



# Indonesia

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**Commitment to Green and Sustainable Development  
by providing Investment Instruments in Bonds**

**2022 Asian Regional Forum on Investment  
Management of Foreign Exchange Reserves**

**Session 4 – October 26, 2022**



## Reasons behind the first issuance of Indonesia Green Sukuk Global Bonds

### Strength



Commits in combating climate change  
Has joined in Paris Agreement Ratification



Has issued Sukuk for years

### Weakness



Lack of experience on ESG  
Limited local market for ESG



Different budget system  
No domestic benchmark yet

### Opportunity



Global issuance for FX reserve support  
Growing global ESG market



Growing Sukuk market  
Debt portfolio diversification

### Threat



Other types of bonds/new structures  
Lengthy process: preparation - reporting



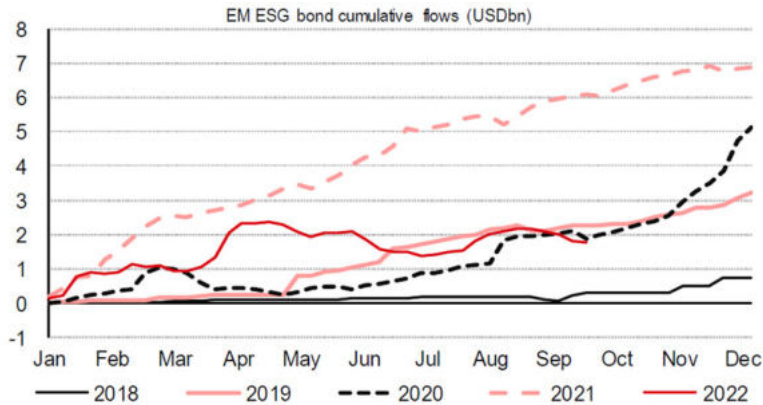
Uncommitted new government

# Global ESG Bonds Performance

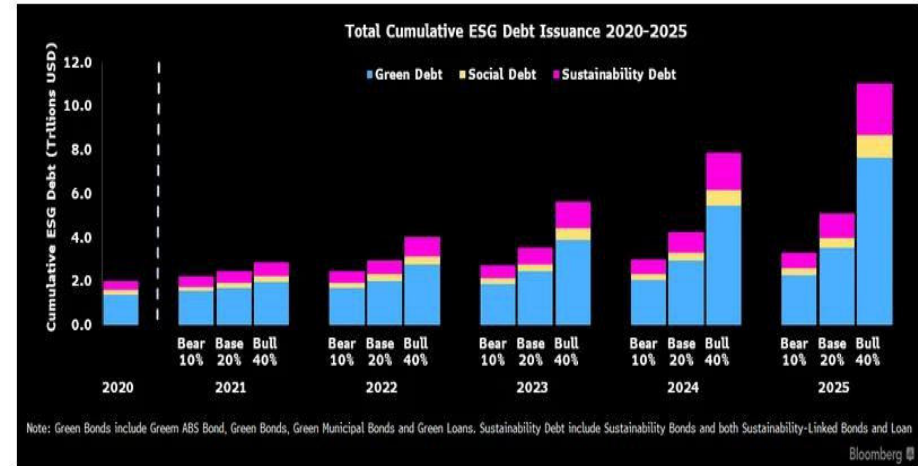
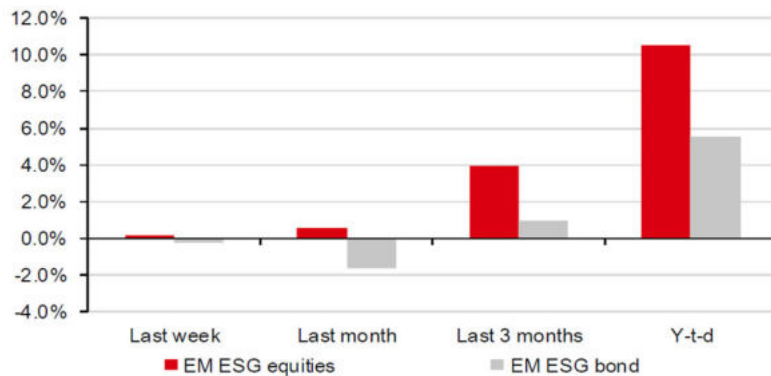
High demand from abroad, although a bit impacted during volatile condition



## YTD Flows into EM ESG Bonds (cumm USDbn)



## EM ESG Flows (%AUM)



- Growing demand in EM ESG Bonds, increasing trend each year.
  - ✓ *Decreasing during volatile condition, but still grow.*
- Global ESG-Rated Investors' Asset Under Management (AUM) is estimated to be over USD53 trillion by 2025 (30% of Total AUM).
  - ✓ *The USD2.2 trillion ESG debt market could grow to USD11 trillion by 2025.*
- Green Bonds, Social Bonds, and Sustainability Bonds are predicted to reach over USD4 trillion (volume-wise) by the end of 2022.

Sources: EPFR Global HSBC and Bloomberg.com

# Commitment Indonesia to Sustainable Development

Achieving SDGs and addressing Climate Change is a top priority



Indonesia is strongly committed to combatting climate change, and implementing the United Nations' SDGs, a shared blueprint for global prosperity and wellbeing by 2030, by achieving the 2030 Development Agenda.

With a presidential regulation concerning the SDG achievement implementation ratified in 2017, the Government set national targets in Medium-Term Development Plan (RPJMN), which are in line with the achievement of the SDG

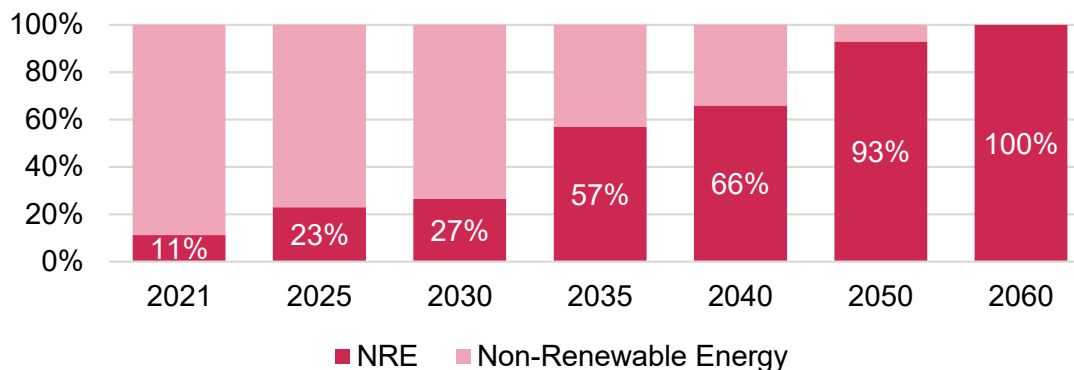
## Indonesia Commitments to SDGs Implementation and Combating Climate Change

### The Government's Policy Instruments

- 2011 **RAN-GRK**  
National Action Plan for GHG Emission Reduction [Ratified by Presidential Regulation No.61/2011]
- 2014 **RAN-API**  
National action plan on climate change adaptation
- 2016 **Paris Agreement Ratification**  
On the ratification of Paris agreement to the United Nations Framework convention on climate change [with law No. 16/2016]
- 2017 **SDGs Achievement Implementation**  
Establish National targets in medium-term development plan (RPJMN) in line with the achievement of the SDGs [Ratified by a Presidential Regulation No. 59/2017]
- 2021 **Updated NDC and LTR-LCCR 2050**  
Submitted Updated NDC and issued Long Term Strategy on Low Carbon and Climate Resilience 2050

### Indonesia's commitment to transition to carbon-neutrality

Zero-carbon emission by 2060



The use of New and Renewable Energy (NRE) source will be dominated by Solar, Hydro, Geothermal, Wind.

# Overview of the Indonesia SDG Government Securities Framework

The SDG Government Securities Framework is the key to the issuances of Green and SDG Securities



## Journey of Indonesia SDGs Government Securities Framework (“SDGs Framework”)



### 4 Pillars SDGs Government Securities Framework

- 1 Use of Proceeds**  
 New or existing Eligible SDG Expenditures with Green and/or Social focus (“Eligible Expenditures”)
- 2 Process for Project Evaluation and Selection**  
 Budget Tagging Process to select Eligible SDG Expenditures for Green and SDG Securities
- 3 Management of Proceeds**  
 Managed within the Government’s general account; allocation register will be established
- 4 Reporting**  
 Annual allocation reporting and impact reporting

### Aligned with International Standards & Principles

All Green and SDG’s Securities issued under The Republic of Indonesia (“ROI”) SDG Government Securities Framework will align with international standards and principles



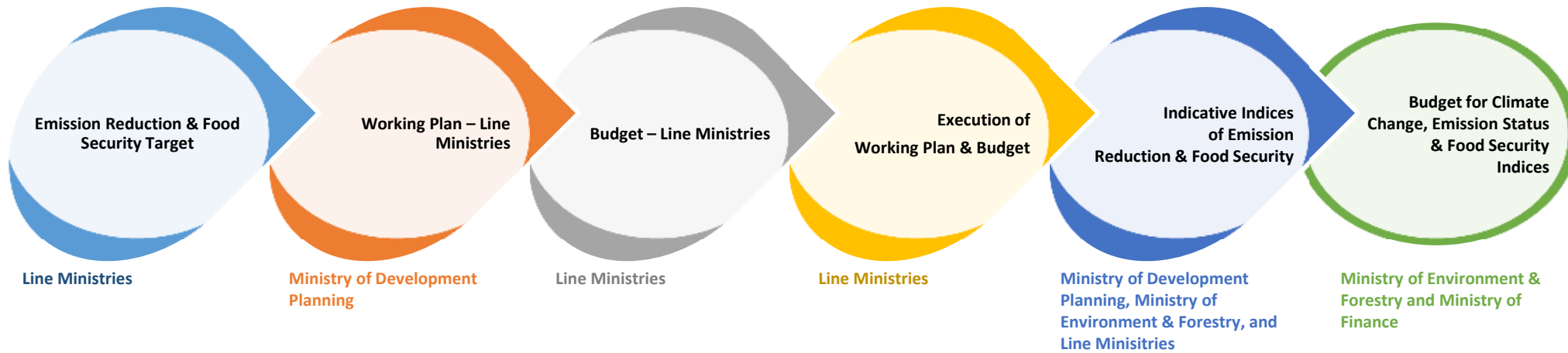
# Evaluating and Selecting Eligible Projects

Applying Budget Tagging Process to identify eligible projects within the SDG Government Securities Framework



Ministry of Finance manages the allocation process for general cash account of the country

Process flow of Budget Tagging for Climate Change and Social Development on Planning and Budgeting Cycle



- Identifying expenditures on projects that benefits for climate change and social development, which is supported by UNDP

- Involving **detailed valuation** on benefits of climate change and social development projects, which are executed by Line Ministries
- Based on **key performance indicators** of the projects

- Green Sukuk & SDG Bonds proceed will be used to **finance the tagged projects**

- Ministry of Finance **maintains the records** of all eligible Green & Social Projects that have been financed using Green Sukuk & SDG Bonds proceed and have been site-visited.

Source: Republic of Indonesia SDGs Government Securities Framework

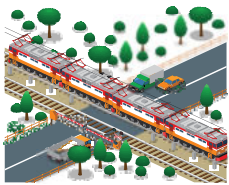
# Example of Indonesia's Green Initiatives

Environmental and Social benefits arising from Global Green Sukuk



## Projected Environmental and Social Impacts

### Sustainable Transport



Expected to:

- Reduce **1,415,718 tCO<sub>2</sub>e** of GHG emission
- Reduce travel time by **30 minutes on average**
- Increase passengers-km by **1.3 times** (over 2.5 billion passengers are expected to shift from private mode of transportation)

### Resilience to Climate Change for Highly Vulnerable Areas and Sectors/Disaster Risk Reduction



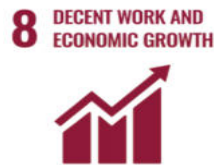
Expected to:

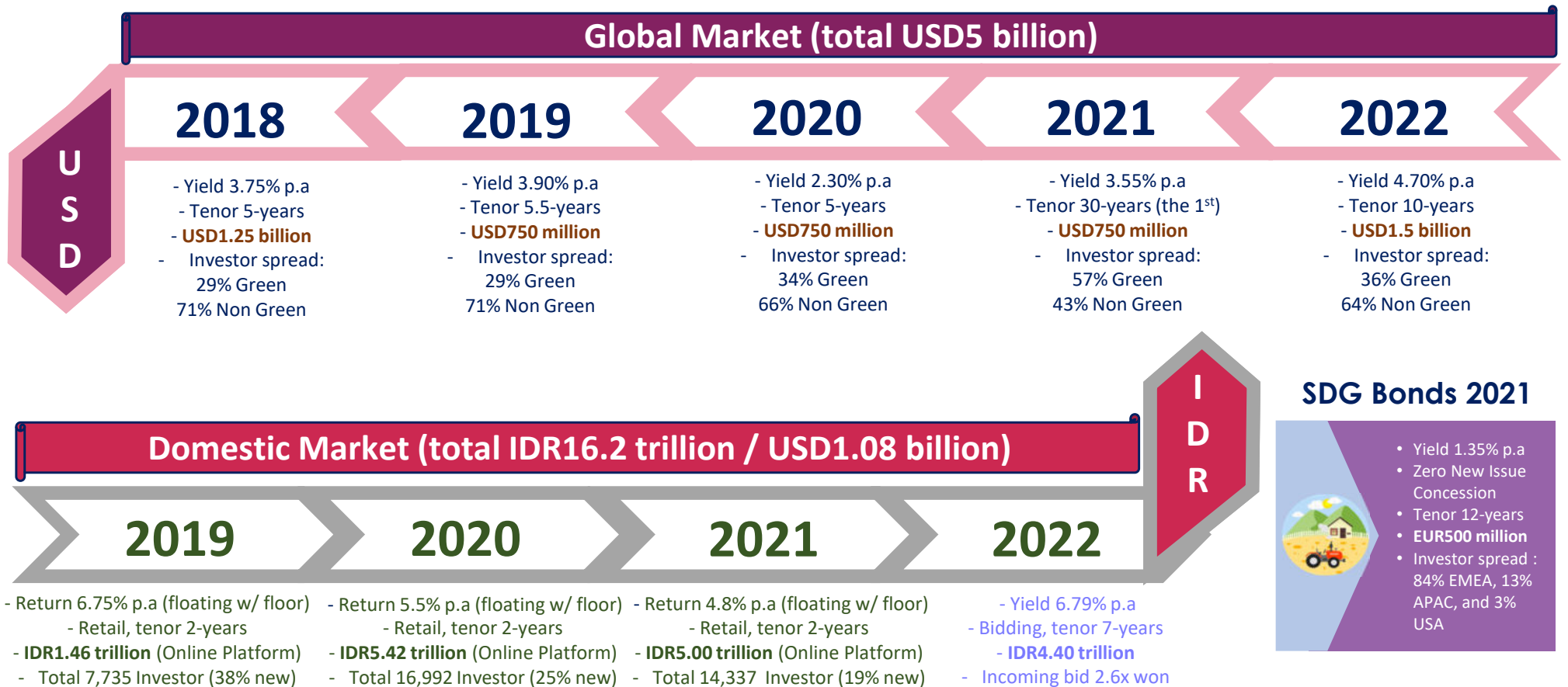
- Fulfill raw water supply needs for drinking water of **275.5 m<sup>3</sup>**
- Protect **1,920.4 Ha** of areas from flooding
- Rehabilitate **134,700 Ha** of tertiary irrigation network
- Develop **1,071 units** of other water source
- Benefit **1,236,000 people**
- Create and revitalize **12,000 Ha** of rice field

### Waste to Energy and Waste Management



Expected to benefit **2,059,094 households** due to the improved waste management







# Lessons Learned

Continuous improvement for better issuance processes in the future



## CHALLENGES



### Pre-Issuance

#### Green & SDG Bond/Sukuk Policy Framework Preparation

- Define clear purpose of the issuance.
- Regulate eligible green & SDG projects, management of proceeds, use of proceeds, and reporting

#### Benchmark for investors

- Set a framework to ensure transparency
- Meet the issuance with international accepted principles (eg. SDG Bond Principles)



### Post-Issuance

Annual reporting on the management and the use of proceeds as well as the impact on the environment and social life

## MITIGATION

Establishment of government structure & external technical support



Second opinion from independent reviewer as verification (here CICERO) or external technical supports



- Coordination with line technical ministries
- Developed indicators for monitoring and reporting, outputs and its environment and social impacts.
- Second opinion / external independent auditor



## GOING FORWARD

- There is a need for high commitment and strong coordination between relevant stakeholders, especially in providing impact reports and avoiding overlapping projects
- Green Sukuk and SDG Bonds issuance has not provided pricing benefits (greenium) for issuers yet
- It is required to have an integrated system for reporting to ease in retrieving data on project impact
- There is an opportunity to expand to blue financing



Thank you

