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Designing a Just Transition Financing Mechanism for Türkiye

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WWF

WWF is an independent conservation organization, with over 30 million supporters and a global network active in over 100 countries. WWF's mission is to stop the degradation of the Earth's natural environment and to build a future in which humans live in harmony with nature, by conserving the world's biological diversity, ensuring that the use of renewable natural resources is sustainable, and promoting the reduction of pollution and wasteful consumption.

Sustainable Economics and Finance Association (SEFiA)

SEFiA is a research-oriented civil society organisation positioned to conduct independent work in the fields of sustainable economics and financing sustainability, with a particular focus on Türkiye's transition to a low-carbon economy and its response to climate change. Through national and international collaborations, SEFiA aims to strengthen data, knowledge, and research capacity, and to contribute to the development of policies that support a low-carbon and sustainable economic transition.

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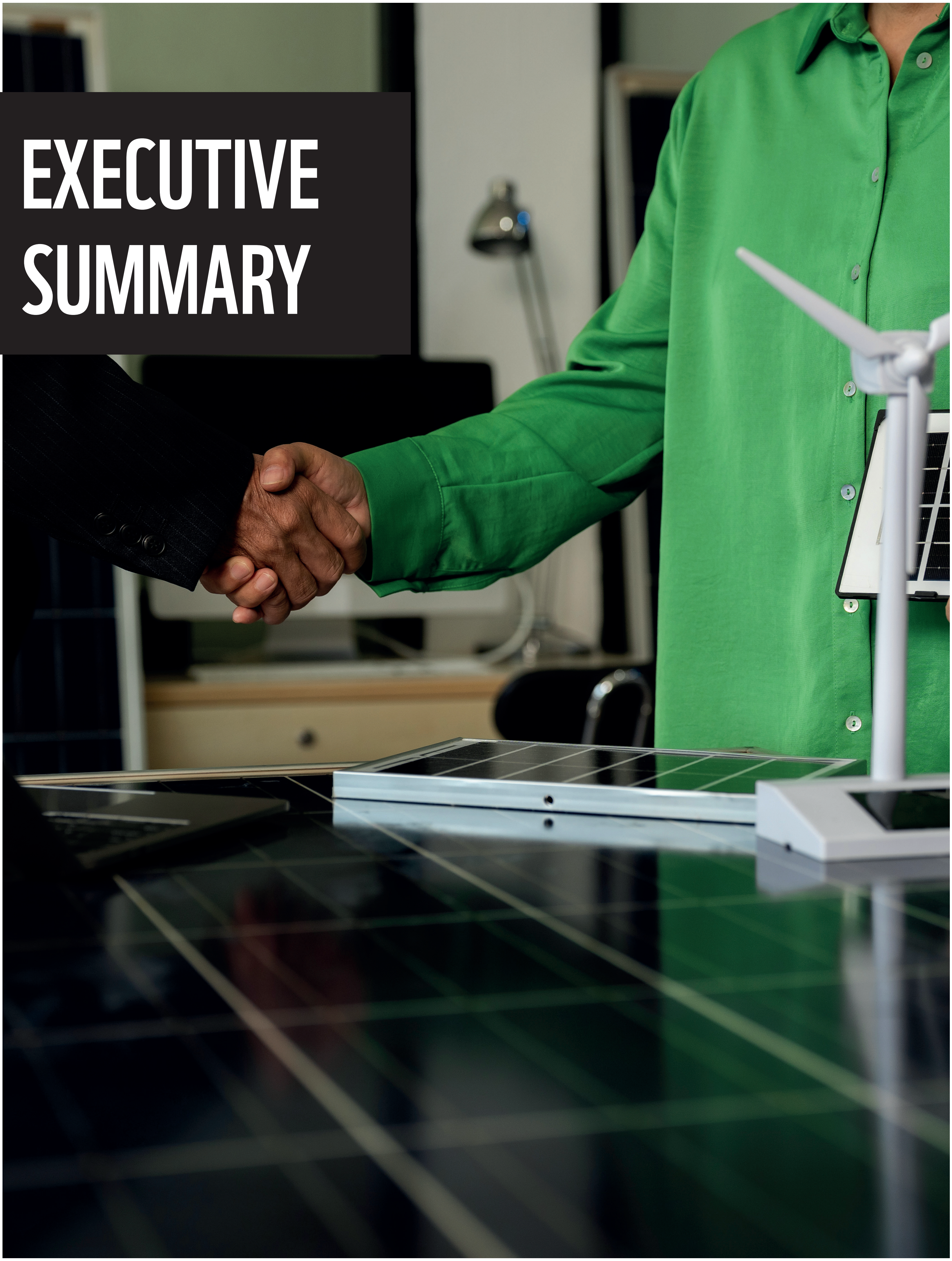
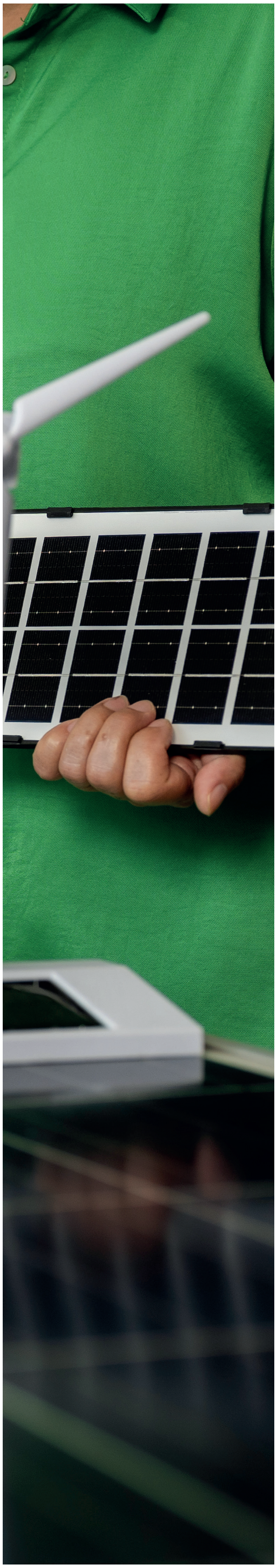


EXECUTIVE SUMMARY



TÜRKİYE IN THE GLOBAL JUST TRANSITION FINANCE AGENDA

Successful and sustainable just transition requires strong national ownership and core financing from a robust public budget.

The idea of a just transition was first articulated by labour movements in the 1970s in response to the impacts of environmental and industrial regulations on workers, and was conceptually formalised in the 1990s through alliances between trade unions and environmental groups. Over time, as the climate crisis deepened, it evolved into a multidimensional policy domain encompassing governance, regional inequalities and social vulnerabilities. With the 2015 Paris Agreement, workers' rights and livelihood security were incorporated into the global climate regime for the first time, while the 2018 Silesia Declaration placed the social justice dimension at the centre of climate negotiations. The European Union's (EU) establishment of the €17.5 billion Just Transition Fund (JTF) in 2019 provided the first permanent and binding public finance architecture for just transition. Following The 26th session of the Conference of the Parties (COP26) to the United Nations Framework Convention on Climate Change (UNFCCC) in 2021, the Just Energy Transition Partnerships (JETPs)—initiated in South Africa and subsequently extended to Indonesia and Viet Nam—mobilised multi-billion-US$ packages to support coal phase-out and energy transition in emerging economies. By 2025, in a context where annual global climate finance needs have reached the trillions of US$ and achieving a 1.5°C-aligned transition requires multiplying current investment levels several-fold by 2030, COP30 marked a turning point at which just transition became a comprehensive implementation agenda encompassing regional development, labour market transformation, social protection and governance.

Global experience clearly shows that there is no single model for financing just transition. Countries are developing different financial architectures depending on their economic structures, energy supply profiles and public sector capacities. However, a common principle stands out across all successful experiences: **Successful and sustainable just transition requires strong national ownership and core financing from a robust public budget.** Areas such as labour market adjustment, income replacement, reskilling, regional development and social protection cannot be sustained by market logic alone, and depend on public responsibility and budgetary guarantees. National budgets therefore constitute the primary financial and political foundation of just transition. International grants, concessional loans, development bank resources and market-based instruments can generate scalable and lasting impact only when they complement this public core, are aligned with national policy priorities and are deployed within a nationally defined governance framework. Otherwise, models that rely predominantly on external resources tend to be limited to temporary and fragmented interventions rather than continuous and programmed action.

Against this backdrop, major regional and international just transition mechanisms—such as the EU's JTF and the Just Energy Transition Partnerships (JETPs)—illustrate how external support can amplify, but never substitute, strong national leadership.

The EU's JTF is not designed to replace national budget leadership, rather, it functions as a regional support instrument anchored in member states' Territorial Just Transition Plans. For the 2021–2027 period, the fund has a programming volume of around €77.4 billion, with substantial allocations to economic restructuring, environmental investments and social policy measures. Poland's experience clearly demonstrates that such a regional resource can generate multidimensional transformation in coal-dependent regions **only when it is combined with national budget contributions and national policy instruments,** enabling progress simultaneously in employment, environmental remediation and regional development.

JETPs, in turn, are structured as international finance packages bringing together donor governments, multilateral development banks and the private sector to accelerate coal phase-out and energy transition in partner countries. In South Africa, Indonesia and Viet Nam, a significant portion of JETP financing has been loan-based and tied to macroeconomic and sectoral conditionalities aligned with national reform commitments. This design makes JETPs powerful tools for mobilising external finance and accelerating transition, **yet it also shows that the direction, pace and social priorities of transformation remain heavily dependent on the fiscal capacity and policy ownership of national authorities.** Limited grant shares, rising debt burdens and relatively weak social policy components have created substantial risks for social legitimacy in contexts where national ownership is insufficient. These experiences clearly demonstrate that **robust national budget contributions and grant-based social investment components are indispensable for ensuring public acceptance and securing the long-term success of just transition efforts.**

Another cross-cutting lesson from national, regional and international experience is that just transition is never only a matter of finance. In successful cases, the durability and legitimacy of transition efforts depend on robust governance structures, inclusive decision-making mechanisms and rigorous monitoring and evaluation systems. The German Coal Commission model represents one of the most advanced examples of this approach, combining multi-stakeholder negotiation, legally anchored outcomes and long-term regional planning. The implementation of the EU JTF and the JETPs likewise operates within governance frameworks that require stakeholder participation, clear performance indicators, independent oversight and transparent reporting mechanisms throughout the allocation and use of resources. These experiences underline that financial resources, on their own, cannot deliver a just transition without equally strong institutional and participatory foundations.

This global context makes it evident that just transition has become an urgent and unavoidable policy domain for Türkiye

Türkiye is directly and multidimensionally confronted with the just transition agenda due to the Emissions Trading System (ETS) preparation process underway in line with the 2053 net zero target, the financial obligations of the Carbon Border Adjustment Mechanism (CBAM) that will start in 2026 and mounting competitive pressure in carbon-intensive sectors, and the high share of employment in these sectors. Yet Türkiye does not currently have a **dedicated, permanent, nationally defined, and socially centred just transition financing and policy mechanism.** Existing support instruments have not been designed through a just transition lens. They remain fragmented, project-based, and are largely focused on technical investments. As a result, core areas such as workforce transition, income replacement, regional development and social protection lack coherent, scalable and sustained policy instruments. This creates a clear need to establish a **comprehensive, durable and institutional** national framework for just transition in Türkiye is now urgent and cannot be deferred.

Scope and objective of the SEFiA – WWF's study on "Designing a Just Transition Financing Mechanism for Türkiye"

This study has been prepared to address this structural gap. Its main objective is to set out the conceptual, financial and governance framework for a National Just Transition Finance Architecture that will:

- Bridge the gap between Türkiye's climate objectives and its employment, industrial transformation and regional development policies
- Integrate national budget resources, revenues generated through carbon pricing mechanisms, and international just transition finance into a single strategic architecture
- Enable the simultaneous financing of social justice, social inclusion, regional economic transformation, and regional sectoral transition

Within this framework, the study aims to:

i. provide a comparative analysis of international models for just transition finance

ii. identify institutional and fiscal gaps for Türkiye

iii. propose a feasible fund structure and governance model at national and regional level

iv. offer a practical policy roadmap for decision-makers

In doing so, the report seeks to present a comprehensive framework that treats just transition in Türkiye not only as a climate policy tool but as a strategic development policy area – one that simultaneously restructures regional development pathways and supports the transformation of carbon-intensive sectors in an integrated and socially inclusive manner.

Structural implications for Türkiye and the proposal for a National Just Transition Fund

International and national evidence together points to three core structural implications for Türkiye:

1. Just transition is not solely an energy policy issue. It is an integrated transformation agenda that encompasses employment, industrial restructuring, regional development and social policy.
2. International finance is important, but cannot anchor just transition. For just transition to be socially sustainable in Türkiye, core funding must be grounded in the national budget and permanent domestic revenue sources.
3. Financing must extend beyond technical decarbonisation. Resources should also be systematically channelled to labour market transition, education, income replacement and local development rather than being restricted to emissions-reduction projects alone..

Against this backdrop, the study proposes the establishment of a National Just Transition Fund that brings together central budget resources, revenues generated through carbon pricing mechanisms, and international finance. The core objective of the fund is to provide a stable, predictable and transparent financing base for the social and economic transformation needs arising in regions with carbon-intensive sectors.

The financial backbone of the fund should consist of a core structure based primarily on central budget allocations, strengthened by revenues generated through carbon pricing mechanisms. This core should be complemented by international grants, concessional loans, just transition bonds and private co-financing. Legally earmarking at least twenty per cent of revenues generated through carbon pricing mechanisms to the fund is critical for predictability. Redirecting the fiscal space created by the gradual phase-out of fossil fuel subsidies toward just transition will also enhance the alignment between climate and budget policies.

Fund resources are envisaged to be structured in a balanced way across social policy, technical transformation and regional development policy areas. Carbon-intensive industrial and energy regions should constitute the spatial focus of the fund, and regional just transition plans should serve as the primary reference documents for allocation decisions.

The governance architecture should operate at three levels: national, regional and participation/oversight. A two-way feedback loop must be established between national strategy and regional implementation. The monitoring and evaluation system should operate along three axes: emissions reductions and plant closures, regional economic transformation and labour market and social protection outcomes.

Taken together, these structural implications underscore that Türkiye's just transition cannot rely on fragmented instruments or project-based interventions. It requires a coherent national financing architecture, a clear division of institutional responsibilities and regionally grounded implementation mechanisms that translate high-level objectives into tangible outcomes. The proposed U-AGF provides this foundation by aligning fiscal policy, climate policy and regional development priorities within a single, strategically governed framework. The following section sets out the key policy recommendations needed to operationalise this framework and ensure that Türkiye's just transition is socially fair, economically viable and institutionally durable.

Key recommendations of the study

Drawing on international experience, the study concludes that establishing a National Just Transition Finance Architecture for Türkiye that is socially, economically and environmentally integrated, nationally owned, multi-stakeholder, transparent and performance-based is now an urgent policy priority.

#1

Just transition finance can only function effectively when guided by a clear, predictable and long-term national strategy that aligns sectoral policies, investment signals and social objectives: The effectiveness of just transition finance depends fundamentally on the existence of a coherent national strategy that provides clarity on policy direction, investment priorities and the pace of transformation. Establishing binding timelines for coal phase-out and the restructuring of carbon-intensive sectors, and updating Türkiye's NDC in alignment with the 2053 net-zero target, will create the predictability that public and private financiers require. Strengthening inter-ministerial coordination—particularly between energy, labour, industry, environment and treasury institutions—is critical to prevent fragmented interventions and to align sectoral policies with just transition objectives. Standardising environmental and social criteria across public agencies, development banks and financial institutions will help harmonise project appraisal processes and reduce uncertainty for investors. Embedding social governance principles into financing frameworks through mandatory social impact assessments, minimum social safeguards and structured engagement with affected workers and communities will improve the quality and legitimacy of investment decisions. In parallel, promoting sustainability-oriented dialogue mechanisms within the banking sector and ensuring access to just transition guidance for financial institutions will enable earlier risk identification, reduce transition-related financial exposure and accelerate the flow of both domestic and international capital into priority regions and sectors.

#2

Just transition finance can only be sustainable when anchored in a strong national budget backbone and supported by a blended finance structure in which grants play a central role—particularly for labour market and regional development outcomes: Türkiye should establish National Just Transition Fund framework as a flexible, layered and durable national financing mechanism that integrates central budget resources, revenues generated through carbon pricing mechanisms, international climate finance, capital market instruments and private co-financing. As fossil fuel subsidies are gradually reduced, the fiscal space created should be redirected into the fund so that savings derived from phasing out carbon-intensive incentives directly support Türkiye's climate and just transition priorities. Aligning and consolidating existing mechanisms—İŞKUR, KOSGEB, TÜBİTAK, the Credit Guarantee Fund, development agencies and Green Organized Industrial Zone programmes—under the U-AGF framework can strengthen policy coherence, reduce fragmentation and generate early operational gains.

Access to funding should be conditional on compliance with trade union rights, social protection requirements and environmental and social standards. National budget resources should constitute the primary and decisive financial backbone of just transition, while revenues generated through carbon pricing mechanisms together with grant-based and concessional blended-finance instruments should serve as priority tools. International grants and favourable-term loans should complement this domestic core by targeting regional just transition investments. Given Türkiye's limited access to EU funds, it is essential to establish a central, multi-stakeholder, transparent and accountable model similar to the EU JTF and regional just transition plans, complemented—as appropriate—by JETP-style external financing frameworks that reinforce, rather than replace, strong national ownership. Together, these elements will create an implementation environment that is aligned with both national and international mechanisms, measurable and socially supported.

#3

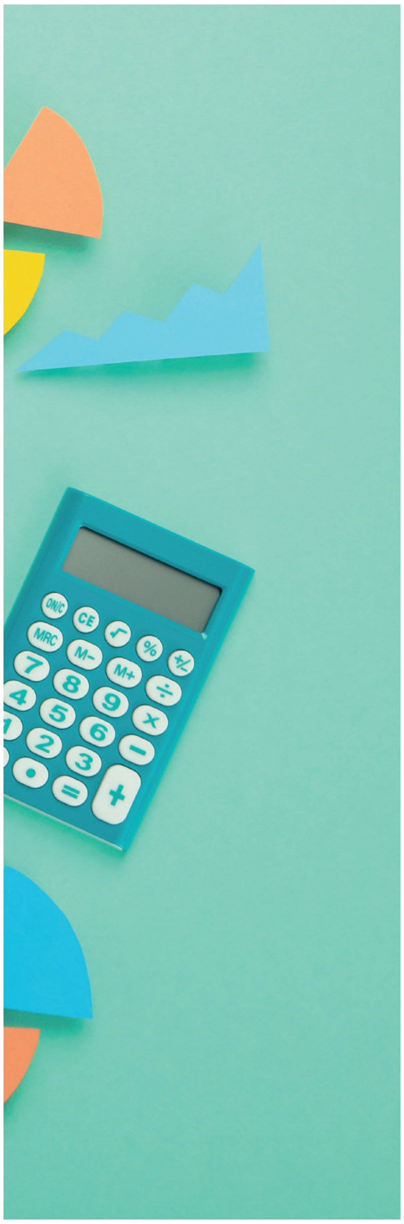
The National Just Transition Fund must rest and be allocated on a comprehensive and binding policy framework that clearly specifies which sectors and regions are prioritised, which social principles apply, and which performance criteria govern allocation decisions: Within this framework, it is proposed that at least 35 per cent of the fund be allocated to grant-based social policies (labour market support, reskilling, social infrastructure and SME diversification), at most 30 per cent to technical and industrial transformation (infrastructure modernisation, CO_2 reduction and site rehabilitation), and at least 35 per cent to regional development priorities (agricultural transformation, geo-tourism, renewable energy and local value chains).

Access to finance should be conditional on clear and verifiable compliance with trade union rights, social protection requirements and environmental and social standards. High carbon intensity, significant risk of job loss and regional economic dependency should serve as core eligibility criteria, while social planning, trade union consultation and local co-financing should be required conditionalities. Project selection and fund allocation should be guided by a multidimensional and transparent performance framework, drawing on indicators such as job creation, CO_2 reduction, regional scalability, local supply-chain contribution and financial sustainability. Implementation should utilise a suite of instruments including performance-based payments, credit support mechanisms, sectoral transformation contracts and special-purpose project vehicles, ensuring that funding flows are both outcome-oriented and accountable.

#4

Regional Just Transition Plans should serve as the primary policy and implementation tools that channel local realities into the National Just Transition Strategy. These plans must reflect local economic structures, employment profiles, social needs and environmental risks, and systematically feed these priorities into national strategic and financing decisions. Dedicated regional just transition plans should be developed for priority coal regions (such as Zonguldak and Bartın) and carbon-intensive industrial hubs (such as Gebze, Aliağa and İskenderun), supported by project portfolios grounded in local development potential. Regional plans should be prepared with the meaningful participation of municipalities, chambers of industry, trade unions, producer organisations and local communities, and should serve as binding financing reference frameworks in the fund allocation process.

By establishing this structure, national targets and funding directions will be implemented through a continuously updated, feedback-driven system rooted in regional priorities, ensuring that local needs and capacities actively shape national just transition policy.



#5

Just transition governance should be anchored in a multi-level, multi-stakeholder architecture that links national strategic direction with regional implementation: In the proposed model, a Türkiye Just Transition Commission would set the overarching strategic and policy framework, while a National Just Transition Fund High Council would take financing decisions and ensure alignment with national priorities. A dedicated Fund Operator would be responsible for project execution and financial management, and a National Platform would coordinate implementation across ministries, agencies and regional structures to ensure coherence with national strategy. At the regional level, regional platforms and local stakeholders—including municipalities, chambers of industry, trade unions and community organisations—would design and implement projects, ensuring that local needs and capacities shape the transition on the ground. Oversight and legitimacy would be reinforced through a Social Partners Council and an Independent Monitoring Unit, providing structured participation, transparency and accountability.

This governance model creates a two-way communication and accountability loop between the central and local levels: national strategies and financial resources are transmitted to the field, while regional implementation experience, constraints and priorities systematically feed back into national decision-making. This ensures a responsive, adaptive and institutionally coherent just transition process.

#6

Robust monitoring, evaluation and data governance are essential to ensure that policy and funding priorities are implemented effectively and adjusted in a timely manner: Türkiye's just transition process must rest on a monitoring and evaluation (M&E) architecture built on open data, harmonised indicator sets, independent verification and regular public reporting. A system capable of tracking operational, social, environmental and financial outcomes will allow policymakers to recalibrate priorities through structured interim reviews and adaptive management.

To safeguard financial integrity and social legitimacy, the framework should include clearly defined institutional roles, graduated sanctions, anti-corruption measures and formal stakeholder participation in oversight processes. During the first phases of the process, priority should be placed on establishing the national data infrastructure, testing implementation modalities in pilot regions and operationalising independent evaluation protocols. This will ensure that Türkiye's just transition is grounded in evidence, capable of course correction and responsive to evolving regional and social needs.

Designing a Just Transition Financing Mechanism for Türkiye

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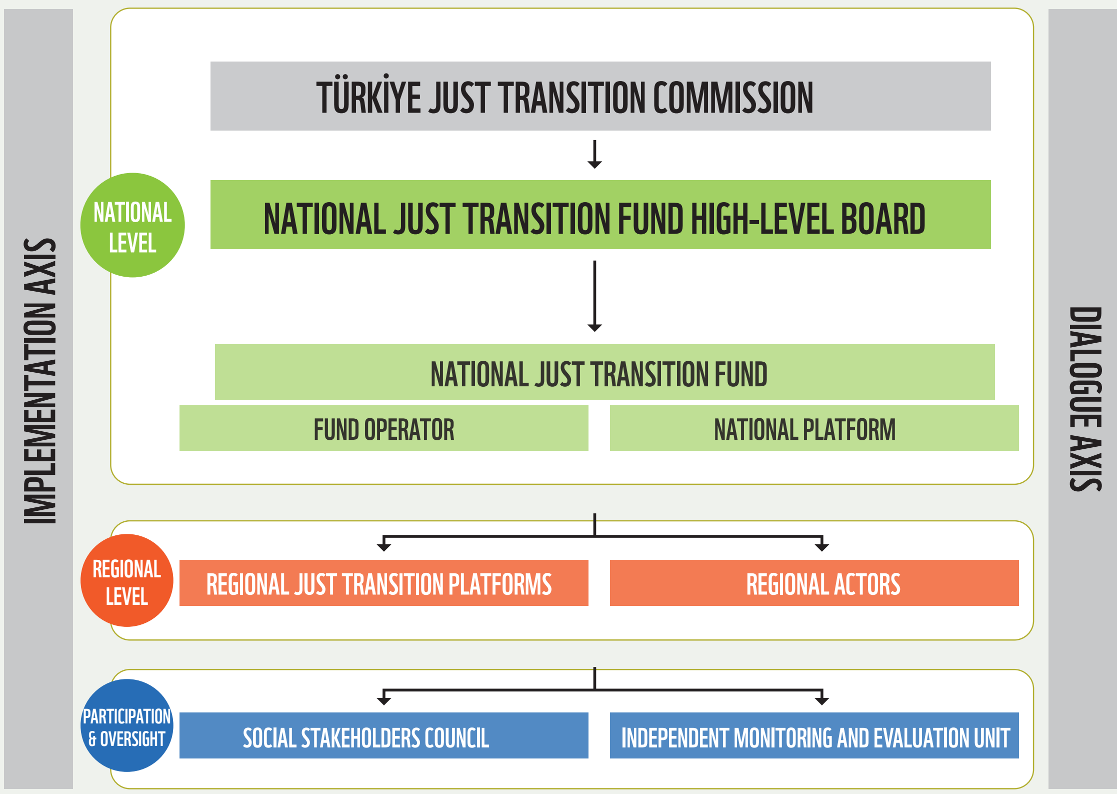

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