Development of Sustainable Finance in Indonesia
-Indonesia Green Taxonomy-
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

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mton CO2-eq</td>
<td>% of Total</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BaU</td>
<td>CM1</td>
<td>CM2</td>
<td>% of Total</td>
<td>CM1</td>
</tr>
<tr>
<td>1. Energy</td>
<td>453.2</td>
<td>1,069</td>
<td>1,311</td>
<td>1,223</td>
</tr>
<tr>
<td>2. Waste</td>
<td>88</td>
<td>296</td>
<td>256</td>
<td>253</td>
</tr>
<tr>
<td>3. IPPU</td>
<td>36</td>
<td>89.6</td>
<td>63</td>
<td>61</td>
</tr>
<tr>
<td>4. Agriculture</td>
<td>110.5</td>
<td>119.66</td>
<td>110</td>
<td>108</td>
</tr>
<tr>
<td>5. Forestry and Other Land Uses (FOLU)**</td>
<td>647</td>
<td>714</td>
<td>214</td>
<td>-15</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,334</td>
<td>2,869</td>
<td>1,953</td>
<td>1,832</td>
</tr>
</tbody>
</table>

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

Sources:
- Source: Enhanced NDC (23 Sept 2022)

- Green constitution as a mandate of The 1945 Constitution of the Republic of Indonesia (UUD 1945)
  - Article 28 H: “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 33 Paragraph (3): “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 (4): “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.”

- Source: Enhanced NDC (23 Sept 2022)
The journey of OJK to support the national mandate on sustainable finance:

- Developing Sustainable Finance Information Hub and Pilot Project for:
  - First Movers on Sustainable Banking
  - Bali Center for Sustainable Finance

2016: Regulation regarding Implementation of Sustainable Finance (OJK Regulation No. 51/2017) and Green Bond (OJK Regulation No. 60/2017)

2017: 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

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

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

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

2022: OJK Strategic Initiatives
- Review of the taxonomy to better align with national interest, SDGs, social aspect, international fora, and technological development
- Establish Indonesia Green Taxonomy Version 1.0
- Consultative Paper “Principles for the effective management and supervision of climate-related financial risks”
- 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.
- 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).
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

- Nationally Determined Contributions (NDC) Indonesia
- Environmental Business Activities based on OJK Regulation on Green Bond
- Nomenclature of Economic Activities + additional sectors for further 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.

Identification of economic sectors based on Nationally Determined Contribution, Indonesia Standard Industry Classification/ KBLI 2017 (including proposed additional subsectors), Environmental Based Business Activity/ KKUBL, as well as standards and requirements from line ministries.

Mapping of economic activities sectors/subsectors from line ministries

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.

Complete version of THI can be accessed via https://ojk.go.id/keuanganberkelanjutan

- 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.
### NDC Sample of Indonesia Green Taxonomy – Edition 1.0 (Hybrid Rice Agricultures)

<table>
<thead>
<tr>
<th>NDC Sector</th>
<th>AGRICULTURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Activities Code – Level 1</td>
<td>AGRICULTURE, FORESTRY AND FISHERIES</td>
</tr>
<tr>
<td>Economic Activities Code – Level 2</td>
<td>AGRICULTURAL CROPS, LIVESTOCK, HUNTING AND OTHER ACTIVITIES</td>
</tr>
<tr>
<td>Economic Activities Code – Level 3</td>
<td>ANNUAL CROP</td>
</tr>
<tr>
<td>Economic Activities Code – Level 4</td>
<td>RICE AGRICULTURE</td>
</tr>
<tr>
<td>Economic Activities Code – Level 5</td>
<td>HYBRID RICE AGRICULTURE</td>
</tr>
</tbody>
</table>

### 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
Does not meet the Yellow and Green criteria.

### Red Criteria
- Ministry of Agriculture
- 1. Understood Good Agriculture Practices (GAP) - self declare.
- 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.

### Yellow Criteria
- Ministry of Agriculture
- GAP Certificate and/or Organic SNI and/or Organic Certificate

### 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.
• 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.
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)

Focused Sector: NDC related sectors

Sustainable Development Goals

<table>
<thead>
<tr>
<th>Sector</th>
<th>GHS Emission Level 2030</th>
<th>GHS Emission Level 2050</th>
<th>GHS Emission Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Energy</td>
<td>450.2 TCO2e</td>
<td>1.669 TCO2e</td>
<td>1.218 TCO2e</td>
</tr>
<tr>
<td>2. White</td>
<td>245.2 TCO2e</td>
<td>1.669 TCO2e</td>
<td>1.218 TCO2e</td>
</tr>
<tr>
<td>3. IPPU</td>
<td>38.6 TCO2e</td>
<td>4.08 TCO2e</td>
<td>3.6 TCO2e</td>
</tr>
<tr>
<td>4. Agriculture</td>
<td>110.5 TCO2e</td>
<td>110.5 TCO2e</td>
<td>110.5 TCO2e</td>
</tr>
<tr>
<td>5. Forestry and Other Land Uses (FLUCCL)</td>
<td>647.9 TCO2e</td>
<td>214.5 TCO2e</td>
<td>433.4 TCO2e</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,134.2 TCO2e</td>
<td>1,185.2 TCO2e</td>
<td>1,220 TCO2e</td>
</tr>
</tbody>
</table>

Notes: CM1 - Country Maturity 1 (Coal Phase Out, 2021-2025) CM2 - Country Maturity 2 (Coal Phase Out, 2026-2030) CM3 - Country Maturity 3 (Coal Phase Out, 2030+)

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.

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 II)
  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.

- Coal Fired Power Plant Retirement

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”