

A Sustainable Banking Network (SBN)
Flagship Report
Addendum to SBN Global Progress Report

October 2019

Country Progress Report

Indonesia



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1. Country progress summary – Indonesia



SBN Member: [Otoritas Jasa Keuangan, OJK](#) (Indonesia Financial Services Authority) (member since 2012)

SBN Working Group: Measurement Working Group, regional co-chair of Green Bond Working Group

Key policy documents:

- ❑ Roadmap for Sustainable Finance in Indonesia 2015-2019 (OJK, 2014)
- ❑ Regulation Number 60/POJK.04/2017 on the Issuance and the Terms of Green Bond (OJK, 2017)
- ❑ OJK Regulation on Application of Sustainable Finance To Financial Services Institution, Issuer, and Publicly Listed Companies (an Umbrella Policy on Sustainable Finance) (OJK, 2017)

Key milestones since 2018 SBN Report:

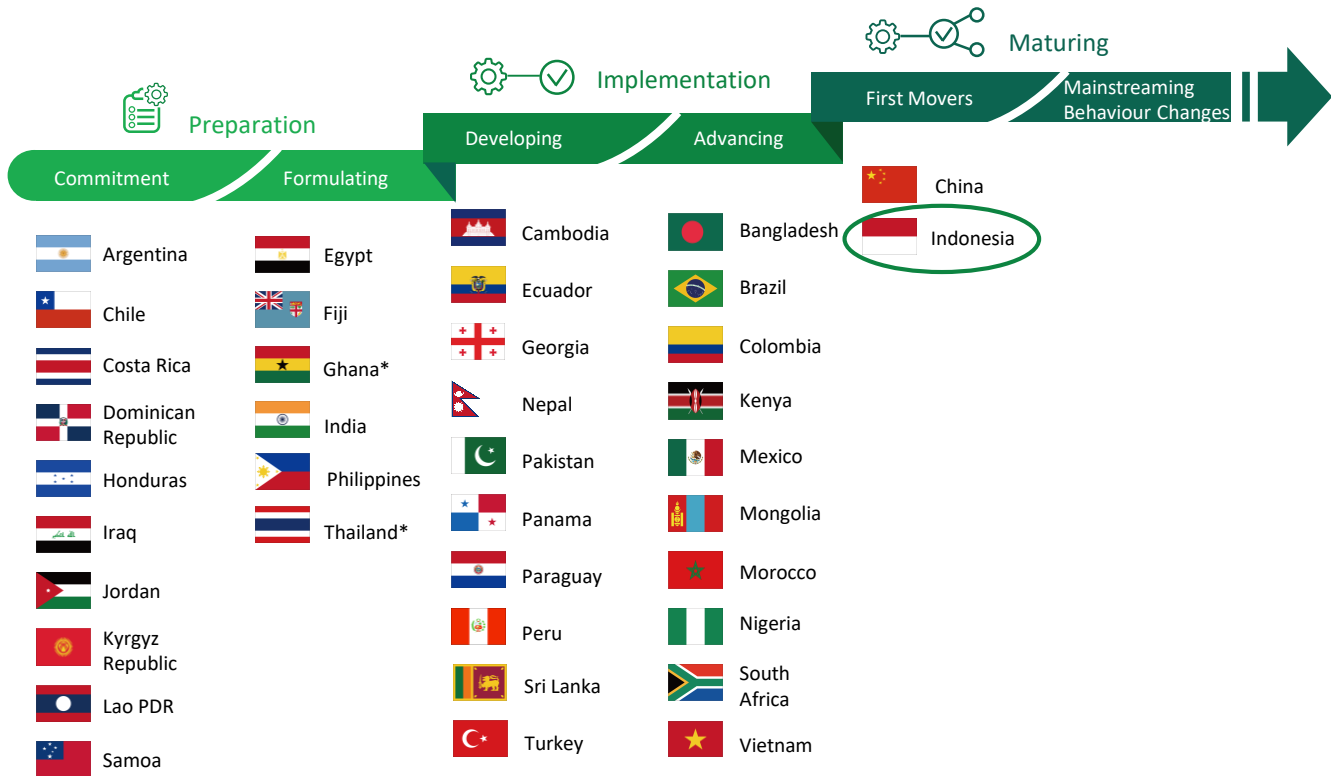
- ❑ Launch of Technical Guidelines for Banks on the Implementation of OJK Regulation on Sustainable Finance (OJK, 2018)
- ❑ Indonesia has demonstrated pioneering actions in the development of the enabling environment, in addition to a comprehensive regulatory framework that covers the entire financial sector.
- ❑ OJK has now also collected data on industry-wide implementation, thus progressing from “Advancing” to “First-movers” under the “Maturing” stage, as indicated in the “Progression Matrix”.

Ambitions for next phase: OJK is developing internal guidance for its banking supervisor to oversee progress in policy implementation.

SBN and IFC role: IFC has provided advisory services to OJK in relation to policy development, implementation, and capacity building, in partnership with the government of Switzerland and UK. Through SBN, OJK has shared its experience with other SBN members and benefited from the collective SBN knowledge base.

Figure 1: SBN Progression Matrix with Assessment Results¹

Assessment based on progress up to and as of June 2019²

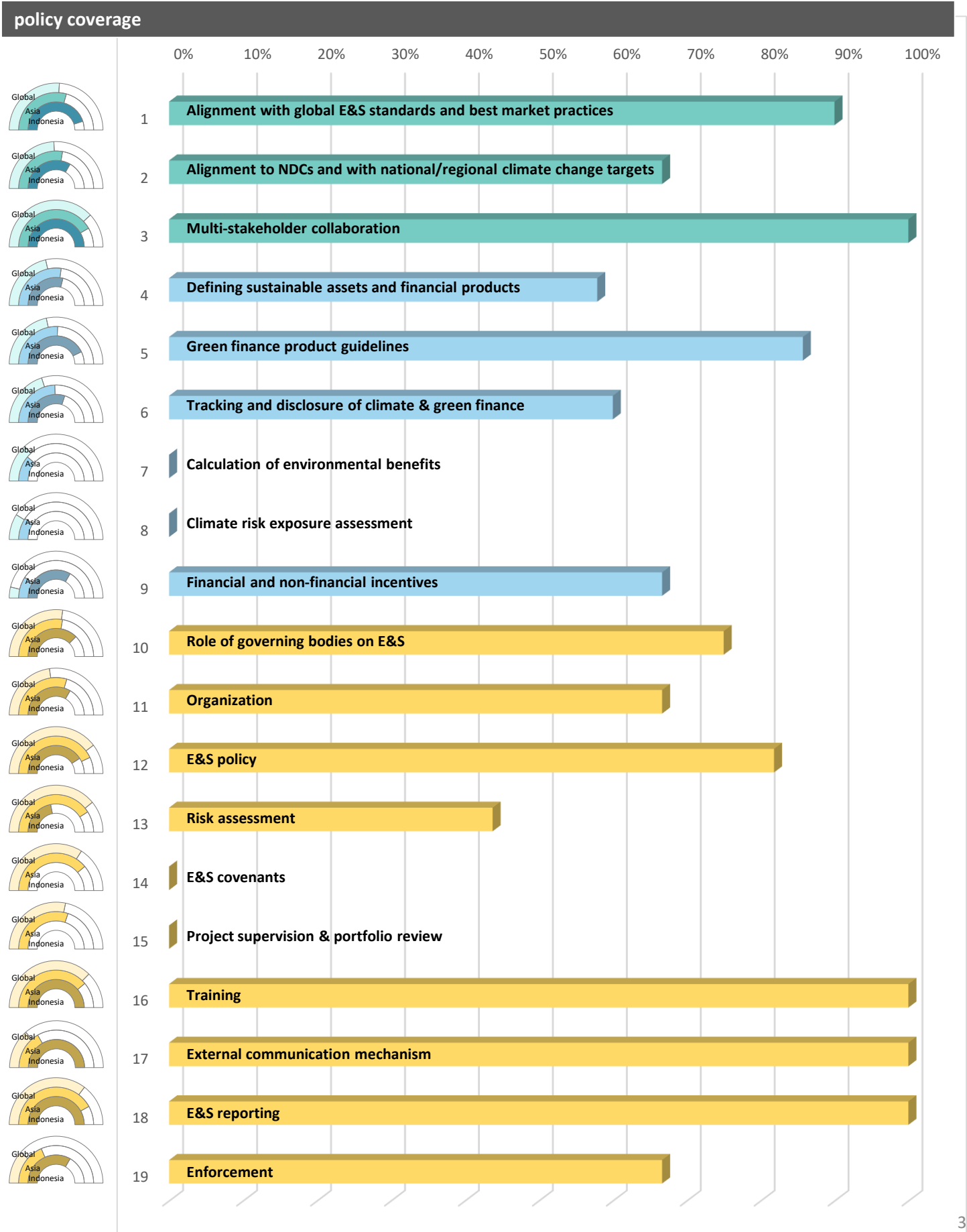


Note:

1. Please refer to the SBN Global Progress Report for an explanation of the Progression Matrix.

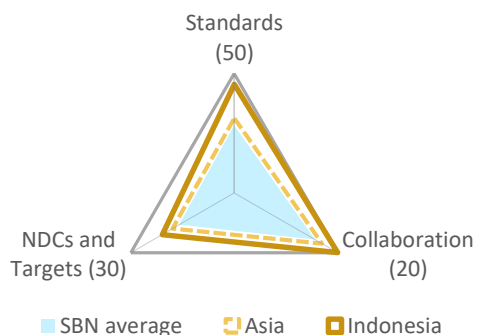
2. Ghana and Thailand launched their policies and principles in August 2019, after the cut-off date of June 2019 for this report.

2. Overview of policy coverage by indicators



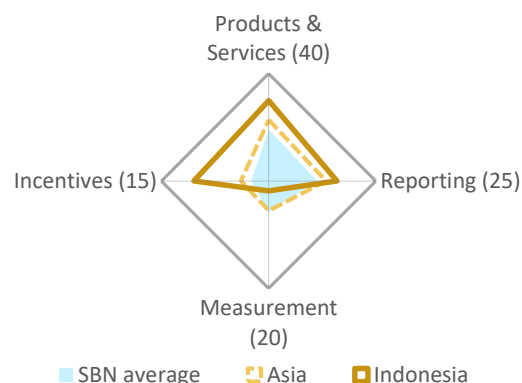
3. Policy coverage developed

Pillar I: Strategic Alignment



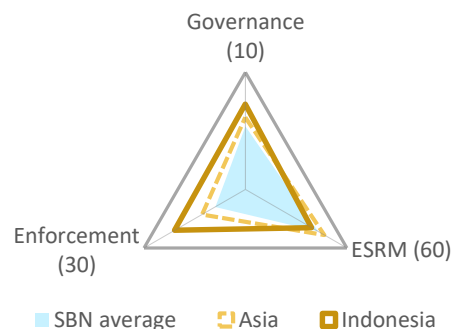
Indicator	Policy requirement	Reference
Alignment with global E&S standards and best market practices		
Indicator 1	<p>In 2014, OJK and the Ministry of Environmental Affairs and Forestry issued a Sustainable Finance Roadmap. This was followed by 2017’s Umbrella Policy for financial institutions (FIs) and technical guidelines for banks in 2018.</p> <p>The Roadmap refers to international risk management and green finance reporting standards, and advises that banks’ E&S policies, practices, and results should be externally verified.</p> <p>The Guidelines encourage banks to adhere to relevant international standards when designing their E&S policies. Both documents also refer to the UN SDGs.</p>	<p>OJK Regulation on Issuing Green Bond Guidelines (OJK, 2017) - page 3 - §2</p> <p>OJK Regulation on Implementing Sustainable Finance Principles for Financial Services Institution, Issuer and Public Corporation (OJK, 2017) page 5, 7, 30, 35</p> <p>Technical Guidelines for Banks on the Implementation of OJK Regulation on Sustainable Finance (OJK, 2018) - page 9 - III.3 - §1</p>
Alignment to NDCs and with national/regional climate change targets		
Indicator 2	-	<p>Contribution to climate change targets is mentioned in the explanation part of OJK Regulation about Implementing Sustainable Finance Principles for Financial Services Institution, Issuer and Public Corporation (OJK, 2017) page 28,29, 31</p>
Multi-stakeholder collaboration		
Indicator 3	<p>The OJK promotes inter-agency collaboration between FIs, industry and public bodies in order to foster knowledge transfer on sustainable finance.</p>	<p>OJK Regulation about Issuing Green Bond Guidelines (OJK, 2017) - page 18</p> <p>OJK Regulation about Implementation of Sustainable Finance Principles for Financial Services Institution, Issuer and Public Corporation (OJK, 2017) page 5, 7, 19, 22, 30, 31</p>

Pillar II: Climate and Green Finance



Indicator	Policy requirement	Reference
Products and services		
Indicator 4, 5	<p>The Roadmap provides examples of green assets and encourages the development of green bonds. The Guidelines also give definitions of sustainable businesses and criteria for sustainable projects.</p> <p>The OJK launched a Green Bonds Policy in 2017.</p> <p>In February 2018 Indonesia issued a \$1.25bn green sovereign sukuk, its first. This will fund environmentally-friendly and sharia compliant projects. In August 2018, an Indonesian bank launched its first green bonds to fund climate-smart projects.</p> <p>In partnership with the Indonesian Biodiversity Foundation, the Indonesian stock exchange launched a Sustainability-related index in 2009. This is currently comprised of 25 listed companies.</p> <p>OJK organizes workshops and training in partnership with various ministries and international organizations to foster awareness, research, and capacity building around green finance.</p>	<p>OJK Regulation about Issuing Green Bond Guidelines (OJK, 2017) - page 21 Technical Guidelines for Banks on the Implementation of OJK Regulation about Sustainable Finance (OJK, 2018) - page 25 - table 5.2</p> <p>OJK Regulation about Issuing Green Bond Guidelines (OJK, 2017) - page 21 Roadmap for Sustainable Finance in Indonesia 2015-2019 (OJK, 2014)</p>
Climate and green investment reporting		
Indicator 6	The Guidelines encourage reporting on green project financing.	Technical Guidelines for Banks on the Implementation of OJK Regulation about Sustainable Finance (OJK, 2018) - page 55 - C - 2. and page 61 - 6 a 2) table 7.3
Measurement		
Indicator 7,8	-	-
Incentives		
Indicator 9	Indonesia's Sustainable Finance Awards aim to reward FIs that demonstrate the highest Sustainable Finance standards. Under the Roadmap, the OJK plans to offer both fiscal and non-fiscal incentives to increase the supply of sustainable finance.	OJK Regulation about Implementation Sustainable Finance Principles for Financial Services Institution, Issuer and Public Coporation (an Umbrella Policy on Sustainable Finance) (OJK, 2017) - page 9 - Article 9 (1) b. c.

Pillar III: ESG Integration



Indicator	Policy requirement	Reference
Governance of E&S		
Indicator 10, 11	<p>The Umbrella Policy requires banks' boards to approve an E&S strategy.</p> <p>It also sets guidelines for effective E&S governance and defines specific roles and responsibilities with their competencies.</p> <p>The Policy also requires the banks to set targets and submit their Sustainable Finance action plan to OJK annually. For more details on the Sustainability Reports and Actions Plans, see 'Enforcement'.</p> <p>Regular training and workshops to enhance sustainable finance competencies are encouraged.</p> <p>The OJK plans to provide Environmental analysis training in collaboration with training providers, universities, and donor institutions, with a target of training up to 2000 banking staff, OJK staff, and supervisors.</p>	<p>OJK Regulation about Implementation Sustainable Finance Principles for Financial Services Institution, Issuer and Public Coproration (an Umbrella Policy on Sustainable Finance) (OJK, 2017) - page 7 - Article 4 Roadmap for Sustainable Finance in Indonesia 2015-2019 (OJK, 2014)</p> <p>OJK Regulation about Implementation Sustainable Finance Principles for Financial Services Institution, Issuer and Public Coproration (an Umbrella Policy on Sustainable Finance) (OJK, 2017) - page 22 - II. A. 5. a.</p> <p>OJK Regulation about Implementation Sustainable Finance Principles for Financial Services Institution, Issuer and Public Coproration (an Umbrella Policy on Sustainable Finance) (OJK, 2017) - page 21 - II. A. 4. c.</p> <p>OJK Regulation about Implementation Sustainable Finance Principles for Financial Services Institution, Issuer and Public Coproration (an Umbrella Policy on Sustainable Finance) (OJK, 2017) - page 22 - II. A. 5. b.</p>
E&S risk management		
Indicator 12 - 18	<p>The Roadmap requires each FI to integrate E&S factors into risk management and corporate governance, and to provide regular public reports on sustainable finance implementation between 2020 and 2024.</p> <p>The Umbrella Policy strengthens this commitment by requiring FIs to establish complaint mechanisms in relation to their E&S practices, and to develop internal E&S capacity through training.</p>	<p>OJK Regulation about Implementation Sustainable Finance Principles for Financial Services Institution, Issuer and Public Coproration (an Umbrella Policy on Sustainable Finance) (OJK, 2017) - page 7 - Section II Article 4</p> <p>Technical Guidelines for Banks on the Implementation of OJK Regulation about Sustainable Finance (OJK, 2018)</p> <p>OJK Regulation about Implementation Sustainable Finance Principles for Financial Services Institution, Issuer and Public Coproration (an Umbrella Policy on Sustainable Finance) (OJK, 2017) - page 14 and page 22 - II. Executive Summary and II. A. 5. Sustainability governance</p> <p>OJK Regulation about Implementation Sustainable Finance Principles for Financial Services Institution, Issuer and Public Coproration (an Umbrella Policy on Sustainable Finance) (OJK, 2017) - page 24 and page 25 - 3) b. and 3) e. 6)</p>
Enforcement		
Indicator 19	<p>FIs are required to make public and submit to OJK an annual Sustainability Report, and to submit an annual Action Plan disclosing achievements and challenges in implementing Sustainable Finance.</p>	<p>OJK Regulation about Implementation Sustainable Finance Principles for Financial Services Institution, Issuer and Public Coproration (an Umbrella Policy on Sustainable Finance) (OJK, 2017) - page 9 - Article 9; page 14 and page 22 - II. Executive Summary and II. A. 5. Sustainability governance</p>

4. Policy coverage to be developed

Pillar	Sub Pillar	Gaps	Areas for improvement
Pillar I: Strategic Alignment	Alignment with global E&S standards and best market practices	10%	➤ Reference to international climate finance reporting standards
	Alignment to NDCs and with national/regional climate change targets	33%	➤ Defined main climate risks for local financial sector
	Multi-stakeholder collaboration	0%	-
Pillar II: Climate and Green Finance	Products & services	28%	<ul style="list-style-type: none"> ➤ Comprehensive taxonomy for green assets ➤ Reference to existing standards
	Climate & green investment reporting	40%	➤ Requirement of report on portfolio climate risk exposure
	Measurement	100%	<ul style="list-style-type: none"> ➤ Requirement to calculate investments' environmental benefits ➤ Taxonomy of potential environmental impacts ➤ Methodologies, tools, templates to measure/report impacts ➤ Requirement to monitor climate risk exposure at portfolio level ➤ Reference to specific climate exposure methodologies ➤ Encouragement of mitigation steps
	Incentives	33%	➤ Financial incentives on green product/services
Pillar III: ESG Integration	Governance of E&S	30%	<ul style="list-style-type: none"> ➤ FI operational bodies to report to the governing bodies on E&S strategy implementation ➤ Highlight the roles of front offices and second lines of defense
	E&S risk management	38%	<ul style="list-style-type: none"> ➤ Encouragement to go beyond local laws and regulations ➤ Requirement of E&S due diligences at transaction level ➤ Encouragement to site visit for high-risk transactions ➤ Invite client engagement to implement mitigation measures ➤ Requirement to incorporate E&S covenants into legal agreement ➤ Requirement to develop process to manage E&S risk during supervision ➤ Encouragement of periodic review of E&S risk at aggregate portfolio level
	Enforcement	33%	➤ Financial and/or non-financial incentives for setting up ESRM

Access the SBN Global Progress Report and Country Reports at:
www.ifc.org/SBN2019Report

