

IFC and OJK

Raising the Bar on Environmental, Social, and Corporate Governance Standards

IFC was founded on a bold idea: that the private sector is essential to development. We have six decades of investment and advisory experience in global emerging markets. We now reach millions of people in over 100 countries, creating jobs and building a better future to support the World Bank Group's twin goals: ending extreme poverty and boosting shared prosperity.

To achieve these goals, IFC focuses on helping our clients understand and manage the environmental, social, and corporate governance (ESG) risks to do business sustainably. We partner

with industry and other stakeholders to find innovative solutions that open up opportunities for economically, socially, and environmentally sustainable private investment.

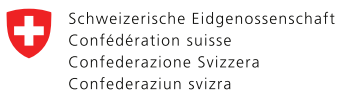
Since 2012, IFC's Indonesia Corporate Governance Project, which is implemented with the support of Switzerland's State Secretariat for Economic Affairs (SECO), has assisted the Financial Services Authority (OJK) to embark on a far-reaching, multi-year reform to strengthen the country's corporate governance framework and investment climate. A key part of IFC's corporate governance work involves helping to

"IFC has always believed that the private sector is a powerful driver of growth. However, the private sector will not be able to access capital markets, let alone thrive without a consistent regulatory framework and proper supervision and enforcement. OJK's commitment to its vision and mission is commendable and should be supported by all market players. IFC is grateful to have been a part of this journey."

Azam Khan

IFC Country Manager for Indonesia, Malaysia, and Timor-Leste

IN PARTNERSHIP WITH



Swiss Confederation

Federal Department of Economic Affairs,
Education and Research EAER
State Secretariat for Economic Affairs SECO



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improve the Indonesian regulatory environment for corporate governance. Building on our frontline experience as an investor, we collaborate closely with the World Bank to ensure that new corporate governance regulations and codes in Indonesia are based on international best practices.

Corporate governance, defined as the structures and processes by which companies are directed and controlled, is critical to a well-functioning and vibrant private sector in Indonesia. Good corporate governance helps companies operate more efficiently, mitigate risk, safeguard against mismanagement, and improve access to capital. This, in turn, encourages new investments, creates jobs, and boosts economic growth.

Following our work in corporate governance, we also partnered with OJK in developing Indonesia's first-ever sustainable finance framework. IFC's Environmental and Social Risk Management Program in Indonesia, with the

support of SECO and the UK Climate Change Unit (UK CCU), has provided technical assistance to OJK to elevate the sustainable finance agenda and develop the corresponding regulations since 2013. The program aims to support Indonesian financial institutions in improving their environmental and social performance and strengthening risk management in their lending practices, moving toward a sustainable approach in line with international standards and best practices.

Our partnership with OJK coincided with the global effort to achieve the Sustainable Development Goals (SDGs) and concerns surrounding climate change, which paved the way for developing a sustainable finance framework in Indonesia. In 2015, OJK issued the Sustainable Finance Roadmap Phase 1:2015-2019 and the Regulation on the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Publicly Listed Companies in 2017.

IFC AND OJK PARTNERSHIP THROUGH THE YEARS

"Strengthening the capital market is a collective effort, which cannot be done by the regulators alone. In order to align Indonesia's corporate governance regulatory framework with international best practices, OJK works closely with international organizations, including IFC. This cooperation needs to continue to raise governance standards among Indonesian companies, promote transparency and accountability in the corporate sector, and enhance public trust and confidence in Indonesian capital markets."

Wimboh Santoso
Chairman
Board of Commissioners
Otoritas Jasa Keuangan

Collaboration with IFC has become part of OJK's journey in championing pivotal regulatory reforms in corporate governance and sustainable finance in Indonesia, which includes:

2014

Indonesia Corporate Governance Roadmap

A comprehensive reform to strengthen Indonesia's corporate governance regulatory framework and standards for listed companies and new issuers in line with regional and international best practices. The Roadmap launched by OJK outlines planned corporate governance improvements with a concrete implementation schedule.

OJK issued four regulations in support of good corporate governance practices:

OJK Regulation No.32/POJK.04/2014

on *Planning and Holding of General Meetings of Shareholders of Publicly Owned Companies*

OJK Regulation No.33/POJK.04/2014

on *Board of Directors and Board of Commissioners of Issuers or Public Companies*

OJK Regulation No.34/POJK.04/2014

on *Nomination and Remuneration Committees of Issuers or Public Companies*

OJK Regulation No.35/POJK.04/2014

on *Corporate Secretary of Issuers or Public Companies*

Indonesia's first "comply or explain" Corporate Governance Guidelines for Public Companies. OJK issued corporate governance guidelines set out in:

OJK Regulation No.21/POJK.04/2015

on *The Implementation of Corporate Governance Guidelines of Public Company*

OJK Circular Letter No.32/SEOJK.04/2015

on *Corporate Governance Guidelines of Public Company*

2015

Indonesia's first Sustainable Finance Roadmap

The Sustainable Finance Roadmap issued by OJK embodies Indonesia's strong commitment to increasing awareness and improving the private sector's environmental and social performance. The Roadmap sets forth a detailed work plan for the financial services industry under OJK's authority (banking, capital market, and non-bank financial services). The Roadmap laid out, among others, the timeline for the development of sustainable finance regulation, sustainable financial products, incentives for financial institutions, and coordination among government agencies.

2016

The 4th annual meeting of the Sustainable Banking Network in Bali, Indonesia

The annual meeting of the Sustainable Banking Network in 2016 that was co-hosted by OJK and IFC brought together nearly 300 participants from over 25 emerging markets, including financial regulators, banking associations, banks, and development partners. The meeting was the largest gathering of decision-makers on the role of banking sector policy and voluntary industry initiatives to promote sustainable finance to date.

2017

Indonesia's first Sustainable Finance Regulation for Financial Services Institutions, Issuers, and Publicly Listed Companies

OJK issued the first regulation on sustainable finance in Indonesia that mandates all financial institutions to integrate sustainable principles in their business process, namely OJK Regulation No. 51/POJK.03/2017 on the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Publicly Listed Companies. The regulation (based on an academic paper produced with IFC's assistance) covers sustainable finance principles, the timeline for implementation by financial institutions, and the requirement to submit a Sustainable Finance Action Plan and Sustainability Report.



Technical Guidelines for Banks to support the implementation of OJK Regulation on Sustainable Finance

2018

IFC assisted OJK in developing Technical Guidelines for Banks to implement sustainable finance regulation. The Guidelines provide the first-ever classification of 12 sustainable business activities to help banks improve their sustainable portfolio financing/lending. It also provides further elaboration on the drafting of the Sustainable Finance Action Plan and Sustainability Report.

Adopted the Technical Guidelines on Sustainable Finance for Banking Supervision

2019

IFC assisted OJK in developing technical guidelines for supervisors to oversee the implementation of sustainable finance regulation. The Guidelines were issued and adopted by OJK in early 2020 as an internal document to monitor and evaluate the Sustainable Finance Action Plan and Sustainability Report submitted by Indonesian banks.

Besides the banking sector, IFC also helped OJK develop the Technical Guidelines for Capital market and Non-Bank Institutions on Sustainable Finance Implementation.

“Economic development is critical to building a more prosperous society. To create economic growth, Indonesia must invest in developing its infrastructure. However, mass infrastructure development must consider the environmental and social impacts to prevent unintended consequences. For that reason, the infrastructure development of a country must be in line with the Sustainable Development Goals. Utilizing sustainable/green financing, financial institutions have a critical role in providing much-needed financing while ensuring that infrastructure development is undertaken in an environmentally and socially responsible manner.”

Wimboh Santoso
Chairman
Board of Commissioners
Otoritas Jasa Keuangan

MARKET IMPACT

Our successful collaboration with OJK in corporate governance and sustainable finance regulatory reform has had several positive impacts in Indonesia's market, which includes:

1

On corporate governance, the impact includes an improved score of the 100 Indonesian largest listed companies on the ASEAN CG Scorecard (ACGS). Based on Indonesian Institute for Corporate Directorship's assessment, the average score for the top 100 listed companies increased from 55.1% in 2014 to 66.5% in 2018 (an increase of 21%).

AVERAGE COMPLIANCE FOR THE 100 INDONESIAN LARGEST LISTED COMPANIES

ASEAN CG SCORECARD Part	YEAR				
	2018	2017	2016	2015	2014
Total (Weighted Average Part A-E)	66,5%	65,1%	63,9%	59,9%	55,1%
Part A Rights of Shareholders	51,2%	54,4%	63,5%	56,9%	49,9%
Part B Equitable Treatment of Shareholders	43,0%	41,0%	41,3%	39,0%	37,2%
Part C Role of Stakeholders	82,2%	81,7%	79,4%	78,0%	69,6%
Part D Disclosure and Transparency	76,7%	74,7%	75,6%	72,9%	70,1%
Part E Responsibilities of the Board	64,0%	61,5%	61,1%	55,9%	50,2%

*Source: Indonesian Institute for Corporate Directorship.

**The data in this table excludes 23 questions, which are classified as "Mandatory Default" – meaning that all 23 questions are mandated in local regulations, and companies will automatically receive 100% compliance rate for these questions.

2

As evidence of further progress in corporate governance, in 2017, 4 Indonesian listed companies were included in the category of the Top 50 Publicly Listed Companies in ASEAN compared to only 2 Indonesian companies included in the 2015 list, based on the assessment criteria and methodology developed by the ASEAN Capital Market Forum.

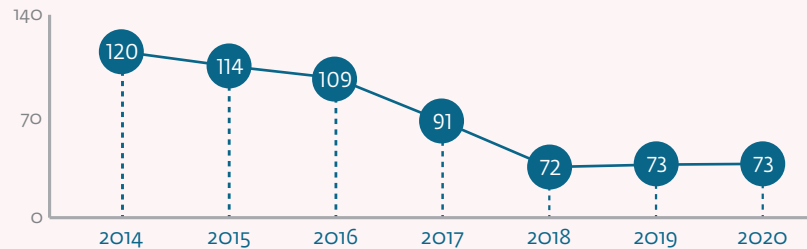
Indonesian companies included in the **Top 50 ASEAN Publicly Listed Companies** (based on ASEAN Corporate Governance Scorecard)

2015	2017
Bank CIMB Niaga	Antam
Bank Danamon Indonesia	Bank BTN
	Bank CIMB Niaga
	Bank Mandiri

3

Indonesia also climbed in the World Bank's Doing Business ranking from 120 in 2014 to 73 in 2020. One of the contributing factors is that Indonesia has strengthened minority investor protections by increasing shareholder rights and roles in major corporate decisions and requiring greater corporate transparency.

INDONESIA DOING BUSINESS RANKING



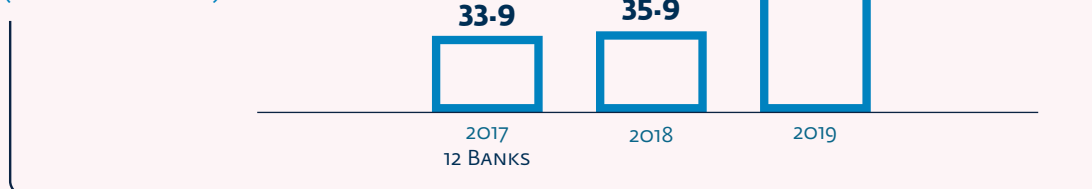
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IFC-supported OJK Regulation on Sustainable Finance has had positive impacts on Indonesia's market and led to an increase in sustainable portfolio financing among Indonesia's largest banks.

OJK Regulation on Sustainable Finance became mandatory for the largest banks in Indonesia (BUKU 4, BUKU 3, and foreign-owned banks) during the first implementation phase in 2019 and has pushed sustainable portfolio financing in these banks. The regulation requires banks to report their sustainable finance implementation through a sustainability report, including their funding of sustainable business activities. Seventeen banks reported \$81 billion in sustainable portfolio financing in their 2019 sustainability/annual report, which shows a 139% increase from 2017.

SUSTAINABLE PORTFOLIO FINANCING OF BUKU 4, BUKU 3 AND FOREIGN BANKS 2017-2019

(IN USD BILLION)



5

The sustainable finance initiative's success prompted OJK to develop other green financing schemes (including the issuance of OJK Regulation No.60/POJK.04/2017 on Green Bonds aimed to encourage the development of environmentally friendly capital market products). It has also stimulated Indonesian banks to issue innovative sustainable financial products (green/gender/sustainable bonds/loans):

- In 2018, Bank OCBC NISP became the first commercial bank to issue green bonds in Indonesia to finance climate-related projects in line with the Green Bond Principles. IFC invested \$150 million in this project.
- In 2019, Bank Rakyat Indonesia issued the first Global Sustainability Bond worth \$500 million with a five-year tenor to support employment generation, socio-economic advancement, affordable housing, green transportation, and green buildings.
- In 2019, Bank Tabungan Pensiunan Nasional received a green loan from IFC for US\$150 million with a four-year tenor. The proceeds from the loan will be used for green financing and financing to MSMEs.

- In 2020, Bank OCBC NISP issued additional green and gender bonds in which IFC committed about \$200 million. Proceeds from the bonds will be used to expand Bank OCBC NISP's green financing, particularly green projects, green mortgages, and increased lending to women entrepreneurs and women-owned small and medium enterprises.
- The Syariah Business Unit of Bank CIMB Niaga is planning to issue Indonesia's first corporate green sukuk to finance environmental-related and SDGs projects.

The issuance of OJK Regulation on Sustainable Finance was a momentous first step to shift the behavior of Indonesian financial institutions, including banks, non-banks financial institutions, and capital market players, to incorporate sustainable practices in their business operations. In its first phase of implementation, the largest banks are required to comply with the regulation by 2019, while the remaining financial institutions are expected to comply by 2024. OJK also developed technical guidelines to help the capital market and non-bank institutions implement sustainable finance principles in their respective industries. OJK, with IFC's assistance, will create a more comprehensive sustainable finance framework, such as green taxonomy, and will continuously promote awareness through capacity building programs.



Creating Markets, Creating Opportunities

The IFC ESG Advisory for Asia Pacific is a key part of our ambition to broaden IFC's influence and deepen its impact in moving the private sector in emerging markets towards sustainability. Our program in Indonesia focuses on integrated ESG support and offers tailored advice and guidance to clients (public and private sector) in the areas of increasing board effectiveness, improving the control environment, and family business governance, as well as to financial institutions to improve their environmental and social performance and sustainability. Our advisory services also help support ESG improvements and reform efforts in emerging markets, while leveraging and integrating knowledge tools, expertise, and networks at the global and regional levels. The program in Indonesia is implemented in partnership with Switzerland's State Secretariat for Economic Affairs (SECO) and UK Climate Change Unit (UK CCU).



The Financial Services Authority (OJK) has a vision to become a trustworthy monitoring institution that oversees the financial services industry, to protect the interests of consumers and the public, and to help the financial services industry become a pillar of the national economy by promoting global competitiveness as well public prosperity.

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