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

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

- Public Finance → ok but not sufficient
- Private Finance → “ok” but ........
- Social Finance → “ok” but ........

Source of funds
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

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

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

**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
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

**Responsible Investment**

- Sustainable banking
- Sustainable capital market
- Sustainable nonbank FIs

**Business sustainability in strategy & implementation**

**Environmental & Social Risk Management**

**Good corporate governance**

**Inclusive**

**Informative communication**

**Priority sectors**

**Coordination & collaboration**

**Preparation 2018**

**1st Implementation 2019**

Large & Medium Bank, Foreign Bank

**2nd Implementation 2020-2024**

- Financial System Stability
- Sustainable Financing for sustainable development
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 ➔ Market signal
• Facilitating & Enhancement
• Collaboration

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

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

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

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* 10 November 2017

Source: Capital Market Statistic OJK