

## 1<sup>st</sup> FGD series - Transition Finance in Indonesia

Theme: Introduction to the OECD Guidance on Transition Finance and its relevance to high-emitting industries in emerging markets and developing economies

Virtual Zoom Meeting | 21 March 2023, 15.00 – 17.00 WIB/ 09.00 – 11.00 CET

### Background

- The scaling up of transition finance is crucial in the efforts to combat climate change and support the Sustainable Development Goals (SDGs). Transition finance focuses on finance and investment for the decarbonisation of high-emitting companies, such as fossil fuel-based industries and hard-to-abate sectors like steel, cement, chemical, paper, aviation and construction.
- There are several challenges to scaling up transition finance, including: lack of granular and comparable corporate disclosure and forward-looking data on climate and climate transition planning; variation in countries' net-zero commitments and Nationally-Determined Contributions; lack of national sectoral pathways; important gaps in relevant enabling conditions;<sup>1</sup> asset stranding;<sup>2</sup> risk of emission-intensive lock-in<sup>3</sup> (OECD,2022); lack of financial incentives to reduce emissions; and a lack of demonstration projects that show successful decarbonization is achievable in most of the high-emitting sectors (ADB, 2022).
- Moreover, since there is no commonly-agreed definitions of what can qualify as a transition activity or a transition investment, there is a high risk of greenwashing in transition finance, which deters investors from participating in transition finance transactions (ADB, 2022) (OECD, 2022). The OECD Guidance on Transition Finance argues that to give credibility to transition finance investment and minimise the risk of greenwashing, relevant transactions should be based on entity-wide corporate climate transition plans, in line with the temperature goal of the Paris Agreement. The Guidance sets out 10 key elements of such plans.
- The Guidance also shows that there are several tools and frameworks, both in transition and sustainable finance, such as taxonomies, sectoral pathways, technology roadmaps, and reporting standards, which are all relevant to and can increase the credibility and comparability of corporate transition plans. Figure 1. shows tools on the real economy side that can help increase the credibility of corporate transition plans, as well as tools on the financial markets side that can build on such plans. Important tools include (i) sectoral pathways; (ii) taxonomies; (iii) technology roadmaps; and (iv) corporate sustainability reporting standards. They can inform corporate transition plans, which can in turn provide the basis for credible financial markets instruments, risk and impact assessments, alignment tools, and transition plans.

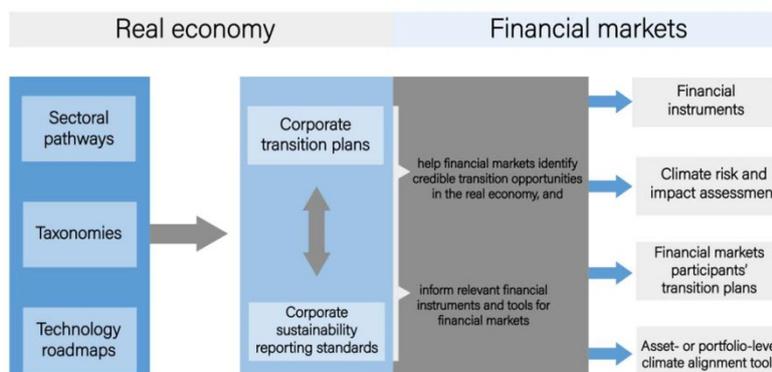


Figure 1. Overview of relevant sustainable and transition finance tools and frameworks (OECD, 2022)

## Transition Finance and its relevance to the coal mining sector

- Transition finance can be facilitated by several tools and enabling frameworks, including: definitions of which economic activities can qualify as green (Green Taxonomy); risk management frameworks for industry or Financial institutions (FIs); the development of transition finance products and scaling up of transition finance markets; increased disclosure on sustainability-related risks, impacts and dependencies; as well as incentive and disincentive frameworks. This is in line with the implementation of the OJK Sustainable Finance Roadmap Phase 2, which concerns the sustainable finance ecosystem.
- Coal is considered a very important natural resource in Indonesia due to its important contribution to the country's GDP and state revenues: Coal mining and related industries make up 39.59% of total state revenue and roughly 5-8% of GDP (Katadata, 2021). In addition to being one of the main contributors to state revenue through export activities, it is also the main source of national electricity.
- In terms of the energy transition towards net-zero emissions, Indonesia has made efforts to conduct a phasing down of coal through the Energy Transition Mechanism (ETM), which is a programme carried out by the Asian Development Bank (ADB) as partners to finance coal retirement (Ministry of Finance, 2022). A full feasibility study is underway to determine the financial structure of the ETM, identify coal plants for inclusion in the pilots, and design just transition activities. Meanwhile, the Ministry of Energy and Mineral Resources (MEMR) has submitted a coal phasing down plan for power plants operated with coal and towards net-zero emissions in 2060.
- To scale up sustainable finance, OJK has submitted the Indonesia Green Taxonomy Edition 1.0 (THI 1.0). THI 1.0 will be used as: (1) the basis for the development of incentive and disincentive policies of various ministries and institutions, including OJK; and (2) guidelines for information-sharing, risk management, and development of innovative sustainable finance products and/or services for FIs. Furthermore, the development of the Green Taxonomy is expected to provide an overview of the classification of sectors/sub-sectors that have been scientifically categorized as green, to avoid greenwashing practices.

## The Objective

- Financial institutions are key actors when it comes to scaling up transition financing. As a developing country, Indonesia has a considerable dependency on primary commodities. This includes “non-green” commodities, such as coal/fossil-based energy. Hence, a transition finance framework must be put in place with a proper balance on risk and return to avoid financial system shocks (i.e. as a result of transitional risk). The FGD series aims to provide a platform to share experience that can help OJK develop guidelines and tools for transition finance in the context of the coal mining sector.

## Agenda

TIME (WIB)	AGENDA ITEM	SPEAKER
15.00 – 15.15 (15 mins)	Opening remarks	<ul style="list-style-type: none"> <li>• <b>Jarot Suroyo</b> – Deputy Director of Department Surveillance and Integrated Policy for Financial Services Sector, OJK</li> <li>• <b>Robert Youngman</b> – Team Lead, Green Finance and Investment, OECD</li> </ul>
15.15 – 15.30 15 mins	<p><b>I. Introduction to the OECD Guidance on Transition Finance</b></p> <p><i>In 2022, the OECD published its OECD Guidance on Transition Finance: Ensuring Credibility of Corporate Climate Transition Plans. According to the Guidance, to minimise the risks of greenwashing in transition finance, transition finance transactions should be grounded in credible corporate climate transition plans, in line with the temperature goal of the Paris Agreement. Developing and implementing credible transition plans requires efforts across stakeholder groups in government, as well as the private sector.</i></p> <p><i>In this session, OECD experts will present the OECD Guidance on Transition Finance and cover definitional issues, key challenges in transition finance, as well as elements of credible corporate climate transition plans, including when it comes to the just transition.</i></p>	<ul style="list-style-type: none"> <li>• <b>Elia Trippel</b> – Policy Analyst, Green Finance and Investment, Environment Directorate, OECD</li> <li>• <b>Valentina Bellesi</b> – Policy Analyst, Green Finance and Investment, Environment Directorate, OECD</li> </ul>
15.30 – 16.00 30 mins	<p><b>II. Transition Finance in Indonesia</b></p> <p><i>Indonesia recently submitted the Enhanced NDC to the UNFCCC Secretariat (23 September 2022) with an increased emission reduction target from 29% in the First NDC to 31.89% in the Updated NDC (and from 41% to 43.20%, respectively, conditional on international support). This Enhanced NDC is the bridge towards Indonesia’s Second NDC, which will be aligned with the Long-Term Low Carbon and Climate Resilience Strategy (LTS-LCCR) 2050 with a vision to achieve net-zero emissions by 2060 or sooner.</i></p> <p><i>This session will allow the government to present the importance of implementing the just transition, the Indonesian transition finance strategy, who are the key players in establishing transition finance and how transition finance is implemented in ASEAN countries.</i></p>	<ul style="list-style-type: none"> <li>• <b>Joko Tri Haryanto</b> – Climate Finance and Multilateral Policy, Ministry of Finance</li> <li>• <b>Ervan Mohi</b> – Planning Bureau, Ministry of Energy and Mineral Resources (MEMR)</li> </ul>

<p><b>16.00 – 16.30</b> (30 mins)</p>	<p><b>III. Transition Finance from the Perspective Financial Institutions (FIs)</b></p> <p><i>This session will look at recent efforts from FIs for financing the net-zero transition process of the coal and coal mining sector, in addition to existing sustainable finance initiatives, to support government and financial regulator to fulfil the Paris Agreement temperature target and support sustainable development.</i></p>	<ul style="list-style-type: none"> <li>• <b>Abdul Rahman</b> – Head of ESG Strategy &amp; Portfolio Management, Bank Mandiri</li> <li>• <b>Aris Widi Setiawan</b> – VP Corporate Secretary &amp; Communication, Bank Syariah Indonesia (BSI)</li> <li>• <b>Lina</b> – Head of GCG and Sustainability, CIMB Niaga</li> </ul>
<p><b>16.30 – 17.00</b> (30 mins)</p>	<p>Q&amp;A</p>	<p>All speakers</p>

## Participants

### Financial Institutions

- All members – Sustainable Finance Task Force
- All members – Indonesia Sustainable Finance Initiative (ISFI)

### Ministry of National Development Planning/ National Development Planning Agency (BAPPENAS)

- Directorate of Industry, Tourism and Creative Industry
- Directorate of Electricity, Telecommunications and Informatics
- Directorate of Energy Resources, Mineral and Mining

### Coordinating Ministry for Economic Affairs (CMEA)

- Deputy Assistant for Agro, Pharmacy, and Tourism
- Deputy Assistant for Multilateral Economic Cooperation

### Coordinating Ministry for Maritime and Investment Affairs (CMMIA)

- Deputy Assistant for Energy
- Deputy Assistant for Infrastructure Support Industry
- Deputy Assistance for Climate Change and Disaster

### Ministry of Energy and Mineral Resources (MEMR)

- Planning Bureau
- Directorate of Electricity Engineering and Environment
- Directorate of Energy Conservation
- Directorate Engineering and Environment of Coal and Mineral Resources

### Ministry of Finance

- Directorate Strategy and Financing Portfolio
- Centre for Climate Change and Multilateral Financing Policy, Agency Fiscal policy

### Ministry of Environment and Forestry (MoEF)

- Directorate of Climate Change Mitigation
- Directorate of Climate Change Adaptation

### Ministry of Industry

- Green Industry Centre

### Universities and Think Tanks

- Indonesia Chamber of Commerce and Industry (KADIN)
- Institute for Economic and Social Research (LPEM), UI
- Bali Center For Sustainable Finance (BCSF) Udayana University
- Indonesian Institute for Energy Economics (IIEE)
- Institute for Essentials Services Reform (IESR)

- Center for Sustainable Finance Knowledge (LPPi)
- Institute for Energy Economics and Financial Analysis (IEEFA)
- Institute for Energy Economics and Financial Analysis (IEEFA)
- National Islamic Finance Committee (KNEKS)