BUKALAPAK • LEMONILO

UNI-CHARM INDONESIA

100 TO WATCH, ASIA-PACIFIC'S SMALL COMPANIES AND STARTUPS ON THE RISE.

GREEN FINANCING • DANA

SINGAPORE'S 50 RICHEST

Forbes Indonesia

SEPTEMBER 2021

BURNING BRIGHT

ARSJAD RASJID

NAVIGATES INDIKA ENERGY THROUGH CHALLENGING TIMES. NOW HE POSES FOR A NEW ROLE AT KADIN.

WWW.FORBESINDONESIA.COM

RP 70,000
ISSN 2087-1996

By **Chris Wren**

Financing the Investment into Indonesia's Climate Action Opportunities

The Intergovernmental Panel on Climate Change (IPCC) report issued in August 2021 is a timely reminder of the urgency to act facing stakeholders as they prepare to meet in Glasgow at the end of October for the 26th United Nations Climate Change Conference (COP26). Binding treaty commitments for the reduction of greenhouse gas (GHG) emissions were made following COP21 in Paris. Indonesia's targets, reaffirmed this July, are to reduce GHG emissions by 2030 by 29%, or a 43% reduction with international collaboration, compared to a business as usual scenario.

In 2015 all United Nations (UN) members also signed onto The 2030 Agenda for Sustainable Development, effectively a shared blueprint for humanity and the planet going forward. At the heart of the agenda are 17 Sustainable and Development Goals (SDGs) (figure 1) which, to quote the UN, are "a call to action for all countries in a global partnership" and "recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests."

SDG's were a game-changer, establishing a framework for global corporate leaders to redefine their engagement towards sustainable development. Several collaborated to for The Business and Sustainable Development Commission, their 2017 report concluded that engagement in SDGs is good for business too, noting "achieving the Global Goals in just four economic systems could open 60 market hot spots worth an estimated $12 trillion by 2030. The total economic prize from implementing the Global Goals could be 2-3 times bigger..." Indonesia's economic and social opportunity through achieving its higher goals were included in a 2019 report by BAPPENAS and showed similarly positive outcomes. (figure 2).

COP26 built corporate engagement into its agenda, recognizing the private-public partnership required to deliver on GHG and SDGs targets but due to COVID-19, some of that agenda has been scaled back. BritCham Indonesia therefore, has committed to host a mission of local companies and business leaders to engage around COP26 on opportunities to invest locally in sustainable activities, particularly in the green energy sector where Britain has developed several world class solutions, and to capitalize on the British government's Rp80 trillion support budget through UK Export Finance.

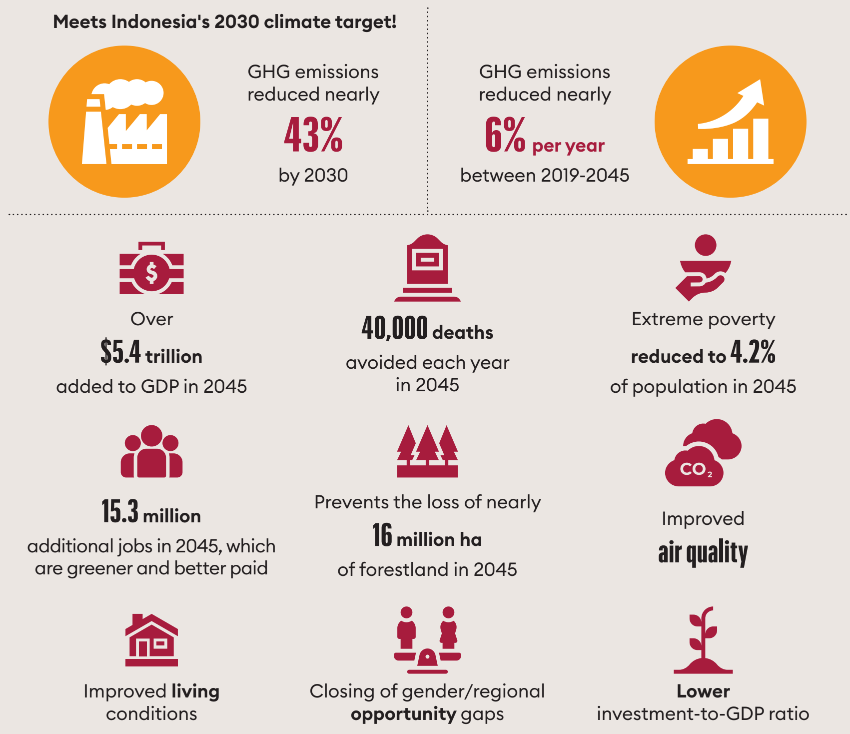
With Indonesia's Finance Minister highlighting that

FIGURE 1

17 SUSTAINABLE DEVELOPMENT GOALS

FIGURE 2

PARADIGM CHANGE: THE BENEFITS OF INDONESIA'S NEW LOW CARBON GROWTH PATH (LCDI HIGH SCENARIO COMPARED WITH BASE CASE)



SOURCE: BAPPENAS

> "Achieving the Global Goals in just four economic systems could open 60 market hot spots worth an estimated $12 trillion by 2030. The total economic prize from implementing the Global Goals could be 2-3 times bigger..."

private sector investment is paramount to achieving Indonesia's climate action targets, BritCham Indonesia recently held a round table to discuss green financing. Below is a summary of the key observations and my thanks for their participation to Francois de Maricourt, President Director of HSBC Indonesia, Rino Donosepoetro (Donny), ASEAN Vice Chairman and President Commissioner of Standard Chartered Bank Indonesia, Ainsley Mann, ASEAN Head of Business Development at Swire Pacific, and Jeffrey Chatellier, CEO of Forest Carbon, an Indonesian based company that restores tropical forest, peatland and mangrove areas using a carbon credit business model.

What is Indonesia's starting point?

In 2018, Indonesia was estimated to contribute around 1.7% of global GHG emissions, a level below the G20 average per capita, but 313% above its 1990 levels and a trend comparable to several other developing countries. "Three key areas essentially account for 70% of Indonesia's emissions: power generation, transportation and land exploitation (mining and forestry). The transition to green energy in these areas is paramount and is where capitalization is mostly needed," noted Donny, potentially making actions easier to focus on. Protecting existing natural habitats is a powerful tool in fighting climate change and Indonesia's rich abundance of forest and peatland is an asset. "One hectare of mature tropical forests stores over 629 tonnes of CO2, whereas replanted forests will only sequester 80 tonnes over a 10-year time period. There's a real opportunity in protecting existing rainforests," added Jeff. Indonesian companies are also starting to take action. "We have seen a huge change in business approach over last 2 years, now when we talk to our clients, SDGs are a real priority in their strategic plans," said Francois.

Economic development is important too, how should we view the trade-off?

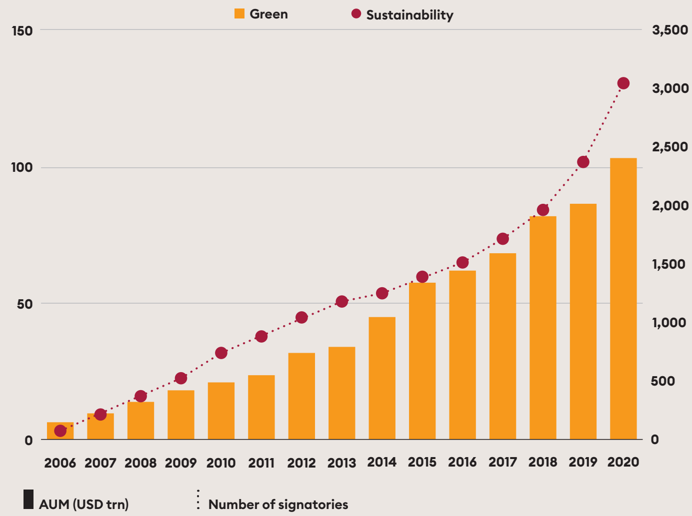
We shouldn't lose sight of the importance of economic development as this helps deliver on other key SDGs like clean water, access to power, alleviating poverty etc... everyone noted. Investment into areas such as EV's and electric battery production is important for the overall economy. But the interconnected decisions must stack up, EVs charged by renewable power sources and not by increasing fossil fuel burning, for example. There is significant inbound foreign investment for some climate action initiatives, in part to support their own country's goals but it's important that Indonesia gets credit for its contribution to the progress made. Tech-based solutions should also be prioritized, noted the panel.

How are banks now approaching their business?

Both HSBC and Standard Chartered are committed to reaching net-zero from their own operations by 2030 and from financing operations by 2050. With clients, they are already making decisions based on SDGs and the transition to net-zero, working on financing solutions and putting their own balance sheet on the table to support projects. Both Donny and Francois mentioned that the importance of the topic is bringing more cooperation within the banking sector. "One of the important actions with our clients is supporting the transition to a sustainable future. We have experts in our team to support them build the plans, the measurement tools and share best practices to unlock the next generation climate solutions," shared Francois. Indonesia's resource industry and reliance on fossil fuels in legacy power investments still needs support, but Donny noted that "they are also supporting clients in the highest carbon intensive sectors in their decarbonisation pathways, and expect that clients have charted their commitments to reduce their revenues from coal, or other black commodities, in the next 10 years. This means decarbonizing operations not just offsetting with carbon credits."

FIGURE 3

INVESTORS COMMITTING TO RESPONSIBLE INVESTMENTS

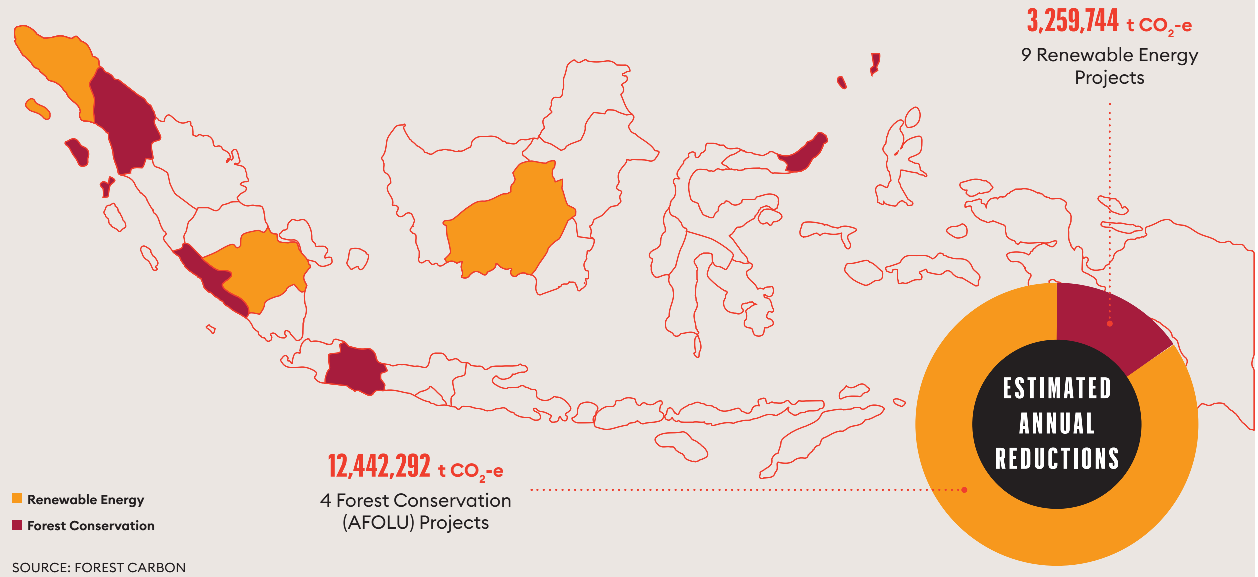


SOURCE: DEALOGIC, BLOOMBERG, CBI AND OTHERS

> Geothermal and other areas of sustainable power add to the opportunity but today the big contribution is from forest conservation.

FIGURE 4

PROJECT LOCATIONS



SOURCE: FOREST CARBON

How can the apparent financing gap be filled?

Investors are increasingly committing their financing choices to transitional and green investments (figure 3). "I do not think it will be a problem, finance will follow the opportunity and already we are seeing $10 billion in financing for projects being announced" noted Francois. Donny shared that their Opportunity 2030 research identified over $10 trillion of SDG related opportunities in emerging markets on 3 SDGs alone (water, clean tech and infrastructure), and where, for Indonesia, $300 billion of private sector opportunities exist.

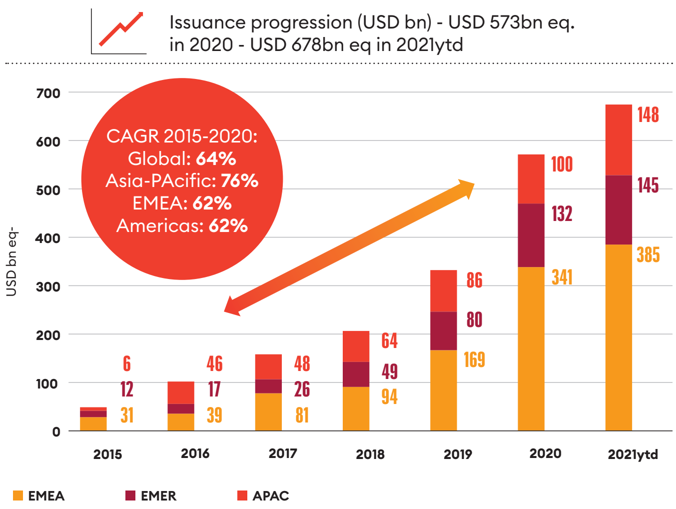
How is the market for green financial products developing?

COP13 in Bali spot-lighted forest protection and restoration, leading to local carbon credit initiatives. "We are seeing much more interest from big conglomerates and on increasingly long contracts. Especially from sectors where the technology to decarbonize is longer to come on-stream like mining, airlines, oil and gas production, and so offsetting carbon is the alternative," noted Jeff. "It's a market with huge potential. Presently, 260,000 hectares of local protected areas are producing 10 million CO2 credits annually. Scale that up for 96 million hectares and you have the size of the opportunity," Jeff added. Geothermal and other areas of sustainable power add to the opportunity but today the big contribution is from forest conservation (figure 4). The voluntary carbon credits market has nearly doubled in 2 years, from $300M in 2019 to over $500M in 2021, with demand now set to outpace supply before 2022 Estimates are that voluntary carbon credit supplies needs to grow 15x by 2030, and up to 100x by 2050. "Indonesia sits nicely among maybe just the top three, top two, in terms of nature-based capital," noted Donny adding that Standard Chartered is a partner in the establishment of Climate Impact X, the first high quality global carbon credit exchange in Asia. Developing further the global pricing mechanism and registration system for projects in Indonesia will benefit these efforts.

The market for sustainable and green bonds is also growing fast, as is interest in green sukuks. Through 2020, $1.4 trillion in these instruments have been issued, around $573 million of which came in 2020, and year to date issuances have already exceeded 2020's full year amount. (figure 5) Their share of the overall bond market is now over 10% showing the demand is there. The Indonesian government has been issuing green bonds and sukuks since 2017 and Francois noted that the demand for its recent $700 million, 30-year issuance was very strong so the pricing was competitive. Including sustainable-linked lending, sustainable finance issuances since 2014 are estimated to have reached $2.8 trillion YTD June 2021 and the market is showing increasing sophistication.

FIGURE 5

GLOBAL SUSTAINABLE BOND MARKET IN 2020-2021YTD



SOURCE: DEALOGIC, BLOOMBERG, CBI AND OTHERS

What are some other opportunities?

OJK has been actively establishing its reporting framework for reporting SDG activities. It's creating good awareness but more work is needed. "Perhaps in the coming years we will see this framework reach a high level of maturity and provide more incentives to banks to support the transition," said Francois. Donny added "investment capital will pick the countries where there is a robust policy framework, clarity, transparency and science-based measurement." In addition to supporting sustainable power investments, the government could also focus on reducing power usage. "Is the government missing a trick here? There is no regulation for instance on encouraging green buildings but the built environment is typically one of the biggest users of power. Encouraging developers to aspire to the highest international global certification standards may increase development costs by 5% but reduce energy use by 20-25%," Ainsley commented. Similarly, whilst there is talk of a carbon tax it is not clear if the funds from that will be ring fenced to support projects that could accelerate the transition to cleaner energy / reduce energy consumption.