

Framework for industry's net-zero transition

“Developing financing solutions in emerging and developing economies”

First Indonesia Stakeholder Meeting

6 December 2022, 09:30-15:00 WIB

Summary Notes

Welcome and opening remarks

BAPPENAS opened the Stakeholder Meeting by highlighting the relevance of the [Sustainable Infrastructure Programme in Asia](#) (SIPA) in Indonesia to support the country's infrastructure planning and operationalise the net-zero 2060 plan (NZE 2060). As part of SIPA, Indonesia will be the first country where OECD [Framework for industry's net-zero transition](#) will be implemented. Decarbonising the industry is part of the future vision for Indonesia and aligned with its environmental objectives.

The industry needs to shift from a linear to a circular model, by increasing re-use of materials and resources, waste recycling and heat recovery. In addition, energy efficiency, fuel switch to reduce dependency to fossil fuels and low-carbon technologies will help to mitigate carbon dioxide (CO₂) emissions. Implementing these solutions will require knowledge transfer, adequate finance flows and industry readiness.

Thus, the Framework requires joint work with all stakeholders. In particular, the engagement of the government, finance institutions and industry actors will be a key success factor to deliver instrumental solutions. The support and co-ordination from the OECD, whose member countries have a deep expertise in environmentally friendly industry, will also be crucial.

The Framework will be implemented over the next 18 months, starting with the selection of a Focus Area, that could be an industry subsector or a cross-cutting technology. After analysing the barriers to investment in technologies that are consistent to net zero emissions, the Framework will propose a series of recommendations to overcome these hurdles, covering regulations as well as market-based and financing solutions.

Sessions and group discussions: Government, industry, and finance institutions perspectives on industry decarbonisation in Indonesia

Indonesia's NZE 2060 foresees a massive transformation of its power system, including a rapid increase in renewable energy deployment and a gradual phase out of fossil fuels. Industry sector decarbonisation is also embedded, with a focus on energy efficiency, electrification of processes, use of green hydrogen, ammonia and sustainable biomass, and carbon capture, utilisation, and storage (CCUS). Industry decarbonisation can be an opportunity to create a market for green products and foster a sustainable economy. In addition, it can lead to jobs creation and contribute to a just transition.

Industry actors recognise the value of a sectoral decarbonisation roadmap considering the country's national context. For instance, the Indonesian Fertiliser Association (APPI) has organised focus group discussions to exchange on a roadmap to reach net zero emissions by 2060, providing milestones

every 10 years, such as blue and green ammonia implementation in several plants, and the substitution of conventional technologies.

The NZE 2060 requires ambitious developments in the decarbonisation of industries and implementation of viable projects. New investments should be based on best available technologies, and new investments should be approved if they provide a clear opportunity to achieve substantial reduction in emissions by 2050. The technological gap and the uncertainty on the business cases and financing of low-carbon projects have been highlighted as the main challenges faced by the industry.

Breakthrough low-carbon technologies often require high investments, and lead to higher operating expenses. Lowering the cost of technologies, for instance through international partnerships, and creating a market level-playing field, especially for operating costs, would facilitate the market uptake. In addition, incentives to support demand for green products would alleviate the commercial risk and help mainstream greener practices.

For other technologies such as energy efficiency, there could be a market failure for some projects that do not generate sufficient savings despite their environmental benefits. Yet, a regulatory or consumer behaviour change may shift the risk to polluting technologies and provide a higher incentive for low-carbon technologies.

The government can build an enabling environment for investment in decarbonisation through fiscal and non-fiscal incentives. For instance, the development of carbon markets can narrow the competitiveness gap between the companies using conventional polluting technologies and the ones that are pioneers in decarbonisation.

The uncertainties on the business models and the market failures lead to a high cost of capital. That makes it challenging to access commercial finance, and the financing cannot be solved solely by Indonesian banks. A blended finance approach could alleviate the risk. There is a need for international support, e.g. from development finance institutions, and multilateral development banks will have a key role to play. Concessional instruments of blended finance could be tailored depending on the specific subsector and technology, for instance to provide loans below market rate or extending loan tenures. Green and sustainable finance can provide a broad range of instruments, but it is sometimes challenging for local actors to demonstrate the positive impact on the environment to meet the criteria and confirm their eligibility for these instruments. Capacity building may also be needed to raise awareness and improve capabilities of actors to use such innovative instruments.

Next steps

The OECD Framework for industry's net-zero transition will bring together the key stakeholder groups, notably policy makers, industry actors, and financial institutions in developing financing solutions and creating enabling conditions for low-carbon investments to accelerate the decarbonisation of Indonesia's industry sector aligned with the NZE 2060. This first stakeholder meeting will be followed by a series of workshops and consultations that will be organised throughout the process. Once the Focus Area for the Framework has been selected by the government, industry actors and other stakeholders will be engaged in the implementation of the Framework. It is planned that the Framework implementation in Indonesia will take at least 12 months.

Agenda

TIME (WIB)	
09:30-09:40	Welcome and opening remarks <i>BAPPENAS</i>
09:40-10:00	General introduction to the <i>Framework</i> <i>Deger Saygin, Industry Programme Lead, OECD</i>
10:00-10:30	Presentation of first-order findings of background research and stakeholder consultations <i>Deger Saygin, Industry Programme Lead, OECD</i> <i>Q&A with audience</i>
10:30-10:50	Tea/coffee break
10:50-12:00	Session 1: Government perspective on industry <u>Presentation by:</u> <ul style="list-style-type: none"> Directorate of Energy Conservation, Ministry of Energy and Mineral Resources (ESDM) Discussion points with audience: <ul style="list-style-type: none"> What are the current industry sector- and technology-specific decarbonisation targets and plans? Have progress towards realising them been observed, and how are they monitored? What are the key regulatory, legal, and financing instruments available for decarbonising industry? What are the challenges and success stories in their implementation? Are there any available financial regulations and targets for the financing institutions related to industry decarbonisation? How are they being implemented? What are the key priority sectors from the perspective of Indonesia's net-zero transition target?
	Session 2: Industry sector perspective and developments on industry decarbonisation <u>Presentation by:</u> <ul style="list-style-type: none"> Fertiliser industry association (APPI) Discussion points with audience: <ul style="list-style-type: none"> Are there sector and company level plans, roadmaps, targets for decarbonisation and what are their characteristics? What is the progress of different industry sub-sectors and companies towards decarbonisation? What are the key opportunities and challenges seen by industry actors for decarbonisation? What are the success stories and bottlenecks in investing in low-carbon technologies in the industry sector? What are the main issues and the needs of the industry actors for decarbonisation?

12:00-13:00	Lunch
13:00-14:30	<p>Session 3: Financing institutions perspective and development on industry decarbonisation</p> <p><u>Possible speakers:</u></p> <ul style="list-style-type: none"> • CIMB Niaga • French Development Agency (AFD) • International Finance Corporation (IFC) • World Bank <p>Discussion points with audience:</p> <ul style="list-style-type: none"> • What is the current financing situation of low-carbon investments in the manufacturing industry? • Which type of low-carbon projects majority of the financing goes to? What are the financing conditions for different types of low-carbon investments? What is the share of international and domestic sources of finance? • Are there specific financing instruments, products offered by commercial banks for low-carbon investments in industry? • What are the main success stories, bottlenecks and risks in financing low-carbon projects in the industry sector?
14:30-15:00	<p>Summary, wrap up and next steps</p> <p><u>Moderation:</u> BAPPENAS, OECD</p> <ul style="list-style-type: none"> • Summary of discussion points across the three sessions • Priority sector and technologies and decision on the Focus Area • Stakeholder roles, timeline, and work plan for implementation