

SUSTAINABLE BANKING NETWORK (SBN)

# COUNTRY PROGRESS REPORT

ADDENDUM TO SBN GLOBAL  
PROGRESS REPORT

INDONESIA



Sustainable  
Banking  
Network

**IFC** | International  
Finance Corporation  
WORLD BANK GROUP

*Creating Markets, Creating Opportunities*

© International Finance Corporation [2018], as the Secretariat of the Sustainable Banking Network (SBN). All rights reserved. 2121 Pennsylvania Avenue, N.W. Washington, D.C. 20433 Internet: [www.ifc.org](http://www.ifc.org). The material in this work is copyrighted. Copying and/or transmitting portions or all of this work without permission may be a violation of applicable law. IFC and SBN encourage dissemination of its work and will normally grant permission to reproduce portions of the work promptly, and when the reproduction is for educational and non-commercial purposes, without a fee, subject to such attributions and notices as we may reasonably require.

IFC and SBN do not guarantee the accuracy, reliability or completeness of the content included in this work, or for the conclusions or judgments described herein, and accepts no responsibility or liability for any omissions or errors (including, without limitation, typographical errors and technical errors) in the content whatsoever or for reliance thereon. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank Group concerning the legal status of any territory or the endorsement or acceptance of such boundaries. This work was prepared in consultation with the SBN members. The findings, interpretations, and conclusions expressed in this volume do not necessarily reflect the views of the Executive Directors of The World Bank, IFC or the governments they represent.

The contents of this work are intended for general informational purposes only and are not intended to constitute legal, securities, or investment advice, an opinion regarding the appropriateness of any investment, or a solicitation of any type. IFC or its affiliates may have an investment in, provide other advice or services to, or otherwise have a financial interest in, certain of the companies and parties named herein.

All other queries on rights and licenses, including subsidiary rights, should be addressed to IFC Communications, 2121 Pennsylvania Avenue, N.W., Washington, D.C. 20433. International Finance Corporation is an international organization established by Articles of Agreement among its member countries, and a member of the World Bank Group. All names, logos and trademarks are the property of IFC and you may not use any of such materials for any purpose without the express written consent of IFC. Additionally, "International Finance Corporation" and "IFC" are registered trademarks of IFC and are protected under international law.

The global SBN program is supported by the government of China through the Ministry of Finance. IFC's regional environmental and social risk management (ESRM) program is supported by the government of Switzerland through the State Secretariat for Economic Affairs (SECO) and the government of the United Kingdom through the Department for International Development (DFID).



Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

Federal Department of Economic Affairs FDEA  
State Secretariat for Economic Affairs SECO



## Table of Contents

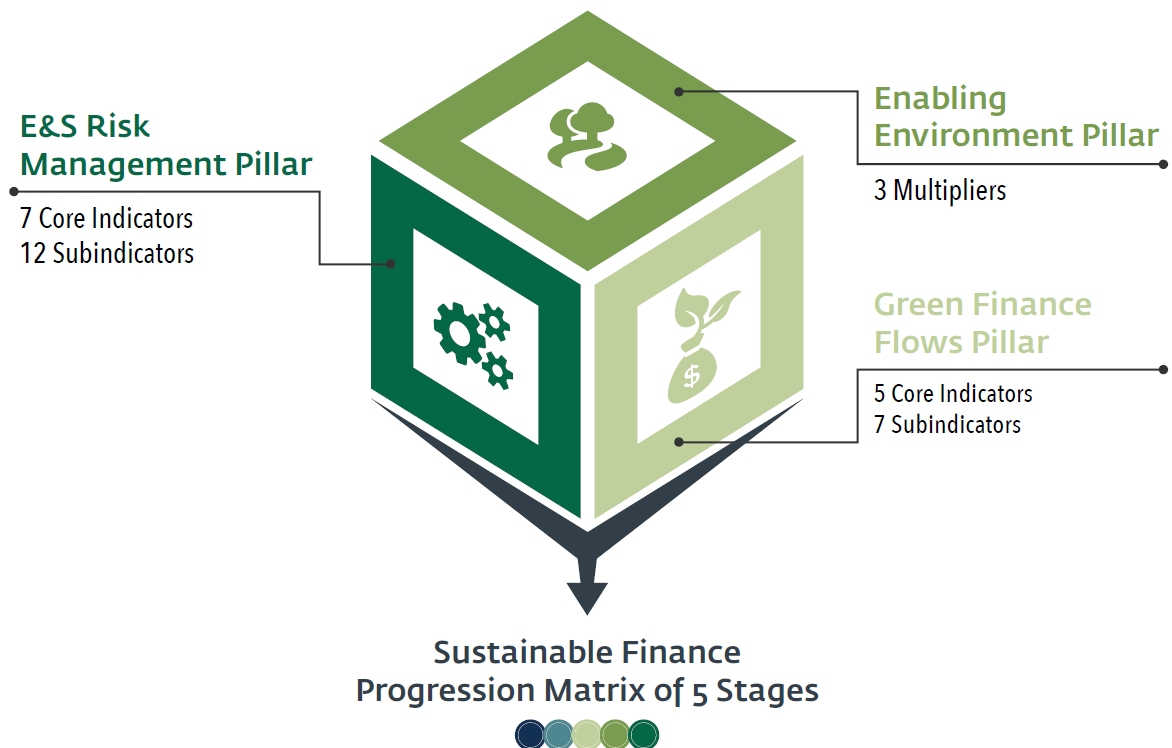
1. Introduction .....	1
2. Executive Summary .....	3
3. Enabling Environment .....	5
4. Environmental and Social Risk Management .....	7
5. Green Finance Flows .....	9



# 1. Introduction

**Market-based sustainable finance initiatives led by members of the Sustainable Banking Network (SBN) have made significant progress in directing the financial sector toward sustainability.** Established with International Finance Corporation's (IFC) support in 2012, SBN represents a community of financial sector regulators and banking associations from 34 emerging markets. SBN members now represent over US\$42.6 trillion in banking assets, accounting for more than 85 percent of the total banking assets in emerging markets.

**The SBN Global Progress Report is based on a unique measurement framework, the first of its kind to assess sustainable finance initiatives across emerging markets.** The SBN Global Progress Report for the first time presents a systematic view of progress on sustainable finance among emerging economies that are represented by SBN. A rigorous measurement framework was developed and agreed on by members. The SBN Measurement Framework draws on international best practice as well as SBN members' experiences and innovations. This framework will be continuously applied to measure progress annually.

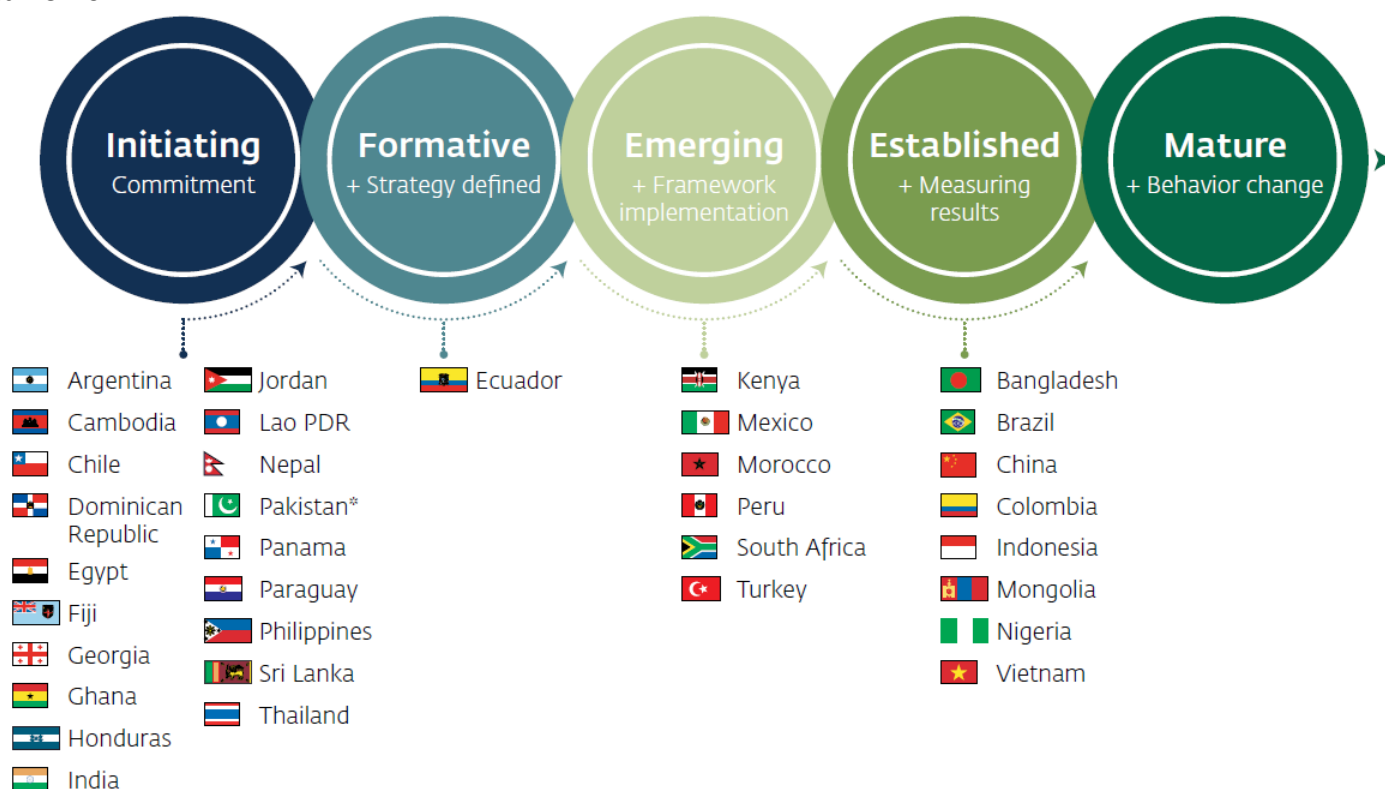


The Global Progress Report draws on the findings of **15 individual country progress reports prepared for members, including this report**. These 15 countries, with US\$38.3 trillion in banking assets, account for more than 76 percent of emerging market banking assets.

**Country-specific progress reports were prepared for 15 SBN members with sustainable finance initiatives.** These reports contain a thorough analysis of the country's policy or principles in relation to the environmental and social (E&S) risk management and to the green finance flows, as well as a contextual analysis of the local policy landscape and the enabling environment. Country reports detail each country's good practice and highlight areas of focus in order to support and encourage members to further accelerate sustainable finance.

**All SBN member countries are advancing sustainable finance at differing stages of development.** Countries are mapped to five different stages of their development, from initiating to mature.

## SBN Progression Matrix with Assessment Results, based on progress up to and as of June 2017



\* Pakistan launched its policy in October 2017, after the cut off date of June 2017 for the report

## 2. Executive Summary

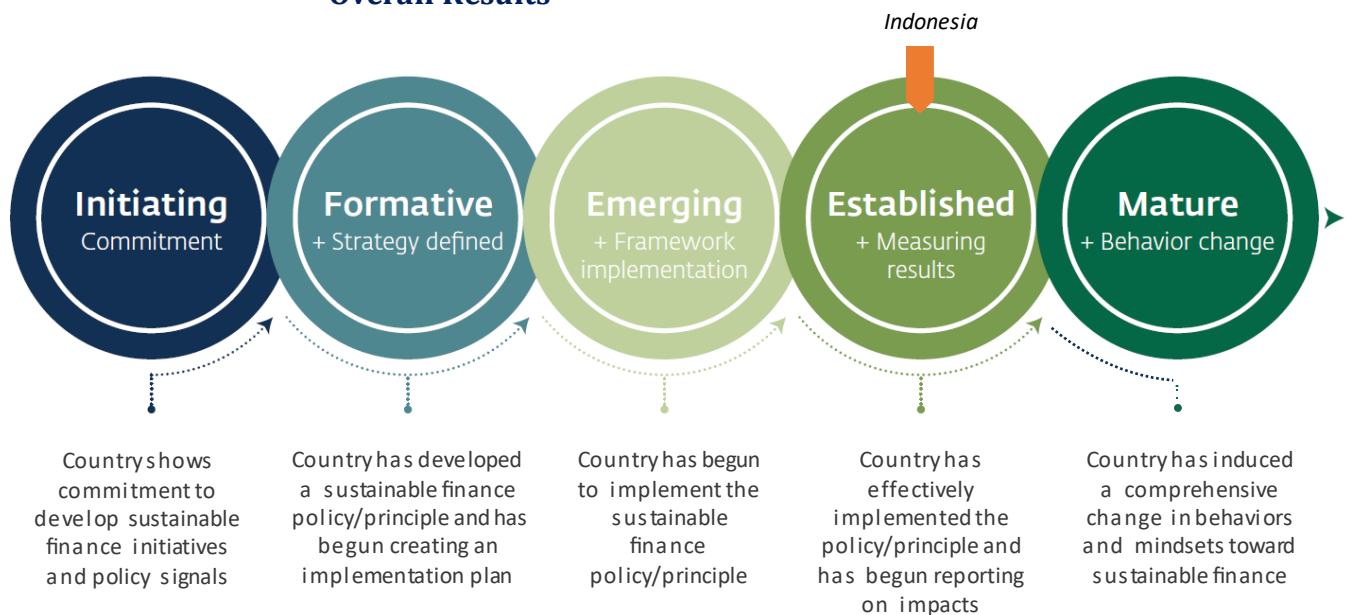
Indonesia is one of the Sustainable Banking Network (SBN) members most dynamically promoting sustainable banking. The sustainable banking initiative in Indonesia originated from a series of regulations imposed upon listed companies, including reporting obligations on corporate social responsibility (CSR) practices (2006). In 2009, capital markets started their journey with the development of sustainability-related indices.

The December 2014 launch of the **Sustainable Finance Roadmap** (2015-2024) by the Indonesia Financial Services Authority (Otoritas Jasa Keuangan - OJK) was a milestone in promoting sustainable finance for the entire Indonesian financial sector. The Roadmap aims to enable the financial sector to contribute to the achievement of the National Long Term Development Plan (2005-2025) and the National Action Plan for the Reduction of Greenhouse Gas Emissions (2011) in order to achieve the country's Intended Nationally Determined Contributions (INDC) and reduce emissions by 29 percent by 2030 (a 41 percent reduction is conditional upon international support).

Significant progress was made with the issuance of an Umbrella Policy in July 2017. This policy defines sustainable finance, includes sustainable finance principles, and requires financial institutions (FIs) to develop Sustainable Finance Action Plans. OJK also plans to cooperate with several ministries in order to develop incentives for sustainable finance.

The Indonesian policy is comprehensive in addressing environmental and social risk. Due to its broad nature covering the entire sector, it could be improved by further requirements and guidance to help FIs to implement the policy. In particular, banks could be required to and be supported in their monitoring of environmental and social (E&S) risks over time and at both the project and portfolio levels. Additional guidance such as clear definitions of green projects, tools and reporting templates would help promote green finance flows in the country. OJK is expected to launch a green bond policy in the near future.<sup>1</sup>

### Overall Results



<sup>1</sup> Indonesia launched its green bond policy in December 2017, after the cut off date of June 2017.

## Good Practice

- Indonesia's Financial Services Authority (OJK) has formalized a comprehensive Sustainable Finance Roadmap, comprising 19 medium and long-term activities to be conducted between 2015 and 2024, which is aligned with a nationwide strategy. Issuance of the Umbrella Policy in July 2017 was a major milestone for implementation of the Roadmap, as it provides direction to all Indonesian FIs on the application of sustainable finance.
- Indonesia has also made progress with implementing sustainable finance in the capital markets, with a green bond policy to be issued shortly.
- OJK has introduced several initiatives in collaboration with a number of partners, including the creation of a Sustainable Finance Forum and an annual Sustainable Finance Award, as well as ongoing developments to build fiscal and non-fiscal incentives.
- The Umbrella Policy provides for administrative penalties.

## Areas for Improvement

- Since the current policy covers the entire financial industry, more specific and practical guidance is required to assist FIs with managing the specific environmental, social and governance (ESG) risks of their activities (such as banking, insurance, or asset management). Further guidance, such as definitions, tools or methodologies, would help to encourage green finance flows.
- OJK will monitor the implementation of the Sustainable Finance Action Plan. To do so, OJK should develop further internal capabilities and will also need to define the appropriate metrics to properly measure the level of implementation.
- The introduction of both fiscal and non-fiscal incentives would further encourage FIs to implement the policy.



## CONTEXT:

# 3. Enabling Environment

### Country Profile

Indonesia, a G20 emerging middle-income country, has Southeast Asia's largest economy. Since recovering from the Asian financial crisis, Indonesia has seen impressive growth rates, with gross domestic product (GDP) per capita steadily rising from US\$857 in 2000 to US\$3,603 in 2016. During the same period, the poverty rate has also more than halved, to 10.9 percent in 2016.

The country's E&S risk profile has much to do with its demographics and geographic location. The archipelago nation is home to large energy resources (such as coal, crude oil, geothermal energy, and natural gas) and is one of the world's largest producers of agricultural commodities. However, having the world's fourth largest population significantly exposes Indonesia to environmental and climate change risks. Rising sea levels threaten almost 1,500 Indonesian islands, which are considered to be at high or extreme risk. In addition, Indonesia is also faced with challenging E&S issues, such as the use of coal-energy, deforestation, and the impacts of mining. Moreover, a complex regulatory environment impacted by corruption hampers the overall effectiveness of the public administration. Considering its vulnerability, Indonesia has taken a strong stance via the following:

- A series of policies requiring listed companies to report CSR-related information and to conduct environmental impact analyses (Regulations X.K.6 in 2006/2012, Law No. 32 in 2009 and Law No. 47 in 2012).
- A Long Term Development Plan (RPJPN) for the period of 2005-2025, which includes "Realizing a greener and sustainable Indonesia" as one of Indonesia's eight development missions.
- The ratification of the Paris Agreement on Climate Change in 2016, and a commitment to achieve a 29 percent reduction in greenhouse gas (GHG) emissions by 2030, compared to business as usual (a 41 percent reduction in GHG emissions is conditional upon international support).

<sup>1</sup> All dollar amounts are in U.S. dollars, unless noted.

## Background and Strategy of the Sustainable Banking Framework

In 2014 OJK and the Ministry of Environmental Affairs and Forestry issued a roadmap that laid the foundation for developing green finance in Indonesia and outlined a detailed work plan, built around three strategic activities: “increase supply of environmentally friendly financing”; “increase demand for environmentally friendly financing products”, and “increase oversight and coordination of sustainable finance implementation.” While still at an early stage of implementation, the agenda of the **Sustainable Finance Roadmap** (the Roadmap) is forward-looking and provides a long-term horizon:

- In the medium term (2015 – 2019), *“the strengthening of sustainable finance will focus on the basic regulatory framework and reporting system, increase understanding, knowledge and competence of the human resources in the financial services industry, provision of incentives and coordination with related agencies.”*
- In the long-term (2020 to 2024), *“the activities will focus on integrated risk management, corporate governance, bank rating, and the development of an integrated sustainable finance information system.”*

Selected banks were consulted during the Roadmap development process, and eight banking institutions (out of 118 total) committed to implementing the first phase in 2016. The Roadmap consists of a comprehensive set of general objectives and a total of 19 measures, to be implemented by 2024. In July 2017, the **Umbrella Policy** (Regulation of Financial Services Authority No. 51/POJK.03/2017 on Application of Sustainable Finance to Financial Services Institutions and Publicly Listed Companies) provided substantial improvements to the Roadmap: the regulation covers several issues regarding sustainable finance principles, key components of sustainable finance implementation, the timeline for the implementation of sustainable finance for all FIs, and the requirement to submit a Sustainable Finance Action Plan and Sustainability Reporting.

## Support from Regulators

OJK has provided practical and operational guidance in the Umbrella Policy. This policy also suggests the creation of incentives: OJK is currently working to create fiscal and nonfiscal incentives to encourage green financing in Indonesia. To date, OJK has launched a Sustainable Finance Forum to stimulate discussion, and it conducts regular evaluations of the progress of the Sustainable Finance Roadmap. It has also launched a Sustainable Finance Award to encourage financial institutions to be proactive. In addition, FIs must submit their Action Plans to the OJK and must publish Sustainability Reports. Finally, any violation of the Umbrella Policy is *“punishable with administrative sanctions in the form of written admonition or warning.”*

From 2015 to 2024, OJK plans to provide support to the Indonesia Stock Exchange and capital market practitioners to further develop the green index in line with the Sustainable Finance Roadmap. OJK is also expected to launch a green bond policy to encourage the development of the green bonds market in Indonesia.

## RISK:

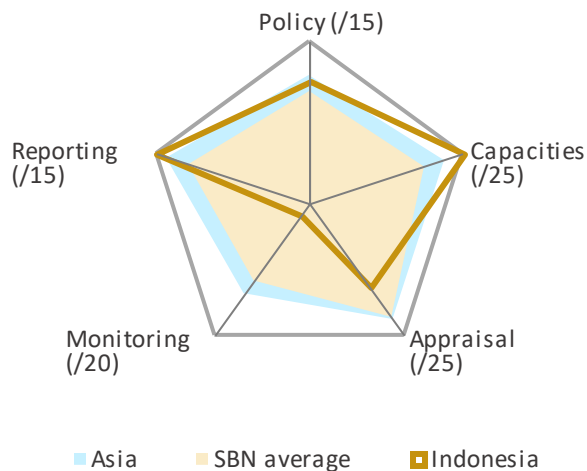
# 4. Environmental and Social Risk Management

The implementation of the Sustainable Finance Roadmap issued by OJK is still at an early stage and is expected to run until 2024. Current market practices indicate that only a dozen banks have launched responsible finance initiatives and have incorporated ESG risks in to their borrowing and lending activities.

According to the Roadmap, each FI is “*expected to have integrated ESG aspects in its risk management and corporate governance, and provide regular progress reports on sustainable finance implementation to the public*” during the period 2020 to 2024.

This commitment has been strengthened by the issuance of the Umbrella Policy in July 2017, which requires FIs to develop a policy and internal procedures in order to implement and monitor ESG risk assessment.

Going further, the policy could be customized for each financial activity, such as banking, capital markets, insurance, leasing, and pension funds. Having a subsectoral focus, with tailored requirements and guidance, would help FIs to implement the policy. For instance, banks could be required to do the following: monitor projects and portfolios over time, systematically categorize projects (and clients) against their E&S risks, and focus more on specific climate risks. Practical guidance and tools could help banks with these requirements.



Subpillars	Comments on good practice and areas for improvement
Policy	<ul style="list-style-type: none"> <li>- The Roadmap refers to international industry best practice (such as EP and UN Environment Programme – Finance Initiative [UNEP-FI]) and both the Roadmap and the Umbrella Policy apply to all financial activities.</li> <li>- The current policy package has room for improvement in terms of climate risks and strategy, aligning banks' strategies with national INDCs.</li> </ul>
Capacities	<ul style="list-style-type: none"> <li>- Between 2015 and 2019, <i>"the strengthening of sustainable finance will focus on [...] knowledge and competence of the human resources in the financial services industry."</i> The Umbrella Policy underlines the necessity of internal capacity building and defining roles and responsibilities, in order for E&amp;S risks to be efficiently managed.</li> <li>- From 2015 to 2019, the OJK plans to provide <i>"environmental analysis trainings in collaboration with training provider, universities and donor institutions."</i> The target is to train 1,000 to 2,000 staff of FIs, OJK officials, and supervisors.</li> </ul>
Appraisal	<ul style="list-style-type: none"> <li>- The Umbrella Policy requires FIs to develop procedures to identify, measure, monitor, and control E&amp;S risks.</li> <li>- There are currently no explicit requirements for financial services institutions to incorporate E&amp;S provisions and investment conditions into legal agreements, nor are there any requirements to categorize projects according to their level of ESG risk.</li> </ul>
Monitoring	<ul style="list-style-type: none"> <li>- The Roadmap and Umbrella Policy could have required FIs to develop procedures to manage ESG risk during supervision, carry out periodic portfolio reviews, incorporate climate risk into lending decisions, monitor carbon exposure, and conduct onsite audits.</li> </ul>
Reporting	<ul style="list-style-type: none"> <li>- The Umbrella Policy requires FIs to prepare a Sustainability Report that must be made public and submitted to OJK annually.</li> <li>- The Roadmap refers to the Global Reporting Initiative (GRI). Several banks already publish annual sustainability reports aligned with the GRI.</li> <li>- The Umbrella Policy requires FIs to set up processes for engaging with stakeholders and for receiving and responding to stakeholder concerns.</li> </ul>

## OPPORTUNITY:

# 5. Green Finance Flows

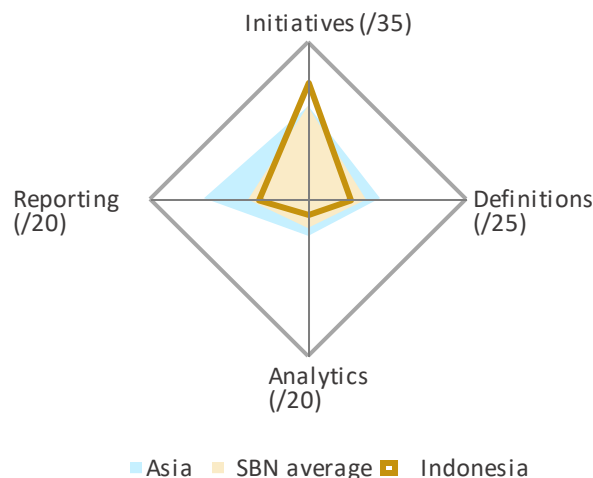
It is noteworthy that the Indonesian Stock Exchange is very active in the area of green finance. Together with the Indonesian Biodiversity Foundation, it launched a sustainability-related index in 2009 (KEHATI-SRI Index), which provides additional information for investors who want to invest in issuers with a good level of ESG performance. The index currently consists of 25 companies operating in a sustainable way. According to the Climate Bonds Initiative's database, green bonds have already been issued in the local currency (by the European Bank for Reconstruction and Development [EBRD], for a total of US\$130 million). The Roadmap emphasizes further developing the green bond market. The OJK has also announced its intention to develop a green bond mechanism that can be used to determine which projects can be categorized as green. Similar initiatives have been undertaken on the social side.

In light of *"the increase in the supply of sustainable financing,"* OJK has introduced initiatives, such as the creation of an annual Sustainable Finance Award, to reward financial institutions with the highest sustainable finance standards. As part of the Roadmap, it plans to offer both fiscal ("tax holiday and feed-in-tariff") and nonfiscal ("targeted loans and guarantee scheme") incentives.

OJK also organizes workshops and training programs to foster the expansion of green finance. To this end, OJK is currently working with the following partners:

- With the Ministry of Energy and Mineral Resources on the publication of handbooks and the provision of training on renewable energy and energy efficiency.
- With the Ministry of Fisheries to develop a sustainable financing plan for fisheries and a study on potential lending schemes for sustainable fisheries businesses.
- With international organizations on research, strategic planning, capacity building, and raising awareness.

Going forward, Indonesia's policy could provide guidance to help FIs report their green finance flows, such as definitions, methodologies and reporting templates.



Subpillars	Comments on good practice and areas for improvement
Initiatives	<ul style="list-style-type: none"> <li>- Indonesia has developed incentives in accordance with the Roadmap, including a Sustainable Finance Award, in collaboration with the Ministry of Environmental Affairs and Forestry. This award will reward the most proactive financial institutions.</li> <li>- OJK has also launched a Sustainable Finance Forum and plans to “<i>increase participation in international forums related to climate change and sustainable development issues, such as UNFCCC, APEC and G20.</i>”</li> </ul>
Definitions	<ul style="list-style-type: none"> <li>- The Roadmap and Umbrella Policy define sustainable finance, but they have not developed definitions for green asset classes, green sectors, and green projects.</li> </ul>
Analytics	<ul style="list-style-type: none"> <li>- The policy does not provide a common methodology for the calculation of environmental benefits nor for the collection of data on green finance flows.</li> </ul>
Reporting	<ul style="list-style-type: none"> <li>- The Umbrella Policy requires FIs to include “sustainability aspect performance” in their annual Sustainability Reports.</li> <li>- The policy could be strengthened by providing guidance on green finance performance, a reporting template, as well as having data verified by third parties.</li> </ul>