



## **Towards a Sustainable Future through Finance: Green Debt Instrument in Turkish Capital Markets**

**Authors:** Dr. Gönenç Gürkaynak, Selen Ermanlı Sakar and Cem Çelen

### **1. Introduction**

The world is facing profound environmental challenges such as climate change and global warming. In response to the increasing environmental crisis, there has been a rising demand for sustainable financing solutions to finance the green projects. Green debt instruments have emerged as one of the most effective tools for funding these projects designed to support net-zero emission and protect the environment. Green bonds, as debt instruments issued to finance environmentally friendly projects, represent a growing trend in the global finance sector. These instruments are uniquely designed to meet the capital needs of projects that focus on sustainability, energy efficiency and renewable energy.

### **2. Green Debt Instrument Principles**

The Paris Climate Agreement and the United Nations Sustainable Development Goals emphasize that investors should not only consider traditional investment factors such as liquidity or collateral but also ecological factors. These regulations were considered by International Capital Markets Association (“ICMA”), as being a non-profit association which has around 630 members including insurance companies and central banks all over the world. To contribute to sustainable finance, the ICMA publishes different guidelines from time to time and some of which are related to green bond, social bond and green enabling projects.

The Green Bond Principles (“GBP”) are voluntary guidelines for the process developed by the ICMA to enhance the role of debt and capital markets in advancing environmental and social sustainability. Rather than providing a fixed definition of green bonds, the GBP encourages generally transparency, disclosure and integrity in the issuance of green bonds. It serves as a practical and understandable framework outlining how issuers should proceed to assess whether green bonds are aligned with their sustainability goals and evaluate the environmental and/or social impact of their investments.

Four core components of the GBP are (i) use of proceeds, (ii) process of project evaluation and selection, (iii) management of proceeds and (iv) reporting. Given that there are no separate principles established for the green debt instruments in local law, the Capital Markets Board of Türkiye (“**Board**”) took the lead on and published the Guidelines on Green Debt Instruments, Green Lease Certificates and Sustainable Lease Certificates (“**Guidelines**”) based on the GBP. Therefore, the GBP and their core components are essentially used for the Guidelines.

### **3. Green Debt Instrument under Turkish Capital Markets**

As per Article 3/(c) of the Communiqué on Debt Securities (VII - 128.8), debt instruments are bonds, convertible bonds, exchangeable bonds, bills, precious metal bills and other instruments determined by the Board. Green debt instruments, on the other hand, are all kinds of debt instruments, whether publicly listed or not, that are covered by the four components of the Guidelines and the funds to be raised from their issuance will be used exclusively for the partial or full financing or refinancing of new and/or existing green projects that comply with the definition of an eligible green project.

The Guidelines aim to ensure issuers of green debt instruments comply with the best practices and standards in international financial markets within the scope of financing the green projects by increasing transparency, integrity, consistency and comparability. In this regard, the Guidelines determines and regulates the core components of and the principles that must be followed for green debt instruments in accordance with the GBP.

The Guidelines provides a framework document stating that an issuer company’s green debt instruments shall comply with the core components specified in the Guidelines and shall be approved by its board of directors. Moreover, in order to have a duly issued green debt instrument, (i) the issuer company must confirm in the framework document that the issues covered by the framework document will be conducted in accordance with the core components set out in the Guidelines, (ii) as specified in the framework document, funds from the issue must be used exclusively to finance or refinance, partially or wholly, new and/or existing green projects that meet the definition of green projects that can be defined as the projects which contribute to environmental objectives such as mitigation of effects of climate change, protection of natural resources or biodiversity and prevention of pollution, and (iii) the compliance of the framework document with the Guidelines must be reviewed and evaluated by an independent firm specialized in environment and sustainability to assess whether the framework document is compatible with the Guidelines.

The Guidelines consists of four core components, namely (i) use of proceeds obtained from the issue, (ii) project evaluation and selection process, (iii) management of proceeds obtained from the issue and

(iv) reporting. Debt instruments can be converted into green debt instruments if they comply with the four core components of the Guidelines.

The funds obtained from the issue of green debt instruments must be used for green projects as soon as possible and the issuer company shall state the period estimated for use of these proceeds. In this regard, in the framework document, the issuer company must sufficiently explain (i) the relation between the green project and international covenants such as United Nations Sustainable Development Goals and Paris Climate Deal, (ii) which green project category the project falls within the scope, (iii) qualitative and quantitative impact criteria to determine the important contributions to environment made by the project and (iv) processes implemented to identify and manage potential environmental and social risks. Issuers shall submit the framework document, along with the expert opinion confirming its compliance especially with the four core components of the Guidelines, to the Board at the time of application for the approval of the issuance document for the issue ceiling, together with other relevant information and documents related to the green debt instruments.

To issue green debt instruments under the Guidelines, whether domestically or internationally, a special issue ceiling (which indicates the maximum nominal value that can be sold by the issuer within one year from the date of the Board's approval) must be obtained from the Board. Additionally, the issuer company may use a framework document and the related expert opinion in different issue ceiling applications, if they will be used to finance green projects based on the same environmental objectives. Once green debt instrument is entered into circulation, net fund balance is managed by allocation to the eligible green projects in the relevant period. In connection with this requirement, the issuer company must also explain in the framework document how they intend to manage the unused net fund balance until its allocation to the relevant green projects.

Finally, issuers shall publicly disclose up-to-date information regarding use of the funds and any significant developments thereof, if any, in the fund usage report on the Turkish Public Disclosure Platform, and on the issuer company's website, once a year from the date of issuance and in any case after the entire amount of funds obtained from the issuance has been used.

#### **4. Conclusion**

The climate chance crisis and other environmental issues have driven international organizations to regulate in sustainability. Türkiye has introduced various regulations in accordance with the GBP, in this regard. The Guidelines aim to facilitate issuers' access to finance from banks by establishing principles for green debt instruments to be issued in green projects and, most importantly, protects the environment.

Article Contact: Dr. Gönenç Gürkaynak

E-mail: [gonenc.gurkaynak@elig.com](mailto:gonenc.gurkaynak@elig.com)

*(First published by Mondaq on August 4, 2025)*