Sustainable Finance as a key instrument to Support Sustainable Development Goals and Climate Change toward a low carbon economic growth

Edi Setijawan
We are living in unsustainable world

- Multidimensional crisis
  - Financial crisis
  - Environmental Crisis
  - Multidimensional crisis
  - Clean Water crisis
  - Income disparity
  - Energy crisis
  - Food crisis
Financing for global agreement

Source of funds

Public Finance → ok but not sufficient
Private Finance → “ok” but ........
Social Finance → “ok” but ........
OJK response to global and National Challenge

Global Financial Reform
- Crisis Management Protocol (bail-in),
- strengthening GCG (capital adequacy is not enough),
- counter cyclical policy

SUPPORTING FINANCIAL SYSTEM STABILITY
- Crisis management protocol
- Capital surcharge regulation
- GCG
- Integrated Supervision

SUSTAINABLE FINANCE INITIATIVES
- SF Roadmap
- OJK Reg. 51&60/2017 (SF & Green Bond)
- SF Sectoral guidelines
- ESG Guidelines
- Capacity building (TAL)
- SF Information Hub

INDONESIA
- 59,7% level of financial inclusion
- 18,58% SME Loan, 2,52% Insurance penetration
- 0,15 bank office/1000 people
- Financial Product and services utility indexes:
  - Banking 57,28%, Insurance 11,81%, Pension Fund 1,53%, Capital Market 0,11%
  - Financial Literacy index: Banking 21,8%, Insurance 17,8%, Pension funds 7,13%, Capital Market 3,8%
- Inequality and poverty index: Gini Index 0,41, Unemployment 6,2%, middle income trap

FINANCIAL INCLUSION INITIATIVES
- Product Based Inclusion: Basic saving account (SIMPEL), LAKU PANDAI
- Providing data JARING, PELAKU
- Providing financial services for SMEs (LAKU MIKRO, Micro Insurance, Farming insurance, SMEs mutual funds
- 20% bank loan have to go to SMEs dan 55-70% in productive loan

MPSJKI 2015-2019 Contributive-Stable-Inclusive
OJK regulation: 51/2017 and future of Indonesia Financial Sector Landscape

- Mandatory to implement **Sustainable Finance Principles (8)**
- Mandatory to have action plan on SF for FIs
- Mandatory to deliver sustainability Report

<table>
<thead>
<tr>
<th>Responsible Investment</th>
<th>Sustainable banking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business sustainability in strategy &amp; implementation</td>
<td>Sustainable capital market</td>
</tr>
<tr>
<td>Environmental &amp; Social Risk Management</td>
<td>Sustainable nonbank FIs</td>
</tr>
<tr>
<td>Good corporate governance</td>
<td>Financial System Stability</td>
</tr>
<tr>
<td>Inclusive</td>
<td>Sustainable Financing for sustainable development</td>
</tr>
<tr>
<td>Informative communication</td>
<td></td>
</tr>
<tr>
<td>Priority sectors</td>
<td></td>
</tr>
<tr>
<td>Coordination &amp; collaboration</td>
<td></td>
</tr>
</tbody>
</table>

**Preparation 2018**

- Large & Medium Bank, Foreign Bank

**1st Implementation 2019**

**2nd Implementation 2020-2024**
Indonesia Green Bond has characteristics:

• Verifier (individual/group/corporation) → green eligible projects
• Action plan if green bond becomes not green (max 1 year)
• Buyback if green bond becomes not green
• Incentives

Potential green assets/projects:

• Infrastructure
• Renewable Energy and Energy Efficiency
• Agriculture and fisheries
• Tourism
• SMEs
How do we bring private sectors involve in development world? No one will be left behind

Most of development projects do not fit with private finance requirements = high risk (new/inherent risk/economic of scale) and less profit (at least in a short run).

A new role of Financial Regulator
• Leadership \(\rightarrow\) Market signal
• Facilitating & Enhancement
• Collaboration

Private Financial access:
• Banking
• Capital Market
• Non bank financial institutions
• new: Fintech

Public and Social Financial access:
• Government Budget
• Social Investment
• Philanthropist

Blended finance
• Market transformation
• High social & environmental impact projects
• Transfer risk mechanism
• Innovation (product differentiation)

A new role of Financial Regulator
• Leadership \(\rightarrow\) Market signal
• Facilitating & Enhancement
• Collaboration
Financing Scheme

**Pure**
- Government Budget
- Government Green Bond
- International Grant

**Mixed**
- Government Budget
- Government Green Bond/sukuk
- International Grant
- International soft loan/financing
- Enhanced Corporate Green Bond/sukuk

**Commercial**
- Corporate Green Bond/sukuk
- Green loan/financing

**Public**

**Social**

**Private**
AGENDA 2018

1. Technical Guidelines
2. Green Project Catalogue
3. Capacity Building
4. Supervision Framework
5. National Taskforce on SF
6. Industrial Leadership: pilot project, green bond

- Govt will issue Green Bonds
- Encourage private to issue green bond for the 1st time
Rally and Competition: JCI dan SRI-KEHATI Index 2008 - 2017

* 10 November 2017

Source: Capital Market Statistic OJK