An Investigation into ESG Investing in Turkey: The Case Study of TSKB

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SEPTEMBER 2022

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An Investigation into ESG Investing in Turkey: The Case Study of TSKB

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CONTENTS

ABOUT GRF v
ABOUT TSKB v
ABOUT THE AUTHOR vi
GRF PRESIDENT'S NOTE vii
AUTHOR'S ACKNOWLEDGMENTS viii
EXECUTIVE SUMMARY ix

1. INTRODUCTION 1

2. A BRIEF HISTORY OF ESG INVESTING AND ITS CURRENT STATE 3

3. SITUATING TSKB WITHIN THE GLOBAL ESG ECOSYSTEM 8

    3.1 TSKB and International Development Agencies, Rating Agencies, and External Auditors 8
    3.2 Turkish Regulatory Agencies and Transnational Club Partnerships 14
    3.3 Shareholders 15
    3.4 Competing Firms and Public Entities that TSKB Serves 16
    3.5 Clients and Fund Recipients 16

4. TSKB AS AN INTEGRATED WHOLE AND THE ROLE OF INSTITUTIONAL CULTURE 17

    4.1 Separate and Autonomous yet Intimately Integrated 17
    4.2 Issue-Specific Teams Tackling ESG Problems 19
    4.3 The Role of Culture 21

5. CURRENT AND FUTURE CHALLENGES FOR TSKB AND THE FINANCIAL SECTOR IN TURKEY 26

6. CONCLUSION AND POLICY RECOMMENDATIONS 33

    6.1 Lessons from TSKB's Experience 33
    6.2 Policy Recommendations 34

REFERENCES 38

ABOUT GRF

Global Relations Forum (GRF), founded in 2009 with the support of prominent Turkish leaders in business, government, and academia, is an independent, nonprofit membership association providing a platform for engaging, informing, and stimulating its members and all interested individuals in all matters related to international affairs and global issues.

GRF intends to advance a culture that rewards the fertile tension between passion for intellectual diversity and dedication to innovative and objective synthesis. It nurtures uninhibited curiosity, analytic inquiry, rational debate, and constructive demeanor as the elemental constituents in all its endeavors. It contributes to the shared understanding of and aspiration for humanity's path to peace, prosperity, and progress as an accessible, inclusive, and fair process for all.

ABOUT TSKB

TSKB (Türkiye Sınai Kalkınma Bankası) was established in Istanbul in 1950 as Türkiye's first private development and investment bank with the initiation of the World Bank and the Central Bank of Türkiye, and with the share ownership of commercial banks. With its extensive knowledge and competence since day one, it offers products and services to customers in corporate banking, investment banking, and advisory services.

During its 72-year history, TSKB has provided valuable contributions to Türkiye's economic development. Thanks to its many successful investment projects, the Bank has played a key role in the integration of the country with the global economy and contributes to the sustainable growth, development and transformation of the manufacturing economy in Türkiye.

ABOUT THE AUTHOR

Nazlı Azergün is a Ph.D. candidate in Anthropology at the University of Virginia and a visiting researcher at the University of Oslo's Social Anthropology department. She is currently working on her dissertation project, which is a comparative study of Norwegian and US financial systems focused on the role of culture-specific understandings of fiduciary duty in ESG investing decisions. Prior to her Ph.D., she received a Fulbright grant to complete a Master's degree in Global Studies from the University of California, Santa Barbara. Her master's thesis dealt with alternative market participation strategies employed by an income-sharing community in the rural United States. She received her BA in Political Science and International Relations from Boğaziçi University. An alumna of GIF's Young Scholars 2015 term, she also completed a year-long internship at GIF in April 2017. Her writings and reviews have appeared in academic journals such as Economic Anthropology, Economic Affairs, and Journal of Cultural Economy.

GRF PRESIDENT'S NOTE

I am very pleased to introduce this report which aims to explain Environmental, Social and Governance investing, in other words, sustainable finance in Turkey. The Industrial Development Bank of Turkey (Türkiye Sınai Kalkınma Bankası – TSKB), also a corporate member of GRF since 2012, has been taken as a case study. With its long history in Turkey's industrial development and its leading role in sustainable finance, I believe TSKB is well placed to share its experience. We have a number of firsts with this report. For the first time, a Young Scholars graduate from Global Relations Forum has prepared a study for us in this manner. This is a validation of maintaining relations with our youth program alumni after the program ends and including them in the work of GRF. Furthermore, we are publishing a joint work with a corporate member for the first time. I hope both of these firsts will be followed by many in the years to come as our youth community and ties with our corporate members continue to grow.

I also hope that this report will be useful both for companies that want to turn to responsible investments at the point where the effects of the climate crisis have become more and more tangible, and for readers who want to familiarize themselves with the ESG investments ecosystem.

Finally, I would like to extend my appreciation and regards to this project's author Ms. Nazlı Azergün for undertaking this valuable endeavor. I would like to thank Ms. Duygu Söyler Aytaç for coordinating this project and TSKB Sustainability Coordinator Ms. Ayşe Nazlıca who helped us from beginning to end, as she coordinated the interviews with TSKB employees, answered our questions, and meticulously read the drafts. A special thanks also goes to our Treasurer and member of the GRF Board of Directors Mr. Tayfun Bayazıt who read the article and offered his opinion.

I believe this joint effort will contribute to the dialogue about sustainable finance in Turkey and prove useful for those who are willing to contribute to the well-being of our future.

Selim Yenel
Ambassador (F), GRF President

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I wish to extend my heartfelt thanks to TSKB employees, who shared their institutional and sectoral insights with me during the interviews and who provided invaluable feedback on the earlier drafts of this report. I also wish to thank Ayşe Nazlıca for welcoming me to TSKB and providing much-needed guidance and support from the initial phases of the research to the very end.

My warmest thanks go to Global Relations Forum, to GRF President Selim Yenel and former GRF Senior Director Burcu Baran Türem for making this study possible and allowing me to indulge in my intellectual curiosities. I wish to thank Tayfun Bayazıt for reading an earlier draft and providing feedback. Duygu Söyler Aytaç was the best project coordinator one could ever imagine, offering valuable input and unique viewpoints and providing a lot of behind-the-scenes support. She offered immense and consistent help and support in bringing this project to its final form during almost a-year-long process, for which I am grateful.

EXECUTIVE SUMMARY

As the first qualitative study of an ESG-oriented Turkish financial institution, this report seeks to describe and situate the development of ESG investing in the Turkish financial sector. The report focuses on the Industrial Development Bank of Turkey (Türkiye Sınai Kalkınma Bankası – TSKB) as a case study to understand ESG developments and challenges in Turkey and to contextualize the relations between the sector and global financial actors, such as international development finance institutions, metric and data providers, and commercial banks.

The first section, titled *Introduction*, gives background information on TSKB and the research process that culminated in this report.

The second section, titled *A Brief History of ESG Investing and Its Current State*, recounts the history of ESG investing since the investing 1960s and mentions the most recent regulatory developments favoring it, as well as the challenges faced by the practitioners.

The third section, titled *Situating TSKB within the Global ESG Ecosystem*, describes the fundamental operations of TSKB as it pertains to ESG investing and analyzes the relations that TSKB has with its operational partners, including international development finance institutions, data and metric providers, regulatory agencies, transnational club partnerships, and clients.

The fourth section, titled *TSKB as an Integrated Whole and the Role of Institutional Culture*, focuses on the labor distribution within TSKB and the institutional culture as it strengthens TSKB's ESG activities.

The fifth section, titled *Current and Future Challenges for TSKB and the Financial Sector in Turkey*, talks about the current and impending challenges for the Turkish ESG sector as recounted by TSKB employees and inferred from the global ESG investing atmosphere.

The sixth and final section, titled *Conclusion and Policy Recommendations*, reiterates the unique position of TSKB within the Turkish ESG sector, as a close partner of global financial institutions and as an institution driven by a development mission. Upon recounting the future challenges of the Turkish ESG sector, the report concludes with policy recommendations aimed for greater integration with the necessities of global ESG sector.

AN INVESTIGATION INTO ESG INVESTING IN TURKEY: THE CASE STUDY OF TSKB

1. Introduction

This paper[1] seeks to describe and situate the development of ESG (Environmental, Social and Governance) investing, also referred to as sustainable finance, in Turkey by using the Industrial Development Bank of Türkiye (Türkiye Sınai Kalkınma Bankası – TSKB) as a case study.[2] TSKB was established in 1950 with the objective of contributing to Turkey's industrial development, and it started its relations with international development agencies and other international financial institutions the following year. In line with its development objective, TSKB contributed to the privatization master plan in 1980 and helped Turkey transition to a free market regime. Since then, TSKB has been closely following global economic trends and pioneering their adaptation to the Turkish context.

TSKB have emphasized sustainability in its operating, funding, and investing practices since the 1990s: With the support coming from the technical assistance (TA) programs of the World Bank, German KfW and other development finance institutions (DFIs), TSKB created the first integrated environmental and social risk evaluation model in Turkey in 2002 - 2003. It became the first carbon-neutral bank in Turkey in 2008.[3] Globally first sustainable Tier-II issuance, the first Green/Sustainable bond issuance out of wider CEEMEA (Central and Eastern Europe, Middle East, and Africa) region, the first ESG-linked club loan agreement, the first ESG-linked trade financing, the first integrated annual report, and the first Sustainable Development Goals (SDGs) mapping study are among its pioneering moves. With almost 89 percent of its portfolio being SDG-linked, TSKB is the second highest rated bank in Turkey according to Sustainalytics' ESG rating for the year 2021. Since 2011, it has been passing on its sustainability

[1] The country name is referred to as Turkey throughout the text unless it is used in an institution's name. The difference in the usage of the word stems from corporate preferences. While the author of the text and GRF prefer the word "Turkey" as the country name, TSKB uses the word "Türkiye".

[2] See Section 2 for more information on ESG investing and sustainable finance.

[3] TSKB is carbon-neutral for scope 1 & 2 emissions. Scope 1 emissions, the direct emissions from bank operations, are netted with carbon credit. Scope 2 emissions, the indirect emissions stemming from purchased energy, are zero. TSKB has recently started to measure scope 3 emissions, which include all indirect emissions in an institution's value chain, both upstream and downstream, for some of its financed projects. These select projects belong to high-carbon sectors such as non-renewable energy, cement, and steel, and they make up around 7.5% of TSKB's total portfolio. While TSKB is yet to reset its scope 3 emissions, its measurement is a first in Turkey.

This is a remarkable development given the latest developments around the firms' emissions reporting. On March 21st, the US' Securities and Exchange Commission (SEC) released a draft rule obligating companies to report their emissions at all scopes, starting within two to six years. The final rule will become effective following the comment period and further negotiations. The SEC's draft rule signals that there is now a fledgling global move towards reporting and resetting all direct and indirect emissions related to the value chain of a company. By beginning to measure scope 3 emissions, TSKB prepares itself for future requirements and expectations around reporting and resetting its emissions at all scopes.

For further information on the SEC's draft rule on climate-related disclosures please see: https://www.sec.gov/news/press-release/2022-46

expertise to other financial institutions and corporations through a separate consultancy firm, *Escarus* - TSKB Sustainability Consultancy.

For practical reasons, this paper centers TSKB's operations and internal organization to demonstrate the challenges and opportunities that come with the global trending of ESG investing. In studying TSKB as a *case study*, this paper intends to inform financial practitioners and the public of how to best adapt the new requirements of global financial sector. ESG investing developed in response to the increased anxiety around climate change, with the Equator Principles (2003) as one of the first initiatives focused on shifting how we understand financial risk in addressing the climate crisis. ESG investing consolidated itself as a powerful financial paradigm in the aftermath of 2008-2009 subprime crisis, where the systemic perturbations required a reimagining of how we evaluate risk. Globally, ESG investing is a recently mainstreamed financial paradigm and it is even newer for the Turkish financial sector. Understanding what enables TSKB's success and leadership position in ESG investing, as well as the challenges it faces and how it addresses them, will prove helpful in directing Turkey's ESG investing trajectory.[4] As such, this study will provide insight into the local and national institutional limitations (within financial institutions as well as at the larger regulatory scale); globally induced financial, material, and know-how constraints; and the creative and innovative solutions to both, as experienced by TSKB employees. TSKB sets a precedent for the Turkish ESG sector, as it is currently the most involved Turkish institution in the cause. Investigating its challenges and solutions will contribute to the cumulative know-how on ESG investing for Turkish readers and direct them to draw from this already existent know-how when thinking about ESG-related challenges.

This paper is organized as the following: The next section provides background information on ESG investing. It briefly goes over the history and the current state of ESG investing at a global scale. The third section situates TSKB as part of the global ESG ecosystem and delves into its relations with international development agencies and other financial institutions, various rating agencies, global and local regulators, and its competitors and clients. Here, TSKB's leading role in the Turkish ESG sector is situated vis-à-vis global fund providers, local clients, and its development-oriented ethos. The fourth section focuses on understanding the internal factors that influence TSKB's pioneering role. Here, the focus is twofold: First, I look at the division of labor at TSKB and emphasize the role of its departments, as separate yet intimately integrated

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[4] In addition to the firsts mentioned above, TSKB was also selected the best bank for sustainable finance in Central and Eastern European markets in 2021, as part of Euromoney's Awards for Excellence. TSKB's first female CEO and its head of sustainability committee Ms. Ece Börü represented Turkey among 13 female leaders in sustainable value creation in Asia's Top Sustainability International Superwoman 2020 awards by CSR Works International. Sources: https://www.euromoney.com/awards/awards-for-excellence/awards-for-excellence-2021#cee; https://csrworks.com/asias-top-sustainability-superwomen-2020-list/; both accessed March 13th, 2022

teams, in carrying it to a leading position in ESG investing. Second, I focus on the institutional culture as a factor that inspires and motivates the employees to bolster TSKB's ESG investing undertakings. I also mention some of the challenges that TSKB's institutional culture presents. The fifth section investigates current and future challenges that TSKB and other Turkish financial institutions face, with specific emphasis on sustainability. The paper concludes with a number of policy recommendations for Turkey's ESG investing sector.

As an anthropologist of finance, I find value in the behavior and interactions of people who populate corporate and financial institutions and fulfill their roles within these structures. In other words, I find value in looking at how these professionals come into work each and every day, make decisions, and take numerous little steps, as by doing so, they contribute to the creation of macro-level structures that we think of when talk about business and finance. For this reason, while I occasionally incorporate scholarly and sectoral literature on ESG investing and traditional financial activities, I center this paper around TSKB employees' narratives and perspectives. The primary method involves semi-structured interviews I have conducted with eleven TSKB employees between July 2021 and December 2021. My interviewees come from diverse departments, such as financial institutions and investor relations; corporate communications; corporate sales and marketing; development finance institutions; engineering and technical consultancy; credit analysis and evaluation. The guiding questions were used to launch and direct discussion when necessary and they focused on participants' personal and professional backgrounds, their primary professional activities within TSKB, their sustainability involvement at TSKB, their sectoral and ESG-related foresights.

This paper offers the story of ESG investing at TSKB as told by the very employees who make ESG investing a reality through their everyday professional activities. Hearing their perspectives will provide the much-needed human factor into a world that most often baffles outsiders with complicated models and abstractions.

2. A Brief History of ESG Investing and Its Current State

The origins of ESG investing go back to the Responsible Investment (RI) movement of the 1960s and 1970s, led mostly by faith-based investors. Most notably, the RI movement adopted negative screening mechanisms to avoid investments in South Africa under the apartheid regime, and created funds like Pax World which avoided stocks from arms, oil, tobacco, and adult entertainment industries. In this regard, incorporating one's environmental and social concerns into investment practices has long been with us. Deteriorating environmental and social conditions over the course of the 1980s and 1990s inspired further emphasis on sustainability in business and investment: The

United Nations Global Compact, a non-binding pact encouraging businesses to integrate environmental and social sustainability principles into their practice and support Millennium Development Goals, was signed in 2000. In 2005, following the then UN Secretary-General Kofi Annan's plea, Principles of Responsible Investment (UNPRI), a network of sustainability-oriented investors, was launched. To this day, UNPRI serves as a platform for guiding investors in embracing sustainability considerations as part of their practice.

While the developments of the early 2000s expanded sustainable investing beyond faith-based investors and helped mainstream it, it was not until the aftermath of the 2008 subprime crisis that sustainable investing gained considerable momentum. Having witnessed the failure of existing financial regulations in foreseeing and preventing systemic crises (Engel and McCoy 2007; Wade 2008; Abolafia 2010; Bear et al. 2015; Tellmann 2020), financial institutions have turned inward and sought to enhance their risk evaluation mechanisms to be more parsimonious and prudent against systemic disruptions (Lounsbury and Hirsch 2010). As part of this goal, financial institutions began to acknowledge ESG risks as factors in financial valuation. This turn was accompanied by a refinement in the ESG sector, where complementary institutions like ESG consultancies, scoring and reporting agencies, and research firms began to populate the sector. In the meantime, international agreements and guidelines like the Paris Agreement (2016), the UN Sustainable Development Goals (2016), and the European Union Taxonomy for Sustainable Activities (2020) keep informing and shaping ESG-oriented investment activities.

Despite the broad guidance provided by transnational agreements and documents, there still does not exist a singular ESG framework through which investors can design their practice. Specific financial institutions are left to their own devices and values in designing ESG-oriented investment options. Currently, one can describe ESG investing as operating on a spectrum with exclusionary mechanisms on one end and impact investing on the other, colloquially named "light green to dark green." Exclusionary mechanisms disqualify certain assets or specific industries based on their harm to communities and the environment. For instance, an asset manager can withdraw from the oil industry and claim to fulfill its ESG objectives, whether or not the rest of its portfolio positively contributes to the environment. Impact investors, on the other hand, usually complement exclusionary mechanisms with investment decisions directed towards specific sustainability outcomes. An impact investor, as opposed to an exclusively negative screening one, does not consider withdrawal from the oil industry as adequate action. For example, it might also choose to allocate capital with an eye for reducing carbon emissions of its portfolio. Between these extremes, there are other approaches within this spectrum, namely best-in-class, ESG integration, and thematic investing. The best-in-class approach seeks the most sustainable investment options in a given asset class or sector,

such as picking the most sustainable firms in the energy industry; whereas ESG integration seeks to develop investment criteria that acknowledge ESG risks, e.g., including carbon emissions as a criterion in risk analysis. Thematic investment, which differs slightly from impact investing, singles out promising sectors for investment rather than undertaking in-depth scrutiny of the outcomes of an investment (Douchy n.d.), such as investing in most profitable firms in the renewable energy sector or tech companies such as Alphabet or Meta. The strategic choice between these different approaches depends on investor mandates, regulatory restrictions and guidance, and institutional structures and resources of the investors, as well as those of the firms in their portfolios (Minnaar 2021).

Legally enforceable obligations of investors are at the core of how they design their ESG investing practice. For example, UNPRI's founding document *The Six Principles*, where signatory firms emphasize the integration of ESG issues into investment practice, is prefaced by paying allegiance to the firms' obligatory fiduciary role: "…where consistent with our fiduciary responsibilities, we commit to the following [integration of ESG issues] …" (Douma 2019: 2). This means that UNPRI signatories cannot pursue ESG objectives at the expense of their beneficiaries' benefit. While UNPRI seems to limit ESG investing by highlighting fiduciary duty, in other cases the mandate granted by providers of capital encourages ESG pursuits. For instance, TSKB's funding relations with international development agencies and the specific mandates of loan agreements incentivize, and not discourage, TSKB's adoption of ESG principles. In any case, the investment mandate influences the course of ESG integration for that investment manager by imposing limitations and constraints *and* deciding the extent to which their portfolio can be ESG-compliant.

Similarly, regulatory agencies also strive to set the rules for how financial institutions undertake ESG integration. The United States' changing guidelines for corporate-sponsored pension plans is a case in point: During the last days of Trump administration, the Department of Labor (DOL) adopted a new guidance for the pension plans under the Employee Retirement Income Security Act of 1974 (ERISA) protection. The guidance stated that the corporate-sponsored pension plans "should only consider 'pecuniary,' or performance-related, factors when selecting investments for their investment lineup" (Barney 2021). While this guidance did not explicitly disqualify ESG options from corporate-sponsored pension plans, financial and legal experts believed that it discouraged some organizations from offering ESG options, especially those which did not have the capacity to evaluate and label ESG risks in the context of financial performance (ibid.). Upon coming into office, President Biden signed an executive order advising DOL to suspend, revise, or rescind the 'pecuniary rule' and create a new guideline to "protect the life savings and pensions of United States workers and families from the threats of *climate-related financial risk* [emphasis mine]"

(ibid.). In the span of three months, the same regulatory agency held positions that encouraged two rather opposed stances vis-à-vis ESG investing: with Trump as the president, ESG integration seemed to be pushed to the background for profitability's sake, whereas under Biden's presidency it is prioritized as an important tool to address the impending climate risks that directly impact financial performance. Regulatory agencies and their rules and guidelines are highly formative of ESG integration in business and finance, and this step by the DOL will undoubtedly contribute to the popularity of ESG investing in the United States. Likewise, with the ratification of the Paris Agreement, the Turkish financial sector expects to see regulations encouraging ESG investing, which will help mainstream ESG investing in Turkey.

Finally, the financial institutions' internal structures and resources, as well as those of their portfolio companies, are also influential in how ESG integration is undertaken. For instance, as we will see below, TSKB's separate engineering department positively contributes to its capacity to adequately perceive and address ESG-related risks, whereas its clients outside of the metropolitan areas of Turkey or smaller companies have difficulty in navigating the ESG requirements of their international funding agreements because they have fewer human resources or limited access to ESG-related material and know-how resources. Hence, the way institutions are organized and the type of material and immaterial resources and guidance they can access radically shift their ESG integration trajectory and success rates.

Following the passing of the EU Taxonomy for Sustainable Activities, colloquially called the Green Taxonomy, in 2020 and the increasing interest in ESG investing over the course of the COVID-19 pandemic, 2021 proved to be a significant year for ESG investing.[5] For instance, the 2021 United Nations Climate Change Conference (COP26) was one of the important highlights. In its first week, more than 100 nations pledged to end deforestation by 2030 (including Brazil, the biggest culprit in deforestation in the Amazon, in exchange for nearly $20 billions of public and private funds); more than 80 nations agreed to cut methane emissions by at least 30 percent by 2030 (including the EU countries and the United States); nearly 40 nations committed to phasing out coal power by 2030 for major economies and 2040 for developing nations (excluding the biggest

[5] Over the past couple of years, financial institutions experienced a consistently rising demand for ESG assets: Between January and November 2021, $649 billion worth of investments were made in ESG-focused funds. In 2020, this number was $549 billion; in 2019 it was $285 billion (Kerber and Jessop 2021). This is almost a twofold increase in incoming funds between 2019 and 2020 and a tenfold increase since 2018 (Milinchuk 2021).

However, 2021 was also the first year when ESG assets faced serious underperformance vis-à-vis their less sustainable counterparts. For instance, the largest US ESG fund, Parnassus Core Equity fund, has underperformed US gas and oil giants such as Exxon and Chevron by 20 percent and 12 percent, respectively. When compared to MSCI's global energy producers exchange-traded fund, Parnassus underperformed by nine percent (Temple-West and Talman 2021). These data indicate that ESG markets might be hitting a maturity point where they no longer offer outperformance of non-ESG assets and thus jeopardize the mainstream ESG discourse that companies *can do well by doing good*. Time will tell whether the underperformance element will undermine the salience of ESG investing worldwide.

producers and users like China, India, Australia, and the US) (Sharman 2021; BBC News 2021b). Entrepreneurs and corporate executives made appearances to pledge allegiance to sustainability goals (Faber 2021) or money to restore nature (BBC News 2021a). There were also some who shunned ESG investing maneuvers for not adequately addressing the concerns over the public-private divide; for them, ESG investing pushes the burden of sustainability to public markets, thereby allowing private corporations to undertake unsustainable activities (Klasa and Mychasuk 2021). In corporate reporting, International Sustainability Standards Board pledged to create a single set of ESG standards to prevent greenwashing and ensure that whoever claims to be ESG-driven indeed substantially pursues ESG goals (ibid.). For some, COP26 was a two-week-long hopeful festivity of renewing commitments to the environment and the communities by way of promising to fix corporate and financial practices. Many others, on the other hand, remain skeptical.

The issue of greenwashing, the practice of claiming an ESG sensibility when indeed there is no such disposition, remains central to related academic discussions (Yu, van Luu, and Chen 2020; Lashitew 2021; In and Schumacher 2021), as well as the professional and legislative ones (Browne 2021; Hale 2021; Wilkes and Jessop 2021; Wirz 2021). Some claim that the surge of greenwashing anxiety heralds the maturing of an ESG market, where pressures to install meaningful and effective evaluation mechanisms would indeed give rise to standardized, no non-sense financial products (Murray 2021). However, a recent leak of confidential information shows that financial institutions might strive to keep greenwashing their activities while pretending to be committed to the cause of eliminating greenwashing. In early November 2021, while many financial institutions were pledging to transform the economy towards a net-zero emissions scenario under the auspices of COP26, HSBC's chief executive's efforts to 'water down' the net-zero targets surfaced: In asking to lengthen the period between the signing of the Net-Zero Banking Alliance (NBZA) and setting of specific emissions targets and to eliminate the requirement that these targets would be science-based, HSBC and 11 other banks were clearly undermining their public commitment to ESG causes (Moulds 2021a, 2021b). Consequently, they were chastised for 'watering down' and 'greenwashing' (ibid.).

More recently, the European Union itself was also subjected to heavy criticisms of greenwashing. In early February this year, the European Commission announced a technical amendment to its Green Taxonomy with an eye for strengthening the transparency of sustainability disclosure, where it also classified natural gas and nuclear projects as sustainable under certain circumstances (Krukowska and Ainger 2022). Some of the heavy actors of the EU such as Germany and France support the amendment for their reliance on natural gas and nuclear, respectively (Pitchers 2022). Other countries with less reliance on natural gas and nuclear, including Denmark, the Netherlands, Austria, and Luxembourg,

vehemently oppose the amendment and even threaten legal action (France24 2022). The public opinion is divided on the incorporation of natural gas and nuclear into the Green Taxonomy: Activist groups consider the amendment as an attempt of greenwashing and a serious roadblock to the EU's objective of achieving climate neutrality by 2050 (Strauss 2022). Others consider nuclear and natural gas as energy resources that are decent enough for an energy transition period (DW 2021). While the clarification of guidelines for sustainable activities is noteworthy, the Commission should address the claims of greenwashing and provide a solid transition plan for natural gas and nuclear energy sectors.

As can be observed, while ESG investing presents a dynamic space for climate mitigation, it still has a long way to achieve what it promises to fulfill, in terms of addressing the climate emergency and other environmental and social issues.

3. Situating TSKB within the Global ESG Ecosystem

TSKB and International Development Agencies, Rating Agencies, and External Auditors

Just one year after its establishment, TSKB launched its funding relations with international development agencies. Its first collaboration was with the World Bank. Currently, in addition to the World Bank, International Bank for Reconstruction and Development (IBRD), and International Finance Corporation (IFC), TSKB's DFI partners include, European Investment Bank (EIB), German Development Bank (KfW), Asian Infrastructure Investment Bank (AIIB), Islamic Development Bank (IsDB), French Development Agency (AFD), China Development Bank (CDB), Council of Europe Development Bank (CEB), Japan Bank for International Cooperation (JBIC), European Bank for Reconstruction and Development (EBRD), and Austrian Development Bank (OeEB). These DFIs provide 67% of the funding for TSKB and 85% of these funding resources are guaranteed by the Ministries of Treasury and Finance by 2021 year-end. Around 80 percent of the total funding received from the DFIs are ESG-linked and on the distribution leg around 90 percent of the loans made available are SDG-related.

The themes and conditions for loan agreements are collaboratively determined by the DFIs and TSKB; TSKB is an influential actor in the process as it follows global trends and assists in the adaptation of them to the needs of Turkish industries. For example, in 2016, the French development agency (Agence Française de Développement – AFD) allocated funds on a thematic loan agreement directed towards women's employment and operational health and safety, the first and largest example in Turkey at the time. In another instance, the World Bank has recently earmarked $150 million for geothermal energy and $400 million for inclusive financing that focuses women's employment and

development of regions with temporary protection status migrant populations. All the financing by TSKB with these thematic agreements go through an environmental and social impact reporting undertaken in compliance with the ERET model.[6]

Most of the DFI loans are financed to manufacturing, renewable energy, textile, chemicals, and automotive industries with the possibility to fund any project or firm that complies with the loan agreement conditions. According to an employee, the most common themes until 2016 were the environment and resource and energy efficiency. Beginning in 2016, with the acquisition of a financing devoted to operational health and safety and gender equality, TSKB expanded its theme portfolio to social sustainability and inclusive development. Thereafter, social sustainability and inclusive development have also become popular themes. The ESG orientation started long before the 2016 agreement, according to an employee: In 2005, TSKB signed its first agreement with AFD with the theme of SME financing; in 2014, it signed another for sustainable tourism and renewable energy; and in 2016, yet another for women's employment and operational health and safety. These themes follow the footprints of global development trends, as can be observed in the changes throughout the 2000s and 2010s from the industrial development orientation to an inclusivity orientation.

While development finance institutions set the foundational requirements for financing, the corporate sales and marketing department at TSKB is among core participants for the negotiation process of these thematic loans. TSKB teams work to develop new themes for loan agreements, find existing themes that would be appropriate to the Turkish context, and periodically report on their work. During the negotiation process, they inform the parties regarding the viability of themes and funds in the Turkish context, with an eye for Turkey's long-term development plans. Marketing and Sales department also make sure to find appropriate clients for these thematic loans upon the finalization of loan terms and conditions by the funding institutions. As TSKB knows the Turkish market well, it provides input to DFIs when needed and works hard to ensure that loan terms and conditions fit well to the reality on ground. These make up important steps to ensure that the funds received are actually used to the earmarked ends. For instance, for the women's employment agreement, TSKB teams worked to ensure that the requirements for the number of employees and the selected sectors were applicable for the Turkish context. In that sense, the corporate sales and marketing team is vital to the establishment of a *'credit pipeline'* that 'bridges' international development agencies' funding with TSKB and participating firms in Turkey.

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[6] The Environmental Risk Evaluation Tool (ERET) informs TSKB and other financial institutions of the environmental and social impact of investment projects. It was first developed with the assistance of the German development agency KfW in mid-2000s, and was later improved by TSKB to better reflect Turkey's contextual restraints and obligations. It is a risk evaluation mechanism that is compliant with the requirements of major international development finance institutions, such as the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD).

According to an employee, the AFD's women's employment agreement marks an important milestone as it was the first for both AFD and TSKB. AFD commanded the know-how, experience, and personnel to provide TSKB with an evaluation tool, which was inspired from the past projects of a French NGO partner. However, this tool was not adequately applicable to the Turkish context. Therefore, AFD and TSKB worked together to ensure that their evaluation tool is applicable given the legal, economic, financial, and social restraints of Turkey.

The commitment to ensure context-appropriate loan terms is aligned with TSKB's development mission. In addition, TSKB is also adamant on obligating firms to improve their operational and disclosure performance in the context of these thematic agreements. However, TSKB's ambition is a realistic one: for example, TSKB knows that it is difficult to get commitments for explicit reporting of gender pay gap, given that the Turkish law on personal privacy forbids the use of individualized data on salaries. TSKB works with the funding agency to develop a viable metric to evaluate the magnitude of the gender pay gap that is aligned with the requirements of the Turkish laws and regulations.

Development banks in Turkey like TSKB and Türkiye Kalkınma Yatırım Bankası (TKYB) do not collect deposits, unlike the commercial and public savings and loans banks in Turkey. This divergence influences how sustainability can be taken up by different financial institutions in Turkey: While commercial and public banks have begun to use funding received from DFIs to distribute their own sustainability-linked financing, they potentially have the liberty to not prioritize these funding structures as they can use their deposits to give loans without requiring sustainability performance and disclosure. On the other hand, TSKB and TKYB rely on international agencies as primary source of funding and they strictly impose sustainability standards through their thematic offerings. The divergence between deposit collecting and non-deposit-collecting banks creates an imbalance in the ESG investing sector in Turkey as firms that are not willing to abide by sustainability standards can turn to financing offerings that do not have any ESG-related conditions. To have a developed ESG sector in Turkey, it might be best to achieve a convergence between these different types of financial institutions regarding their sustainability requirements. Recent attempts by the Banking Regulation and Supervision Agency (BDDK) to introduce sustainability regulations is a promising development to this end.

The outcomes of the thematic loan agreements are evaluated with the help of Key Performance Indicators (KPI) collaboratively developed by the donor agencies and TSKB. For instance, for AFD's women's employment agreement, AFD and TSKB together developed a questionnaire, to evaluate improvement in select criteria in terms of gender equality. TSKB works with the HR departments of participating firms and asks for proof documents for what is stated in the self-evaluation questionnaires. These questionnaires are complemented with

additional self-evaluation forms and action plans for improvement. Here, the select criteria included equal opportunity to all employees at every stage of employment, beginning with the hiring process; creation of or revisions in human resources guidelines on work ethics and discipline; creation or improvement of nursing rooms and other childcare opportunities; reduction of the wage gap between male and female employees. In addition to ensuring improvement for the fund recipients on these criteria, this agreement with AFD created nearly 1700 jobs for females over the last five years, according to a corporate sales and marketing department employee.[7]

TSKB has also developed an evaluation tool for social development, with the assistance from Escarus. Using the 17 Sustainable Development Goals as guidance, TSKB and Escarus created a self-evaluation tool questioning almost 150 outcomes under the 17 SDG categories. Named the SDG Loan Model, this tool is used alongside the agreement-specific tools of thematic loans. The objective is to incentivize companies to develop their corporate contribution to the attainment of SDGs; companies with better SDG performance receive more favorable loan and pricing terms.

TSKB utilizes its ERET risk evaluation tool as a baseline for all of its projects. In accordance with each thematic agreement, TSKB introduces agreement-specific tools to strengthen its understanding of financial and ESG-related risks. TSKB also utilizes a "List of Activities that are not to be financed," which is aligned with the international development banking standards, to screen out certain activities harmful to the environment and society. TSKB commits not to finance these activities, such as the production of or trade in tobacco or tobacco products; any project that restricts individuals' personal rights or violates human rights; and the manufacture of or trade in any product covered by the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). The rigor of TSKB's engineering department ensures a sound evaluation of various environmental and social risks associated with a project through ERET tool and action and management plans. Although a detailed risk analysis is conducted for individual projects, TSKB does not screen the previous projects of an applicant firm. One can argue that this approach might implicitly serve the sectors and firms that are harmful to the environment and

[7] Thematic financing focused on women's employment is one way through which TSKB contributes to the improvement of gender equality in Turkey. TSKB also sponsors scholarship and mentorship programs to positively contribute to gender equality in art, education, and business. For instance, in 2021, TSKB supported 30 female university students with its Empowerment-through-Education Scholarship Fund, co-operated with Turkish Education Foundation. In the same year, TSKB also supported 13 young female musicians through its Women Stars of Tomorrow-Education Support Fund. Furthermore, TSKB has been compiling documents and studies focused on women's employment and gender equality in the workplace, published on *esitadimlar.com*. Launched in cooperation with Business Council for Sustainable Development Türkiye, this digital platform acts as a comprehensive guide for companies wishing to improve gender equality in their practices.

All of these undertakings demonstrate that TSKB has a holistic view on gender equality. Its financing activities for gender equality-focused projects are complemented by philanthropic and archival initiatives in art, education, and business. Under the auspices of improving gender equality, TSKB provides different types of end-specific assistance to a variety of audiences.

the society, since ERET tool is project-specific in its use—it does not look at the past sustainability performance of a firm nor does it investigate other projects of the applicant firm. This means that firms with past or existing projects that are undermining environmental and social well-being can receive funding for their new ESG-friendly projects. However, TSKB employees assert that this is the best possible action course, given the funding and other resource limitations, and the development mission of TSKB. This type of screening might turn away firms that are in need of funding to address their prior shortcomings on ESG criteria or begin their transition for greener production and consumption. In Turkey, providing generous funding for firms with less-than-ideal ESG performance is all the more important as most firms' underwhelming ESG orientations are aggravated by emerging market dynamics dominant in Turkey, such as difficulty raising capital.

Determining the risks and benefits of investment project is a laborious process that requires the weighing of all possible scenarios. In making a decision about the merits or harms of a project, TSKB reflects its priorities regarding certain environmental and social outcomes over others. For instance, according to an employee from the credit analysis department, a dark factory project proved to be a challenge for impact analysis: Dark factories are the industrial sites that are fully automated, and they require no direct human involvement on the production site. As such, they present positive outcomes on matters of work health and safety as these production sites minimize the risks posed to employees. However, especially on the matter of employment, it presents a negative social outcome by reducing the number of people employed on the production site. For this project, TSKB had to weigh the positive impact on operational health and safety against the negative impact of the decrease in employment. In another instance, TSKB had to decide on a wind turbine project, where the renewable energy production presented a positive environmental outcome, but the increased noise posed a potential negative outcome on social considerations. As can be observed, by evaluating the environmental and social impact of a project, TSKB directly determines its value and viability. Additionally, in deciding to fund *net positive* projects and shed *net negative* ones, TSKB indirectly alters the physical and social landscapes in which people live.

Occasionally, TSKB works with commercial banks in signing loan agreements or issuing Eurobonds. As opposed to TSKB's usual partners of development finance institutions, these commercial financial institutions are more closely attuned to Turkey's Credit Default Swap (CDS) rates and credit ratings and they operate on a much shorter funding timeline. As such, their loan terms and conditions and their expectations starkly differ from those of DFIs. One might expect this marked difference to disrupt the operations in loan agreements but this was not the case: TSKB utilized the expertise and know-how passed down from international development agencies and other financial institutions

to successfully issue its first green/sustainable bond out of Turkey and Central and Eastern Europe, Middle East, and Africa (CEEMEA) region with commercial partners. According to an employee, TSKB was quick to adapt to the expectations of a commercial partner:

"When we are working with development agencies, we are given a more long-term perspective to pursue our objectives. However, issuing Eurobonds in emerging markets requires a fast-paced pricing and sale process as the available window for an issuance can be short due to volatile market conditions. The speed [of the free market] surprised our departments in the beginning but we managed to successfully complete the project…"

The initial difficulty did not last long, according to this employee. The existing integration into global financial networks, along with the know-how this accompanied, and the book runners' support helped TSKB quickly catch up with the pace of free market Eurobond issuance.

TSKB gathers with Moody's and Fitch, one or two times a year, for due diligence purposes, and works with EY and PwC for auditing purposes. It also works with Sustainalytics for its own ESG rating evaluation and the verification of its sustainability-linked undertakings. TSKB received the grade of 16.7 for its ESG-related risk disposition, as released by Sustainalytics in 2020. This grade placed it in the sixth place out of 372 participating banks in its category. In 2021, it improved its ESG risk grade to 13.6 and became the fifth bank in its global category containing 402 other institutions. TSKB works with Sustainalytics to report on its ESG performance, as it offers the most robust measurement and reporting methodology that is highly preferred by green bond investors.

In 2021, TSKB went above and beyond the ESG grade forecast of Sustainalytics. This improvement happened in spite of a very specific challenge for TSKB, that is, the difficulty of creating marginal improvement when one's sustainability and financial scores are already high. In the words of an employee from the financial institutions department:

"It is easy to improve overall ESG ratings when one is already behind; you have a lot of shortcomings but improvement is easier to achieve [because] your path is longer and you have more room for improvement. For us, on the other hand, the path is much shorter but going forward is harder as most of the requirements of the ESG rating methodology are already achieved."

Here, the employee underlines their philosophical stance that it is easier to fix issues and achieve remarkable improvement when there are a lot of problems. When most issues are already addressed, as is the case with TSKB, the institutions need to become more ambitious to achieve significant and observable improvement in reporting metrics. Unless the institutions become

more ambitious, the employee emphasizes, current ESG outperformers will eventually hit a wall for carving out further improvements in their ESG performance, especially marginally significant ones.

As a financial institution bridging international development agencies and local firms, TSKB carries an important responsibility in reconciling the expectations of international fund providers with the financial and social reality of Turkey. Development agencies already command some degree of familiarity with emerging market economies and the challenges that they face; they turn to TSKB for input when needed. Especially the EU- and US-based commercial banks need more guidance in grasping and acknowledging the local challenges around sustainability frameworks as they are not intimately connected to the contextual factors of the Turkish economy, politics, and society.[8]

One noteworthy example is the grid losses on an electricity production plant. According to an employee, Europe- and US-based investors have difficulty comprehending why Turkey-based grids accrue substantial energy losses, despite being mostly sustainable and not facing technological and infrastructural problems. During meetings, the fund providers frequently attributed this loss to a lack of technology. TSKB then provided a cultural explanation to contextualize these energy losses on a mostly sustainable, centralized grid.

According to an employee from investor relations, TSKB's connectedness to the global financial flows and ESG discussions require it to think outside the box when it strives for further improvement in its ESG performance. To induce creative solutions for these improvement-related challenges, TSKB has assembled a three-session sustainability council at the beginning of 2021. The launching idea was that *"while one can be a leader in sustainability, one's competition can move past."* Employees brainstormed ideas on how TSKB's sustainability performance can be further improved with a creative emphasis on daily improvements (e.g., going plastic-free in the bank); on digitalization, an up-and-coming sectoral challenge; or on creating new sustainability funding themes.

Turkish Regulatory Agencies and Transnational Club Partnerships

TSKB maintains close relations with the Ministries of Finance and Treasury and other regulatory agencies since many development agencies, including the World Bank, require a loan guarantee.[9] Beyond loan guarantees, TSKB's close relations with regulatory agencies and sectoral associations include

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[8] An employee from the investor relations department emphasized that it is easier to establish a shared sustainability definition with international development agencies since they are somewhat more familiar with the local context. However, the foreign-based commercial financiers present a challenge when it comes to creating a shared sustainability definition and outlining relevant requirements.

[9] However, for some development agencies, such as Germany's KfW, TSKB's long-established relations eradicate the need for such a guarantee. TSKB is the first bank that does not need a guarantor for KfW funds and this attests to the trust it commands in the global financial sector. Even when there is no need for a Treasury guarantee, the DFI loans and funds are reported in the annual allocation and impact reports, and they are subject to verification by auditing firms.

collaborative initiatives. For instance, it periodically gathers with the Ministries of Finance, Treasury, and Trade to share and brainstorm over projections and innovations. It takes part in the Banks Association of Türkiye (Türkiye Bankalar Birliği – TBB) and serves as the head of the sustainability council there. It is directly involved in informing TBB and its participants of the innovations in sustainable finance. TSKB and its sister firm Escarus, along with other actors from the Turkish banking sector, gave comments to the Capital Markets Board of Türkiye (Sermaye Piyasası Kurulu – SPK) regarding a green financing standards document. This document was published in November 2021.

TSKB also participates in various initiatives and transnational sectoral clubs specializing in sustainable finance matters, such as United Nations Global Compact, Global Reporting Initiative (GRI), and United Nations Environment Programme Finance Initiative (UNEP-FI), to ensure persistent know-how transfer and to build relations with the United Nations and other transnational entities. One of the most important of these initiatives is the Task Force on Climate-Related Financial Disclosures (TCFD). TSKB is a supporter of TCFD, and it seeks know-how transfer and representational power through its active involvement. While TSKB was not a part of Phase 1 studies of TCFD, it became the only Turkey-based financial institution that actively participated in Phase 2 and 3 studies. This and similar club memberships are the sole and most important way to gain a voice in the international governance arena, since banks are not granted access to UN and other multilateral meetings and negotiations. Through its involvement in these global clubs, TSKB seeks representation of its interests in the global arena.

Still, one of the biggest obstacles TSKB faces in sustainably incorporating the globally distributed financial capital into the local economy is the limitations imposed by Turkish regulatory agencies. In spite of the efforts by TSKB to negotiate the conditions of international loan agreements in line with the local context, TSKB cannot transcend the Turkish law. Consequently, TSKB strives to cultivate close relations with Turkish regulatory agencies to inform these institutions on sectoral needs.

The limitation of improvement in the governance leg is closely connected to the increased difficulty that TSKB faces in improving its overall ESG performance. According to an employee from investor relations departments, what is currently keeping TSKB from radical improvement in its ESG score is mostly the governance limitations stemming from the shortcomings of Turkish law. As such, TSKB's improvement in the "G" (Governance) of ESG scores is dependent on the reforms that the Turkish regulatory agencies will introduce.

Shareholders

TSKB's biggest shareholder is Türkiye İş Bankası Group, with 51.37 percent of the outstanding shares. It is followed by Türkiye Vakıflar Bankası, which

holds 8.38 percent of the outstanding shares. Around 40.25 percent of TSKB's outstanding shares are traded on the stock exchange. While there are some instances of solidarity and know-how transfer between TSKB, Türkiye İş Bankası and Türkiye Vakıflar Bankası, the three banks are strictly separated in their day-to-day business activities, such as project financing and loan deals, precluding any threat of conflict of interest.

Competing Firms and Public Entities that TSKB Serves

In its approach to sectoral competition, TSKB portrays a confident perspective coming from years-long experience with DFIs and sustainability-related funding. According to an employee from the investor relations department, *"There are enough funds in the world, we just need to offer them the right products."* As such, TSKB is willing to offer consultancy to competing firms through its own departments or through its subsidiary firm Escarus; for TSKB, the consultancy provided will improve the sector as a whole and will lead to better funding outcomes for every sectoral participant involved. Recently, Escarus provided guidance to a Turkish participation bank regarding their attempts to create a green sukuk agreement. In addition, public entities like municipalities receive TSKB's consultancy services for their projects financed on sustainability conditions.

Clients and Fund Recipients

Firms increasingly seek to receive financing from TSKB, despite the added burden of sustainability considerations. This is because receiving financing from TSKB positively contributes to that firm's creditability and how it is perceived by financing and regulatory institutions as well as the public. If a firm can comply with TSKB's requirements around financial expediency, due diligence, and environmental and social sustainability, it signals strong financial performance, robust institutional structures, and a grounded and sincere commitment to improving environmental and social conditions. As a result, more and more firms wishing to prove themselves in the Turkish and global financial scene turn to TSKB for financing.

Although TSKB does not explicitly undertake an ESG-oriented engagement mission with its clients, its deployment of ESG-related loan terms sparks improvement in the firms' ESG reporting initiatives. According to an employee from the DFI department, "sometimes merely requesting a reporting is influential in raising awareness on sustainability matters." According to this employee, "Sometimes, [TSKB] asks one question to a firm participating in our women's employment loan program. They do not know the answer but the fact that [TSKB] asked that question positively contributes to their understanding of gender equality in the workplace." TSKB's requests around ESG reporting direct firms to do the necessary work on disclosing ESG performance as they need to

be prepared to receive funding. This is especially helpful for export-oriented firms as their improved financial and ESG reporting performance increases their chances of accessing foreign currency funding. Thereby, rather indirectly, TSKB obligates firms to be more mindful of whether and how they report their ESG performance, which can down the road also positively contribute to their ESG performance. In the words of an employee from the corporate communications department, "TSKB does not merely sell funding to its client firms and financial institutions; rather it paves the way for know-how transfer and radical transformation for the better." Similarly, the current sustainability coordinator Ayşe Nazlıca stated: "TSKB provides financing but it also asks for reporting on financial and sustainability matters. In one sense, we provide know-how, encouragement, and camaraderie for these firms to improve their financial and ESG reporting performance." Consequently, the thematic loan agreements, on the merit of their ESG disclosure requirements, make one of the most important building stones of TSKB's vision and mission for sustainable and inclusive development of Turkish industry, according to a DFI department employee.

TSKB also upholds APEX banking, where it relies on local banks and financial institutions to fund local firms and SMEs outside of the metropolitan areas. Under the auspices of APEX banking, international development agencies give the funding to TSKB, which then transfers the funding to public and commercial banks and participation banks (also referred to as PFIs for participating financial institutions). The PFIs distribute this funding through loans made to local firms. Under this structure, TSKB strives to ensure compliance with the ESG criteria of the loan agreement. This is an indirect overseeing structure, however, TSKB ensures that both the PFIs and fund-receiving SMEs are compliant with the terms outlined by the DFIs and TSKB.

In this section, I have shown how TSKB takes part in the global ESG ecosystem by depicting its relations with various global, national, and local actors. Owing to its connections, TSKB is able to spread its sustainability know-how and expertise to its local clients and even its competitors. As such, it serves as a bridge that takes global sustainability know-how and conveys it to the more locally-based actors. In the next section, I turn to TSKB's internal structures and its institutional culture to further investigate the factors that contribute to its role in extending an ESG sensibility in Turkey.

4. TSKB as an Integrated Whole and the Role of Institutional Culture

Separate and Autonomous yet Intimately Integrated

TSKB employees take pride in the organization of the bank that allows for an effective division of labor between autonomous yet intimately integrated

departments. TSKB's organization follows what employees call the *"World Bank model:"* TSKB evaluates each potential project at three separate levels; it undertakes a technical analysis, industry/economic analysis, and a financial analysis. In the engineering evaluation, the engineering department investigates the technical details of the production process based on the project's sector. In the industry/economic evaluation, groups from the credit analysis department consider the sectoral variables related to the offered project, both at the local and global levels. Finally, other groups from the credit analysis department analyze the financial history of the firm that proposes the project. They also synthesize a financial evaluation based on the data provided by the other legs of project evaluation, namely technical and economics.

The credit analysis and evaluation department undertakes two distinct roles, economic evaluation and financial analysis, since 2013. However, the multiple role-holding for a department is more of a rarity. Especially in World Bank-funded projects the separation of powers principle is followed closely and the responsibility to evaluate each stakeholder's perspective is distributed to different teams. For example, for a wind turbine project, TSKB will give responsibility to different teams and outside consultants for understanding the project's impact over the environment, work safety, expropriation of land, and so on.

The division of labor at TSKB extends beyond the technical, economic, and financial evaluation of a project. When it comes to the financing of a project, the division of labor between the corporate sales and marketing and DFI departments becomes formative as well. The DFI department's responsibilities include the management of relations between TSKB and the international development agencies (KfW, World Bank, AFD, etc.); signing of new loan agreements with these agencies; management of APEX application process, in the shape of coordinating participating financial institutions and recipient SMEs; coordination of intrabank communication and division of labor during new loan agreements; coordination of relations with Ministries of Finance, Treasury, Trade and other guarantors; and the reporting of impact and compliance assessments. While DFI is the primary team taking part in loan agreements with international development agencies, they rely on the corporate sales and marketing department for the initial feasibility studies.

The corporate sales and marketing department's responsibilities include the assessment of loan requirements and terms *before* the signing of new loan agreements; informing the DFI and FI departments regarding the feasibility of new loan agreements; coordination of financing in line with loan agreement terms and field reality; assessment of TSKB's market share and balance sheet. The corporate sales and marketing department is also an important participant during the negotiations for a new loan agreement as they conduct research on

the applicability of loan terms to the Turkish context and inform the parties. They are another important party, along with the DFI department, in ensuring that the thematic loan programs can create a real-life impact for Turkish industries. Despite their coordination for loan agreements, the DFI and corporate sales and marketing departments are two separate entities within TSKB with their own distinct responsibilities, objectives, and success evaluation criteria. This distinction between different departments is singled out as one of the main drivers of TSKB's leadership in sustainable development of Turkey.

Multiple employees have called this distinction the *separation of powers principle* throughout the interview process, and for them, it has become a defining characteristic of TSKB. For example, multiple employees cited the existence of a separate engineering department, which is a first in the Turkish banking sector, a source of pride as this department provides the objective, highly accurate, and highly needed input into impact and compliance assessment processes without being bound by the dispositions of other departments. An employee from the engineering department concisely described what their existence as a separate department signifies:

"[Project financing and engineering are completely separated.] This is similar to a principle of separation of powers—I have no interest in making sure that financing finds a firm; that is a role for the project financing team. The only responsibility of the engineering department is to account for and evaluate all of the risks involved in a project, inform TSKB departments and outside actors when necessary, and emphasize the importance and gravity of these risks."

Moreover, an employee from the corporate communications department emphasized the role of this separate engineering department in the creation of Escarus. For this employee, the engineering department served as an inspiration for the creation of Escarus, the sustainability-oriented consultancy venture of TSKB. It also provided technical know-how to Escarus. To this day, Escarus continues to assist commercial and public financial institutions and other firms in their journey through ESG integration. All in all, the separate engineering department at TSKB also provided an important contribution to the Turkish financial sector by kindling the creation of the nation's first sustainability-oriented consultancy firm.

Issue-Specific Teams Tackling ESG Problems

Another important characteristic that contributes to TSKB's unique positioning is its sustainability committee and relevant working groups that allow employees to incorporate ESG-related questions into their everyday professional practice. These sustainability working groups include Sustainability Strategy, Cooperation with Initiatives and Indexes, Sustainability Reporting, Sustainability

Communication, Sustainability Management System, Climate Risk, Green Swan,[10] Innovative ESG Products – Investment Banking, Social Impact Management, Gender Equality and SDG Mapping on Loans. They usually gather every month or every other month with agendas informed by the current developments in the realm of sustainability and finance. The Sustainability and Corporate Governance Coordinator oversees the meetings of these working groups. They periodically report to the overarching sustainability committee, which includes three board members, two executive vice presidents, and the CEO. This overarching committee delegates the execution of sustainability-related work to a sustainability executive committee of 14 people consisting of the CEO, executive vice presidents directly in charge of sustainability, and the heads of sustainability working groups.

Any employee who is interested in sustainability can take part in these working groups and their participation will be accounted for in their annual performance evaluation as a positive contribution. Consequently, most of the employees occupy two simultaneous roles at TSKB: One is their primary role within the bank and the other is the sustainability-related role that they voluntarily take on. For most employees, their sustainability-related responsibilities make up a considerable amount of their daily workload, alongside their primary roles in the bank. These two roles are integrated as the employee goes through a workday. Furthermore, different working groups frequently collaborate with one another, as well as with the primary departments. This structure around sustainability work serves to saturate all of the departments with a tendency to consider sustainability in their actions, as well as ensure that the employees are able to internalize the sustainability concerns of the bank.

The social impact management working group was established in 2018 to support and improve the environmental-social framework provided by the World Bank. It directed its efforts towards evaluating the social impact of the projects and gauging which Sustainable Development Goals (SDGs) are supported through thematic project/corporate loans financing. Later on, a separate SDG working group was formed, and the two groups had their individual mandates, where SDG mapping responsibility was passed on to the then newly established SDG mapping on loans working group.

Currently, the SDG mapping on loans working group undertakes a detailed mapping of the themes and goals supported by project/corporate loans financing. It matches credit themes with specific SDGs, including the financing provided to SMEs through APEX banking but excluding the general financial sector and non-renewable energy production plants. While one can estimate which SDGs are supported by simply looking at the project description,

[10] Green Swan is an online platform launched by TSKB in October 2020. Its objective is to bring together public and private sector actors and civil society representatives with international organizations, academics, researchers, students, and the press to create a shared avenue to address climate crisis and other issues stemming from the climate crisis. Green Swan working group focuses on the publication of reports, newsletters, and other media about these issues on the online platform.

employees underline the need for a detailed investigation. For instance, if a project is in a development-priority region in Turkey, the bank can say that the project contributes to the elimination of poverty (SDG #1) by providing employment.[11] However, TSKB prefers to base this tagging on detailed research and investigation.

The climate risk working group focuses on the evaluation and reporting of climate-related physical risks and transition risks. Although climate risks have always impacted the sector, it is only recently that they have come to the forefront of sustainable finance discussions as a potentially material grave risk. In accordance with the increasing importance of climate risks in the sector, the TSKB climate risk working group has published its first climate risks report in 2021.

Finally, sustainability reporting working group collaborates closely with the financial institutions and investor relations department to disclose the financial and sustainability impact of the bank and it publishes the integrated annual report and other sustainability reports.

The Role of Culture

It is possible to explain TSKB's leadership in the Turkish sustainable finance sector through two factors: First, the transfer of know-how from international development agencies to TSKB; second, and perhaps more importantly, TSKB's ability to strand forward owing to its refinement of this acquired know-how. The know-how and technical expertise held by international development agencies are highly refined and sophisticated, and it would have required a long time for TSKB to build that expertise from scratch. Instead, in addition to receiving financing, TSKB sought out the know-how and technical expertise of these globally relevant institutions to develop its own sustainable finance frameworks. For instance, TSKB's first environmental-social impact evaluation methodology was created with technical assistance from KfW, the German development agency, which TSKB later carried forward by refining it according to local factors.

As we can observe in the adoption of the World Bank model for loan evaluation, TSKB considers it a privilege to have access to these internationally acclaimed standards and expertise. This way, TSKB is able to uphold its *raison d'être*, that is, supporting the private sector and industrial development in Turkey, and carry this objective forward by creating cutting-edge norms and practices. This is a friendly diffusion of knowledge, know-how, and technical expertise, where international development agencies who are leading the global sustainable finance discussions end up assisting the development of sustainable finance

[11] The interviewed employee emphasized that this would not apply to less convincing examples such as providing employment for white collar workers in a metropolitan area.

in Turkey. In the words of an employee from the corporate communications department:

"TSKB has started its sustainability journey 30 years ago when Turkey did not have a single environmental regulation. Through our relationships with foreign funding institutions, we began to incorporate international environmental standards into our projects."

Similarly, an employee from the FI department states:

"The momentum for sustainability comes from the West [the international development agencies], but it is TSKB that pushes this momentum further by building on these links and connections."

Of course, it is not enough that TSKB takes over the standards and structures developed by international development agencies. It has to adapt this expertise into the Turkish context and carry it forward by introducing innovation into its practice. For example, to better address the concerns around compliance and impact in the context of thematic loan agreements and other financing projects, TSKB created specific departments coordinating the relations with different funding institutions, namely the DFI and FI departments. This signals the importance TSKB attributes to the management of relations with international development agencies. TSKB's commitment to innovation and collaboration also shows up in the milestones TSKB reached: TSKB has become Turkey's first carbon-neutral bank in 2008; it created and exported the first green/sustainable bond out of wider CEEMEA region and the globally first sustainable Tier-II bond.

TSKB is able to *sustain* its leadership in sustainability owing to its institutional culture that favors innovation, enthusiasm, and internalization of its causes. Here, I use the term *institutional culture* to indicate not only the organizational division of the bank and the rules and norms by which the employees abide, but also their opinions about sustainability and their evaluation of the work they do for sustainability. For many employees I interviewed, TSKB is the first setting where they have witnessed sustainability to be deeply embedded into the daily practices of the workplace, regardless of the fact that these employees belong to different age groups and employee cohorts. For instance, two employees who joined TSKB after being employed at other financial institutions in 2007 and 2012, respectively, both stated that TSKB was the first professional setting where they had seen sustainability be an important agenda item. One of them summarized their transition experience from another bank to TSKB as follows: "I have never once heard the word sustainability at my previous institution. And at TSKB we talked nothing *but* sustainability." Another employee who joined TSKB in 2011 after being employed at another bank stated that the thematic

loan agreements were a very unfamiliar notion to them at the beginning, "it was through [my] time at TSKB that [I] become more knowledgeable about thematic loans and sustainability in finance."

Under normal conditions, a potential TSKB employee will be attuned to the sustainability issues beginning with the hiring process. Let us consider the Management Trainee program as an example. TSKB's Management Trainee program is one of the primary ways through which early-career bankers are hired. TSKB invites 50 university seniors and master students each year, for a 3-day case study event before extending interview invitations, and eventually job offers. For the past couple of years, these case study events center the questions of sustainability, in a way to convey TSKB's focus to potential employees early on. Even before the actual Management Trainee events, the application for the program asks questions about how the potential employee approaches questions of sustainability. The candidates are asked to film themselves defining sustainability and commenting on its significance as part of their application.

While early-career employees based in Turkey are habituated into the sustainability focus through Management Trainee application and events, more experienced or foreign-based potential employees are drawn to the significant presence of TSKB in transnational and national organizations and its centering of sustainability concerns in finance. For example, for an employee who joined TSKB in 2016, TSKB's presence in the events of the Council of Europe Development Bank was influential for their interest in working for TSKB. For another employee, who worked as an analyst at an investment bank group prior to working at TSKB, TSKB's presence at the financial and sustainability-related conferences and the meetings of BDDK as a champion of environmental and social sustainability causes was influential in their decision to work for TSKB. For TSKB employees, sustainability is part and parcel of their everyday professional experience from the hiring process to annual performance reviews.

Another instance where we can observe the sustainability orientation of TSKB's institutional culture is the way in which sustainability projects are undertaken. The following example given by a corporate communications employee demonstrates how deeply integrated the bank's sustainability vision and its professional activities are:

"Around 2006-2007, the senior management wanted to undertake an environment-related corporate social responsibility project. We worked with PR agencies, and they came up with the idea to create a one-time competition, publication, and website. We as the corporate communications opposed this idea because we thought it was not sustainable—it was a one-time event; it was not sustained. That is how we created 'cevreciyiz.com' as a project that has been around for the past 13-14 years. This website serves as a long-term archive

of important know-how and expertise on environmental issues. Later on, very similar to cevreciyiz.com, we also built 'esitadimlar.com'. This time, as a know-how archive on gender equality."

The employee from the corporate communications department stated that the establishment of cevreciyiz.com as a long-term project marks the fact that TSKB "[has] put on green glasses [that day]." By *'putting on green glasses,'* TSKB has committed to incorporate a care for environmental and social sustainability into its activities in a substantial manner.

Another important example to this end is the bank's sponsoring of the first carbon-neutral live music event in Turkey: As a founding member of İstanbul Kültür Sanat Vakfı (İKSV), TSKB had periodically sponsored İKSV events. The year immediately following TSKB's carbon neutrality, TSKB offered to sponsor İKSV's live music event and to mobilize its resources to ensure that the event's carbon footprint would be eliminated. With technical support from the engineering department, TSKB sponsored Turkey's first carbon-neutral live music event and kept eliminating the carbon footprint for the events it sponsored thereafter. While the above examples and other similar ones are part of corporate philanthropy activities, TSKB is currently looking for ways to incorporate similar undertakings into its social impact assessment. This would ensure that these undertakings are not one-off or person-based philanthropic moves but an integral part of the bank's business and daily practice.

The internalization of TSKB's sustainability focus by the employees is most clearly demonstrated in their approach to their work. When asked about what they liked the most about working at TSKB, the employee responses mostly emphasized how their labor served a *societal purpose* for the well-being of the environment and society. An employee shared a personal anecdote that demonstrates what they mean by a societal purpose:

"[…] for example, I am from […]. Each summer, when I drive to my hometown, I see the wind turbines that we as TSKB have financed. And it fills me with pride to see that those turbines are standing there thanks to our work […]"

In fact, it might be this personal sense of fulfillment felt by the employees that bolsters TSKB's sustainability focus—TSKB's internal structure is conducive to promoting sustainability in Turkey's industrial sector but TSKB employees can also strengthen this focus through their personal dedication and efforts. As an employee from the corporate communications department stated:

"To me, working at TSKB is equal to doing good in the world. TSKB is a genuinely good brand; it is a bank that seeks to finance firms that do no harm in the world. And at the end of the day, as an employee, not only you contribute to this goodness but you are also getting paid for it."

Based on these instances, it is then no surprise to see employees emphasize the societal purpose of TSKB for their choice to work here, especially at a time when corporations are redefining their purpose to serve stakeholders stakeholders (see: the Business Roundtable's 2019 Statement on the Purpose of the Corporation) and employees are increasingly choosing environmentally and socially responsible firms for employment (Brekke and Pekovic 2018; Simpson and Aprim 2018). For example, The Business Roundtable in 2019 has taken steps to include stakeholders and a societal purpose in defining the purpose of a business corporation. And thereafter, corporations are increasingly paying their allegiance to their stakeholders beyond the shareholding groups, in a move to mainstream environmentally and socially responsible business practices. In one sense, with TSKB employees, we are observing the reflections of this global transformation. We observe a genuine intertwinement of employee internalization and institutional structures. The sustainability focus at TSKB is not an agenda item that is brought forth by the senior management and the board and imposed upon the rest. It relies on the widespread internalization of sustainability causes by management and employees and the persistence in prioritizing societal purpose along with economic gains to ensure that its sustainability focus becomes institutionalized. As such, it transcends the individual persons, and potentially becomes a long-lived and sustained one. This sincerity in centering sustainability concerns attracts employees who are passionate and personally involved in these matters, like the employee from the DFI department who has made climate financing their life's work by pursuing a PhD in it.

Today, as a result of its global support networks, more than half a century's worth of institutional memory, and its openness to change, TSKB represents a dynamic and innovative financial institution that substantially contributes to the sustainability agenda in the Turkish financial sector. It encourages and motivates employees to learn about and adapt in their practice the new developments in the sector, a characteristic that the employees deeply appreciate. However, there are also some challenges stemming partly from the direction that the world and financial sector are headed and partly from the aspects of institutional culture that resist certain types of innovation. While I talk about the former types of challenges in the following section, I briefly go over the challenges stemming from the institutional culture here.

According to an employee from the FI department, while the institutional culture at TSKB is mostly encouraging of innovation, there are some instances where it also blocks what can be done, especially when it comes to digitalization and accessibility. For example, when a rating agency asked TSKB about the whistleblower and supervision hotline, TSKB failed to provide a whistleblower phone line that is active 24/7. According to this employee, the digital and accessibility-oriented requirements can sometimes "hit corporate walls." However, the employee is hopeful that new cohorts of employees will push for these changes in the future.

Digitalization and accessibility are issues that the employees mention most frequently when talking about the problems awaiting the financial sector. It is then no surprise that the mobile whistleblower hotline poses a challenge within TSKB as well. Keeping in mind that TSKB aims to increase its sustainability rating over the years and keep its momentum as a leader of sustainable finance in Turkey, the institutional culture should intentionally be directed to become even more flexible and innovative. In the words of a corporate communications employee, *"TSKB has started early and developed immensely"* in creating an ESG-oriented business. Nevertheless, it has to keep its momentum in leading the sustainability discussions, given that its room for significant improvement is much narrower than its peers that are just starting their journeys.

5. Current and Future Challenges for TSKB and the Financial Sector in Turkey

In each interview, I asked participants about their perspectives on the current and future challenges for TSKB, the Turkish financial sector, and the global actors of the financial sector. Since the interviews took place between July 2021 and December 2021, the most pressing challenge that impacted the day-to-day operations at TSKB was the ongoing COVID-19 pandemic. Almost two years into the pandemic, TSKB has settled into an appropriate routine having altered aspects of its operational and financing undertakings. The pandemic and the changes caused by it, according to the employees, served as a teachable moment for improving the crisis response and increasing the resilience of TSKB.

Regarding the bank's on-site operations, the most significant change was the shift to fully remote working during the height of the pandemic. By December 2021, TSKB has settled into a hybrid work mode with employees taking turns in coming to the HQ office a few days a week. According to the current sustainability and corporate governance coordinator Ms. Nazlıca, hybrid working bolstered productivity and efficiency. In the hybrid work model, asynchronous communication increases the efficiency of workplace communications by reducing the distraction caused by the immediacy of face-to-face interactions. When face-to-face time is needed, the limited amount of this synchronous time ensures that it is used efficiently and effectively. According to Ms. Nazlıca, the bank will most likely continue its hybrid operations.

The pandemic has also radically shifted TSKB's financing operations. According to an employee from the FI department, during the pandemic, the working capital loans have increased. During this time, working capital loans have served and are still serving the needs of the firms that had to shut or slow down their operations due to the public health mandates. In addition to using the existing lines and themes of financing to serve these firms' needs, TSKB has also created a new theme focusing on COVID-19 to distribute funding to distressed firms. It also started working on other new themes including circular economy, EU

green taxonomy, sustainable agriculture, climate change adaptation, and youth employment, in line with increasing global demand for ESG products.

Owing to its long-established close connections with global development agencies and loyal following of global standards around risk management and environmental and social sustainability, TSKB was able to easily address the pandemic's challenges and learn to deal with potentially unknown future challenges. While there might have been some difficulties in adapting to the new conditions, it does not seem to have radically altered TSKB's operations.

When asked about the future challenges that await TSKB and the rest of the financial sector, a number of employees emphasized what was *not* going to be an issue. For most employees, fund availability for sustainability-oriented products *will not* be a problem in the future. In fact, according to these employees, the plentiful fund availability will contribute positively to the transition into a fully sustainable banking and financial sector. One can also look at this phenomenon from the reverse viewpoint and claim: Because there is more and more demand for a transition economy and ESG products, institutions are increasingly earmarking their funds for specific ESG products—the demand for transition drives the funding. Either way, the employees do not foresee increased competition for limited sustainability-focused funding resources in the near future. In the words of an employee:

"The world is fast approaching mainstreaming sustainability at a large-scale. So, I do not think the availability of the funding will be the central issue. Rather, reporting and compliance will take dominance in determining access to sustainable financing."

This demonstrates that the challenge of sustainable finance does not lie in securing funding. The challenge is more about classifying assets and reporting impact to ensure that sustainable financing is actually achieving what it strives to achieve.

While international development agencies try to ensure ambitious sustainability performance by adequately classifying different financial assets and requiring diligent reporting of impacts, it does not ensure compliance on its own. Through loan terms and conditions, the international development agencies can direct firms and financial institutions to become more considerate of their sustainability impact. However, as stated by various employees throughout the interview process, a firm can seek financing from another institution that does not require sustainability reporting. Here, financing serves as a soft incentive to improve sustainability performance, but it is not enough as there are plenty of other institutions offering financing with no sustainability-related requirements. Similarly, TSKB benefits from the existence of its engineering department and sustainability working groups in setting adequate reporting metrics for environmental and social impact. However, since there is no overarching

regulatory obligation to report on impact, TSKB's efforts remain limited to the funding recipients which seek to work with TSKB. Without a regulatory environment conducive to sustainability transition, efforts at TSKB and other similar-minded institutions remain circumstantial to the overall financial industry. The Turkish financial sector needs clear-cut, standardized guidelines around the classification of assets and risks, as well as reporting requirements. And this effort of standardization must come from the regulatory agencies to obligate compliance from every institution in the Turkish financial sector. And it should focus on the adequate assessment of climate risks, on ensuring sustainability coordination outside of metropolitan areas, and on preventing greenwashing.

The Turkish governance authorities have taken steps in the last months to adapt the regulatory environment to the current necessities of the world and encourage transition to sustainable finance: President Erdoğan approved the Paris Agreement in October 2021 and finalized its integration into legislation, more than five years after it was signed by the Turkish representatives. In July 2021, the Ministry of Trade published an action plan on EU's Green Taxonomy, where it details how EU's Green Taxonomy can be adapted to the Turkish context in line with Turkey's development goals and willingness to transition to a green economy. This document guides financial institutions on important matters such as EU's carbon regulations at the border, green financing, and climate risks and outlines the calendar for transformative steps. As such, it informs TSKB and other financial institutions by situating Turkey's potential changes in the transnational context, TSKB's sustainability coordinator Ms. Nazlıca underlines. In November 2021, Capital Markets Board of Türkiye issued a document outlining the details of green lending and renting instruments, as well as the conditions for their export. Also recently, the Banking Regulation and Supervision Agency published a strategic plan on sustainable banking, where it outlines the steps for promoting sustainable financing and addressing climate risks while strengthening global collaborations. This document seeks to assist the transition of the banking sector prior to 2025 when taxation based on carbon emissions comes into effect. In January 2022, the Ministry of Environment, Urbanization, and Climate Change gathered the Climate Council, where stakeholders would undertake discussions to inform the process leading to Turkey's 2053 Net Zero Emissions and Green Development targets. In the meantime, the relevant ministries ramp up their contacts and collaborative efforts with United Nations Development Programme.

The above-stated moves towards building a regulatory environment conducive to improving sustainable finance are noteworthy. They show that despite its meager presence at major climate-related transnational events, like the COP26, Turkey has acknowledged the necessity of a green transition and it is in the process of building a regulatory universe that will help financial and other sectors to take the necessary steps. However, in order for the transition to succeed, there has to be standardized, science-based, and ambitious national and local regulations encouraging sustainability at all levels and scopes. Unlike

what has been the case for cryptocurrencies and blockchain technologies, the regulations should not seek to restrict innovation. Instead, it should strive to encourage innovation and adequately oversee it through the science-based and equitable design of legislation.

The science-based regulation with adequate asset classification frameworks will help financial institutions to satisfactorily address all the climate and transition risks in their portfolio. The most pressing challenge for financial institutions now is climate change given the steep hikes in climate-related default risks. Should there be a centralized regulation that uses a standardized asset classification system and accounted for all scopes of emissions, including the frequently and conveniently overlooked scope 3 emissions, it would take a huge burden off of financial institutions that are coming up with their own metrics and thereby need to prove the validity of these metrics.

Secondly, having a standardized national regulation would help with the enforcement of sustainability requirements all over Turkey, even for firms and financial institutions that remain outside of the metropolitan networks of financial and know-how flows. For TSKB, the inaccessibility of these networks outside of the metropolitan areas becomes a concern, especially when APEX banking is involved. Potentially, a nationally enforced and standardized ESG framework would ease the APEX banking practices.

The absence of a national framework for ESG financing has come up in the interviews with employees:

"A nationally shared framework for ESG financing would ease a lot of TSKB's operations, especially in APEX banking. TSKB has only one branch in Ankara, so we mostly rely on mediating banks to distribute funding and oversee impact. And this influences the quality of input and feedback we get as it is mediated through other institutions. National regulation would streamline the sustainable financing sector as it would reduce mediation in conveying the sustainability performance and reporting requirements."

There can be a couple of solutions to this problem of passing sustainability know-how to firms in the periphery: First, TSKB would have to be more directly involved with the recipient firms; however, this would not be the most resource- and labor-efficient solution as TSKB does not have branch network spanning Turkey. Deploying personnel based in the headquarters to assist peripheral firms might be an expensive and inefficient solution. Second, TSKB would try to pass on sustainability know-how to mediating institutions and request them to uphold its own high standards. Once again, this would be a resource-inefficient solution and it might create conflicts of interest and issues with competition. However, a national regulation would be a good way of spreading the

knowledge of sustainability requirements and their implementation. Further, the regulatory agencies can take over the role of diffusing know-how and expertise on sustainability. As such, it might be the most viable option for ensuring that any firm in Turkey, even the ones in remote regions, can access sustainability regulations and know-how.

Finally, a standardized, science-based national ESG regulation would help solve the issue of greenwashing. Greenwashing indicates the instances where financial institutions and corporations make ungrounded claims of positive environmental impact based on misleading reporting metrics or the misleading commentary of adequate reporting metrics. For instance, if a company makes its claims on carbon emissions based solely on scope 1 and 2 and does not include scope 3, it can make false claims of carbon neutrality. Here, scope 1 indicates direct emissions from owned and controlled resources whereas scope 2 covers indirect emissions stemming from a company's energy needs. Scope 3 accounts for all other direct emissions that occur in a company's value chain, including but not limited to its sold products, investment portfolio, employee commuting, and transportation and distribution in its supply chain. Consider a technology company, named *A Corp*. *A Corp*. might eliminate its scope 1 and 2 emissions by converting its premises into green buildings, relying on renewable energy on its sites, and so on. If *A Corp*. includes only scope 1 and 2 in its reporting of its emissions, it looks like the perfect net-zero company on paper. However, its scope 3 emissions, the impact stemming from the use of its produced goods, employees commuting, or its use of harmfully-produced minerals in production might sink its emissions performance. So, from a reporting perspective, it matters which scopes of emissions are included in the calculation of a firm's emissions and whether the firm is being transparent about which reporting metrics it is using. Without a national framework, the adequate and truthful reporting of a firm's sustainability reporting relies solely on the goodwill of the management of these entities—and leaves room for misconduct. For instance, a TSKB engineer pointed out that abuse of reporting metrics become a pressing issue in the sector, especially when SDG impact performance is involved:
"I once witnessed a firm reporting on their SDG impact, and they flaunted the fact that they were immensely contributing to SDG #1, which is 'no poverty.' And the way they claimed to contribute to this was through paying their [white collar] employees [in a big metropolitan area]."

Implying this was almost a comical example of SDG-washing, the engineer emphasized that TSKB was acting as conservatively as possible when making judgments on impact reporting. Once again, the anti-greenwashing efforts are limited to the goodwill of the institutions that are willing to undertake a genuine sustainability transition. For those who are obligated to do so through financing terms, greenwashing will always remain a good escape. For this reason, a national ESG framework with science-based and standardized targets is highly

needed to minimize greenwashing. This national framework should include measures to ensure compliance and sanction when inadequate action is taken or when misconduct is detected. Further, it should also make the ESG reporting into publicly available information to assist the third-party rating providers and auditors in their attempts to detect greenwashing and misconduct.

During the interviews, there were also some issues that appeared as a specifically pressing concern for the banking and financial sectors. Digitalization was one of these issues that the employees considered as predominantly impacting their sector. According to an employee, digitalization in the banking sector might lead to a massive loss of employment in the near future. While TSKB is not highly impacted by this consequence of digitalization, a blessing of its lack of a branch network, the rest of the banking sector might be negatively affected. The employee emphasized that this should not lead to an undermining of the digitalization process; instead, attention should be diverted to creating new lines and sectors of employment. Another issue stemming from digitalization is the spread of cryptocurrencies and the consequent reduction in fees and commissions, and consequently, a loss of income, in the banking sector. In using blockchain technologies for transferring money and undertaking other transactions, users are opting out of paying fees to banks for their intermediary responsibilities. Once again, instead of trying to stop the rise of cryptocurrencies and blockchain technologies through restrictive regulation, Turkey's regulatory agencies should seek to install rules that enable innovation. In this employee's words, it is more important to *"address the risks of digitalization"* than to restrict the irreversible rise of digitalization and other valuable innovation.

It is also important to note that Turkey has been in an ongoing currency and debt crisis since 2018. Any sustainability-related challenge that TSKB and other financial institutions are going through plays out in the foreground of steadily rising inflation, plummeting of Turkish lira's value, and an unemployment rate that moves between 10 and 15 percent. During the last few months of 2021, Turkey mobilized rather atypical solutions, such as currency-protected savings account, against these problems. The long-term effects of these tools are unknown to many, including financial institutions themselves. This uncertainty might undermine the potential of Turkey's transition to a green economy, by making it more difficult to attract capital that has an increased sensibility towards an expanded portfolio of risks.

Furthermore, the recent energy restrictions in the manufacturing sector and the currency controls imposed on exporting firms add to these difficulties. TSKB might suffer from these restrictions on the manufacturing sector and exporting firms as it works closely with them. To this day, TSKB and exporting firms collaborated successfully, to the benefit of both parties as the former has been able to fulfill its mission of contributing to industrial development and the latter have been able to find the foreign currency sources that they need. The current

situation makes it harder for both parties. This specific challenge around TSKB's exporting partners, as well as the general state of the Turkish economy signal that it will be a challenging year for the financial sector, in terms of both ESG-related and the more traditional operations.

Adding to the challenges of ESG investing this year, on February 24th, 2022, the Russian government began its invasion of Ukraine. Following the initial shock and statements of denouncement and disapproval, the international community quickly moved to install economic and financial sanctions on Russia. Within the week of Russian military offensive on Ukraine, the EU and many other countries, including the US, UK, Canada, Japan, and Taiwan, passed sanctions against Russian central bank and financial institutions. The sanctions by individual countries include embargoes on Russian manufactures, freezing of Russian assets, or annulment of payment services. At the transnational level, Russian banks are banned from SWIFT, a global interbank network that allows the speedy connection and communication between institutions (Mearian 2022). As far as ESG-oriented asset owners and managers are concerned the invasion proved to be an important test of credibility. A considerable number of pension funds and asset managers based in Denmark, France, Switzerland, and the UK immediately froze or divested from Russian investments, citing violation of international law and human rights and the need to uphold the principle of accountability to their clients (Cohn and Jessop 2022; Gambetta 2022; AkademikerPension 2022).

In the meantime, Turkey joined the international community in condemning Russian attack over Ukrainian territorial integrity and national sovereignty. It also invoked the Montreux Convention to close the Black Sea to Russian warships. However, Turkey's considerable reliance on both Russia and Ukraine in terms of energy consumption, grain imports, and tourism income makes its economy vulnerable to the unfolding conflict and puts it into a difficult position to take sides (Kirisci 2022). In fact, as early as one day after the attack, Turkish lira fell more than five percent (Caglayan and Sezer 2022). In addition to above-mentioned, mostly internal difficulties, Turkey also faces an increased economic and financial burden because of the regional tensions. And this instability will undoubtedly cause an affliction in the prospects of Turkey's ESG investing sector.

Before concluding this section, I would like to come back to the corporate communications employees I cited in the beginning. For these employees, the pandemic served as a gateway to improve TSKB's crisis response and bolster its resilience. Similarly, all these challenges I cite regarding the Turkish economy, Turkey's transition to a green economy, and specifically, the banking sector can serve as teachable moments and sources of wisdom. Cooperation between national regulatory agencies, banks and financial institutions, and client firms, as informed by the globally shared desire for a more sustainable economic

system, can contribute to Turkey's permanent and persistent transition to a greener economy. As these corporate communications employees stated:

"We have been talking about sustainability for a very long time. Now we need to move beyond simple awareness, we need concrete steps, concrete projects, and concrete regulations. We have to prioritize sustainable entrepreneurship, climate entrepreneurship, green innovation. Only then can we talk about the sustainability of sustainability."

This means that a new, greener economic model should be built step-by-step while keeping intact the learned resilience, know-how, technical expertise, and the intellectual flexibility, which allows for speed and creativity in responding to future challenges. And the only way to achieve this model is through concrete transformation and driven innovation––and immediate ones.

6. Conclusion and Policy Recommendations

Lessons from TSKB's Experience

This paper presents TSKB's ESG integration journey by drawing data from publicly available documents and semi-structured interviews with its employees. For more than 70 years, TSKB has been operating with the objective of carrying Turkish industry forward. In pursuing this objective, it relies on its close connections with international development agencies and other international financial institutions. It also fuses this globally transferred know-how, expertise, and financing with innovative moves befitting the local context. As a result, TSKB has become a leader in the Turkish financial sector, setting an example for other financial institutions. These days, similarly to its positioning in the 1980s, TSKB once again acts as the leader of innovation, this time in supporting Turkey's transition to a sustainable economy. Understanding how TSKB is able to achieve a strong ESG sensibility and lead the Turkish financial sector on this matter, as well as the challenges it faces and the solutions it creates, are vital to grasping what awaits the Turkish economy and the Turkish financial system during the transition to a more sustainable future.

ESG investing is a global movement that feeds from transnational flows of financial and know-how resources. As such, TSKB is already in an advantageous position to pursue ESG objectives since it has decades of accumulated know-how stemming from its close relations with international financial institutions. Quite expectedly, TSKB mobilizes this advantage to spread an ESG sensibility to Turkish firms through the use of specific instruments such as thematic loan agreements. TSKB serves as a bridge between global actors that are at the center of the ESG developments and the local financial institutions and firms that need more guidance on grasping and incorporating an ESG sensibility into their practices.

Another factor that helps TSKB to occupy a pioneering role in ESG integration lies with its internal structure. TSKB is established such that there is a strict division of labor between different departments with differing responsibilities. This division of labor ensures that any step taken within TSKB is subject to internal checks and balances. This setup prevents conflicts of interest and misconduct as different teams autonomously decide their courses of action. Yet, despite the autonomous actions of these departments, they are still synced with each other to ensure the smooth running of the bank's operations. As such, TSKB presents an operation model that is ambitious, efficient, and resilient against potential misconduct, which assists its participation in the global ESG financing scene.

Furthermore, the institutional culture at TSKB, which encourages and motivates employees to internalize the environmental and social sustainability causes, strengthens its ESG positioning. Each employee at TSKB is able to hold an additional, sustainability-related role and embed sustainability causes into their daily professional routine. As such, individual employees become professionally and personally invested in carrying TSKB's ESG undertakings further. This ensures that the sustainability causes at TSKB are not impositions forced by the management; rather, they are woven into the institutional structure and made permanent.

Despite holding a leadership position in the Turkish ESG sector, TSKB still has to deal with some sector-specific and general challenges, which include digitalization; the ongoing COVID-19 pandemic and the economic disruptions it has caused; greenwashing and shortcomings of reporting metrics; the absence of standardized, science-based regulations around emissions; and other sustainability concerns. Owing to its accumulated expertise and know-how, and its decision to center learning, flexibility, and resilience in its operations, TSKB tackles these challenges without substantially disrupting its operations. In fact, TSKB employees regard these challenges as teachable moments, where their solutions might serve other sectoral actors as well.

Policy recommendations:

Climate change, other environmental-social concerns, and infrastructural resilience

Climate change is currently the most pressing and material concern in the context of ESG investing. The impact of our climate emergency can already be felt in various instances, and this requires the immediate creation of climate change adaptation plans.

- Access to financing for sustainable infrastructure and green energy transition will be a central concern for the coming years and decades. Actors in private and public sectors, as well as the local administrations, will need financing and planning support for building infrastructures that are resilient to the effects of climate change.

- Climate change, along with population increase, brings to the foreground the issue of food security. Turkish government and development banks based in Turkey should focus on providing financing support to innovation in the fields of food security and sustainable agriculture.

Access to sustainable financing on markets

The above-mentioned steps require consistent and reliable access to sustainability-oriented financing. Turkey's current economic condition and Credit Default Swap (CDS) rates make it difficult for firms to finance their innovation projects through long-term loans with decent interest rates and conditions. Currently, only development finance institutions are able to offer favorable rates and conditions on loan agreements. To attain greater ESG compliance and integration, Turkish firms should be able to access long-term sustainable financing with supportive interest rates and conditions. Unfortunately, most Turkish firms currently have limited access to sustainability-oriented financing.

- One way to reverse these access issues is to mobilize substantial public, private, and civil society resources to increase sustainability awareness and expertise in all sectors and at all levels. These include the transfer of ESG know-how to branches of financial institutions and small or midcap firms outside of the big metropolitan areas and the global financial flows; ensuring the widespread accessibility of ESG consultancies; encouraging and even obligating all firms and corporations to report on their ESG impact. This increased ESG sensibility might improve the terms and conditions of sustainable financing products offered to Turkish firms.

- In the meantime, the private sector actors should not hold themselves back from cooperating and collaborating with their industry peers. During the transition period, and in an emerging market such as Turkey, cooperation will prove more useful than the competition, at least in the short run. Cooperating to spread know-how and technical expertise around ESG matters will positively contribute to Turkey's attractiveness to global providers of capital and will potentially increase the funding available in general. Once the ESG market in Turkey matures, competition will be more conducive to growth.

Regulatory frameworks

Undoubtedly, the steps to ensure greater access to sustainable financing resources heavily depend on financial regulation in Turkey. The Turkish authorities have taken steps in the last few years to ramp up Turkey's integration into the global transition attempts and sustainability agenda. In line with its willingness to become embedded into the global ESG sector and to continue this momentum, Turkey should create a regulatory universe that is conducive to innovation in ESG matters, instead of one that restricts innovation to retain control. The regulations should be science-based and parsimonious enough to

prevent greenwashing and other misconduct, and ambitious and innovation-friendly enough to ensure substantial improvement in the sector. It should also obligate the reporting of carbon emissions and other context-appropriate ESG criteria within its jurisdiction.

Relatedly, Turkey should take steps to demonstrate its sincere commitment to the environmental and social sustainability objectives. Turkey has thus far failed to command a significant presence at most multilateral sustainability-related meetings, like the COP26 that took place in November 2021. It should demonstrate its willingness to act in concert with other countries in the global transition to a more sustainable future. It should also demonstrate its sincerity by outlining the intermediary steps and strategies of achieving certain outcomes. For example, Turkey could substantiate its commitment to net-zero emissions by 2053 target by outlining intermediary emissions reductions goals.

- More specifically on the matters of regulation, Turkey should create regulation that is aligned with the environmental and social regulations accepted and enforced by the European Union and international development finance institutions. Thus far, Turkey's own ESG regulations have consistently fallen behind the expectations of global providers of capital.

- It is important for Turkey to keep up with the requirements of European Union Green Taxonomy: Turkey needs to guide local firms through regulation and reporting requirements to ensure compliance with the Green Taxonomy and be able to sustain these important trade relations into the future.

- Carbon tax at the border will begin in 2025 for energy, aluminum, iron and steel, and fertilizer production sectors, and and in the following years for other sectors. To minimize any negative repercussions of this regulatory move, Turkey needs to build an EU-compliant carbon capture and trade system as soon as possible. This would contribute to a number of desired outcomes in addition to reducing carbon emissions for the manufacturing and energy sectors: First, local firms would not pay higher carbon taxes within the EU jurisdiction. Second, their reduced carbon emissions would contribute to their access to long-term global financing at lower interest rates. Finally, Turkey would benefit from building a decent carbon capture and trade system and being able to keep the tax revenues within its own jurisdiction.

These policy suggestions are a rudimentary first attempt at addressing the pressing and complicated issue of sustainability transition in an emerging market context. There is a great growth potential in a transition economy but it is also for the sake of our livelihoods and those of the future generations that we must ensure this transition. Decarbonization and other attempts to ensure environmental and social sustainability are vital to the continuity of our economic activities and livelihoods. This is a burden we are currently shouldering mostly for the sake of future generations. It is also an indebtedness

we shall carry as a result of our part in planetary degeneration. The time frame for taking action and transforming the way we live, work, and generate value is getting shorter and shorter—to keep the planetary temperature rise at the acceptable 1.5 Celsius degrees, we need to achieve planetary net-zero carbon emissions by 2050 (Peters 2021); to achieve net-zero emissions by 2050, we have to cut off planetary carbon emissions by 50 percent within this decade (Behar 2022). These are radical transformations which require a reimagining of economic systems, where we are skeptical towards infinite growth, and developing technological as well as regulatory solutions to ensure that the effects of past and current harmful activities are addressed. The former seems less likely than the latter in the immediate future: This means that national governments and transnational bodies should introduce appropriate rules and encourage innovation while financial institutions and corporations help achieve greater sustainability by complying with regulations and undertaking innovation. While the Turkish government has started to acknowledge its role in kindling this transition and Turkish financial institutions and corporations are beginning to align their behavior with global expectations, Turkey still has a long journey ahead: As an emerging market dealing with a persistent vulnerability to the fluctuations in the global capital flows, Turkey needs more ambitious steps to prove its aptness for attracting ESG-oriented capital and existing in the post-transition economic system. This study centered TSKB as it sets a good precedent for the Turkish financial sector.

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