2006 Guidelines for National GHG Inventories and 2019 Refinement. • Paris Agreement, Enhanced Transparency Framework (Decision 18/CMA.1). • Türkiye's BTR/BUR submissions and National GHG Inventory Reports. • World Bank PMI MRV systems design notes. • European Environment Agency guidance on integrated MRV and inventory systems within the EU ETS framework. • UN Statistical Commission, Global Set of Climate Change Statistics and Indicators.
PA 1.4: To build the regulatory foundation for channeling capital toward sustainable activities, the Borrower has issued the Turkish Green Taxonomy Regulation, as evidenced by its publication in the Official Gazette No. 33380, dated Sep. 24, 2026.	• EU Taxonomy Regulation and Delegated Acts. • International Platform on Sustainable Finance — Common Ground Taxonomy (China–EU). • Comparative taxonomies (ASEAN, Singapore-Asia, Indonesia Green Taxonomy 2.0). • IFC Climate Investment Opportunities in Türkiye and the QNB Türkiye USD100 million transition bond (2025).

Prior Action (PA)	Analytical Underpinnings
	• World Bank. 2022. Türkiye Country Climate and Development Report. • CMB Green and Sustainability Bond guidance • IMF Financial System Stability Assessment, Republic of Türkiye (2023). • Network for Greening the Financial System (NGFS) guidance on supervisory practices for climate-related risks; Basel Committee principles on the effective management and supervision of climate-related financial risks.
PA 1.5: To establish a government-wide framework for aligning public and private financial flows with Türkiye's climate transition objectives, the Borrower, through its Ministry of Treasury and Finance (MOTF), has issued the National Green Finance Strategy and Action Plan 2026–2029 (the "Strategy"), as evidenced by its publication in the Official Gazette No. 33300, dated July 4, 2026.	• Twelfth Development Plan (2024–2028); 2053 Net-Zero Strategy. • G20 Sustainable Finance Roadmap. • World Bank. 2022. Türkiye Country Climate and Development Report. • OECD. 2023. Scaling Up the Mobilisation of Private Finance for Climate Action in Developing Countries. • EU Sustainable Finance Action Plan.
Pillar 2 – Accelerating Sectoral Decarbonization Pathways	
PA 2.1: To operationalize Türkiye's NDC 3.0 commitments through a digitally monitored implementation framework, the Borrower, through the Climate Change and Adaptation Coordination Board, has made the Climate Change Mitigation Strategy and Action Plan's (CCMSAP) digital monitoring system operational in December 2025 as evidenced by its availability in the national Climate Portal since December 2025.	• United Nations Framework Convention on Climate Change – Paris Agreement and NDC guidance. • Hewlett, O. Unlocking the Potential: Digital MRV. Gold Standard. • World Bank and Carbon Markets Infrastructure Working Group. 2025. Technical Guidance Note on Standardizing Digital MRV in Carbon Markets: System Evaluation Criteria and Hotspots Assessment.
PA 2.2: To increase Türkiye's proportion of electricity sourced from renewable resources, the Grand National Assembly has enacted the 2025 amendments to the Electricity Market Law (No. 6446) and the Renewable Energy Law (No. 5346), as published and evidenced in the Official Gazette No.32965, dated July 24, 2025.	• World Bank. 2015. Investment Climate Reforms: An Independent Evaluation of World Bank Group Support to Reforms of Business Regulations. • IRENA. 2013. Renewable Energy Auctions in Developing Countries. • IRENA. 2015. Renewable Energy Auctions: A Guide to Design. • Azuela, E. et al. 2014. Performance of Renewable Energy Auctions: Experience in Brazil, China and India. World Bank Policy Research Working Paper No. 7062.
PA2.3: To align Türkiye's aviation sector with the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) framework, and accelerate sustainable aviation fuel adoption, the Borrower, (i) through the Ministry of Transport and Infrastructure (MOTI), has issued the	• International Civil Aviation Organization (ICAO). CORSIA. • Malina, R., et al. 2022. The Role of Sustainable Aviation Fuels in Decarbonizing Air Transport. Mobility and Transport Connectivity Series. World Bank.

Prior Action (PA)	Analytical Underpinnings
Sustainable Aviation Fuel Directive (SHT-SAF), as evidenced by its publication on the Directorate General of Civil Aviation (SHGM) official website on June 26, 2025; and (ii) through the DOCC has issued the Procedures and Principles for the Authorization of Carbon Credits under CORSIA, as evidenced by the publication on its official website on July 2, 2026, to authorize Türkiye-origin credits as eligible for CORSIA compliance.	• UNFCCC. Plan to Accelerate Decarbonization of Aviation, COP30, Belém, November 2025.
Pillar 3 – Institutionalizing Adaptation Across Water, Nature and Health	
PA3.1. To operationalize local climate governance under the Climate Law and equip provinces with the evidence base for climate-resilient planning, the Borrower has issued the Regulation on Local Climate Change Action Plans and Provincial Climate Change Coordination Boards, which entered into force upon publication in Official Gazette No. 33330, dated Aug. 4, 2026.	• Türkiye's NDC 3.0 and 2053 Net-Zero Long Term Climate Strategy. • Climate Law No. 7552 (July 2025). • World Bank. 2022. Türkiye Country Climate and Development Report. • UNDP. 2021. Enhancing Adaptation Action in Türkiye Project. • European Environment Agency. 2024. Climate Vulnerability Assessment. • EU Partnership for Local Climate Action in Türkiye — pilot LCCAP methodology. • UNFCCC, UAE Framework for Global Goal on Adaptation / Belém Adaptation Indicators (COP30).
PA3.2. To strengthen the integrity and expand the capacity of Türkiye's land-based carbon sinks in support of its 2053 net-zero pathway, the Grand National Assembly enacted Law No. 7584, entitled "the Law on Amendments to the Soil Conservation and Land Use Law and Certain Other Laws", as published and evidenced in the Official Gazette No. 33286, dated June 20, 2026.	• Türkiye's NDC 3.0 and 2053 Net-Zero Long Term Climate Strategy. • Climate Law No. 7552 (July 2025) — carbon sink governance provisions. • World Bank. 2022. Türkiye Country Climate and Development Report. • IPCC 2006/2019 Guidelines for National GHG Inventories — non-forest land carbon accounting. • IPCC 2006 Guidelines for National GHG Inventories, Volume 4 (Agriculture, Forestry and Other Land Use) — forest carbon accounting. • AIIB. 2023. Asian Infrastructure Finance 2023: Nature as Infrastructure.
PA3.3. To strengthen the resilience and efficiency of water resources under a drying climate, the Borrower has established a three-part water-governance framework, comprising: (1) the National Water Plan 2026–2035, enacted by Presidential Decree (Presidential Decision No. 11063), and published in the Official Gazette on March 14, 2026; (2) River Basin Management Plans for priority basins as evidenced by their publication in Ministry of Agriculture and	• Türkiye's NDC 3.0 — water sector adaptation commitments. • National Water Plan 2026–2035, Presidential Decree, March 2026. • Decision No. 8859 (Official Gazette No. 32647, August 28, 2024) — 2025–2027 Decision on Support for Crop Production and Certain Other Agricultural Supports, Article 2(6ç) groundwater-restriction support provision. • World Bank. 2022. Türkiye Country Climate and Development Report.

Prior Action (PA)	Analytical Underpinnings
Forestry's (MOAF) 2025 Annual Administrative Activity Report; and (3) the Procedures and Principles on Xeriscape Landscaping Applications, approved by Presidential Decision No. 10502, published in Official Gazette No. 33051, dated Oct. 18, 2025, and correction published on Oct. 21, 2025.	• AIIB. 2026. Asian Infrastructure Finance 2026: Where the Water Flows—Infrastructure and Governance for a Sustainable Water Cycle. • European Environment Agency. 2024. Water Stress Assessment. • FAO/GEF, Gediz River Basin Integrated Water Management Project. • Presidential Decision No. 10502 on Xeriscape Landscaping Applications, October 2025.
PA3.4. To institutionalize climate change as a systematic public health governance priority, the Borrower, through its Ministry of Health, has established: (i) the Climate Change and Health Impacts Unit as evidenced by the approval letter referenced E-19020089-020-287921825 and dated Sep. **11,** 2025, from the Ministry of Health; and (ii) the Climate Change and Health Scientific Advisory Board as evidenced by the approval letter referenced E-19020089-129-294086840 and dated Dec. 3, 2025, from the Ministry of Health.	• Türkiye's NDC 3.0 — public health adaptation commitments. • Climate Law No. 7552 (July 2025) — health system resilience provisions. • Ministry of Health Circular No. 2007/52 — existing Heat-Health Action Plan. • Turkish State Meteorological Service, WRF Regional Climate Projections, January 2026. • World Bank. 2022. Türkiye Country Climate and Development Report. • AIIB. 2025. Asian Infrastructure Finance 2025: Infrastructure for Planetary Health. • IPCC Sixth Assessment Report, Working Group II — health impacts, Mediterranean region. • World Health Organization. 2022. Health and Climate Change: Country Profile 2022: Türkiye.

* YEKA is a program launched to develop large-scale renewable energy projects (mainly solar and wind) through competitive tenders. The government identifies specific zones (YEKA sites) with high renewable potential (e.g., solar irradiation, wind capacity). Projects are awarded through auctions, such as based on the lowest electricity price (per kilowatt-hour).

** CORSIA was adopted in 2016 by the International Civil Aviation Organization (ICAO), the United Nations body responsible for international aviation. Under CORSIA, airlines must offset emissions growth above a baseline level by purchasing eligible carbon credits or using approved lower-carbon fuels.

Annex 3: Summary of Environmental and Social Assessment

Prior Action	Likely Environmental Effects	Likely Social Effects
1.1 To establish the statutory foundation for climate mitigation through emission trading instruments (Carbon Market), the Grand National Assembly has enacted Climate Law No. 7552, which entered into force upon publication in Official Gazette No. 32951, dated July 9, 2025. The Climate Law creates the Carbon Market Board, designates the Energy Exchange Istanbul (EPİAŞ) as the ETS Market Operator, and designates the Directorate of Climate Change (DOCC) as the Designated National Authority (DNA).	**Positive:** Establishes a national carbon pricing architecture, expected to drive long-term GHG reductions across power, industry, and transport by internalizing carbon externalities. Strengthens alignment with the EU CBAM and the Paris Agreement, improving emissions transparency and investment reallocation toward low-carbon sectors. **Neutral:** No direct physical footprint; institutional reform only. **Likely adverse (covered by existing systems):** Potential indirect emissions leakage during the transition as regulated firms adjust production. These effects are managed through Türkiye's Environmental Law No. 2872, Climate Law framework safeguards, and EIA Regulation enforcement for downstream investments. Residual environmental risk is low at the policy level.	**Positive:** Creates long-term green employment opportunities in carbon trading, MRV, compliance, and financial services; improves institutional coordination for climate policy delivery. **Neutral:** No immediate labor displacement effects. **Likely adverse (covered by existing systems):** Transitional uncertainty for carbon-intensive sectors (steel, cement, refining). Social adjustment pressures are managed by Türkiye's Labor Law No. 4857, İŞKUR retraining programs, and existing industrial restructuring support policies, though a formal just transition framework remains under development.
1.2 To operationalize Türkiye's Emission Trading System (ETS), the Borrower has issued the following implementing regulations under Climate Law No. 7552: (1) the ETS Regulation published and as evidenced in the Official Gazette No. 33353 dated Aug. 27, 2026; and (2) the Regulation on Transparency and Market Manipulation in Energy and Environmental Markets published and as evidenced in Official Gazette No. 33168, dated Feb. 14, 2026. Together with three further implementing regulations — the Carbon Market Operation Regulation, the Carbon Crediting and Offsetting Regulation, and the ETS	**Positive:** Operational ETS enables measurable emissions reductions through enforceable caps and compliance incentives. Strengthens MRV integrity and reduces the risk of unreported industrial emissions. **Neutral:** Regulatory infrastructure does not itself generate physical environmental impacts. **Likely adverse (covered by existing systems):** Risk of carbon leakage, uneven sectoral compliance, or offset quality concerns. These are managed by Türkiye's MRV Regulation (aligned with EU MRV principles), Industrial Emissions Control Regulation, the Regulation on Transparency	**Positive:** Stimulates green finance markets, innovation in low-carbon technologies, and new compliance-related professional services. **Neutral:** No direct employment displacement at regulatory stage. **Likely adverse (covered by existing systems):** Increased production costs in energy-intensive sectors may be passed through to consumers, potentially affecting affordability. These risks are managed via Energy Market Regulatory Authority (EMRA) pricing oversight and social support mechanisms, though no dedicated carbon revenue recycling system yet exists.

Prior Action	Likely Environmental Effects	Likely Social Effects
Revenue Management and Utilization Regulation — these instruments provide the regulatory stack required for the launch of the ETS pilot phase.	and Market Manipulation in Energy and Environmental Markets, and independent verification arrangements overseen by the DOCC.	
1.3 To strengthen the data infrastructure underpinning Türkiye's ETS and national climate accounting, the Borrower has integrated MRV data into the calculation of emissions from cement production under the Industrial Processes and Product Use (IPPU) Sector as evidenced by its publication on the UNFCCC official website on April 15, 2026.	**Positive:** Significantly improves emissions accounting accuracy, strengthens transparency under the Enhanced Transparency Framework, and reduces data inconsistencies between facility-level reporting and the national inventory. **Neutral:** No physical environmental footprint. **Likely adverse (covered by existing systems):** Cybersecurity/data governance risks in digital MRV systems. These are managed through Türkiye's Personal Data Protection Law (KVKK) and national e-government cybersecurity protocols, though climate MRV cybersecurity standards are still developing.	**Positive:** Enhances evidence-based policymaking and improves accountability in climate governance, indirectly benefiting public welfare. **Neutral:** No direct labor or income effects. **Likely adverse (covered by existing systems):** Increased administrative burden for enterprises required to report granular emissions data. These impacts are managed through existing industrial reporting systems under TSRS and BRSA sustainability reporting frameworks for financial institutions.
1.4 To build the regulatory foundation for channeling capital toward sustainable activities, the Borrower has issued the Turkish Green Taxonomy Regulation, as evidenced by its publication in the Official Gazette No. 33380, dated Sep. 24, 2026. Building on this taxonomy, the government has also established the Climate-Related Financial Risk Supervision Framework, embedding climate risk into prudential banking supervision through: (1) the BRSA Guideline on the Management of Climate-Related Financial Risks; (2) the Communiqué on Banks' Green Asset Ratio Calculation; (3) the BRSA Decision on Green Loan-To-Value Ratios; and (4) the incorporation of the IFRS S2 GHG Emissions Disclosure amendments into national legislation.	**Positive:** Redirects capital toward environmentally sustainable activities, reducing lifecycle emissions of financed projects and improving environmental screening consistency across banking and capital markets. **Neutral:** No direct environmental impact at the policy level. **Likely adverse (covered by existing systems):** Risk of "greenwashing" or misclassification of activities. These risks are managed through Capital Markets Board (CMB) disclosure rules, BRSA supervisory frameworks, and sustainability reporting standards (TSRS), though enforcement capacity remains uneven.	**Positive:** Expands access to green finance for SMEs and clean technology sectors; supports job creation in renewable energy, energy efficiency, and sustainable infrastructure. **Neutral:** No direct social disruption. **Likely adverse (covered by existing systems):** Potential credit reallocation away from carbon-intensive SMEs, increasing financing constraints. These risks are managed through BRSA prudential supervision, SME support programs, and phased disclosure implementation requirements.

Prior Action	Likely Environmental Effects	Likely Social Effects
1.5 To establish a government-wide framework for aligning public and private financial flows with Türkiye's climate transition objectives, the Borrower, through its Ministry of Treasury and Finance (MOTF), has issued the National Green Finance Strategy and Action Plan 2026–2029 (the "Strategy"), as evidenced by its publication in the Official Gazette No. 33300, dated July 4, 2026.	**Positive:** Improves coordination of climate-aligned public and private investment flows, enabling the higher environmental effectiveness of fiscal spending and green investment pipelines. **Neutral:** Policy coordination instrument with no physical footprint. **Likely adverse (covered by existing systems):** Potential coordination challenges across institutions during implementation. Managed through the Public Financial Management and Control Law No. 5018 and existing Treasury budget oversight systems.	**Positive:** Supports job creation through mobilization of large-scale green investment and improves macroeconomic resilience by reducing climate-related fiscal risks. **Neutral:** No direct distributional impacts at adoption stage. **Likely adverse (covered by existing systems):** Potential differences in the regional distribution of green investment. This risk is managed through Türkiye's regional development agency system and public investment planning under the Presidency of Strategy and Budget.
2.1 To operationalize Türkiye's NDC 3.0 commitments through a digitally monitored implementation framework, the Borrower, through the Climate Change and Adaptation Coordination Board, has made the Climate Change Mitigation Strategy and Action Plan's (CCMSAP) digital monitoring system operational in December 2025 as evidenced by its availability in the national Climate Portal since December 2025.	**Positive:** Strengthens real-time emissions tracking and improves environmental policy responsiveness across sectors, reducing implementation gaps in NDC delivery. **Neutral:** Administrative and digital governance reform only. **Likely adverse (covered by existing systems):** Potential data quality and interoperability risks across ministries. These risks are managed through existing e-government infrastructure and statistical standards under the Turkish Statistical Institute (Turkstat) frameworks.	**Positive:** Enhances accountability and transparency in climate policy implementation, improving public trust in governance. **Neutral:** No direct labor effects. **Likely adverse (covered by existing systems):** Increased reporting obligations for line ministries and local agencies. These impacts are managed through existing public administration reporting systems and digital transformation programs.
2.2 To increase Türkiye's proportion of electricity sourced from renewable resources, the Grand National Assembly has enacted the 2025 amendments to the Electricity Market Law (No. 6446) and the Renewable Energy Law (No. 5346), as published and evidenced in the Official Gazette No.32965, dated July 24, 2025.	**Positive:** Accelerates renewable energy deployment (wind and solar), reducing fossil fuel dependence and lowering long-term emissions intensity of the power sector. **Neutral:** Infrastructure permitting reform itself has no immediate footprint; impacts arise from downstream projects subject to the EIA Regulation. **Likely adverse (covered by existing systems):** Land-use change, biodiversity impacts, and visual impacts from	**Positive:** Job creation in construction, operations and maintenance (O&M) of renewable plants, and supply chains; strengthens energy security and reduces exposure to imported fuel price volatility. **Neutral:** No immediate social displacement at policy stage. **Likely adverse (covered by existing systems):** Potential local land acquisition disputes and livelihood impacts in rural areas. These risks are managed through Expropriation

Prior Action	Likely Environmental Effects	Likely Social Effects
	renewable installations. These risks are managed through EIA Regulation, Nature Conservation Law No. 2873, and Forestry Law permitting requirements.	Law No. 2942, EIA public consultation requirements, and local administrative grievance mechanisms.
2.3 To align Türkiye's aviation sector with the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) framework, and accelerate sustainable aviation fuel adoption, the Borrower, (i) through the Ministry of Transport and Infrastructure (MOTI), has issued the Sustainable Aviation Fuel Directive (SHT-SAF), as evidenced by its publication on the Directorate General of Civil Aviation (SHGM) official website on June 26, 2025; and (ii) through the DOCC has issued the Procedures and Principles for the Authorization of Carbon Credits under CORSIA, as evidenced by the publication on its official website on July 2, 2026, to authorize Türkiye-origin credits as eligible for CORSIA compliance.	**Positive:** Reduces aviation lifecycle emissions through the mandatory per-liter lifecycle emission-reduction requirement, supporting decarbonization. **Neutral:** Regulatory measure with no physical footprint. **Likely adverse (covered by existing systems):** Increased fuel production pressures (e.g., biofuel feedstocks demand) potentially affecting land-use indirectly. These risks are managed through agricultural land-use regulation, EIA requirements, and EU-aligned sustainability criteria for biofuels.	**Positive:** Creates new green industrial value chain in aviation fuels and refinery adaptation; strengthens Türkiye's competitiveness as an international aviation hub. **Neutral:** No direct employment displacement at the regulatory stage. **Likely adverse (covered by existing systems):** Potential increase in ticket prices due to higher SAF costs. This risk is managed through aviation regulatory oversight by the Directorate General of Civil Aviation and gradual phase-in under CORSIA rules.
3.1 To operationalize local climate governance under the Climate Law and equip provinces with the evidence base for climate-resilient planning, the Borrower has issued the Regulation on Local Climate Change Action Plans and Provincial Climate Change Coordination Boards, which entered into force upon publication in Official Gazette No. 33330, dated Aug. 4, 2026. Serving as a scientific basis for provincial climate planning, NUTS-1 level climate risk assessment and projections, covering all statistical regions, were completed on July 3, 2026. The CCASAP digital monitoring system, which tracks sectoral adaptation action through the national Climate	**Positive:** Improves local climate adaptation planning and resilience through coordinated adaptation strategies. Improves the integration of climate risk information into development planning, reducing exposure to floods, heat stress, and drought through evidence-based territorial planning. **Neutral:** Data publication and regulatory framework only. **Likely adverse (covered by existing systems):** Risk of differences in the provincial implementation capacity. This risk is managed through the AFAD disaster risk governance framework and the Ministry of Environment and Urbanization's oversight.	**Positive:** Strengthens local resilience, improves disaster preparedness, and reduces vulnerability of low-income communities to climate shocks. **Neutral:** No immediate distributional change. **Likely adverse (covered by existing systems):** Increased administrative burden for municipalities. This impact is managed through Law No. 5216 Metropolitan Municipalities framework and central fiscal transfers.

Prior Action	Likely Environmental Effects	Likely Social Effects
Portal, has been operational since December 2025.		
3.2 To strengthen the integrity and expand the capacity of Türkiye's land-based carbon sinks in support of its 2053 net-zero pathway, the Grand National Assembly enacted Law No. 7584, entitled "the Law on Amendments to the Soil Conservation and Land Use Law and Certain Other Laws", as published and evidenced in the Official Gazette No. 33286, dated June 20, 2026.	**Positive:** Expands national carbon sink capacity beyond forests, improving ecosystem restoration, soil health, and biodiversity conservation. **Neutral:** Regulatory framework only. **Likely adverse (covered by existing systems):** Potential overlaps between agricultural activities and conservation areas. This risk is managed through Agricultural Law No. 5488, Environmental Law No. 2872, and protected area designation frameworks.	**Positive:** Supports rural income diversification through carbon farming and ecosystem service payments. **Neutral:** No immediate labor displacement. **Likely adverse (covered by existing systems):** Restrictions on agricultural land use in designated carbon sink areas may affect farmers. This risk is managed through the Ministry of Agriculture's rural support schemes and compensation mechanisms under existing agricultural subsidy systems.
3.3 To strengthen the resilience and efficiency of water resources under a drying climate, the Borrower has established a three-part water-governance framework, comprising: (1) the National Water Plan 2026–2035, enacted by Presidential Decree (Presidential Decision No. 11063), and published in the Official Gazette on March 14, 2026; (2) River Basin Management Plans for priority basins as evidenced by their publication in Ministry of Agriculture and Forestry's (MOAF) 2025 Annual Administrative Activity Report; and (3) the Procedures and Principles on Xeriscape Landscaping Applications, approved by Presidential Decision No. 10502, published in Official Gazette No. 33051, dated Oct. 18, 2025, and correction published on Oct. 21, 2025.	**Positive:** Improves water efficiency, reduces drought risk, and strengthens basin-level ecosystem restoration and hydrological resilience. **Neutral:** Planning instrument with no direct footprint. **Likely adverse (covered by existing systems):** Potential conflicts over water allocation among agriculture, industry, and domestic users. These risks are managed through the State Hydraulic Works (DSI) allocation system and national Water Law governance structures.	**Positive:** Enhances water security for households and agriculture and reduces drought-related livelihood losses. **Neutral:** No direct labor displacement. **Likely adverse (covered by existing systems):** Adjustment pressure on farmers due to water-use restrictions and incentives. The risk is managed through agricultural subsidy reforms and Water Use Efficiency Programs under the Ministry of Agriculture.
3.4 To institutionalize climate change as a systematic public health governance priority, the Borrower, through its Ministry of Health, has established: (i) the Climate Change and Health Impacts Unit as evidenced by the approval letter referenced E-19020089-020-287921825 and dated Sep. 11, 2025, from	**Positive:** Reduces climate-related health risks (including heat stress and vector-borne diseases) and strengthens adaptive capacity of health system infrastructure. **Neutral:** Institutional reform only.	**Positive:** Improves public health outcomes, reduces mortality from heatwaves and climate-sensitive diseases, and strengthens health equity across vulnerable populations. **Neutral:** No direct employment effects.

Prior Action	Likely Environmental Effects	Likely Social Effects
the Ministry of Health; and (ii) the Climate Change and Health Scientific Advisory Board as evidenced by the approval letter referenced E-19020089-129-294086840 and dated Dec. 3, 2025, from the Ministry of Health.	**Likely adverse (covered by existing systems):** Increased healthcare system workload due to enhanced monitoring requirements. This impact is managed through the MOH's public health governance frameworks and national health information systems.	**Likely adverse (covered by existing systems):** Increased reporting and training obligations for provincial health units. These impacts are managed through existing national health-workforce training systems and emergency-preparedness protocols.

Annex 4: Paris Agreement Alignment and Climate Finance Assessment

1. The Paris Agreement Alignment assessment was carried out based on the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New Operations – Policy-Based Lending Operations, Version 1.0, June 2023. An operation must be aligned with both BB1 and BB2 to be considered Paris-aligned. The assessment below focuses on the 12 prior actions under the Program and assesses their consistency with Türkiye's climate commitments, their alignment with the mitigation and adaptation goals of the Paris Agreement, and their contribution to climate finance.

2. The Program is assessed as aligned with both BB1 and BB2. It supports the implementation of Türkiye's climate ambitions by (a) operationalizing the carbon market and green finance regulatory system, (b) accelerating sectoral decarbonization pathways, and (c) institutionalizing adaptation across water, nature, and health.

A. Assessment of the Alignment with Paris Agreement (PA)

Step 1: Assessing Consistency of the Policy-Based Lending (PBL)-Supported Government Reform Program with Türkiye's Climate Change Priorities

3. The CPBF is fully consistent with Türkiye's climate change priorities as articulated in its NDC 3.0, the Long Term Climate Strategy, and the CCASAP. Türkiye's NDC 3.0 and Long Term Climate Strategy establish its medium- and long-term decarbonization direction, while the CCASAP provides the national framework for strengthening resilience to climate risks. The proposed CPBF directly supports these priorities through a coherent package of policy actions that strengthen climate governance, mobilize green finance, accelerate sectoral decarbonization, and institutionalize adaptation across water, ecosystems, agriculture, and health.

4. The first reform area supports Türkiye's climate priorities by establishing and operationalizing its carbon market and green finance regulatory architecture. Climate Law No. 7552 establishes the statutory and institutional foundation for the national ETS, while the implementing regulatory package covers ETS operation, carbon-market infrastructure, crediting and offsetting, and the management and use of ETS revenues. The integration of facility-level MRV information into national GHG accounting strengthens the data infrastructure needed for credible carbon pricing and emissions tracking. In parallel, Türkiye's Green Taxonomy, climate-related financial-risk supervision, Green Asset Ratio reporting, IFRS S2-related disclosure requirements, the National Green Finance Strategy and Action Plan, and the associated sustainable finance and green budgeting results framework strengthen the ability of public and private finance to support low-carbon and climate-resilient investment.

5. The second reform area supports Türkiye's sectoral decarbonization pathway through three complementary interventions. It strengthens national mitigation implementation and monitoring by updating the CCMSAP to reflect NDC 3.0's 2035 targets and operating a digital monitoring system through the Climate Portal. It supports renewable-energy scale-up through amendments that streamline renewable energy permitting and through the award of 1,800 MW of additional YEKA capacity, comprising 1,150 MW of onshore wind and 650 MW of solar PV.

It also supports aviation-sector mitigation through the SAF Directive and the framework for authorizing carbon credits for use under CORSIA. These measures support Türkiye's NDC 3.0 and 2053 net-zero objective by improving mitigation governance and accelerating lower-carbon power generation and aviation fuels.

6. The third pillar supports Türkiye's adaptation priorities by institutionalizing adaptation across local governance, nature, water, agriculture, urban areas, industry, and public health. The Program strengthens local climate governance through LCCAPs and Provincial Climate Change Coordination Boards and supports the update and digital monitoring of the CCASAP. The pillar also strengthens the sustainable management of forest and non-forest carbon sinks; water and agricultural resilience through the National Water Plan, River Basin Management Plans, xeriscaping, irrigation efficiency, and industrial water recovery and recycling; and climate-health governance through dedicated national institutions, nationwide provincial reporting, focal-point training, and the integration of climate-health considerations into local climate plans. It therefore extends resilience governance from the national level to provinces, river basins, agricultural lands, ecosystems, urban areas, industrial water users, and health systems where climate impacts are directly experienced.

Step 2: Assessing the Mitigation Alignment of the Reform Program (BB1)

7. **Criterion 1a:** Does the PBL reform Program consist of policy actions that support activities that actively contribute or do-no-harm to decarbonization pathways in line with the mitigation goals of the Paris Agreement in all circumstances (i.e., universally aligned activities)?

8. **Yes.** The CPBF consists of policy and institutional reforms that actively support Türkiye's decarbonization pathway and do not undermine the mitigation goals of the Paris Agreement. The Program is anchored in Türkiye's NDC 3.0 and 2053 net-zero objective and supports mitigation through a comprehensive set of enabling, regulatory, financial, and sectoral reforms.

9. The carbon market and green finance pillar actively supports decarbonization by establishing the statutory foundation for the ETS, advancing the implementing regulations required for its operation, strengthening facility-level MRV and national emissions accounting, advancing Türkiye's Green Taxonomy, incorporating climate-related financial risks and disclosures into financial sector regulation, and publishing the National Green Finance Strategy and Action Plan. Together, these reforms create carbon price signals, emissions accounting systems, classification and disclosure tools, and financial policy frameworks that can shift public and private financial flows toward low-carbon and climate-resilient activities.

10. The sectoral decarbonization pillar provides a direct mitigation contribution by strengthening implementation and digital monitoring of the CCMSAP, accelerating renewable electricity deployment, and establishing a regulatory framework for aviation sector emissions reductions. The amendments to the Electricity Market Law and Renewable Energy Law and the award of 1,800 MW of additional wind and solar capacity support power sector decarbonization. The SAF Directive establishes an annual lifecycle emission reduction requirement for CORSIA-covered international departures from Türkiye and requires compliance with applicable certification and sustainability standards. The associated CORSIA

credit authorization framework addresses the environmental integrity dimension of aviation offsetting.

11. Pillar 3, while predominantly adaptation-focused, also includes two mitigation-relevant reforms. Prior Action 3.1 embeds GHG reduction alongside adaptation LCCAPs and establishes Provincial Climate Change Coordination Boards through which local mitigation measures can be identified, coordinated, implemented, and monitored. Prior Action 3.2 strengthens Türkiye's land-based carbon sink framework by establishing a statutory mandate for carbon sink forests and supporting the designation, registration, sustainable management, and implementation of carbon sink areas in forest and non-forest lands. These measures increase the institutional capacity to protect and expand carbon stocks and GHG removals in support of Türkiye's 2053 net-zero pathway.

12. Overall, the reform Program actively contributes to Türkiye's decarbonization pathway through the statutory establishment and operationalization of the ETS; carbon-market operation, registry, crediting, offsetting, and revenue management arrangements; strengthened facility-level MRV and national GHG accounting; sustainable finance, climate-related disclosure and supervision, and green finance mobilization; implementation and digital monitoring of the national mitigation strategy; renewable energy permitting reform and the award of additional wind and solar capacity; certified sustainable aviation fuel and CORSIA-related credit-integrity measures; integrated provincial mitigation planning and coordination; and the protection and expansion of forest and non-forest carbon sinks.

13. **Criterion 1b:** Does the PBL reform Program support activities that contradict the mitigation goals of the Paris Agreement (i.e., universally non-aligned activities)?

14. **No.** The policy actions under the CPBF do not support universally non-aligned activities. They do not promote new coal-fired power generation, new upstream fossil-fuel extraction, dedicated fossil-fuel infrastructure expansion, or long-lived carbon-intensive assets. Instead, the Program focuses on carbon pricing and ETS operation, MRV and national emissions accounting, climate-related financial supervision and disclosure, sustainable finance classification, digital mitigation monitoring, renewable energy deployment, certified SAF, CORSIA-related credit integrity, local climate planning, carbon sink governance, and adaptation across water, ecosystems, and health.

15. The SAF-related measure has been assessed in greater detail because SAF is mitigation relevant where it is certified and compliant with applicable sustainability and lifecycle GHG criteria. The Program addresses this through the SHT-SAF framework's certification and sustainability requirements and through a result indicator that measures verified lifecycle emission reductions rather than fuel volume alone. Similarly, the use of carbon credits under CORSIA is linked to authorization and environmental integrity requirements rather than unrestricted offset use.

16. Overall, the Program does not include activities that contradict the mitigation goals of the Paris Agreement. It supports enabling and operational reforms that strengthen Türkiye's transition toward lower-emission systems.

17. **Criterion 2a:** Do the policy actions supported by the PBL reform Program lead to a significant increase in GHG emissions? Do they introduce or reinforce persistent barriers to use/transition to lower-carbon means to achieve stated development objectives (i.e., there is a significant carbon lock-in risk)?

18. **No.** The policy actions supported by the CPBF are not expected to lead to a significant increase in GHG emissions or to introduce persistent barriers to the low-carbon transition. On the contrary, the Program is designed to address structural, institutional, financial, and sectoral constraints to Türkiye's decarbonization.

19. The Climate Law and ETS regulatory package establish the legal, institutional, market, registry, allocation, monitoring, reporting, verification, and compliance systems required for carbon pricing. The MRV and national inventory measures improve emissions data quality and accountability. The taxonomy, disclosure, supervision, stress-testing, and green finance reforms improve the ability of public institutions, financial regulators, banks, issuers, and investors to identify and support low-carbon and climate-resilient activities. The CCMSAP monitoring framework supports implementation tracking, while the YEKA tenders provide a pipeline of additional renewable generation capacity. The aviation reforms support certified lifecycle emission reductions and environmentally sound credit use. Local climate planning and carbon sink measures further support emissions reduction and GHG removals.

20. The Program does not support new fossil-fuel production, expansion of dedicated fossil-fuel supply infrastructure, new fossil-fuel-based generation, or other long-lived carbon-intensive assets. The renewable-energy actions support lower-carbon electricity supply, while the aviation actions seek to reduce lifecycle emissions in a hard-to-abate sector subject to certification and sustainability requirements. The land-based carbon sink reforms protect and expand GHG removal capacity. The Program therefore supports lower-carbon alternatives and enabling systems and does not reinforce persistent barriers to decarbonization.

21. **Criterion 2b:** Are risks/barriers identified mitigated?

22. **Yes.** Potential risks and barriers are addressed through the design of the reform Program. The Program focuses on regulatory, institutional, financial, data, and implementation systems that enable the low-carbon transition rather than investments that could create carbon lock-in.

23. The taxonomy, climate risk supervision, Green Asset Ratio, IFRS S2-related disclosure, climate stress testing, and the National Green Finance Strategy strengthen transparency and help mitigate greenwashing, information asymmetry, and climate-related financial risk management gaps. Renewable energy actions directly support wind and solar deployment rather than fossil-fuel expansion. Risks associated with SAF and carbon credits are addressed through lifecycle GHG, certification, sustainability, authorization, monitoring, and reporting requirements. Risks relating to the permanence, integrity, and resilience of land-based carbon sinks are addressed through designation, registration, sustainable management requirements, and the development of detailed secondary legislation. Local climate planning further reduces implementation barriers by integrating mitigation into provincial governance and coordination systems.

Step 2: Assessing the Adaptation and Resilience Alignment of the Reform Program (BB2)

24. **Criterion 1:** Are risks from climate hazards likely to have an adverse effect on the development objective(s) of PBL reform Program's policy or institutional actions?

25. **No.** Climate hazards are not expected to adversely affect the achievement of the development objectives of the CPBF. The Program is also not expected to increase vulnerability to climate risks or undermine adaptive capacity of the population or environment. On the contrary, several policy actions are explicitly designed to strengthen Türkiye's resilience to physical climate risks.

26. Under Pillar 1, the Program strengthens the financial and fiscal systems needed to identify, manage, disclose, and finance responses to physical climate risks. Türkiye's Green Taxonomy includes climate change adaptation among its objectives, while the BRSA Climate Risk Guideline, climate stress testing, Green Asset Ratio reporting, and climate-related disclosures strengthen the ability of banks and regulators to assess the exposure of borrowers, collateral, assets, and portfolios to physical climate hazards. The National Green Finance Strategy and Action Plan strengthens the enabling framework for mobilizing and tracking finance for adaptation and resilience. These measures improve the classification, risk management, disclosure, coordination, and fiscal planning systems needed to direct and monitor resources for climate resilience.

27. Under Pillar 2, the Program is primarily mitigation-focused and is not expected to increase vulnerability to climate hazards. The CCMSAP update and digital monitoring system are planning and implementation-monitoring measures. The renewable energy legal amendments and YEKA awards support wind and solar generation rather than climate-vulnerable fossil-fuel lock-in, while the aviation measures establish lifecycle emissions and sustainability requirements for lower-carbon fuels and credits. These policy actions do not directly finance the construction of physical assets under the CPBF and do not introduce institutional or policy barriers to adaptation.

28. Pillar 3 is fully focused on strengthening Türkiye's adaptation and resilience framework. It enhances national and local climate governance, improves the use of climate risk information in planning, strengthens the resilience of ecosystems and land resources, advances climate-resilient water management and water-use efficiency, and institutionalizes climate-health risk management across national and provincial systems. Together, these measures strengthen Türkiye's capacity to anticipate, assess, manage, and respond to physical climate risks, including drought, water stress, floods, heatwaves, ecosystem degradation, agricultural vulnerability, and climate-related health impacts. The pillar therefore makes a direct contribution to the adaptation and resilience goals of the Paris Agreement and does not entail activities that would undermine Türkiye's mitigation pathway or create carbon-intensive lock-in.

29. Overall, the Program is not expected to increase climate vulnerability or undermine adaptive capacity of the population or environment and directly strengthens Türkiye's ability to identify, plan for, finance, monitor, and respond to physical climate risks. The Program is therefore assessed as aligned with BB2.

30. The overall assessment confirms that the Program is aligned with both the mitigation goals and the adaptation and resilience goals of the Paris Agreement.

B. Estimate of Climate Finance

31. Climate finance was assessed based on the Joint MDB methodologies for tracking climate mitigation and adaptation finance. For policy-based financing, climate-related prior actions can be reported as climate finance, and the proportion of reported climate finance follows the proportion of climate-related prior actions. For this Program, the assessment applies equal weighting across the twelve policy actions. Where a prior action has a broader environmental, green, or sustainable finance scope that is not exclusively climate-focused, only the climate-relevant portion is considered for climate finance attribution.

32. Based on this assessment, USD800 million, equivalent to 100% of AIIB financing, qualifies as climate finance. This comprises USD544 million in climate mitigation finance, equivalent to 68% of AIIB financing, and USD256 million in climate adaptation finance, equivalent to 32% of AIIB financing. Of the total climate-finance amount, USD168 million, equivalent to approximately 21% of AIIB financing, is assessed as delivering both adaptation and mitigation benefits. Dual-benefit finance is reported as a separate category, independent of the climate finance envelope and is not added to the total climate finance amount. An overview of the climate finance attribution is provided in the table at the end of this section.

33. As the TCAAP-SF supports the same policy actions and reform commitments as the parent CPBF and is of equal size, the same climate finance attribution applies. Accordingly, the combined TCAAP financing, comprising the USD800 million parent CPBF and the USD800 million TCAAP-SF, totals USD1,600 million in climate finance, equivalent to 100% of combined AIIB financing. This includes USD1,088 million in climate mitigation finance (68%) and USD512 million in climate adaptation finance (32%), of which USD336 million (21%) delivers dual adaptation and mitigation benefits.

34. The prior actions contributing to mitigation finance are PA1.1, PA1.2, PA1.3, PA1.4, PA1.5, PA2.1, PA2.2, PA2.3, PA3.1, and PA3.2. These actions establish and operationalize Türkiye’s emissions trading system and carbon-market institutions; strengthen facility-level MRV and national GHG accounting; establish sustainable-finance classification, disclosure, supervisory, and green finance frameworks; update and digitally monitor implementation of the national mitigation strategy; streamline renewable energy permitting and support 1,800 MW of additional wind and solar capacity; establish SAF and CORSIA-related carbon crediting requirements; integrate emissions reduction into provincial climate planning and coordination; and protect and expand forest and non-forest carbon sinks.

35. The prior actions assessed as delivering adaptation benefits only are PA3.3 and PA3.4. PA3.3 strengthens resilience to drought, water scarcity, and hydrological variability through integrated water planning, water-efficient agriculture and landscaping, improved irrigation efficiency, and industrial water recovery and recycling. PA3.4 strengthens resilience to climate-related health risks through dedicated climate-health institutions, provincial reporting and capacity building, a national climate-health action framework, and the integration of health considerations into local climate planning.

Total Project Climate Finance		
Total AIIB Finance for the Project (USD million)	1,600.00	
Climate Finance	**Amount** (USD million)	1,600
	Percentage of total AIIB finance (%)	100
Mitigation	**Amount** (USD million)	1,088
	Percentage of total AIIB finance (%)	68
Adaptation (Specifying adaptation typology – type 1, 2 or 3)	**Amount** (USD million)	Type 2: 112 Type 3: 400 Total: 512
	Percentage of total AIIB finance (%)	32
Dual Benefits	**Amount** (USD million)	336
	Percentage of total AIIB finance (%)	21

Annex 5: Required Accompanying Documents

A. The Borrower's Development Policy Letter

Republic of Türkiye
Ministry of Treasury and Finance

Türkiye Cumhuriyeti
Hazine ve Maliye Bakanlığı

Hazine ve Maliye Ba... 'ığı
(Dış Ekonomik İlişkil... ane
Mudurlugu)
Kayit Sayisi: 5021040
18.09.2026 15:52:35 tarihinde
giden evrak kaydi yapilmistir

REPUBLIC OF TÜRKİYE
MINISTRY OF TREASURY AND FINANCE

Ref: 13131620-203.15.02- Ankara,

Ms. Zou JIAYI
President and Chair of the Board of Directors
Asian Infrastructure Investment Bank (AIIB)
Beijing, People's Republic of China

Subject: Letter of Development Policy – Türkiye Climate Action Acceleration Program

Dear President Zou,

The Government of Türkiye has endorsed an ambitious climate reform agenda through its 2053 Net-Zero Long-Term Climate Strategy, reaffirming its commitment to climate mitigation and adaptation while strengthening energy security and reducing import dependence. Maximizing the use of domestic renewable energy, improving energy efficiency, and accelerating the green transition are therefore central to Türkiye's long-term development strategy. In this context, we appreciate AIIB's support through the Türkiye Climate Action Acceleration Program (TCAAP).

Macroeconomic Framework

Since mid-2023, our Government has pursued a disciplined policy normalization agenda aimed at restoring price stability, strengthening macroeconomic fundamentals, and improving resilience to external shocks. The Central Bank of the Republic of Türkiye (CBRT) raised the policy rate to a peak of 50 percent, while inflation has declined substantially from the levels exceeding 80 percent recorded in 2022. The fiscal deficit also narrowed from 4.7 percent of GDP in 2024 to 2.9 percent in 2025. Public debt remains low at approximately 23.9 percent of GDP, supported by a strong sovereign balance sheet, continued access to international financial markets, and an economy with substantial growth potential. Türkiye has also demonstrated its capacity to respond to major external shocks, including the 2022 energy price shock and the 2023 earthquakes. Reflecting progress under the broader policy normalization agenda, Standard & Poor's, Fitch, and Moody's each upgraded Türkiye's sovereign credit rating between 2023 and 2025, and all three maintained stable outlooks in 2026. Fitch affirmed Türkiye at 'BB-' with a Stable Outlook in July 2026, while S&P affirmed its 'BB-' rating with a stable outlook in April 2026.

As Türkiye faces increasing climate risks, including heatwaves, wildfires, and other climate-related disasters, strengthening energy security and reducing external vulnerabilities remain key priorities. Fossil fuels account for approximately 81 percent of Türkiye's total energy supply. The rate of import dependence on natural gas and crude oil was 96% and 85% respectively. Accelerating the shift toward domestic renewable energy and improving energy efficiency will therefore not only advance climate objectives, but also reduce exposure to volatile international energy prices, strengthen the external balance, and reinforce long-term macroeconomic resilience.

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Türkiye's Climate Challenges and Policy Framework

Our Government has established a comprehensive legislative and policy framework for the climate transition. Climate Law No. 7552, enacted in July 2025, provides the legal basis for a national emissions trading system, local climate planning across all 81 provinces, and sectoral decarbonization measures. Türkiye's Second Nationally Determined Contribution (NDC 3.0), submitted in November 2025, sets a 2035 emissions limit of 643 million tonnes of CO_2 equivalent (MT CO_2e) and maintains the objective of achieving net-zero emissions by 2053.

The EU Carbon Border Adjustment Mechanism (CBAM), which entered its definitive regime in January 2026, further reinforces the need to accelerate decarbonization in carbon-intensive sectors, including steel, cement, aluminum, and fertilizers. Türkiye is therefore advancing carbon pricing and other measures to support industrial decarbonization, preserve the competitiveness of Turkish exporters, and facilitate the transition to a low-carbon economy.

The principal challenge is now implementation. Priorities include operationalizing the emissions trading system, strengthening local adaptation planning, integrating nature-based solutions, and mobilizing private investment in climate mitigation and adaptation. TCAAP can support Türkiye in translating this policy and legislative framework into effective implementation of investments.

Impact of the Middle East Conflict on Türkiye's Economy

The recent disruption to shipping through the Strait of Hormuz has highlighted the potential impact of international energy price shocks on Türkiye. Brent crude prices rose from an average of approximately USD 71 per barrel in February 2026 to USD 117 per barrel in April, reaching around USD 138 per barrel on April 7, before easing to approximately USD 107 per barrel in May. The CBRT forecasts an average Brent price of around USD 87.8 per barrel for 2026.

The resulting increase in energy costs has significant implications for Türkiye's fiscal and external balances. According to the Ministry of Energy and Natural Resources, each USD 1 per barrel increase in oil prices adds approximately USD 400 million to the national energy bill. Higher oil and gas prices could therefore add up to USD 10 billion to Türkiye's 2026 energy import bill, compared with USD 62.5 billion in 2025. The Government has responded with energy subsidies and tax relief; the 2026 budget allocated approximately TRY 305 billion (USD 6.5 billion) for energy support, while the subsidy bill could rise substantially if elevated prices persist.

The energy shock has also added pressure to Türkiye's ongoing disinflation and external adjustment. Headline inflation, which had fallen to 30.9 percent in March 2026, rose to 32.6 percent in May before easing to 31.5 percent in August. Meanwhile, the current account deficit, which stood at USD 30.3 billion (1.9 percent of GDP) in 2025, is projected to widen to around 2.6 percent of GDP in 2026. While gross reserves have also declined by around USD 54 billion from their January 2026 peak of nearly USD 218 billion, amid measures to limit currency volatility, it has recovered to around USD 188 billion as of end August 2026.

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These developments reinforce the strategic case for accelerating reforms that reduce Türkiye's dependence on imported fossil fuels. By supporting renewable energy, energy efficiency, carbon pricing, climate adaptation and mitigation, and private sector investment, TCAAP can help strengthen external resilience, support sustainable growth, and advance Türkiye's 2053 net-zero objectives.

The Türkiye Climate Action Acceleration Program

The TCAAP comprises multiple actions taken by our Government, organized across three mutually reinforcing pillars. These reflect Türkiye's own legislative and strategic priorities, grounded in our Government's national Climate Change Adaptation and Mitigation Action Plans (2024-2030). Our Ministry coordinates the program as the whole-of-government anchor.

Pillar 1: Operationalizing the Carbon Market and Green Finance Architecture
The purpose of Pillar 1 is to put in place the market signals and fiscal instruments that will direct further investment toward Türkiye's climate transition. These instruments include a functioning emissions trading system, a national classification of sustainable economic activities, and a government-wide green finance strategy. Pillar 1 comprises five actions:

Action 1 — Statutory Foundation for the Carbon Market

Türkiye has established a legal framework for climate change mitigation through the development of a carbon market under Climate Law No. 7552. The Law establishes the relevant institutional framework for the Emissions Trading System (ETS), including the Carbon Market Board and the designation of the relevant market operator and national authority under the Paris Agreement.

Action 2 — Full ETS Regulatory Stack

To support the implementation of Türkiye's ETS, five implementing regulations have been prepared under Climate Law No. 7552, covering the ETS framework, carbon market operations, carbon crediting and offsetting, ETS revenues, and market transparency and manipulation. The ETS regulation was published in the Official Gazette No. 33353 dated August 27, 2026, providing the regulatory basis for the implementation of the ETS pilot phase.

Action 3 — Greenhouse Gas (GHG) Data Infrastructure

Our Government is integrating facility-level monitoring, reporting and verification (MRV) data into the national GHG inventory compilation process. It is also deploying an automated GHG inventory calculation system. High-integrity inventory data is a binding requirement for transactions under the Paris Agreement. It is the backbone on which ETS compliance and NDC reporting both depend.

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Action 4 — Green Taxonomy Regulation

The Government is finalizing the Türkiye Green Taxonomy Regulation for enactment, providing a legally binding classification of sustainable economic activities aligned with European Union Taxonomy principles and introducing mandatory alignment reporting for entities subject to Türkiye's Sustainability Reporting Standards. The framework also incorporates climate-related financial risks into the banking sector's regulatory and supervisory framework.

Action 5 — National Green Finance Strategy

Our Ministry has published the National Green Finance Strategy and Action Plan 2026–2029, which provides a framework for supporting the alignment of public and private financial flows with Türkiye's climate transition objectives. The Strategy and Action Plan sets out key priorities and the institutional framework for mobilizing green finance across the economy.

Pillar 2: Accelerating Sectoral Decarbonization

Pillar 2 focuses on accelerating decarbonization in Türkiye's energy and transport sectors. It strengthens digital monitoring of climate targets, speeds up renewable energy investments, and makes sustainable aviation fuel mandatory. Pillar 2 comprises three actions:

Action 1 — NDC Digital Monitoring Framework

The Climate Change Mitigation Strategy and Action Plan (CCMSAP) has been updated in line with Türkiye's NDC 3.0 targets for 2035. The updated CCMSAP is being prepared for stakeholder consultation and is supported by a digital monitoring system for tracking the implementation of sectoral actions through the national Climate Portal.

Action 2 — Renewable Energy Permitting and Deployment

Türkiye has strengthened the regulatory framework for renewable energy through the 2025 amendments to the Electricity Market Law and the Renewable Energy Law, including measures to facilitate renewable energy project permitting. In addition, 1,800 MW of renewable generation capacity has been awarded through competitive YEKA tenders, comprising 1,150 MW of onshore wind and 650 MW of solar PV.

Action 3 — Sustainable Aviation Fuel Mandate

Türkiye has established a regulatory framework to support the alignment of its aviation sector with the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) framework and the use of sustainable aviation fuels through the Sustainable Aviation Fuel Directive (SHT-SAF) issued by the Ministry of Transport and Infrastructure. In addition, the Directorate of Climate Change issued the Procedures and Principles for the Authorization of Carbon Credits under CORSIA in July 2026, establishing a framework for the recognition of Türkiye-origin carbon credits under CORSIA.

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Pillar 3: Institutionalizing Climate Adaptation

The purpose of Pillar 3 is to strengthen the governance structures that will protect our citizens, water resources, ecosystems, and public health from the physical impacts of climate change. Pillar 3 also connects Türkiye's ecosystems to the carbon market, creating financial incentives for conservation. It comprises four actions:

Action 1 — Local Climate Governance

Under Climate Law No. 7552, Türkiye has established a framework for provincial climate action plans and Provincial Climate Change Coordination Boards. The National Climate Change Adaptation Strategy and Action Plan (NASAP) has also been updated in line with NDC 3.0 targets and is supported by a digital monitoring framework.

Action 2 — Non-Forest Carbon Sink Governance

Law No. 7584 provides a legal framework for strengthening Türkiye's land-based carbon sinks and authorizes the General Directorate of Forestry to establish and manage carbon-sink forests. The framework also supports climate adaptation and the protection of ecosystems.

Action 3 — Climate-Resilient Water Governance

Türkiye has established a water governance framework to strengthen climate-resilient water resource management. This framework includes the National Water Plan 2026–2035 under Presidential Decision No. 11063, River Basin Management Plans for 12 priority basins, and drought-resilient landscaping measures under Presidential Decision No. 10502.

Action 4 — Climate and Public Health Governance

The Ministry of Health has established institutional structures for addressing climate change-related health impacts and has published the National Program and Action Plan for Reducing the Adverse Effects of Climate Change on Health. The Program and Action Plan provides a national framework for addressing climate-related health risks.

The 3 pillars and 12 actions taken together represent Türkiye's commitment to converting its climate legislation and institutional foundations into operational reality. They are anchored in Climate Law No. 7552 and NDC 3.0. These pillars rest on a strong foundation given Türkiye's commitment to the legislative anchoring process of Climate Law, NDC-related national economic interests and our COP31 Presidency this year.

Delivering Türkiye's climate transition will require mobilizing significant additional financing beyond public expenditure. Türkiye's Twelfth Development Plan (2024-2028) estimates that to achieve 2053 net zero targets, additional investments equivalent to at least 1.7 percent of GDP on an annual average basis will be needed across the energy, buildings, industry, transport, agriculture and forestry sectors. Of this additional requirement, approximately 1 percentage point of GDP is expected to be mobilized from the private sector, while the remaining 0.7 percentage is expected to be financed by the public sector. At the same time, financing needs extend beyond sustainable

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investments. A just transition will require additional resources to mitigate potential adverse social impacts and support workers, firms, and regions affected by the green transformation. Ensuring adequate resources for a just transition will therefore be critical to making Türkiye's climate transition both inclusive and sustainable. Also given the fiscal pressure from the Middle East energy shock, AIIB's combined support of USD 1.6 billion – comprising Climate Policy Based Financing together with Supplemental Financing under AIIB's Energy, Food Security and Economic Resilience Facility –at one tranche plays a vital role. It protects the climate reforms that the crisis has made more urgent, while helping Türkiye sustain the macroeconomic stability on which its transition depends.

We thank AIIB for its valued partnership and look forward to the AIIB's continued support as Türkiye advances toward a net-zero and climate-resilient future. We are confident that this Program will make a significant contribution to advancing Türkiye's ongoing climate agenda and reform priorities. Building on the successful implementation of the Program, the Government looks forward to continuing its partnership through a subsequent operation to further support Türkiye's climate transition and sustainable development objectives.

Yours Sincerely,

Mehmet ŞİMŞEK
Minister
Ministry of Treasury and Finance

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B. International Monetary Fund Assessment Letter or Equivalent (e.g., IMF Article IV Consultation)

PRESS RELEASE

PR 26/047

IMF Executive Board Concludes 2025 Article IV Consultation with Türkiye

FOR IMMEDIATE RELEASE

Washington, DC – February 13, 2026: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Türkiye.[1]

Since the 2024 Article IV, Türkiye's disinflation program has shown successes. Inflation fell from 49.4 percent (y/y) in September 2024 to 30.9 percent in December 2025 on the back of strong fiscal consolidation, prudent income policies, and a tight monetary policy stance. Following a temporary deceleration in mid-2024, GDP growth has remained strong, forecast at 4.1 percent in 2025. Lira demand has strengthened, bolstering international reserves, and the current account deficit remains adequately financed.

The current policy mix continues to balance disinflation with steady growth. Tight monetary policy, moderate wage growth, and broadly neutral fiscal policy are expected to support gradual disinflation. End-2026 inflation is expected at 23 percent (y/y), as domestic demand remains strong. Boosted by further policy rate cuts and rising confidence, growth is expected at 4.2 percent for 2026. The current account deficit would remain adequately financed, while depositor confidence and strong gold prices would allow reserves to stay at around 80 percent of the IMF's adequacy metric.

While growth should remain solid and inflation will fall, this approach bears risks and costs. External risks remain elevated due to persistent global trade uncertainty and regional conflicts. The materialization of an adverse shock, like an increase of energy prices or a negative weather event, could further extend the period of still-high inflation. Moreover, the gradual approach to disinflation has weighed on the financial sector and slowed productivity growth.

Executive Board Assessment[2]

Executive Directors commended the authorities for the important successes of their disinflation policies, which have reduced macroeconomic imbalances and improved confidence while preserving solid growth. Noting that inflation remains well above target and the economy is highly vulnerable to shocks, Directors stressed the need for a tighter macroeconomic policy mix combined with ambitious structural reforms to entrench disinflation, further strengthen external buffers, and support inclusive medium-term growth.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

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Directors commended the authorities for their strong fiscal effort in 2025. They noted that continued tightening, bringing the budget deficit temporarily below the 3 percent medium-term target, is needed to support disinflation. Directors emphasized the role of measures to broaden the tax base and improve compliance, together with further efforts to streamline expenditures through phasing out energy subsidies. They called for carefully sequenced and well communicated measures to minimize second-round inflationary impacts while mitigating the impact on vulnerable households. As fiscal space expands, additional resources could be redirected to social priorities. Directors also supported full alignment of wage policies with inflation targets, as well as stronger oversight of PPPs and SOEs.

Directors generally called for tighter monetary policy to achieve decisive disinflation, while emphasizing the need for policy rate adjustments to remain data dependent and mindful of their macro-financial implications. To bolster policy credibility and strengthen transmission, Directors emphasized the importance of a simplified monetary policy framework firmly centered on the policy rate, with enhanced central bank independence and communication. Directors recommended limiting FX interventions to smoothing volatility, while gradually allowing greater exchange rate flexibility as inflation expectations become better anchored and reserve buffers recover.

Directors noted that the financial sector remains robust, supported by the authorities' swift and effective response to market stress. They stressed that continued vigilance is warranted, particularly for still high FX liquidity risks. Directors supported ongoing efforts to strengthen the supervisory and resolution frameworks along with enhanced oversight, including of crypto assets.

Directors urged structural reforms to foster productivity, resilience, and medium-term growth. Top priorities include improvements in labor, education, and governance and legal frameworks, support for SMEs, and raising the share of renewables in the energy mix.

Türkiye: Selected Economic Indicators, 2021–31

Population (2024): 85.7 million
Per capita GDP (2024): US$15,882
Quota: SDR 4,658.6 million

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
								Proj.			
Real sector					*(Percent)*						
Real GDP growth rate	11.8	5.4	5.0	3.3	4.1	4.2	4.1	4.0	4.0	4.0	4.0
Contributions to real GDP growth											
Private consumption	8.9	9.5	6.8	2.9	2.6	3.5	2.5	2.2	2.4	2.3	2.5
Public consumption	0.6	0.6	0.3	-0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.4
Investment (incl. inventories)	-2.7	-5.6	1.0	-0.5	2.3	0.3	1.1	1.4	1.2	1.3	1.2
Net exports	5.0	0.9	-3.0	1.0	-0.9	0.0	0.2	0.1	0.0	0.0	0.0
Output gap	1.4	1.5	1.4	0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	0.0
GDP deflator growth rate	29.3	95.5	68.3	59.3	34.0	22.2	19.5	17.7	14.7	13.7	14.1
Inflation (period-average)	19.6	72.3	53.9	58.5	34.9	25.9	20.9	17.0	15.0	15.0	15.0
Inflation (end-year)	36.1	64.3	64.8	44.4	30.9	23.0	19.0	15.0	15.0	15.0	15.0
Unemployment rate	12.0	10.4	9.4	8.7	8.3	8.3	8.7	9.1	9.1	9.1	9.1
Fiscal sector					*(Percent of GDP)*						
Nonfinancial public sector overall balance	-2.9	-2.6	-5.6	-5.6	-3.6	-4.1	-4.2	-3.8	-3.7	-3.5	-3.4
General government overall balance (headline) 1/	-2.6	-0.8	-5.1	-4.7	-3.5	-3.8	-3.9	-3.5	-3.3	-3.2	-3.1
General government gross debt (EU definition)	38.9	29.4	28.2	23.6	23.1	24.7	25.7	25.5	25.6	26.2	25.7
External sector					*(Percent of GDP)*						
Current account balance	-0.8	-5.0	-3.6	-0.8	-1.4	-1.4	-1.4	-1.4	-1.5	-1.5	-1.5
Gross external debt	51.7	48.7	42.7	38.1	34.5	35.6	36.2	35.2	34.4	33.9	33.3
Gross financing requirement	20.5	22.5	20.5	17.3	16.5	18.2	18.3	17.9	17.7	17.6	17.3
Monetary conditions (Percent)											
Real average cost of CBRT funding to banks	-1.9	-59.4	-35.4	-9.5	...	...	...	...	...	...	...
Growth of broad money (M2)	53.0	59.2	70.1	36.9	40.0	...	...	...	...	...	...
Growth of credit to private sector	37.0	54.7	54.0	37.5	...	...	...	...	...	...	...

Sources: Turkish authorities; and IMF staff estimates and projections.
1/ Headline (or authorities' definition), which includes items excluded from the IMF 'program' definition.