

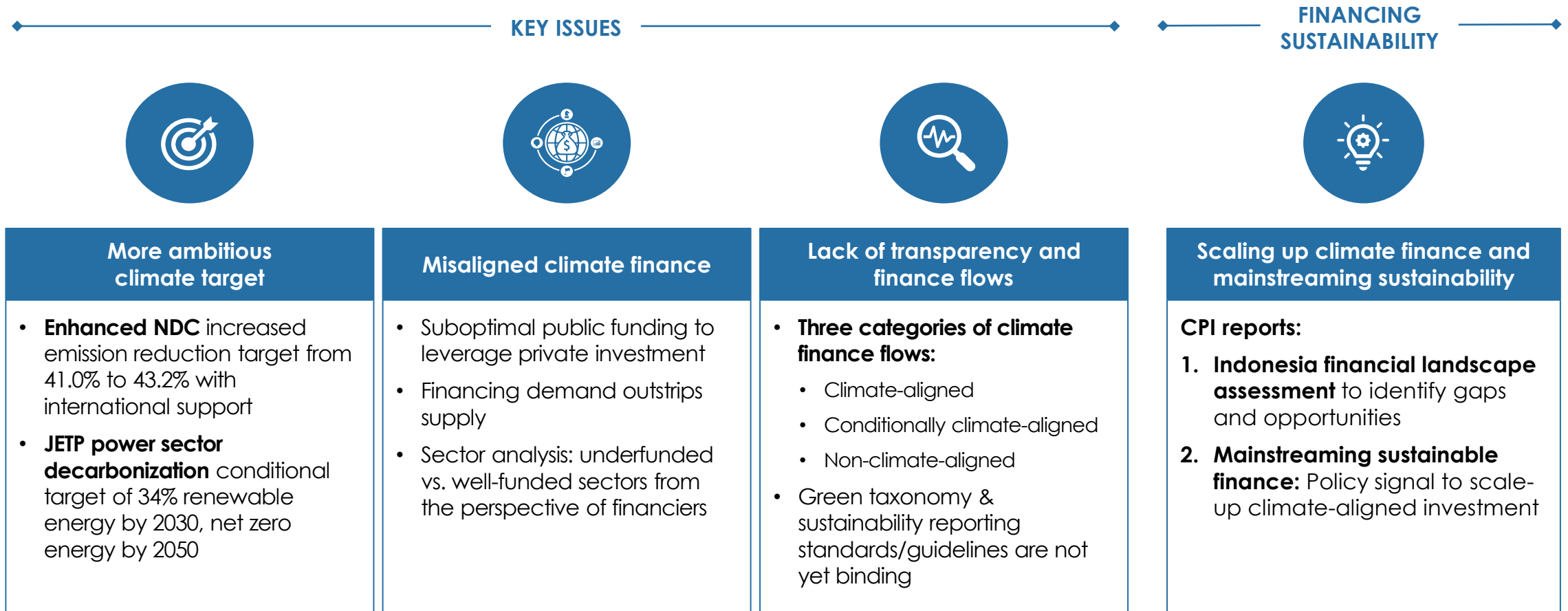
CLIMATE
POLICY
INITIATIVE

Landscape of Climate-Aligned Investment in Indonesia's Financial Sector

December 2023

Background and approach

Background: Scaling up climate finance and mainstreaming sustainability in Indonesia



Outcome: Consolidation of climate targets and finance commitments and enhanced transparency

Approach: Indonesia financial landscape assessment and sustainable finance integrity

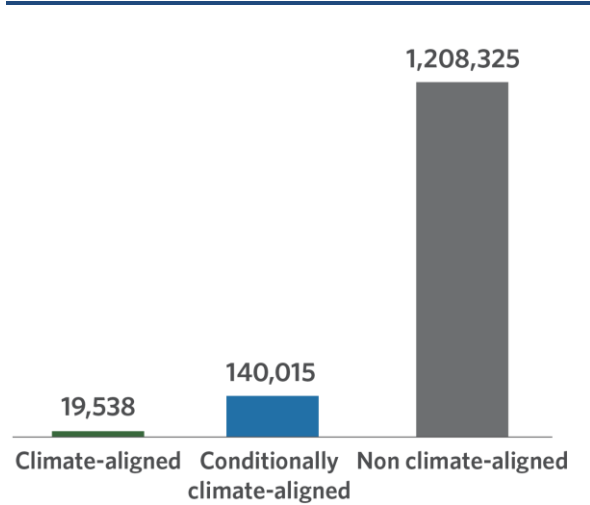
LANDSCAPE ASSESSMENT

MAINSTREAMING SUSTAINABLE FINANCE



1 National landscape

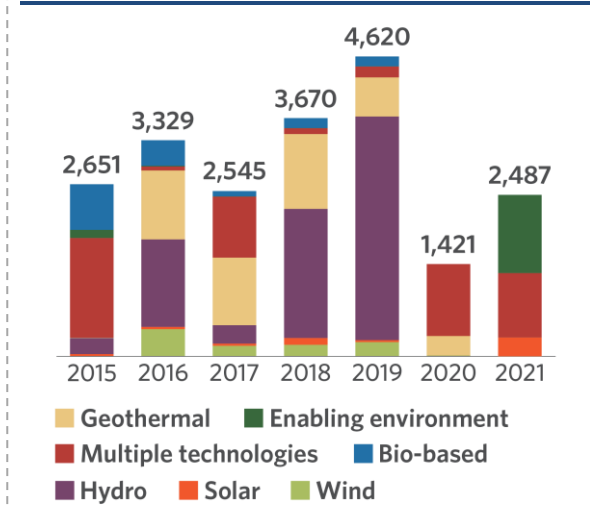
Climate finance tracking + finance categorization



- **Indonesia climate finance landscape** based on Global Landscape of Climate Finance (CPI, 2019; CPI, 2022)
- **Assessment of financial sources/actors and instruments** for financing climate-aligned, conditionally climate-aligned, and non-climate-aligned activities

2 Sector finance landscape

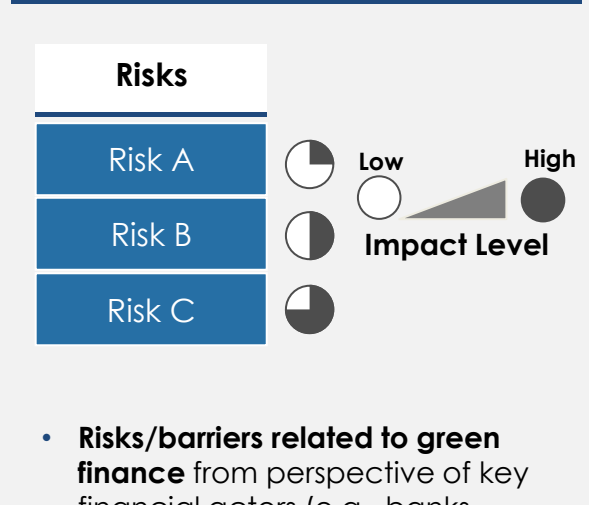
Analysis of sectoral climate financing



- Analysis of the **green finance landscape** by sector (e.g., wind and solar for power)
- Case study: underfunded sector e.g., EE
- What's next for climate-aligned finance?

3 Investment barriers and risks

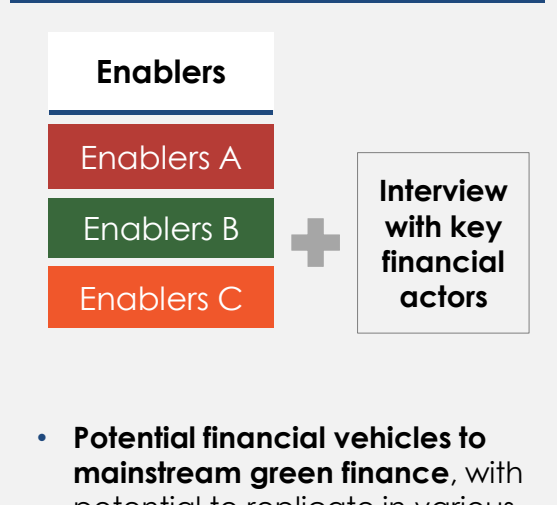
Investment barriers and risks



- **Risks/barriers related to green finance** from perspective of key financial actors (e.g., banks, capital market, FDIs)
- **How risks affect financial actors' decisions** in mobilizing green finance:
 - General barriers
 - Specific barriers to FIs

4 Potential enablers

Opportunities for the alignment of Sustainable Finance policies



- **Potential financial vehicles to mainstream green finance**, with potential to replicate in various sectors
- Supporting the finance sector ecosystem by assessing:
 - Green taxonomy
 - Readiness for climate risk assessment
 - Potential development of green/ESG credit scoring



**Indonesia's financial sector landscape:
Public vs. private climate-aligned investment**

Sankey – Indonesia’s Financial Sector Climate Finance Landscape 2015-2021

SOURCES AND INTERMEDIARIES

Which type of organization are sources/
intermediaries of capital for
climate-aligned investment?

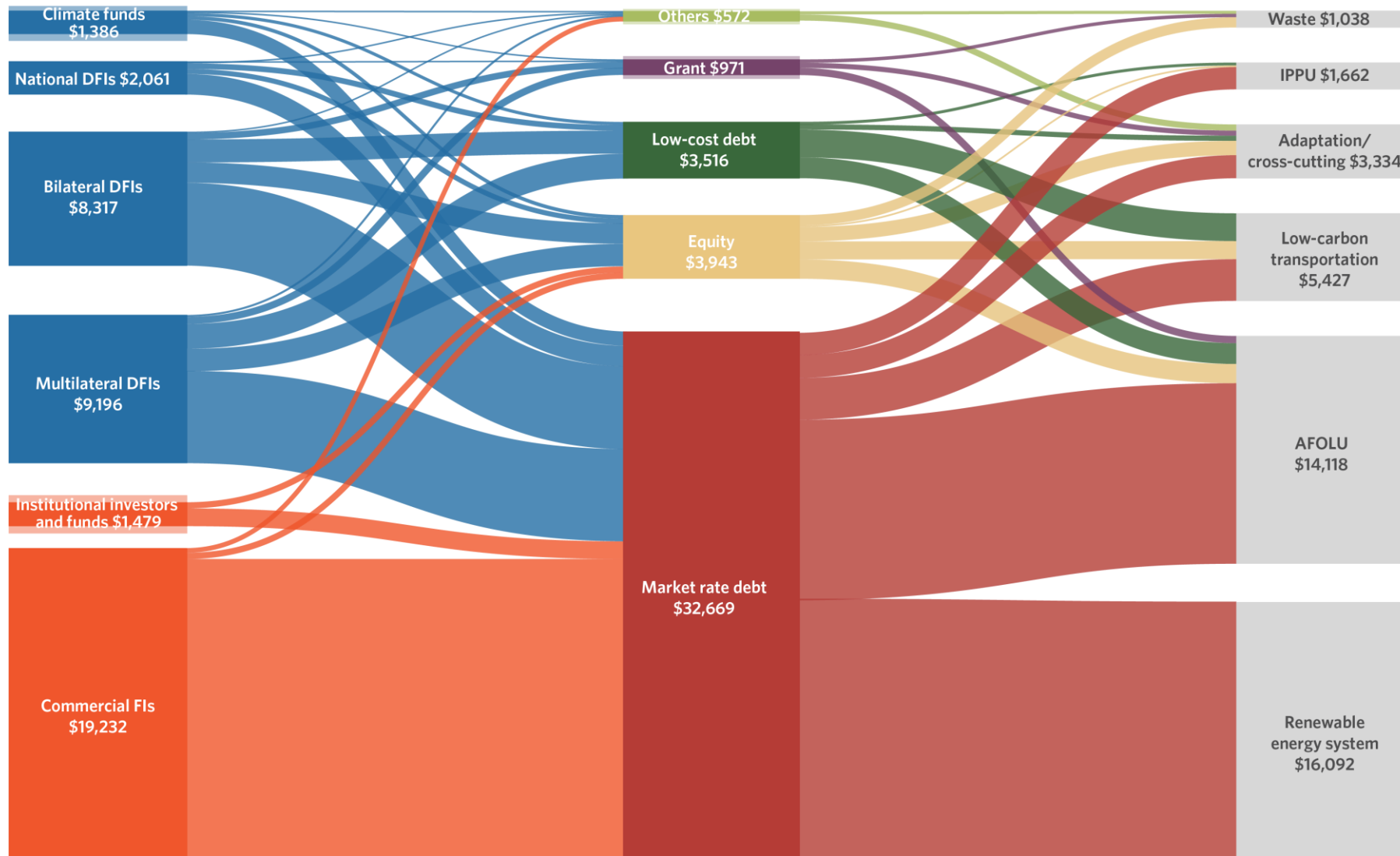
INSTRUMENTS

What mix of financial instruments are
used?

TOTAL
2015-2021 **41.7** BILLION
USD

SECTORS

What is the finance used for?



Public Private

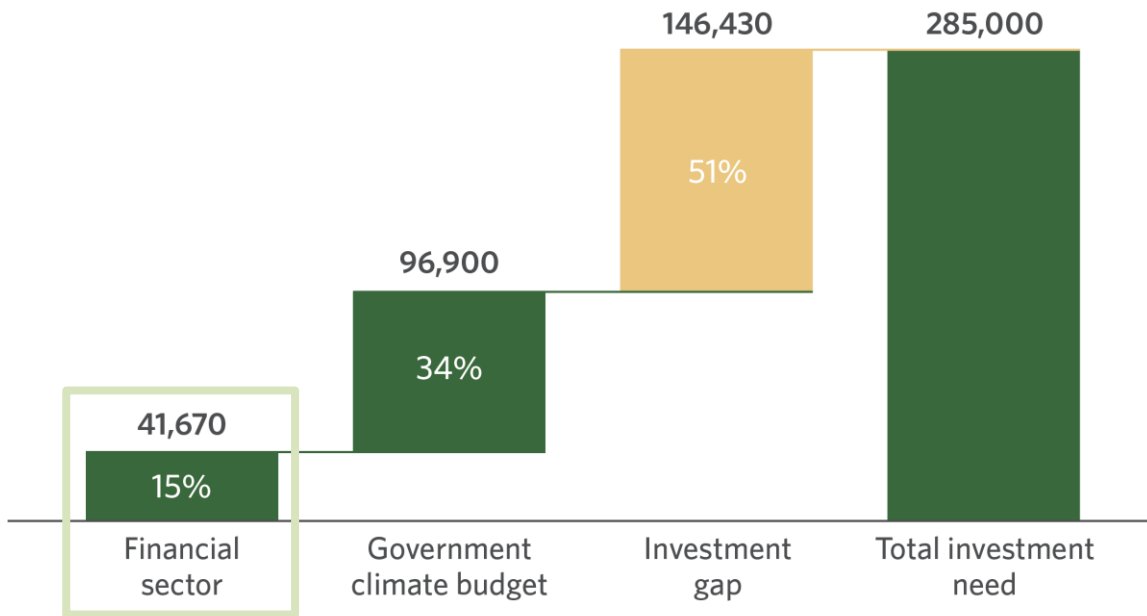
Three categories of finance flow in Indonesia's financial sector¹

- **Climate-aligned finance:** Activities that directly contribute to reducing GHG emissions and improving climate resilience, **aligned with Indonesia's climate goals and the categorization of green sectors** under the Financial Sector Authority (*Otoritas Jasa Keuangan*, OJK) regulations: POJK 51/2017 on sustainable finance, POJK 18/2023 on Sustainability Bonds and Sukuk, as well as CPI's Global Climate Finance Landscape and Net Zero Tracker.
- **Conditionally climate-aligned finance:** Activities that could contribute to maintaining and enhancing the achievement of Indonesia's climate target **if equipped with other enabling conditions** (e.g., ISPO/RSP0-certification for sustainable palm oil practices, activities assessed against relevant local environmental laws as a minimum safeguard, such as green or gold ratings for Company Performance in Environmental Management [PROPER], passing criteria of the Indonesian's environmental impact assessment [AMDAL])
- **Non-climate-aligned finance:** Activities that contribute to wider economic development that may or may not be harmful to the environment, such as

1) Indonesia's financial sector is defined as a whole set of actors that provide financial services to commercial and retail customers, including investment funds, banks, and insurance companies (MoF – Fiscal Policy Agency, 2021)

Government budget covers 34% of required investment to meet Indonesia's climate target

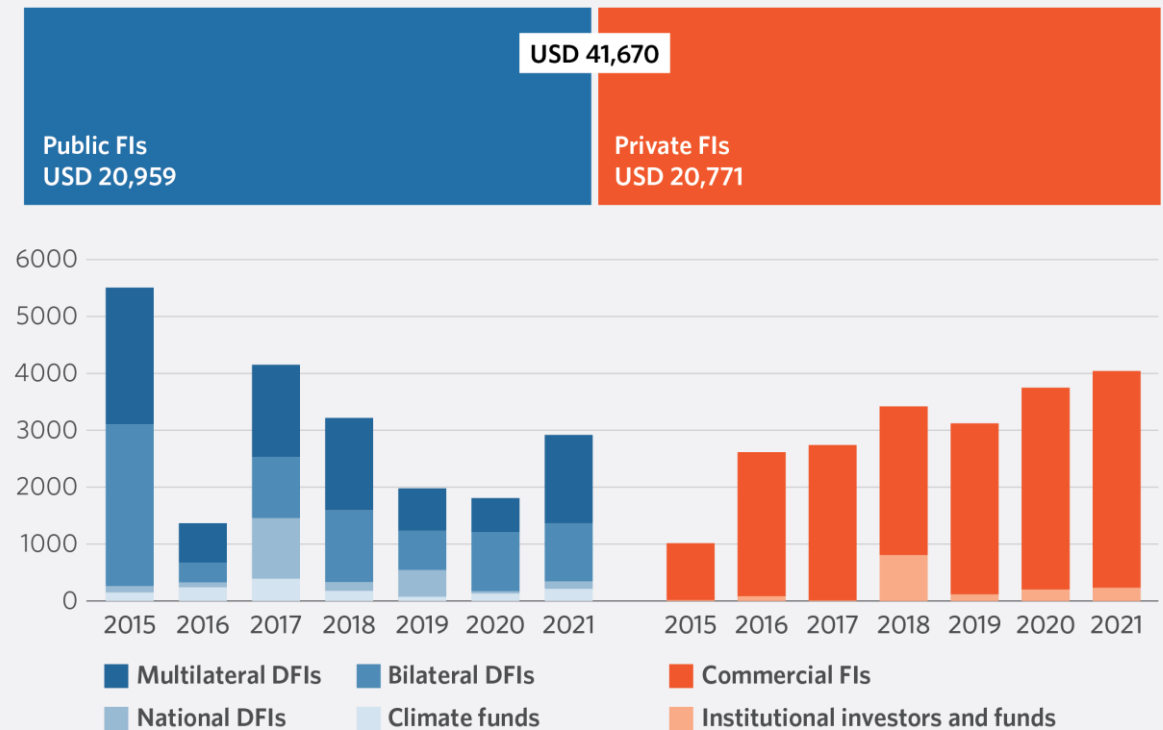
Investment needed to achieve Indonesia's 2030 climate target, USD million



The government has allocated an annual climate budget of about 4.3% of the State Budget, which contributes to around 34% of the total climate investment needed to meet Indonesia's enhanced NDC (MoF, 2021).

Financial sector contributes 15% of climate investment needs; public and private finance institutions (FIs) allocate almost equal amounts

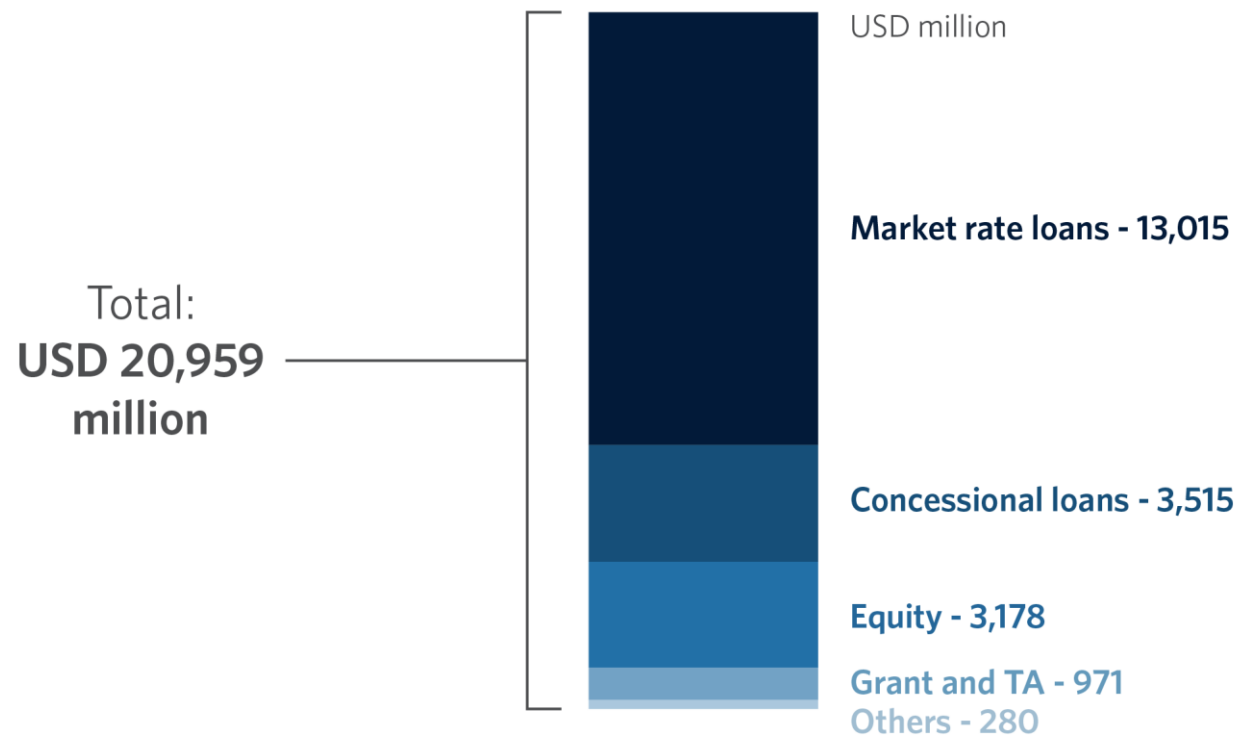
Financial sector's climate-aligned investment, 2015-2021, USD million, by actor



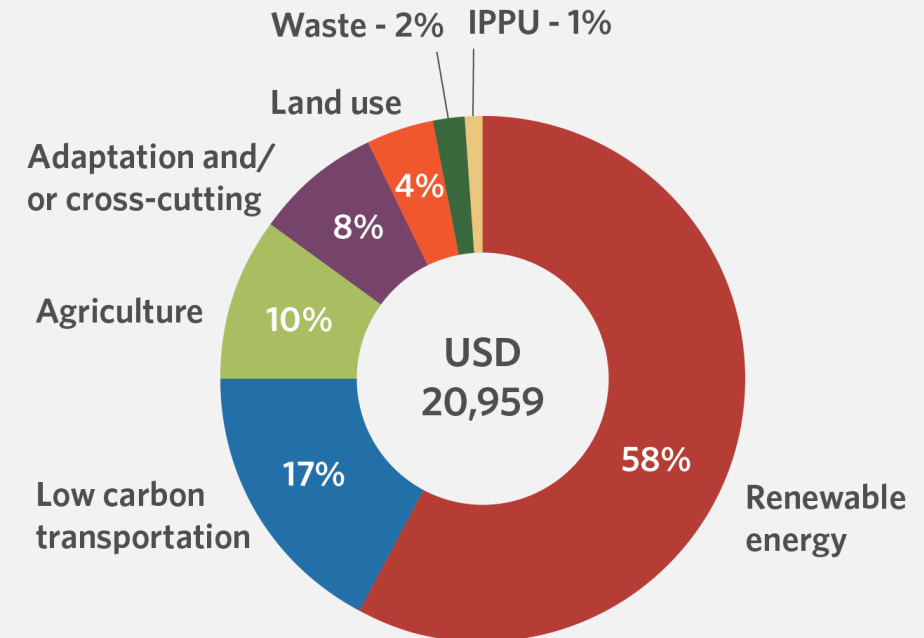
Sources: Indonesia Enhanced NDC (2022); MoF (2022), CPI GLCF & private climate finance tracking data (2022)

Public FIs contribute around USD 3.5 bn of climate-aligned investment per year, dominated by market rate loans

Climate-aligned investment by Public Development Finance Institutions (DFI), 2015-2021, USD million, by instrument



RE systems² as the investment focus

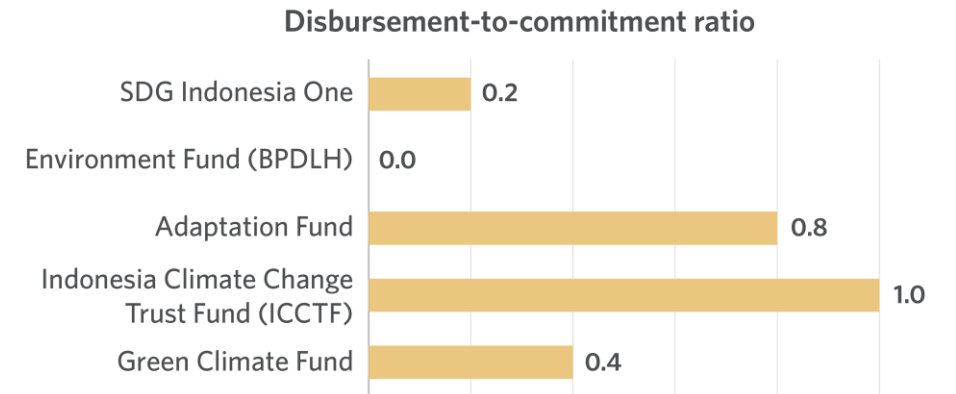
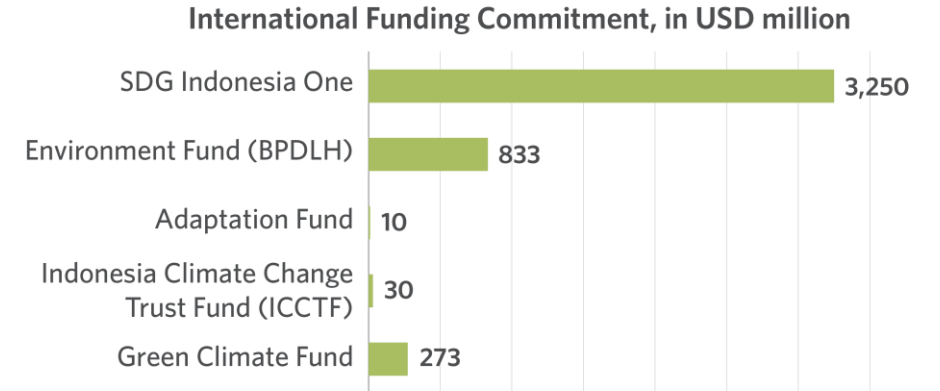


2) These include investment in renewable energy, energy efficiency technology, and green building

Public DFIs: while Indonesia has access to various climate fund facilities, average disbursement performance is less than 50%

	SDG Indonesia One	bpdh	ADAPTATION FUND	ICCTF	GREEN CLIMATE FUND
Forestry		✓		✓	✓
Energy	✓	✓		✓	✓
Agriculture		✓		✓	✓
Industrial processes and product use		✓		✓	✓
Waste		✓		✓	✓
Economic resilience	✓	✓	✓	✓	✓
Social and livelihood resilience	✓	✓	✓	✓	✓
Ecosystem and landscape resilience	✓	✓	✓	✓	✓

■ Mitigation ■ Adaptation

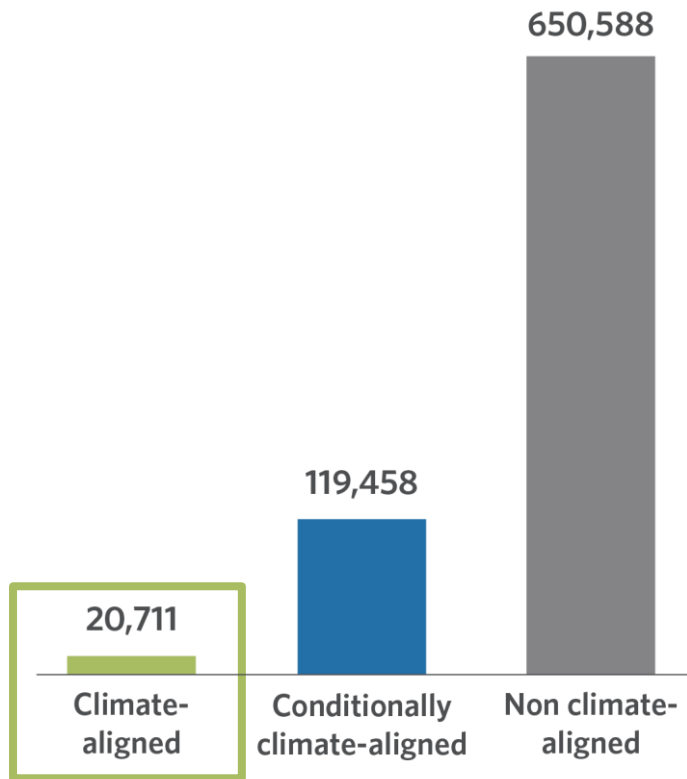


AVERAGE DISBURSEMENT PERFORMANCE

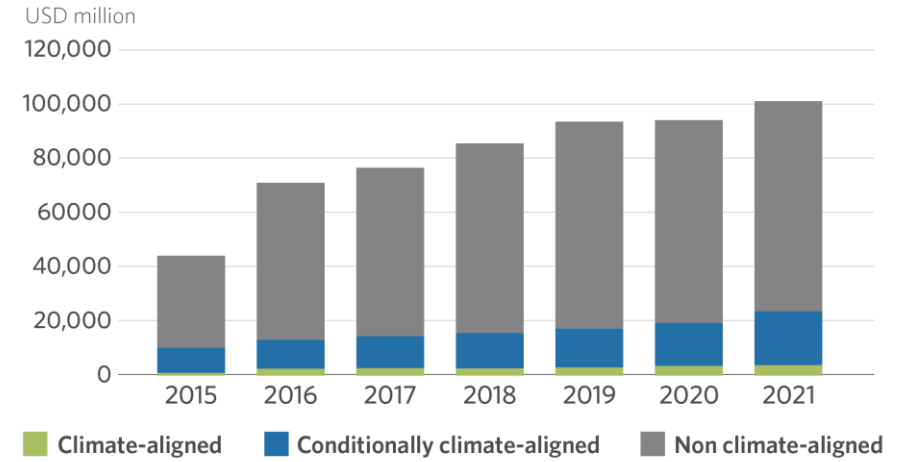
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Private FIs snapshot: Only 3% of private investment is climate-aligned

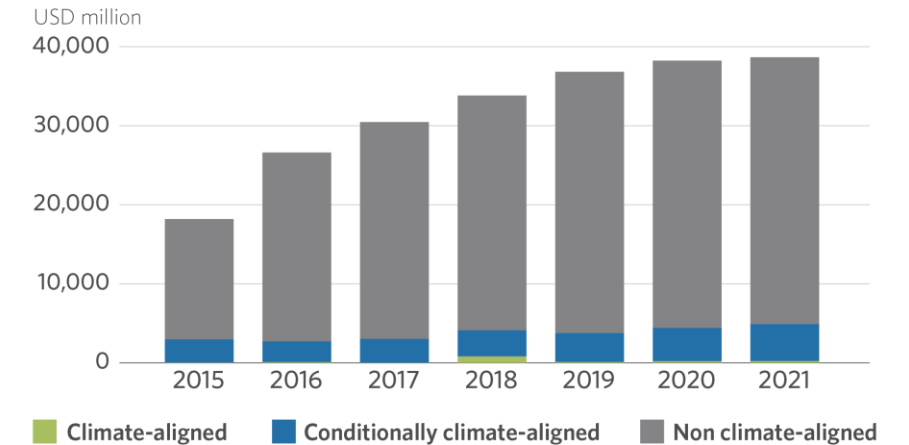
**Indonesian Private Financial Sector Investment
2015-2021, USD million**



COMMERCIAL FIs:
Commercial banks,
investment banks

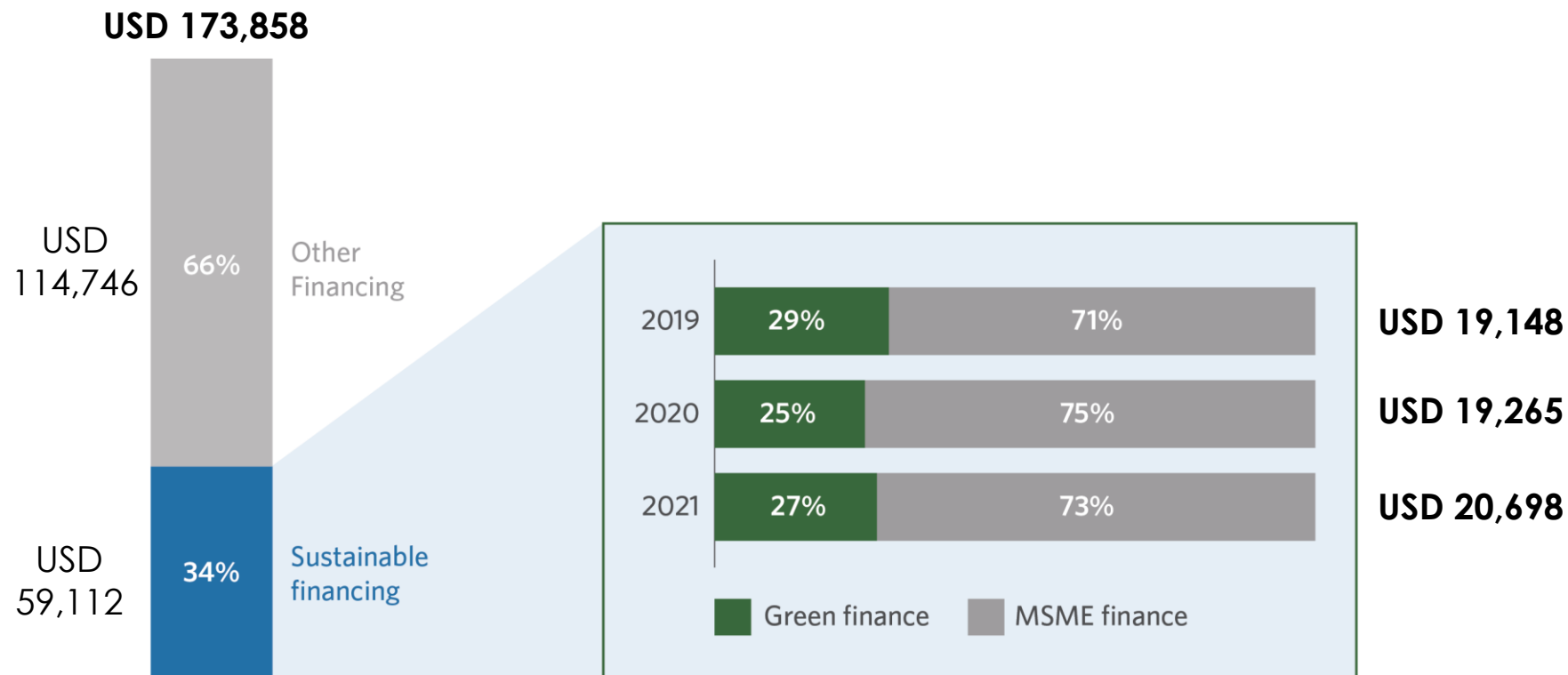


INSTITUTIONAL INVESTORS AND FUNDS:
Insurance, pension funds, and other funds under the management of private equity, venture capital and other infrastructure funds



Private commercial FIs are key contributors, increasing their ESG portfolios as they respond to OJK sustainability reporting obligations

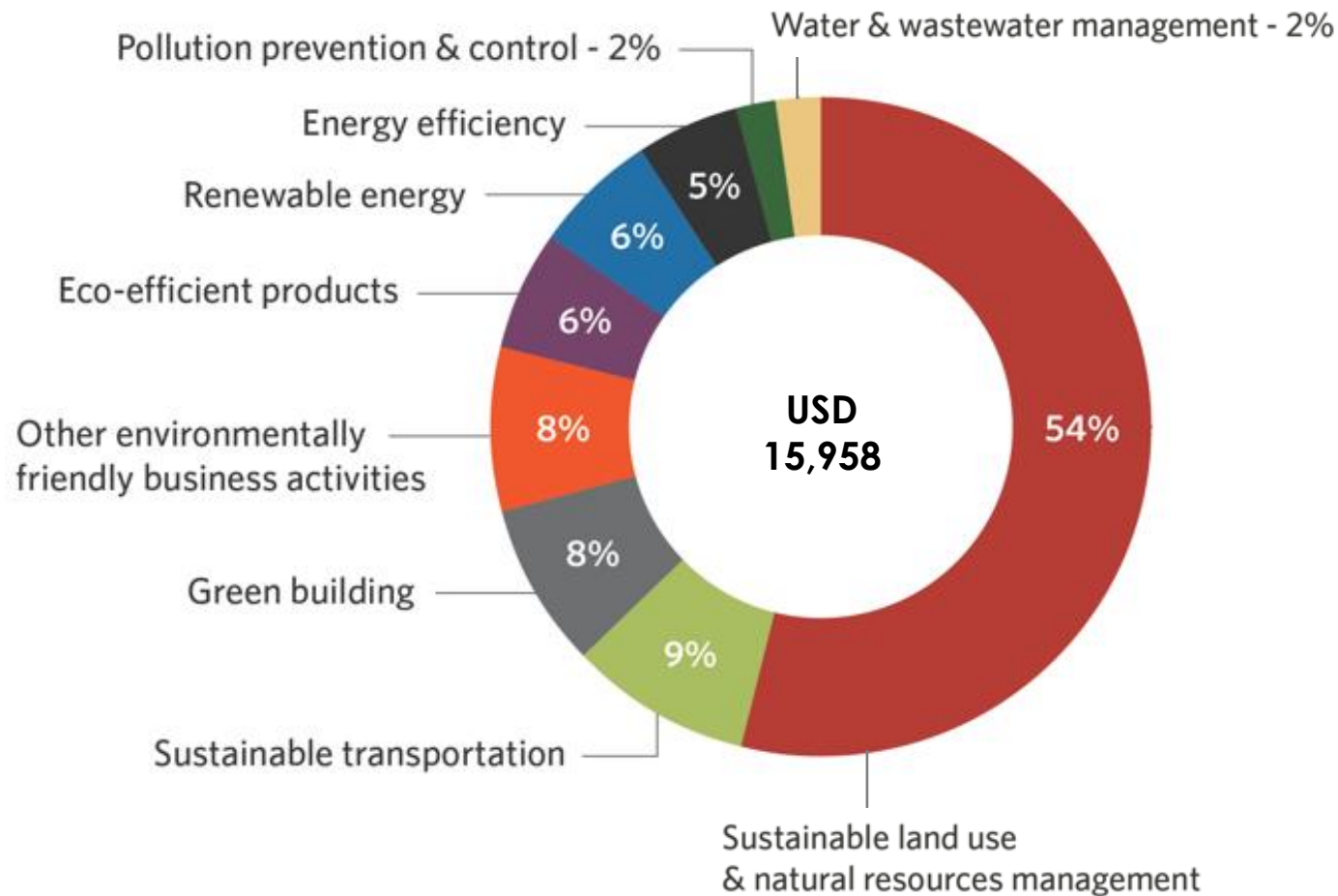
Portfolios of sampled commercial banks, representing more than 60% market share in Indonesia, 2019-2021, USD million (%)



¹² Sources: CPI analysis on the annual report and sustainability report of the samples (2019, 2020, 2021)

Sectoral investment of Indonesian commercial FIs: Land use receives over half of investment

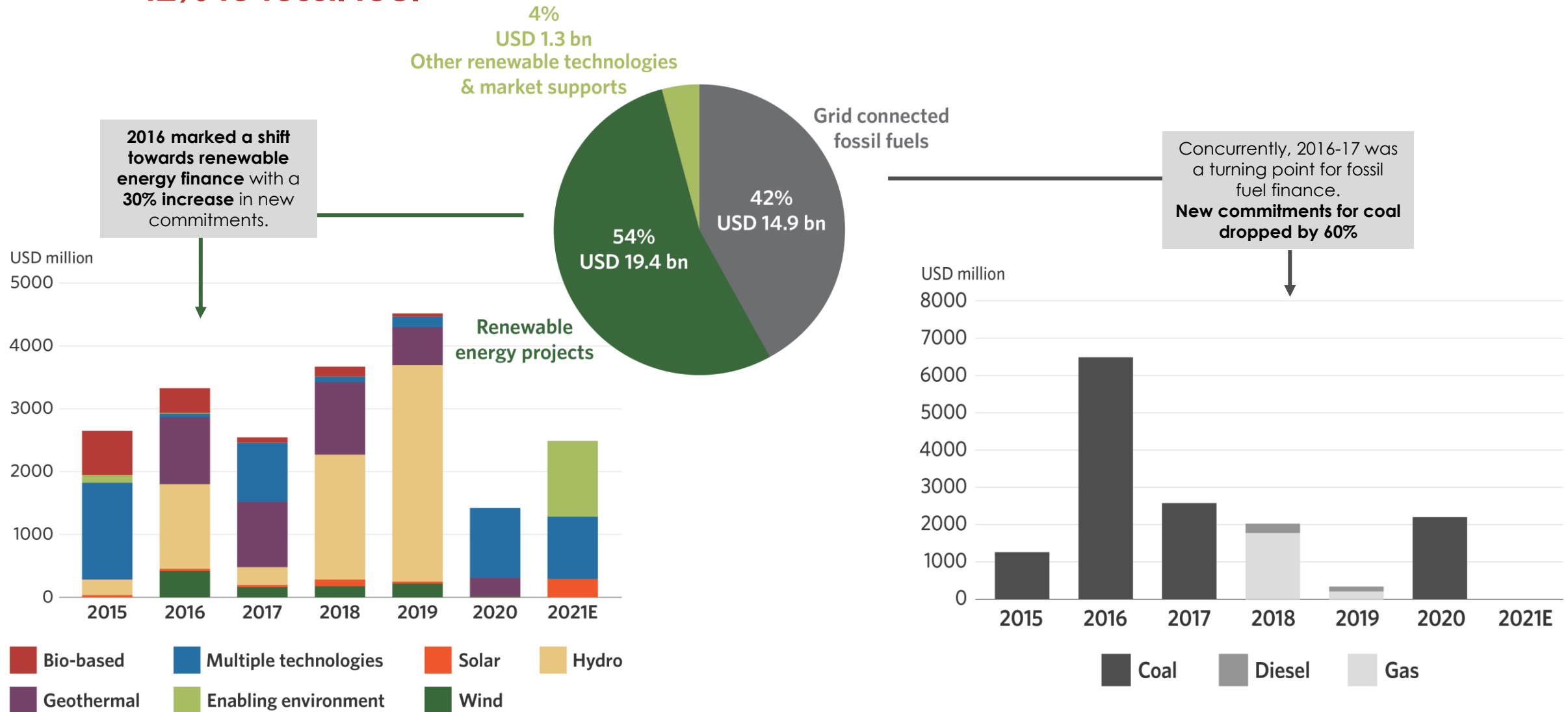
Green sectors based on POJK 51: Portfolios of sampled commercial banks, representing more than 60% market share in Indonesia, 2019-2021, USD million (%)



- Most climate-aligned investment went to land use (mostly to agriculture and ISPO/ RSPO certified sustainable palm oil), mainly due to sector familiarity.
- Climate-aligned energy sector investment includes renewable energy, sustainable transportation, and energy efficiency.
- However, energy efficiency has not yet secured optimum finance commitments.

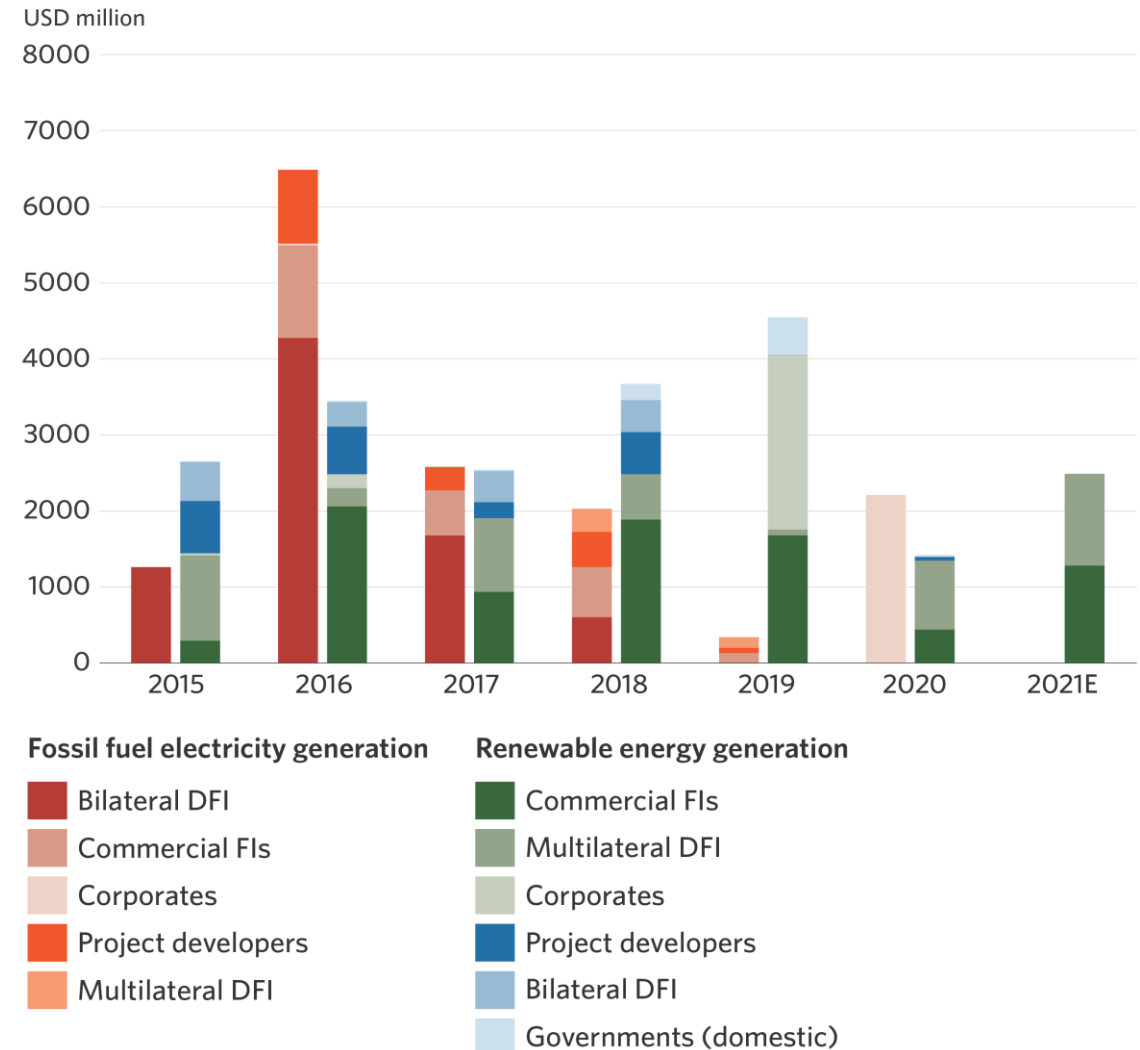
Snapshot of sectoral finance: Indonesia's power sector

Sector outlook 1/2: USD 35.6bn of power investment; 58% to renewables, 42% to fossil fuel



Sector outlook 2/2: Commercial FIs provided 38% of renewable energy finance

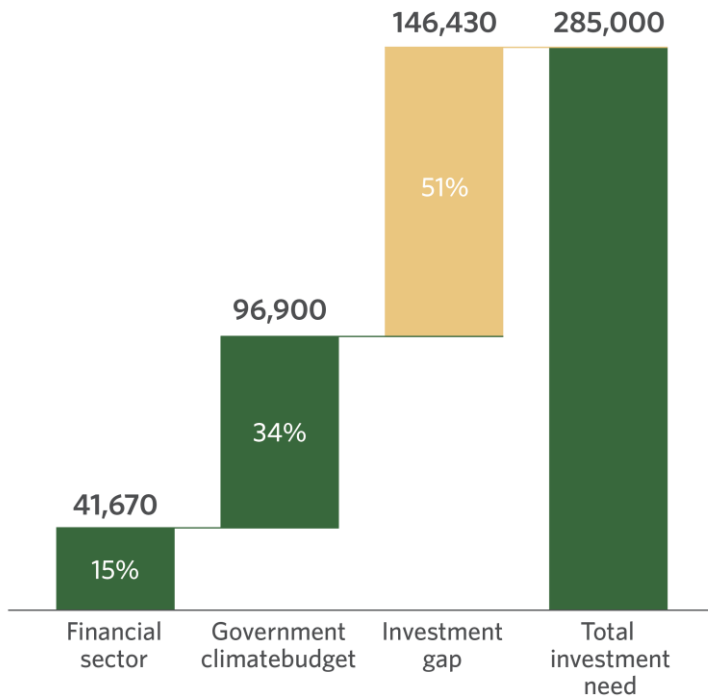
- **Most renewable energy commercial finance** went to **geothermal and hydropower**, with less than 2% going to solar.
- Commercial loans for fossil fuel have **decreased** due to:
 - (i) **Shift in market preferences:** i.e., PLN's moratorium on coal-fired power starting in 2023, as well as global shift in energy supply
 - (ii) **Regulatory signals:**
 - Financial sector (POJK 51/2017 on Implementation of Sustainable Finance, POJK 18/ 2023 on Sustainability Bonds to replace POJK 60/2017 on Green Bonds)
 - Energy sector (MEMR Regulation 4/2020 on Renewable Power Generation, Energy Transition Mechanism Initiative and JETP in 2021)
 - (iii) **Alignment with national climate goals and Paris Agreement objectives** (NDC updated in 2021 and enhanced in 2022; commercial FIs' net zero pledges).



Source: CPI GLCF (2021), 2015-2021E Indonesia power sector tracking (2023)

Decarbonizing Indonesia's power sector– What is the next trend in financing?

Indonesia needs at least USD 285 bn climate-aligned investment to meet the 2030 NDC target; the energy sector contributes more than half of the total emission.



The next trend of investment will likely follow the government policy signals, particularly in decarbonizing the power sector..



... and global climate finance initiatives, such as:



Just Energy Transition Partnership (JETP)

Indonesia JETP deal: USD 20bn to be disbursed within 3-5 years creates a signal that is expected to attract finance for coal retirement, just transition, grid development, RE, and EV supply chains.



Energy Transition Mechanism (ETM)

Indonesia's ETM Country Platform aims to catalyze finance from multilateral, bilateral, philanthropic, and private sector sources to accelerate the energy transition.



Phase 1 of Emissions Trading Scheme (ETS) in 2023-24 and only cover CFPPs

A mandatory, intensity-based ETS for the power generation sector was launched in February 2023, covering facilities with production capacity of >100 MW. This will initially cover 99 Coal-fired power plants (CFPPs), accounting for 81.4 % of national power generation capacity.

1

Energy Transition Accelerator (ETA)

Jurisdictional-scale carbon credits to catalyze private capital to accelerate the transition from dirty to clean power

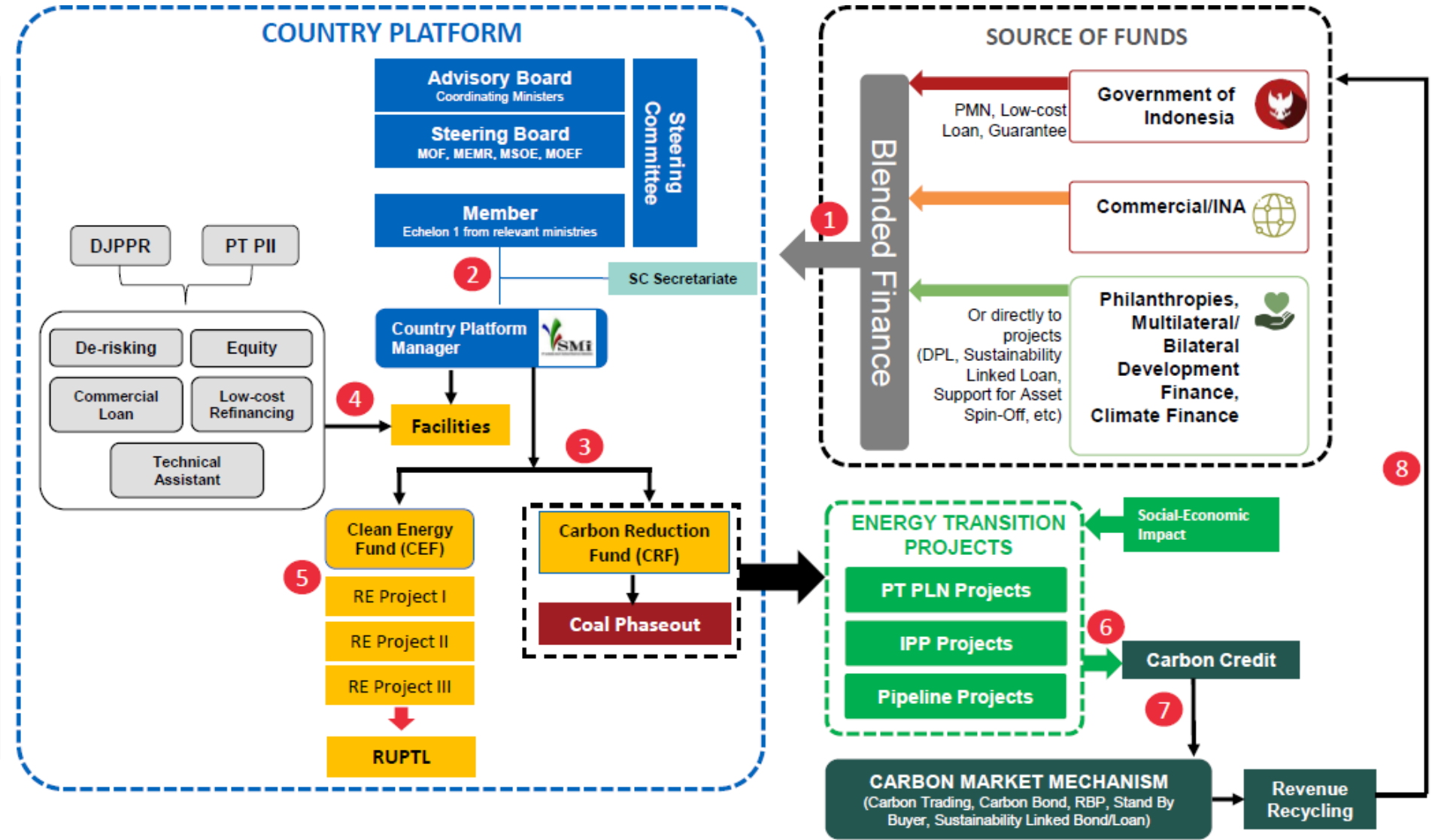
2

Coal to Clean Credits Initiative (CCCI)

the use of carbon finance to incentivize a just transition away from coal-fired power plants to renewable energy in emerging economies

ETM Country Platform: Blended finance to scale-up and de-risk investment in Indonesia's just and affordable energy transition

- ### Flow Description
- 1 Blended funds flow into country platform through PT. SMI
 - 2 Steering Committee provide priority program directions to the CP Manager
 - 3 CP Manager carry out early retirement process according to the roadmap
 - 4 CP can received several financial facilities from MoF
 - 5 Mobilizing CEF funds to transform CFPP into REPP while considering RUPTL.
 - 6 ETM generate tradable carbon credit
 - 7 ETM carbon credit are traded in carbon market
 - 8 Revenue recycle from ETM managed through Non-Tax Revenue mechanism



Key takeaways (1/2)

- **Indonesia needs about USD 285 bn in climate-aligned investment to meet its Enhanced NDC**, but the Government budget only covers **USD 96.9 bn or about 34%** of this.
- Meanwhile, **Indonesia's financial sector, comprising public development FIs and private commercial FIs, contributes 15%** of total climate investment needs. Public and private FIs provide about the same amount of climate-aligned investment, totaling USD 41.7 billion, from 2015 to 2021.
- **Public FIs contribute around USD 3.5 bn of climate-aligned investment per year**, dominated by market rate loans, and they target renewable energy.
- **Only 3% of total investment from Private is climate-aligned**, and land use attracts about half of investment, followed by the energy sector.

Key takeaways (2/2)

- **Climate-aligned investment in the energy sector** includes renewable energy, sustainable transportation, and energy efficiency, though energy efficiency has not yet secured optimum finance commitment.
 - The Power sector secured USD 35.6 bn in investment (58% to renewable energy and 42% to fossil fuels) in 2015-202, of which commercial FIs provided 38%.
 - Climate-aligned investment to decarbonize Indonesia's power sector appears to be following government policy signals (including JETP, ETM, and power sector ETS), as well as global initiatives (such as the ETA and CCCI).
- **NEXT STEP:** Policy signals to scale-up climate-aligned investment are of paramount importance to mainstream the principle of sustainability into the investment flow. **CPI will conduct and share more detailed analysis of relevant policy signals to mainstream the principles of sustainability in Indonesia Financial Sector and further support climate-aligned investment.**



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