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The Next Phase of Indonesia Green Taxonomy: Transition Finance to Support Decarbonization

October 2023

Background: The bolder the commitments, the higher the investment need

Indonesia heightened its climate commitments in 2022 through its Enhanced NDC.

Emission reduction target

	Unconditional	Conditional
First and updated NDC (2016, 2021)	29%	41%
Enhanced NDC (2022)	31.89%	43.20%

Estimated Investment needs up to 2030

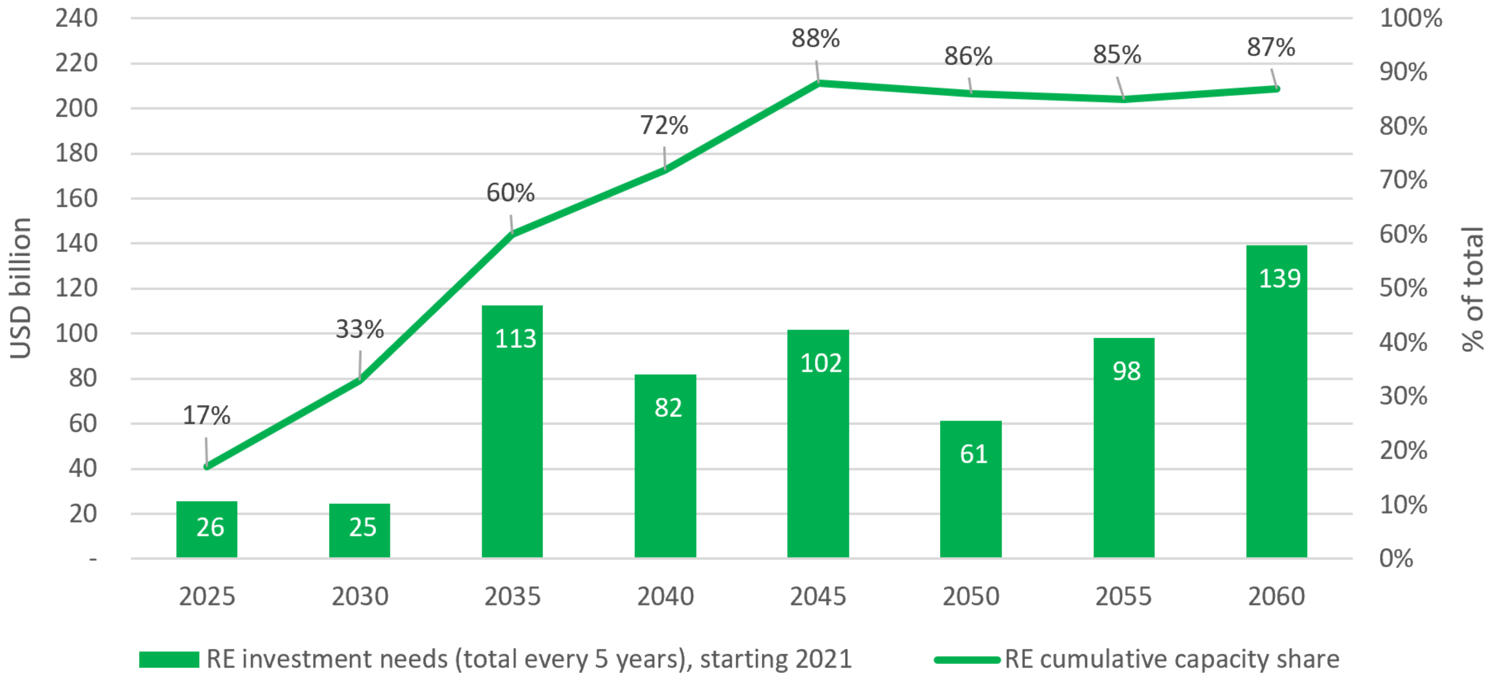
~ USD 247 billion

~ USD 285 billion

Source: Indonesia Enhanced NDC (2022), Indonesia First and Updated NDC (2016, 2021), Indonesia 2nd Biennial Update Report (2018), Indonesia 3rd Biennial Update Report (2021)

Background: The bolder the commitments, the higher the investment need

Indonesia Power Sector NZE Roadmap 2060 requires significant RE capacity growth



Annual RE investment must increase 5x

On average, Indonesia will need **USD 16 billion** of annual RE investment until 2060.

Current average of annual RE investment is at USD 3 billion.

Note: Renewable here does not include New Energy (such as tidal, pump storage, BESS, BECCS, hydrogen, and nuclear).

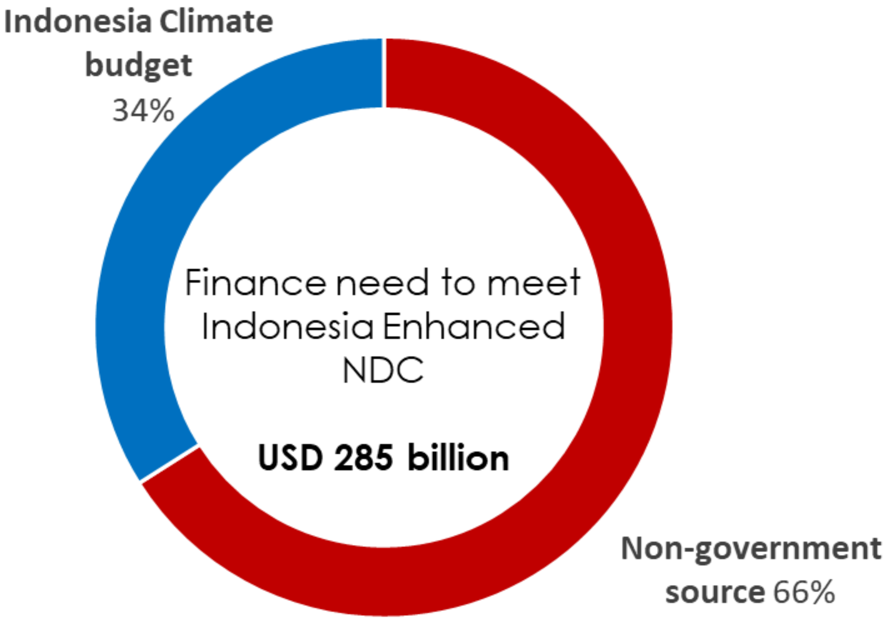
Source: Indonesia NZE Roadmap for Power Sector (2022), Ministry of Energy's presentation on NZE 2060 (presented in August 2021), CPI Power Sector Finance Tracking (2021)

Transition finance and taxonomy

Economy-wide decarbonization solutions beyond green investment

Recognizing the huge investment needs, several programs are in place to support financing for Indonesia's ambitious commitments

Contribution of government vs. non-government sources of climate finance



Indonesia Energy Transition Mechanism (ETM) Country Platform

Just Energy Transition Partnership (JETP)

Power sector ETS: 1st phase carbon trading mechanism for coal plants

Indonesia will require more than existing green and sustainable finance to widen its investment coverage. Transition finance plays a pivotal role.

G20 Indonesia Presidency 2022: Sustainable Finance Working Group's Transition Finance Framework

Key principle

Support whole-economy transition in the context of SDGs towards NZE and Paris Alignment

5 pillars of the Transition Finance Framework

- Identification of eligible transition activities and investment
- Reporting and disclosure
- Transition-related finance instruments
- Policy measures
- Mitigation of impacts: socio-economic and just transition

Other global and regional frameworks that have started to include the concept of transition finance

1. EU taxonomy
2. ASEAN taxonomy
3. JP METI's Technology Roadmap for Transition Finance
4. Transition Finance Framework and Taxonomy by commercial banks

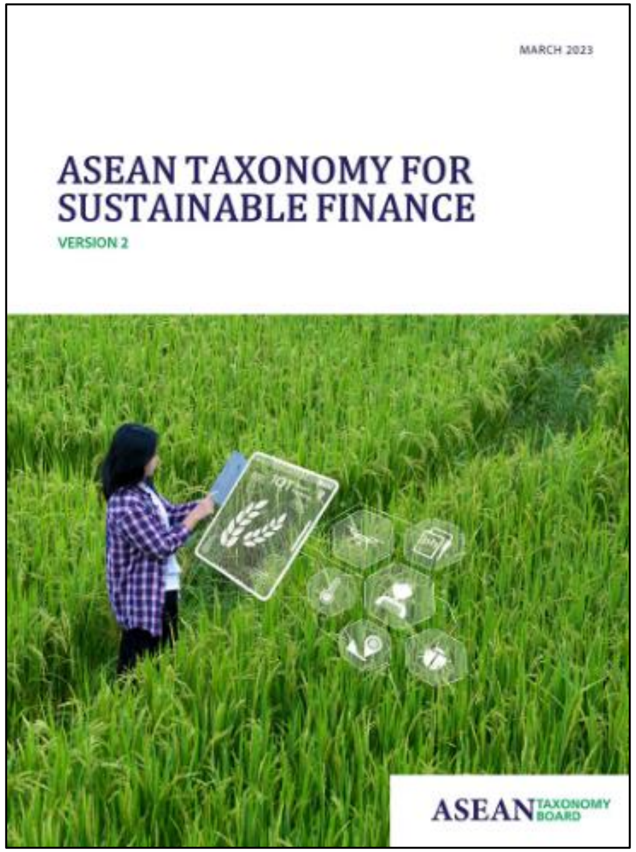
ASEAN Taxonomy v2 is the global first for a regional taxonomy, encouraging early action to reduce the region's reliance on coal

Two major developments of ASEAN Taxonomy for Sustainable Finance v2

The consideration of planned programs of coal phase-out
in Technical Screening Criteria:

1. ADB's ETM Program
2. Indonesia JETP
3. GFANZ Managed Phase-Out

The introduction of "social aspects"— Respect for Human Rights, Prevention of Forced and Child Labour, and Impact on People Living Close to Investments— alongside the "Do No Significant Harm" (DNSH) and "Remedial Measures to Transition" (RMT) eligibility criteria



Technical Screening Criteria (TSC) for Climate Change Mitigation of Coal Power Phase-Out

TIER 1 (GREEN)

Aligned with a 1.5°C outcome and consistent with IEA's power sector pathway to achieve NZE by 2050

a. Coal **phase out by 2040**; plants built after 31 December 2022 will not qualify;

b. Operation **capped at 35 years** since commercial operation date (COD)

c. Qualifying plants must: **demonstrate best-in class technologies** (affordable, accessible, reliable) that are **independently verified** by internationally recognized bodies as having **positive emissions savings ability** over its expected lifetime (plants under the ADB ETM or JETP meet these criteria)

TIER 2 (AMBER T2)

Aligned with 1.5°C outcome for coal phase-out derived from regional- or country-specific pathways

a. Coal phase out by 2050; plants built after 31 December 2022 will not qualify

b. Operation **capped at 35 years** since COD

TIER 3 (AMBER T3)

a. Plants **built after 31 December 2022 will not qualify, except for those**:
   - Built from 1 January 2023 up till 31 December 2027
   - With best-in-class technologies that are affordable, accessible, reliable and can be implemented within a reasonable timeframe

b. Operation **capped at 35 years** since COD

Source: ASEAN Taxonomy for Sustainable Finance V2

Why transition taxonomy?

1. **Allow transition finance to bridge the gap** between traditional and green/sustainable finance

2. **Preserve the integrity of sustainable finance principles** to avoid greenwashing

3. **Recognize comprehensive, credible, and measurable transition pathways** by taking into consideration transition activities in the taxonomy, given the nature of ASEAN Member States, including Indonesia, that rely on coal as a major energy source

Adopting transition finance: ways forward for Indonesia Green Taxonomy 2.0

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Recommended steps to adopt transition finance into the next iteration of Indonesia green taxonomy

Develop clear definition and criteria of transition activities, which should:

- Be applicable to all parties, document-based, credible, and scientifically justifiable
- Consider **Indonesia's NDC regional and/or international best practices,** relevant policies, and prevalent technologies.
- **Advance technical thresholds and screening criteria** to fit Indonesia's specific needs and consider ASEAN's unique characteristics of energy transition pathways to **promote inclusivity and interoperability between taxonomies.**

Leverage the taxonomy as regulatory and industry guidance for disclosure

- **Incorporate the latest domestic and regional transition strategies to strengthen existing disclosure policies** i.e., synchronizing POJK 51/ 2017 with the direction of future taxonomy iteration.
- **Ensure that disclosure requirements enable industry to access reliable and verifiable information** on transition activities as well as related risks and opportunities with regard to national targets and sectoral transition pathways (e.g., MEMR's Power Sector NZE Roadmap, Indonesia's FOLU Net Sink 2030).

Promote the use of tailored finance instruments to support the transition

- Leverage the USD 20 billion JETP financial commitments to **develop innovative financing structures that enable early retirement of coal plants** at commercial or concessional terms.
- **Engage global financial institutions to support transition finance** as we look to global investors to contribute to Indonesia's decarbonization goals.

Focus on just transition and decarbonization pathways

- Develop a **Just Transition Finance Framework to create awareness and confidence to crowd in finance** from multiple sources.
- Adopt **policy measures to align transition activities** categorized as "green", particularly for coal decommissioning, **with national roadmap and pathways.** These include Presidential Regulations 112/2022, Indonesia NZE Roadmap, ETM program, and the upcoming JETP Comprehensive Investment and Policy Plan (CIPP).

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Thank You