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

**KEY ISSUES**

- **More ambitious climate target**
  - Enhanced NDC: increased emission reduction target from 41.0% to 43.2% with international support
  - JETP power sector decarbonization: conditional target of 34% renewable energy by 2030, net zero energy by 2050

- **Misaligned climate finance**
  - Suboptimal public funding to leverage private investment
  - Financing demand outstrips supply
  - Sector analysis: underfunded vs. well-funded sectors from the perspective of financiers

- **Lack of transparency and finance flows**
  - Three categories of climate finance flows:
    - Climate-aligned
    - Conditionally climate-aligned
    - Non-climate-aligned
  - Green taxonomy & sustainability reporting standards/guidelines are not yet binding

**FINANCING SUSTAINABILITY**

- **Scaling up climate finance and mainstreaming sustainability**
  - CPI reports:
    1. Indonesia financial landscape assessment to identify gaps and opportunities
    2. Mainstreaming sustainable finance: Policy signal to scale-up climate-aligned investment

**Outcome:** Consolidation of climate targets and finance commitments and enhanced transparency
**Approach: Indonesia financial landscape assessment and sustainable finance integrity**

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**LANDSCAPE ASSESSMENT**

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
   - 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

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**MAINSTREAMING SUSTAINABLE FINANCE**

3. **Investment barriers and risks**
   - Risks and investment barriers and risks

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

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**Interview with key financial actors**

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**Notes**

- Low
- High
- Low Impact Level
- High Impact Level

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**Graphs and Tables**

- Bar charts
- Pie charts
- Tables

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**Sectors**

- Geothermal
- Enabling environment
- Multiple technologies
- Bio-based
- Hydro
- Solar
- Wind

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**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?
Indonesia’s financial sector landscape: Public vs. private climate-aligned investment
Sankey – Indonesia’s Financial Sector Climate Finance Landscape 2015-2021

**SOURCES AND INTERMEDIARIES**

- **Climate funds**: $1.386 billion
- **National DFIs**: $2,061 billion
- **Bilateral DFIs**: $8,317 billion
- **Multilateral DFIs**: $9,196 billion
- **Institutional investors and funds**: $1.479 billion
- **Commercial FIs**: $19,232 billion

**INSTRUMENTS**

- **Others**: $572 million
- **Grant**: $971 million
- **Low-cost debt**: $3,516 billion
- **Equity**: $3,943 billion
- **Market rate debt**: $32.669 billion

**TOTAL 2015-2021**: 41.7 billion USD

**SECTORS**

- **Waste**: $1,038 billion
- **IPPU**: $1,662 billion
- **Adaptation/cross-cutting**: $3,334 billion
- **Low-carbon transportation**: $5,427 billion
- **AFOLU**: $14,118 billion
- **Renewable energy system**: $16,092 billion
Three categories of finance flow in Indonesia’s financial sector

- **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/RSPO-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

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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)
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).
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:

- **Total:** USD 20,959 million
  - Market rate loans - 13,015
  - Concessional loans - 3,515
  - Equity - 3,178
  - Grant and TA - 971
  - Others - 280

**RE systems** as the investment focus:

- Renewable energy: 58%
- Agriculture: 17%
- Low carbon transportation: 10%
- Adaptation and/or cross-cutting: 8%
- Land use: 4%
- Waste: 2%
- IPPU: 1%

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

Source: CPI GLCF & private climate finance tracking data (2022)
Public DFIs: while Indonesia has access to various climate fund facilities, average disbursement performance is less than 50%
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

Sources: CPI GLCF and private climate finance tracking data (2022); OJK banking statistics, IDX mutual fund statistics, Indonesian Central Bank statistics
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 (%)

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.

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

2016 marked a shift towards renewable energy finance with a 30% increase in new commitments.

Concurrently, 2016-17 was a turning point for fossil fuel finance. New commitments for coal dropped by 60%.
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...

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)
Just Energy Transition Partnership (JETP)

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

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.

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

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

Source: JETP Indonesia Joint-Statement, Indonesia MoF (2022), Indonesia MEMR (2023), ETA (2023), CCCI (2023)
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 receive several financial facilities from MoF
5. Mobilizing CEF funds to transform CFPF into REPP while considering RUPTL
6. ETM generates tradable carbon credit
7. ETM carbon credit are traded in carbon market
8. Revenue recycle from ETM managed through Non-Tax Revenue mechanism

COUNTRY PLATFORM
- Advisory Board
- Steering Board
- Steering Committee
- Member
- Technical Assistant
- DJPPR
- PT PII
- De-risking, Equity, Commercial Loan, Low-cost Refinancing
- Country Platform Manager
- Facilities
- Clean Energy Fund (CEF)
- Carbon Reduction Fund (CRF)
- Coal Phaseout
- RUPTL

SOURCE OF FUNDS
- Government of Indonesia
- Commercial/INA
- Philanthropies, Multilateral/Bilateral Development Finance, Climate Finance
- Or directly to projects (OPL, Sustainability Linked Loan, Support for Asset Spin-Off, etc)

ENERGY TRANSITION PROJECTS
- PT PLN Projects
- IPP Projects
- Pipeline Projects

CARBON MARKET MECHANISM
(Carbon Trading, Carbon Bond, RBfB, Stand By Buyer, Sustainability Linked Bond/Loan)

Revenue Recycling
Social Economic Impact

Source: Indonesia MoF (2023)
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.
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.
Thank You