

Development of Sustainable Finance in Indonesia

-Indonesia Green Taxonomy-

Indonesia Financial Services Authority
2023

Green constitution as a mandate of The 1945 Constitution of the Republic of Indonesia (UUD 1945)



“Every person is entitled to live prosperous physically and spiritually, to have a place to reside, and to **acquire a good and healthy living environment** as well as be entitled to obtain health care”

- Article 28 H



“The land and waters and the natural wealth contained in it shall be controlled by the state and utilized for the optimal welfare of the people”

- Article 33 Paragraph (3)



“The national economy shall be conducted by virtue of economic democracy under the principles of togetherness, efficiency with justice, **sustainability, environment insight, autonomy, as well as by safeguarding the balance of progress and national economic unity.**”

- Article 33 Paragraph (4)



Indonesia has ratified the Paris Agreement through the enactment of Law Number 16 of 2016 concerning Ratification of the Paris Agreement to the United Nations Framework Convention On Climate Change

Indonesia has pledged the National Determined Contribution (NDC) :

1. **First NDC Republic of Indonesia** in 2016
2. **Updated NDC Republic of Indonesia** in 2021
3. **Enhanced NDC Republic of Indonesia** in 2022

National Target on Emission Reduction by 2030

43.20 % or **31.89%**

With international support

Without international support



Projection of Emission Reduction per sector

Sector	GHG Emission Level 2010* (MTon CO ₂ -eq)	GHG Emission Level 2030			GHG Emission Reduction				Annual Average Growth BAU (2010-2030)	Average Growth 2000-2012
		MTon CO ₂ -eq			MTon CO ₂ -eq		% of Total BaU			
		BaU	CM1	CM2	CM1	CM2	CM1	CM2		
1. Energy*	453.2	1,669	1,311	1,223	358	446	12.5%	15.5%	6.7%	4.50%
2. Waste	88	296	256	253	40	43.5	1.4%	1.5%	6.3%	4.00%
3. IPPU	36	69.6	63	61	7	9	0.2%	0.3%	3.4%	0.10%
4. Agriculture	110.5	119.66	110	108	10	12	0.3%	0.4%	0.4%	1.30%
5. Forestry and Other Land Uses (FOLU)**	647	714	214	-15	500	729	17.4%	25.4%	0.5%	2.70%
TOTAL	1,334	2,869	1,953	1,632	915	1,240	31.89%	43.20%	3.9%	3.20%

Notes

- BaU : Business as Usual
- CM1 : Counter Measure 1 (without int'l support)
- CM2 : Counter Measure 2 (with int'l support)

The journey of OJK to support the national mandate on sustainable finance....

2015 Sustainable Finance Roadmap Phase I (2015 -2019)

2016 Developing *Sustainable Finance Information Hub* and *Pilot Project for:*

- *First Movers on Sustainable Banking*
- *Bali Center for Sustainable Finance*

2017 Regulation regarding Implementation of *Sustainable Finance* (OJK Regulation No. 51/2017) and *Green Bond* (OJK Regulation No. 60/2017)

2021

- Sustainable Finance Roadmap Phase II (2021-2025)
- Sustainable Finance *Task Force*

2020 Incentives for the development of Electric Vehicle Sector (continued until 2023)

2019 Indonesia became the First Mover for Sustainable Initiatives in Emerging Countries, implementation of OJK Regulation No. POJK 51/2017 for Banks

2018 First *Green Bond/Sukuk* issued, incentive for Green Bond issuance, and Indonesian Sustainable Finance Initiatives/IKBI

2022



- Indonesia Green Taxonomy Version 1.0
- Consultative Paper "Principles for the effective management and supervision of climate-related financial risks"

OJK Strategic Initiatives

Review of the taxonomy to better align with national interest, SDGs, social aspect, international fora, and technological development

Develop the regulatory framework for **Carbon Exchange**

Develop **Financial Services reporting system** that includes green financing instruments in accordance with the green taxonomy. Pilot reporting project to gradually implement taxonomy in the banking sector.

Develop:

- **Risk management framework** for FIs, disclosure standard, and risk-based supervision guidelines for supervisors
- **Climate-related financial risk stress test**
- **Transition finance guidelines**

- Develop **Innovative green financial instruments**, as well as feasible financing schemes or financing of green projects.
- Develop **more transition instruments** (sustainability linked bonds/loans)
- **Business Matching** to promote financing for green projects

Increase **awareness and capacity building** for all stakeholders

- Establishment of **Sustainable Finance Task Force** in the Financial Services Sector, which is a forum for cooperation and coordination with industry to respond the developments of sustainable finance issues in national, regional, and global forums.
- Establishment of the **Sustainable Finance Committee** with the Ministry of Finance and Bank Indonesia, as a follow-up to the Law on the Development and Strengthening of the Financial Sector (UU P2SK).

Indonesia Green Taxonomy v 1.0



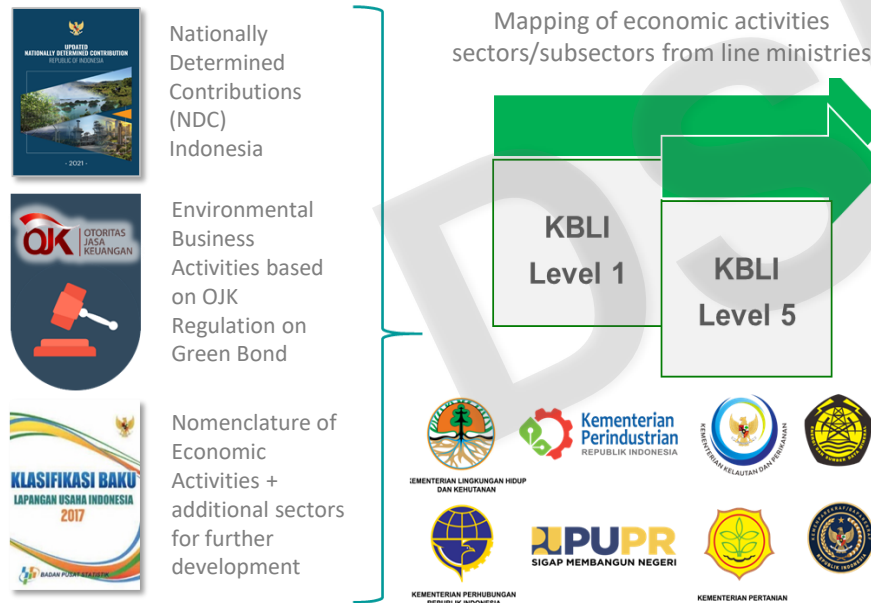
Economic activity classification that supports **environmental protection** and management efforts, as well as **mitigation and adaptation to climate change**

- ✓ THI Edition 1.0 is a **national milestone** launched by the President of the Republic of Indonesia on January 20, 2022
- ✓ Developed by OJK as a **living document** in **collaboration with line ministries in charge for Environment and forestry, transportation, energy, tourism, marine and fisheries, agriculture, and infrastructure.**
- ✓ Has gained **feedback** from relevant stakeholders (academics, K/L, NGO, Sustainable Finance *Task Force*, International Organizations, etc).

Objectives

- ✓ **Policy formulation** for OJK and other ministries or institutions.
- ✓ Guideline for **disclosures, risk management,** and development of **innovative sustainable finance products and/or services** for FSS and green bond issuers.

THI Development



Activity Classifications

GREEN: *Protect, restore, and improve environmental protection and management as well as climate change mitigation, adaptation, comply with government standards and best practices.*

YELLOW: *comply with several green thresholds and considered as a transition toward green.*

RED: *do not meet the yellow and/or green thresholds.*

- 919 activities (KBLI Level 5) and 198 (additional sectors/ out of KBLI) of which had been clarified to each thresholds (green/yellow/red) from relevant line ministries.
- 2.733 sectors and sub sectors were mapped.

Urgency of Developing Indonesia Green Taxonomy

1. The need for **standardization of green definitions and criteria.**
2. The need for **regular monitoring** in the implementation of financing to the green sector.
3. The need for **improvement in reporting and disclosures** carried out by the FIs.

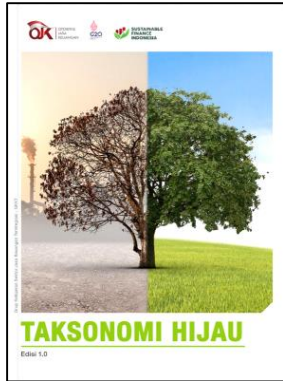
Sectoral Sample of Indonesia Green Taxonomy – Edition 1.0 (Hybrid Rice Agricultures)

NDC Sector	AGRICULTURE
Economic Activities Code	01121
Economic Activities Code – Level 1	AGRICULTURE, FORESTRY AND FISHERIES
Economic Activities Code – Level 2	AGRICULTURAL CROPS, LIVESTOCK, HUNTING AND OTHER ACTIVITIES
Economic Activities Code – Level 3	ANNUAL CROP
Economic Activities Code – Level 4	RICE AGRICULTURE
Economic Activities Code – Level 5	HYBRID RICE AGRICULTURE
Definition	This group includes hybrid rice farming activities starting from land preparation, seeding, planting, maintenance, and also harvesting and post-harvest if they become one unit of activity up to the production of harvested dry unhulled grain (GKP). Including hybrid rice plant nurseries and nurseries. Hybrid rice is the first offspring (F1) resulting from a cross between two or more of its parent lines and/or homozygous lines/inbreds. For example: Bernas Super, Bernas Prima, Sembada B3, SL 11 SHS. Derivatives of hybrid rice are not included as hybrid rice
Green by Default	No
Red Criteria	Does not meet the Yellow and Green criteria.
Yellow Criteria	Ministry of Agriculture 1. Understood Good Agriculture Practices (GAP) - self declare. 2. Attended Integrated Pest Management Training. 3. Have an SOP for the commodity being developed and/or a certificate from a competent officer (Controller of Plant Destruction Organisms (POPT)/Supervisor for Quality of Agricultural Products (PMHP)) stating the level of use of pesticides and contamination of water sources according to food safety standards.
Green Criteria	Ministry of Agriculture GAP Certificate and/or Organic SNI and/or Organic Certificate

NDC Terkait	Pertanian
Kode KBLI	01121
Nama KBLI Level 1	PERTANIAN, KEHUTANAN DAN PERIKANAN
Nama KBLI Level 2	PERTANIAN TANAMAN, PETERNAKAN, PERBURUAN DAN KEGIATAN YBDI
Nama KBLI Level 3	PERTANIAN TANAMAN SEMUSIM
Nama KBLI Level 4	PERTANIAN PADI
Nama KBLI Level 5	PERTANIAN PADI HIBRIDA
Definisi	Kelompok ini mencakup usaha pertanian padi hibrida mulai dari kegiatan pengolahan lahan, penyemaian, penanaman, pemeliharaan, dan juga pemanenan dan pasca panen jika menjadi satu kesatuan kegiatan sampai dengan dihasilkan komoditas gabah kering panen (GKP). Termasuk kegiatan pembibitan dan pembenihan tanaman padi hibrida. Padi hibrida adalah keturunan pertama (F1) yang dihasilkan dari persilangan antara dua galur atau lebih tua pembentuknya dan/atau galur/inbrida homozigot. Contohnya: Bernas Super, Bernas Prima, Sembada B3, SL 11 SHS. Turunan dari padi hibrida tidak termasuk sebagai padi hibrida
Otomatis Hijau	Tidak
Kriteria Kategori Merah	Tidak memenuhi kriteria Kuning dan Hijau.
Kriteria Kategori Kuning	Kementerian Pertanian 1. Telah memahami Good Agriculture Practices (GAP) - self declare. 2. Telah mengikuti Pelatihan Pengendalian Hama Terpadu. 3. Telah memiliki SOP komoditas yang dikembangkan dan/atau Surat Keterangan dari petugas yang berkompeten (Pengendali Organisme Pengganggu Tumbuhan (POPT)/Pengawas Mutu Hasil Pertanian (PMHP)) yang menyatakan tingkat penggunaan pestisida dan pencemaran sumber air sesuai standar keamanan pangan.
Kriteria Kategori Hijau	Kementerian Pertanian Sertifikat GAP dan/atau SNI Organik dan/atau Sertifikat Organik.

- Criteria/threshold in the Taxonomy are used to identify the classification of an entity based on its business activities.
- Taxonomy is **neither a negative list nor positive list for financing/investment.**
- Taxonomy used to identify the magnitude of green/yellow/red portfolios in the financial sector.

Next Development of Indonesia Green Taxonomy



- Indonesia Green Taxonomy is a **Living Document**. It will continually be updated to align with national interests, government programs (downstreaming, Energy Transition Mechanism (ETM), Just Energy Transition Partnership /JETP), as well as international fora (ASEAN Taxonomy) and best practices.
- OJK continuously gathering **feedback** on the implementation of the **taxonomy-based reporting pilot project**.
- As mandated by Financial Sector Omnibus Law No. 4/2023, the enhanced Taxonomy will also **include the concept of Transition Finance**, which allows financing for business activities that focus on transitioning from activities that produce high carbon emissions to more environmentally friendly activities (i.e. coal phase-out).
- The ESG aspect in Taxonomy will be expanded in a broader context to cover **social aspects and economic growth**.
- The taxonomy will be enhanced to increase its credibility, inclusion for its user(wide scale and scope of business), in a more user-friendly threshold, and science-based.

Indonesia **Green** Taxonomy v1.0



Indonesia **Sustainable** Taxonomy

Environmental Objectives

1. Climate change mitigation
2. Climate change adaptation
3. Biodiversity (tbd)
4. Circular economy



Essential Criteria

1. Do Not Significant Harm (DNSH)
2. Remedial measures to transition (RMT)
3. Social Aspects (SA)

(Human Right, Prevention Forced Labour, Impact on People Living Close to Investments)

*reference: ASEAN Taxonomy

In setting the taxonomy threshold, OJK took into account the national priority programs such as NDC Implementation Roadmap, Road to Net Zero, Energy Transition Mechanism (ETM) and Just Energy Transition Partnership (JETP) for Low Carbon Development, Government Downstream Program, etc.

- **Energy Mix Target (Source: 2022, Enhanced Nationally Determined Contribution RI)**
 - a. new and renewable energy at least 23% in 2025 and at least 31% in 2050;
 - b. oil should be less than 25% in 2025 and less than 20% in 2050;
 - c. coal should be minimum 30% in 2025 and minimum 25% in 2050; and
 - d. gas should be minimum 22% in 2025 and minimum 24% in 2050.

Focused Sector: NDC related sectors

Sustainable Development Goals

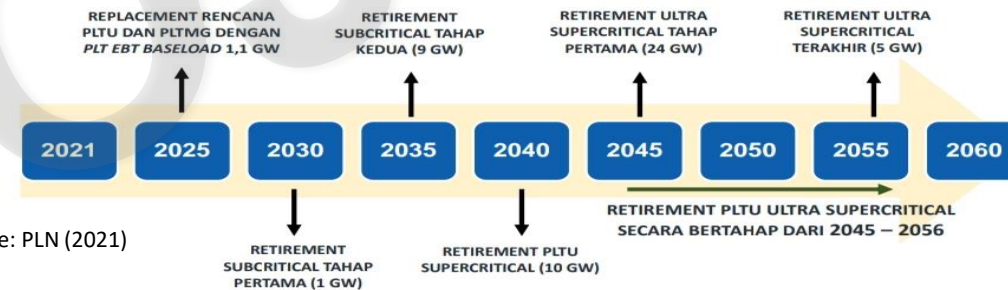
Sector	GHG Emission Level 2010* (MTon CO ₂ -eq)	GHG Emission Level 2030		GHG Emission Reduction				Sustainable Development Goals						
		Mton CO ₂ -eq		Mton CO ₂ -eq		% of Total BaU		1-17 SDGs						
		BaU	CM1	CM2	CM1	CM2	CM1	CM2						
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2. Waste	88	296	256	253	40	43.5	1.4%	1.5%	7	8	9	10	11	12
3. IPPU	36	69.6	63	61	7	9	0.2%	0.3%	13	14	15	16	17	TUJUAN GLOBAL
4. Agriculture	110.5	119.66	110	108	10	12	0.3%	0.4%						
5. Forestry and Other Land Uses (FOLU)**	647	714	214	-15	500	729	17.4%	25.4%						
TOTAL	1,334	2,869	1,953	1,632	915	1,240	31.89%	43.20%						

Notes: CM1= Counter Measure 1 (unconditional mitigation scenario)
CM2= Counter Measure 2 (conditional mitigation scenario)

*) Including fugitive.
**) Including emission from estate and timber plantations.

- NDC-related sectors will use qualitative and quantitative Technical Screening Criteria (TSC) with criteria set by technical ministries and adopt the ASEAN Taxonomy.
- Non-NDC and MSME sectors: sector agnostic decision tree.

Coal Fired Power Plant Retirement



Source: PLN (2021)

- Energy Transition Road Map Towards Carbon Neutral by the Ministry of Energy and Mineral Resources
- National Priority Sector (nickel and electric vehicle battery)
- Sectors with largest economic contribution (Palm Oil and commodity)
- Sectoral Emission Limits based on NDC

Quantitative criteria

- The classification threshold will focus on quantitative criteria to prevent misinterpretations, avoid and reduce greenwashing, and to support Indonesia's Net Zero Pathway.
- Meanwhile, the qualitative criteria will be simplified wherever possible.

Energy Transition (Coal Phase Out)

ASEAN Taxonomy for Sustainable Finance Version 2 adopts Coal Phasing Out activities into the taxonomy which is divided into 3 categories (Tier 1 Green, Tier 2 Amber, and Tier 3 Amber), which will be the basis for improving THI in the future.



Thank you

Sustainable Finance Website

www.ojk.go.id/sustainable-finance

Picture credited to "Aruna – Indonesian Integrated Fisheries Platform"