

SHAPING A SUSTAINABLE FINANCIAL SYSTEM

Future-proofing global finance for a net-zero, nature-positive world

INDONESIA



INTRODUCTION

Indonesia is the **8th largest emitter** globally, and the largest in ASEAN, with

1.7gt

in GHG emissions in 2018².

The government has 2030 targets to **reduce emissions** by at least

29% 

against a 2010 baseline⁴.

Indonesia, one of the most biodiverse countries in the world, is home to 10% of flowering species and 12% of the mammals globally, as well as having a vast rainforest that serves as an important carbon sink. However, this biodiversity is threatened by habitat degradation and fragmentation; forest and land fires; pollution; disruptions associated with economic and political crises; and the effects of climate change¹.

Indonesia is also the eighth largest emitter globally, and the largest in ASEAN, with 1.7gt in GHG emissions in 2018². The country recently displaced Australia as the world's top exporter of thermal coal³.

The government has 2030 targets to reduce emissions by at least 29% (and as much as 41% with international assistance) against a 2010 baseline⁴. Officials have also indicated that the country aims to become carbon neutral by 2060 or earlier⁵. Recently, the government has terminated the Letter of Intention (LoI) on Reducing Emission from Deforestation and Forest Degradation (REDD+) with the Norway government⁶, however at the moment it's not effecting to any commitment yet. During Covid, the government confirmed its commitment to integrating sustainability with economic recovery and growth⁷, announcing health, social, disaster and economic recovery measures and developing the National

Economic Recovery (PEN) plan, with a budget of IDR 600.43 trillion for 2021⁸.

Efforts to safeguard the environment are closely tied to the government's emphasis on sustainable development. This has driven Indonesia's financial services sector to implement sustainable finance in support of Indonesia's commitments under the Paris Agreement and in support of the 17 Sustainable Development Goals. According to the updated Nationally Determined Contribution⁹, it is estimated IDR 4,520 billion is needed to implement mitigation actions within the roadmap, and The National Planning Agency (BAPPENAS) estimates that its 2030 SDG goal will require around IDR 67,000 trillion¹⁰. Similarly Otoritas Jasa Keuangan, the financial services regulator, has developed a two-phase Roadmap¹¹ to catalyse sustainable business practices in Indonesia. As of 2020, Indonesia has the second-largest sustainable finance market in ASEAN, with over US\$5 billion in issuances since 2018¹².

1. Convention on Biological Diversity (no date): Indonesia – Main Details.

2. Climate Watch Data (no date): Indonesia.

3. Nangoy (2021): Indonesia optimistic of reaching net zero emissions by 2060 or earlier.

4. Government of Indonesia (2021): Updated Nationally Determined Contribution.

5. Reuters: Indonesia optimistic of reaching net zero emissions by 2060 or earlier

6. Ministry of Foreign Affairs of The Republic of Indonesia (2021). Indonesia Terminates the LOI of REDD+ with Norway.

7. Institute for Economic and Social Research and BAPPENAS (2021): Thinking Ahead: Indonesia's Agenda on Sustainable Economic Recovery from COVID-19 Pandemic.

8. Ministry of Finance (2021): Focus on Maintain Recovery Momentum, Government Accelerates National Economic Recovery Program.

9. Government of Indonesia (2021): Updated Nationally Determined Contribution.

10. CNN Indonesia (2019): Pembangunan Berkelanjutan Butuh Dana Fantastis Rp67 Ribu T.

11. OJK (2021): Sustainable Finance Roadmap Phase II (2021 – 2025).

12. Climate Bonds Initiative (2021): ASEAN Sustainable Finance State of the Market 2020.

KEY SUSTAINABLE FINANCE POLICY ACTORS

Actor	Responsibilities and actions taken
REGULATORS	
OTORITAS JASA KEUANGAN (OJK)	Financial services authority and SBN member. Recently issued Sustainable Finance Roadmap II (2021-2025).
INDONESIA STOCK EXCHANGE (IDX)	Member of SSEI and official TCFD supporter.
MINISTRY OF FINANCE	Developing regulations on government budget tagging for climate actions and on innovative financing instruments.
BANK OF INDONESIA	Central bank and NGFS member.
PROFESSIONAL ASSOCIATION	
INDONESIA SUSTAINABLE FINANCE INITIATIVE (ISFI)	Forum for financial institutions to support OJK's Sustainable Finance Roadmap.



KEY SUSTAINABLE FINANCE POLICIES AND REGULATIONS

	Policy/Regulation	Supervisory/Enforcement	Implementing Agency	Positioning on Sustainable Finance	Year of Implementation	Addresses Climate Change?	Addresses the Safeguarding of Water Resources?	Addresses the Protection of Forests?
1	Sustainable Finance Roadmap Phase I (2015-2019)	OJK	Financial Institutions (FIs)	<p>Details targets for the financial sector to mitigate the impact of climate change and facilitate a shift toward a competitive low-carbon economy and environmentally friendly investments.</p> <p>Strategic priorities include efforts to increase:</p> <ul style="list-style-type: none"> ▾ funding for green projects; ▾ demand for green financial products and services; and ▾ supervision and coordination of the implementation of sustainable finance. 	2015	x	x	x
2	POJK No.51/ POJK.03/2017 - Application of Sustainable Finance to Financial Services Institutions, Issuers and Publicly Listed Companies	OJK	Financial Institutions (FIs) Publicly Listed Companies	<p>Implements aspects of Sustainable Finance Roadmap Phase I. It encourages FIs, issuers, and listed companies to implement sustainable finance practices and requires them submit an annual sustainability report. FIs must also submit sustainable finance action plan.</p>	2017 (issued) 2019 (BUKU 3, 4 and foreign banks) 2021 (enforced among companies) ¹³	x	x	x
3	Technical Guidelines for Banks	OJK	Banks	<p>Lays out requirements for sustainability reports and action plans required by OJK51. Does not cover ESG risk management.</p>	2019	x	x	x
4	Clean energy handbook	OJK	Financial Institutions (FIs)	<p>Covers regulation on clean energy and provides guidance on:</p> <ul style="list-style-type: none"> ▾ financing of small-scale renewable energy projects ▾ evaluation of clean energy projects 	2014	x	-	-
5	Lending guidance for energy efficiency in industry	OJK	Financial Institutions (FIs)	<p>Provides checklist and guidance for establishing energy efficiency projects and identifies key factors in the success of project implementation including risk management and financing.</p>	2015	x	-	-
6	Lending guidance for palm oil sector	OJK	Financial Institutions (FIs)	<p>Provides information with respect to palm oil industry:</p> <ul style="list-style-type: none"> ▾ legal framework and context ▾ key considerations for sustainable financing ▾ relevant ESG metrics ▾ alternative funding for responsible production <p>The guidance also has case studies illustrating the challenges faced by the industry, including screening for and identifying funding legally compliant, ESG-informed palm oil production.</p>	2019	x	-	x

13. Moved from 2020 to 2021 due to global pandemic

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7	Sustainable Finance Roadmap Phase II (2021-2025)	MAS	Financial Institutions (FIs)	<p>The key priorities in the roadmap are:</p> <ul style="list-style-type: none"> ▼ Development of a green taxonomy; ▼ Integration of ESG aspects into risk management; ▼ Programs to grow the market for sustainable finance; ▼ Innovation of sustainable financial products and services; ▼ A national campaign for sustainable finance 	2021	x	Refers to biodiversity and natural resources, but does not explicitly mention forests.	x
8	POJK No.60 /POJK.04/2017 on green bonds	Ministries of Education, National Development, Sustainability and Environment, Trade and Industry, and Transport	Financial Institutions (FIs) Publicly Listed Companies	<p>Eligible activities include:</p> <ul style="list-style-type: none"> ▼ Renewable energy; ▼ Energy efficiency; ▼ Pollution prevention and control; ▼ Natural resources management and sustainable land use; ▼ Conservation on land and water biodiversity; ▼ Eco-friendly transportation; ▼ Sustainable water and waste management; ▼ Adaptation on climate change ▼ Eco-efficient products; ▼ Green building based on national, regional or international standard; ▼ Other environment friendly-related activities 	2017	x	x	x
9	IDX ESG leaders	GFIT	Public listed companies	Launched in 2020 and based on issuers' management of ESG issues.	2020	x	x	x
10	Green Bond and Green Sukuk Framework	Ministry of Finance	Ministry of Finance	<p>Issuers use the framework to develop shariah-compliant Islamic bonds (called sukus). Eligible projects must fall into one of nine categories:</p> <ul style="list-style-type: none"> ▼ Renewable energy ▼ Energy efficiency ▼ Resilience to climate change for highly vulnerable areas and sectors/ disaster risk reduction ▼ Sustainable transport ▼ Waste to energy and waste management ▼ Sustainable management of natural resources ▼ Green tourism ▼ Green buildings ▼ Green transport <p>The framework was used to issue the world's first sovereign, green sukuk in 2018.</p> <p>The framework is aligned with ICMA's Green Bond Principles on use of proceeds and was reviewed by CICEO and rated medium green¹⁴.</p>	2018	x	x	x

Nb: This is not an exhaustive list of actors but key regulatory and policy initiatives in Indonesia

14. CICERO (no date). CICERO rates Asia's first national green bond framework.

ANALYSIS (INCLUDING GOVERNANCE CHALLENGES) AND WAY FORWARD

The Indonesian government has laid the groundwork for a robust sustainable finance system, with OJK as the key vehicle for progress. Looking forward, the Sustainable Finance Roadmap Phase II outlines the government's vision for sustainable finance up to 2025 and reflects the government's continued efforts to link sustainability and economic development.

In line with the updated roadmap and existing initiatives, CDP could support the government and other authorities in the following areas:

Taxonomy development

Phase II of the OJK roadmap sets out plans to develop a taxonomy for sustainable financing to match Singapore, Malaysia and ASEAN; it is expected to be released in 2022 and developed in line with the World Bank guide on developing national taxonomies. It is not yet clear how the Indonesian taxonomy will intersect with the ASEAN taxonomy under development or the proposed Singaporean taxonomy, both of which are likely to be influential in the region. While commitment to create a national taxonomy is an encouraging indication of the government's commitment to developing structure

for sustainable finance, the proliferation of taxonomies carries the risk of regulatory fragmentation and could restrict the growth of sustainable finance.

Given the share of Indonesia's national emissions associated with agriculture and land use, any taxonomy should be developed with a view toward protecting the country's forests. Data captured in CDP's forests questionnaire could be helpful by assessing the environmental implications of activities classified in the taxonomy.

Transition planning and target setting

ASEAN, Malaysian, and Singaporean taxonomies all identify or are expected to identify conditions where environmentally harmful activities are eligible for transition funding to low-carbon, less harmful models. Given this regional regulatory context and the funding needs of Indonesian companies to make the transition, any Indonesian taxonomy should include similar provisions to facilitate transition financing. This would allow integration intersection between Indonesia's national taxonomy and the regional ASEAN taxonomy.

To support transition funding, OJK can recommend or require companies to publish credible transition plans. The authorities can develop guidance on transition planning in line with the Oxford Martin Net-Zero Carbon Investment Initiative for example, which calls for a transition plans to include a timeframe to reach net-zero; demonstrate the capacity to remain profitable after achieving net-zero; and quantify mid-term targets to show progress against. OJK could also join global stakeholders by encouraging companies to set net-zero targets, using the methodology developed.



Enhanced disclosure

While OJK Regulation Number 51/POJK.03/2017 requires FIs and listed companies to submit a sustainability report, there appear to be few requirements regarding the content of the sustainability report, likely lowering the quality and transparency of disclosures. Neither the sustainability reporting guidance materials from OJK nor the Indonesia Stock Exchange (IDX) mention mainstream reporting mechanisms like TCFD, CDP, or GRI. This limits the relevance of the resulting sustainability reports.

OJK Regulation 51 also requires FIs to submit a sustainable finance action plan that outlines the entity's short-term (one year or less) and long-term (five years and beyond) plans to implement the principles of sustainable finance identified in the model, which include sustainable strategy and practices; social and environmental risk management; and good governance. The guidance for action plans does not contain specific environmental metrics or indicators that should be reported.

- ESG disclosure requirements are new in Indonesia, coming into effect for banks in 2019. There may be appetite for more stringent requirements as policymakers continue to prioritize the growth of sustainable finance. With IDX becoming an official supporter of the TCFD in June 2021, more TCFD-aligned reporting guidance may be released in the future. Similarly, OJK's Roadmap Phase II (2021-2025) also calls for greater integration of ESG indicators in FIs' risk management processes and frameworks, and it is likely that guidelines regarding environmental disclosure will be forthcoming by the end of Phase II.

In addition to aligning with the recommendations of the TCFD, disclosure requirements should include indicators relevant to the protection of Indonesia's forests. CDP's reporting resources would provide a suitable

starting point for a more stringent reporting regime and would position OJK and other stakeholders to increase the transparency of capital flows and to surface implications for climate change and deforestation.

Including environmental criteria in supervision and prudential regulation

While OJK Rule 51 requires sustainability reporting, neither the rule nor its associated guidance specify environmental criteria to be included in supervisory regulation. However, it appears that such requirements are forthcoming, as the current Roadmap indicates that policies on "ESG Integration" and KPIs will be released by 2023.

The Roadmap also indicates that developments on "Monitoring and Evaluation of the Implementation of Sustainable Finance" are expected by 2025. Whether compulsory or non-binding, additional guidance could at the least lay the groundwork for eventual inclusion of environmental criteria in supervisory assessments.

Capacity building

As sustainable finance in Indonesia grows, CDP could support FIs with reporting and using data on climate and forests in financial decisions. Even before the release of official environmental risk management guidelines, capacity building on TCFD reporting, emissions accounting, and science-based target setting, among other best practices in environmental stewardship, would position Indonesian companies to access sustainable finance globally.

roadmap's priorities to stimulate the demand for sustainable finance products. Similarly, it could help catalyse innovation in the field, a key component of the "national campaign for sustainable finance" that the roadmap calls for. Regulators would also benefit from capacity building with respect to CDP's data and disclosure platform, which could facilitate monitoring the implementation of Indonesia's sustainable finance policies and instruments.

Capacity building and familiarity with the opportunities associated with sustainable finance on a greater scale would support the

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About CDP

CDP is a global non-profit that drives companies and governments to reduce their greenhouse gas emissions, safeguard water resources and protect forests. Voted number one climate research provider by investors and working with institutional investors with assets of over US\$106 trillion, we leverage investor and buyer power to motivate companies to disclose and manage their environmental impacts. Over 9,600 companies with over 50% of global market capitalization disclosed environmental data through CDP in 2020. This is in addition to the hundreds of cities, states and regions who disclosed, making CDP's platform one of the richest sources of information globally on how companies and governments are driving environmental change. CDP is a founding member of the We Mean Business Coalition.

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