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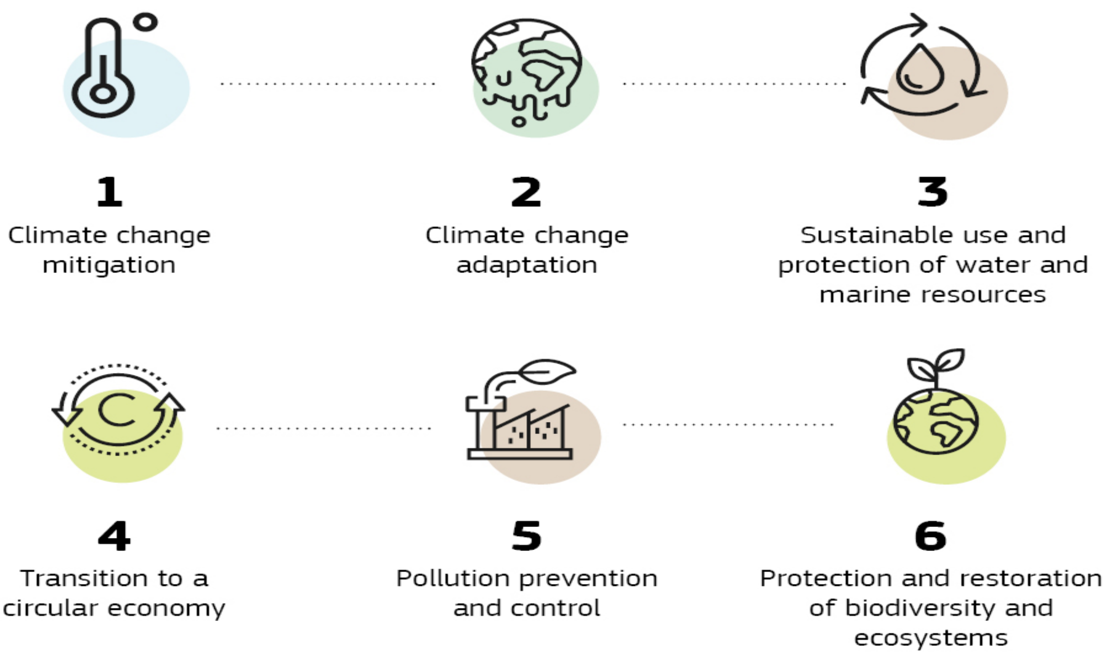
Draft Green Taxonomy of Türkiye: EU Alignment Process and the Sustainable Finance Perspective

The deepening climate crisis makes it imperative that global economic investments be aligned with sustainable development goals. In this regard, the European Union supported the green transformation of the financial system through the Sustainable Finance Action Plan launched in 2018. The Green Taxonomy is a classification system that defines which economic activities are considered environmentally sustainable. Türkiye, in alignment with this approach, published its draft regulation in September 2024. This regulation, with impacts such as directing sustainable financial flows, preventing greenwashing, and enhancing transparency, directly concerns the business world, investors, and consumers without sectoral distinction, while providing a guiding framework particularly for SMEs. In terms of institutionalizing policies and financing mechanisms for a decarbonized future, this draft regulation represents a critical step. Let us examine it together.



SOURCE : European Commission

Background and the EU Green Taxonomy Process

The European Union brought the transformation of the financial system onto its agenda early on, in line with its climate change mitigation and sustainable development objectives. The Sustainable Finance Action Plan, published in 2018, is a comprehensive policy set that reshaped the direction of capital markets alongside environmental goals. Within this framework, the Green Taxonomy was developed to provide investors with a common classification system, defining which economic activities are considered environmentally sustainable.

The Taxonomy regulation, which entered into force in 2020, adopted a holistic approach that does not limit sustainability criteria to specific sectors but rather integrates them into all economic activities. The defined objectives present an evaluation mechanism that extends financial decision-making beyond economic returns, taking environmental benefits into account.

However, contributing to these objectives alone is not sufficient for an activity to be considered sustainable. Activities must not harm other environmental objectives, must comply with minimum social safeguards, and must deliver measurable results through technical criteria.

Complementary instruments also came into effect within the EU process. The SFDR, which imposed disclosure obligations on financial institutions, and the CSRD, which standardized sustainability reporting by companies, strengthened the impact of the Taxonomy. The Sustainable Finance Package, published in 2021, established a stronger institutional framework for these policies.

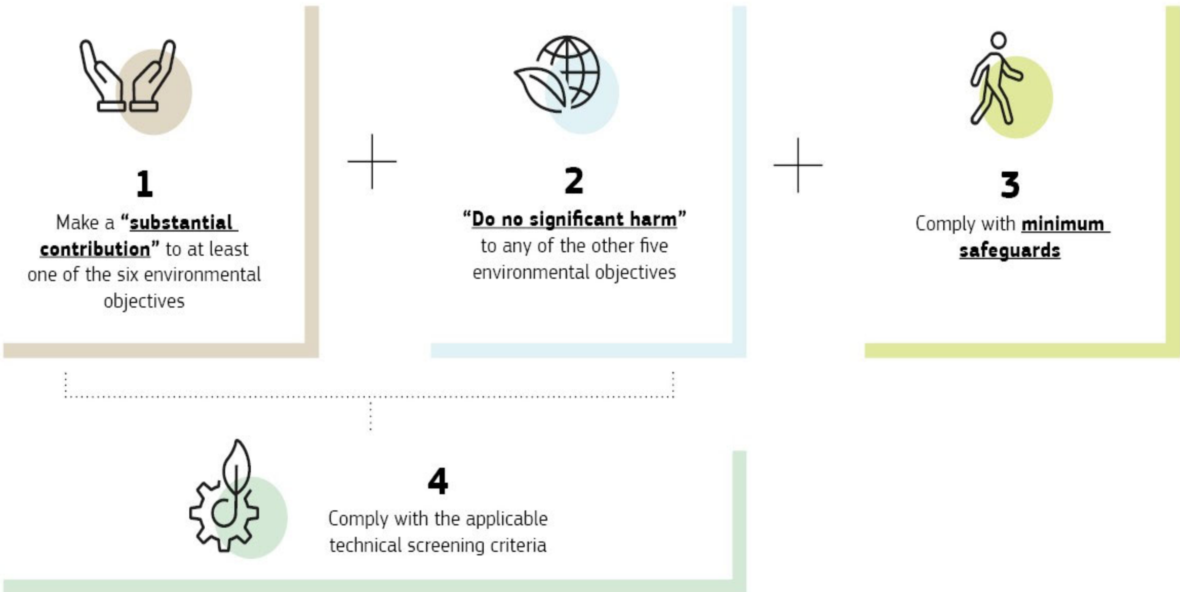
Closely following the EU experience, Türkiye designed its own sustainable finance approach along similar lines. The National Taxonomy Framework Document, announced to the public by the Ministry on 7 September 2023, was a key milestone. The process advanced further with the Draft Regulation on Türkiye's Green Taxonomy, published on 20 September 2024, establishing a comprehensive framework in terms of financial transparency, investor confidence, and the prevention of greenwashing.

General Conditions of an Eligible Economic Activity

Türkiye's Draft Regulation on the Green Taxonomy is built on a structure parallel to that of the European Union. The backbone of the system rests on four key principles:

1. Contributing meaningfully to at least one environmental objective
2. Doing no significant harm (DNSH) to other objectives
3. Complying with minimum social safeguards
4. Meeting the defined technical screening criteria

This approach creates a transparent, measurable, and reliable evaluation basis for financial markets, together with "green" classification. The main aim of the draft is to channel financial flows toward low-carbon activities, eliminate the risk of greenwashing, and establish a reporting infrastructure aligned with national climate policies.



SOURCE : European Commission

Determining Taxonomy Alignment

The Green Taxonomy is centered around six environmental objectives:
a) Climate change mitigation
b) Climate change adaptation
c) Sustainable use and protection of water and marine resources
d) Transition to a circular economy
e) Pollution prevention and control
f) Protection and restoration of biodiversity and ecosystems

Fundamental Criteria of an Eligible Economic Activity

For an economic activity to be considered aligned under the Green Taxonomy, it must meet three requirements:

- Provide substantial contribution to environmental objectives: The activity must meet the contribution criteria set for the relevant environmental objective.
- Do no significant harm (DNSH) to other environmental objectives: The activity must not harm environmental objectives other than the one it contributes to.
- Comply with minimum social safeguards: The activity must be consistent with ILO core conventions, the Universal Declaration of Human Rights, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, and national labor and social security legislation.

Sectors / Activities Covered by the Taxonomy

The draft covers a wide range of activities that can contribute to environmental objectives. In Annex-1 of the Draft Regulation, strategic sectors such as energy, transportation, construction, agriculture, manufacturing, and waste management are listed in detail, and the activities considered sustainable are clearly defined.

The table classifies activities not only under "green" but also under two special categories:

- Transitional activities refer to options with the lowest emission levels within existing technologies in sectors where low-carbon alternatives are not yet available. These include improvements to reduce emissions in carbon-intensive sectors (e.g., cement or iron and steel) without hindering the development and dissemination of low-carbon solutions.
- Enabling activities are those that help other sectors achieve environmental objectives, create positive environmental impacts on a

life-cycle basis, and do not facilitate the use of carbon-intensive assets. The installation of renewable energy infrastructure is a typical example.

Thus, the Green Taxonomy also encompasses bridging technologies and supportive mechanisms that will serve as transitional tools in the transformation process. Annex-1 serves as a concrete reference point that guides companies in terms of risk management and access to finance.

Technical Screening Criteria

For an activity to be considered environmentally sustainable under the Green Taxonomy, measurable and verifiable criteria must exist. Accordingly, technical screening criteria serve to evaluate investment and production processes through tangible indicators.

1. Scientific basis and measurability: Criteria are defined as much as possible through quantitative data; where qualitative, they must have clear and verifiable indicators. Both short- and long-term environmental impacts of activities are considered.
2. Balance of contribution and harm: While defining the most appropriate contribution of an activity to a specific environmental objective, minimum conditions are set to ensure that it does not significantly harm others. This prevents one-dimensional benefits from causing destruction elsewhere.
3. Life-cycle approach: Criteria cover not only the economic activity itself but also the environmental impacts of the resulting products and services throughout their life cycle. For example, a production process may be energy-efficient, but if its waste management is weak, it is not considered sustainable.
4. Economic and financial impact analysis: Criteria take into account the financial impacts of the transition to a sustainable economy, such as stranded assets or market distortions.
5. Transparency and updatability: Criteria must be clear, easy to use, and verifiable. They are also subject to regular review and updates by the Presidency in light of technological developments and new scientific findings.

An important point: the regulation explicitly does not consider electricity generation from solid fossil fuels as environmentally sustainable. This is a critical signal that fossil fuel-based investments will face increasing challenges in accessing finance in the future.

Finally, the technical criteria are planned to be published annually on the Presidency's official website by 31 December. This aims to ensure that businesses continuously monitor and reassess their alignment in line with updated criteria.

Key Performance Indicators, Reporting, and Verification

Key Performance Indicators

Under the Green Taxonomy framework, the activities of companies and financial institutions are measured in terms of their contribution to the six environmental objectives outlined above.

The main indicators used in this measurement are:

- Ratios of revenue, capital expenditures, and operating expenses from taxonomy-aligned products/services
- Green alignment of banks' loan and asset portfolios
- Contributions of investment and portfolio management companies to environmental objectives
- Contributions of insurance, reinsurance, and pension companies to environmental sustainability

These indicators also transparently reveal companies' economic and environmental performance.

Reporting – Verification – Transition Period – Entry into Force – Sanctions

Türkiye's Draft Green Taxonomy imposes reporting obligations on companies and financial institutions within its scope. These institutions are expected to declare their alignment ratios via the e-taxonomy system, linking revenues, investments, and operating expenses to environmental objectives. The accuracy of reports will be assured through independent verification mechanisms, enabling environmental performance in both the financial sector and real economy to be monitored within a transparent, comparable, and reliable framework.

Although the regulation will enter into force upon publication, the reporting obligation will be effective as of 1 January 2027. From that date onward, institutions will be required to submit data from the previous fiscal year to the e-taxonomy system. Reporting will remain voluntary until the end of 2026 but will become mandatory in 2027, and institutions failing to comply will face administrative sanctions in accordance with the provisions of the Climate Law No. 7552.

Conclusion and Evaluation

Türkiye's Draft Green Taxonomy plays a fundamental role in building a financial architecture aligned with environmental objectives. At a time when the impacts of the climate crisis are intensifying and capital flows are becoming increasingly selective, the taxonomy represents not only an environmental framework but also a new investment standard for economic actors. Its aim is to clarify which activities are truly considered sustainable, channel financing into these areas, and thereby eliminate the risk of greenwashing while increasing international investor confidence.

In this respect, the taxonomy is a tool that operationalizes Türkiye's 2053 net-zero target. Covering a wide range of activities from energy to transportation, agriculture to manufacturing, and including transitional and enabling activities, it supports the transformation process with intermediary technologies. Thus, it not only imposes reporting obligations on companies but also provides opportunities for competitive advantage, access to low-cost financing, and alignment with EU markets.

Going forward, the decisive factor will be institutions' capacity to implement technical criteria, generate reliable data through the e-taxonomy system, and ensure effective verification mechanisms. At this point, strong cooperation between public authorities, the private sector, and financial institutions is indispensable for the success of the regulation.

From the perspective of the financial sector, the taxonomy is a critical reference point for measuring and managing portfolio exposure to environmental risks. In this way, the regulation not only promotes sustainable investments but also strengthens the resilience of the financial system.

In conclusion, the Green Taxonomy offers Türkiye not only the means to realize its sustainable development vision but also the opportunity to be a credible partner in the global green transition. Companies that achieve early alignment will reduce the costs of this transition while gaining advantages in international investment and trade.

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