



## *Islamic Financing for Climate Change*

Dwi Irianti Hadiningdyah

Director of Islamic Financing

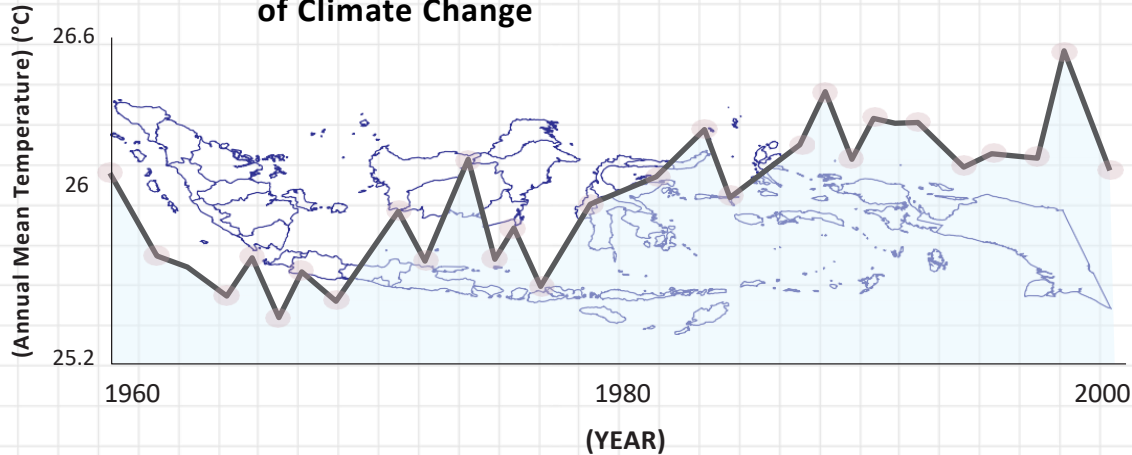
Directorate General of Budget Financing and Risk Management

Ministry of Finance, Republic of Indonesia

# BACKGROUND

## Indonesia's Vulnerability and Commitment to Climate Change






Indonesia's Vulnerability and Impact of Climate Change



One of Indonesia's vulnerabilities to climate change can be seen from the increasing frequency of hydrometeorological disasters occurring in Indonesia. From 1 January to 3 September 2020, there have been **1,944** disasters in Indonesia and more than **90%** were hydrometeorological disasters.

Source : BNPB, 2020

To that end, Indonesia has a strong commitment to addressing climate change, both through national policies and the ratification of international agreements into laws, policies and national action plans.

|  |  |  |  |   |   |
|--|--|--|--|---|---|
|   | <b>Rencana Aksi Nasional Penurunan Emisi GRK (RAN-GRK), 2011</b>   |   | <b>Rencana Aksi Nasional Adaptasi Perubahan Iklim (RAN-API), 2014</b>  |  | <b>Indonesia Nationally Determined Contribution (NDC), 2016</b><br><br>29% unconditional<br>41% conditional |
|  | <b>RPJMN 2020-2024</b><br><br>Prioritas Nasional No.6<br>Pembangunan Lingkungan, peningkatan ketahanan bencana dan perubahan iklim.<br><br>Program Prioritas: Pembangunan Rendah Karbon, Ketahanan Bencana dan Perubahan Iklim |  | <b>Rencana Aksi Nasional Tujuan Pembangunan Berkelanjutan, 2017</b><br><br>Mengatasi Perubahan Iklim dalam SDGs 13 |   |   |



Source : Fiscal Policy Agency (BKF)

# ROI COMMITMENTS TO CLIMATE CHANGE

**LAW Number 16/2016**  
Paris Agreement Ratification to UNFCCC

**NDC** Nationally Determined Contribution  
By 2030, Indonesia pledges to reduce **Greenhouse Gases (GHG) emissions**:

**29%**

Unconditional emission re-  
duction against Business as  
Usual (BAU) scenario

UP TO

**41%**

Conditional emission  
reduction subject to  
international support

and to improve its **Climate Resilience**

**A**

**RAN GRK**  
National Action Plan for GHG Emission Reduction  
(Presidential Decree No. 61/2011)

**RAN-API**

National Action Plan on Climate Change Adaptation

**B**

**C**

**D**

**Low Carbon  
Development Plan**



Economic  
Growth



Poverty  
Reduction



GHG Emission Reduction

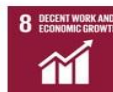
**SUSTAINABLE  
DEVELOPMENT GOALS**

MAIN FOCUS



DIRECT CONTRIBUTION

INDIRECT CONTRIBUTION TO ALL OTHER SDGs





# ROI GREEN BOND/SUKUK FRAMEWORK

Reporting is expected to include measures of the reduction in greenhouse gas emissions

**Pillar IV:**  
Reporting

- Benchmark Green Framework:
- Poland
  - Fiji
  - France

**INDONESIA  
GREEN BOND/SUKUK  
FRAMEWORK**

100% Used for refinancing and new financing of green projects

**Pillar III:**  
Management of Proceeds

**Pillar I:**  
Use of Proceeds

**MEDIUM GREEN  
Review by Cicero**

MoF as issuer should guarantee 100% of proceed used to finance green project

**Pillar II:**  
Project Evaluation and Selection

Budget Tagging Process to identify green projects (supported by UNDP)

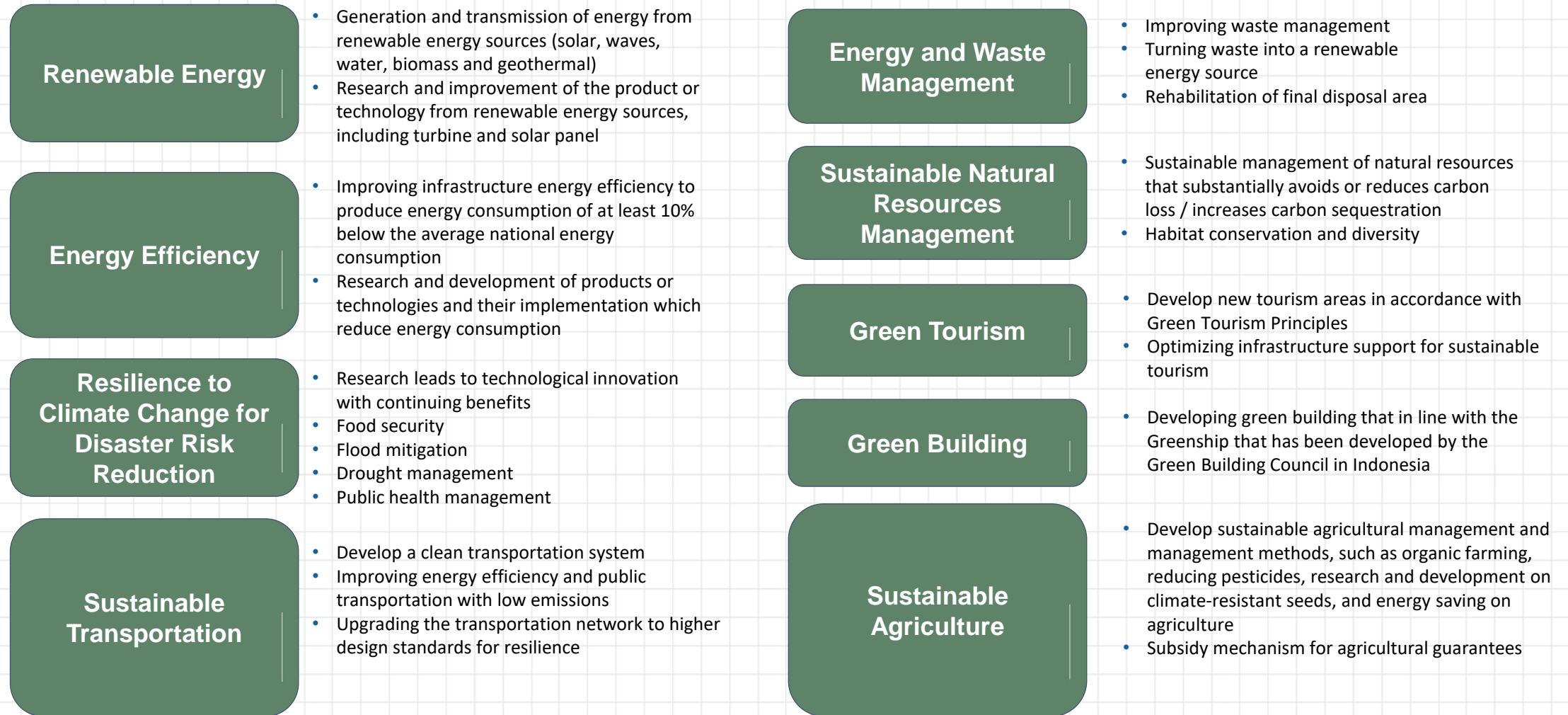
### The Green Eligible Sectors according to Green Framework

|  |  |   |
|--|--|---|
| Renewable energy                                     | Use of Clean Technology for Power Generation | Sustainable Natural Resource Management |
| Resilience to Climate Change for Disaster Risk Areas | Sustainable Transportation                   | Green Tourism                           |
| Sustainable Agriculture                              | Green Building                               | Energy and Waste Management             |



# Use of fund: Eligible Green Projects

Worth green sector below are sectors that meet the requirements according to the Green Framework



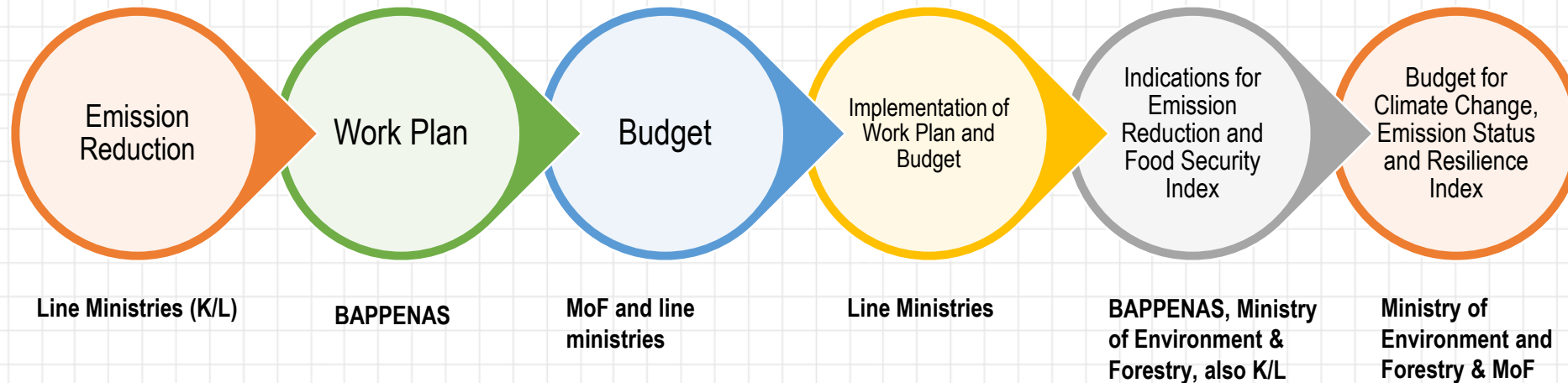
The eligible green project will override: a) The capacity of new fossil fuel-based power plants; b) Large scale hydroelectric power plants (over 30 MW) with large inundation areas; and c) Nuclear and nuclear-related assets



# Evaluation Process And Project Selection

Budget Tagging is used to identify eligible projects in the Green Framework

The Ministry of Finance will manage the allocation process in the general account of the Government of the Republic of Indonesia



Created to identify expenditures on projects that provide climate change benefits where they are supported by the UNDP

Involves a detailed assessment of the climate benefits of the project carries out by the ministries on key performance indicators of project results

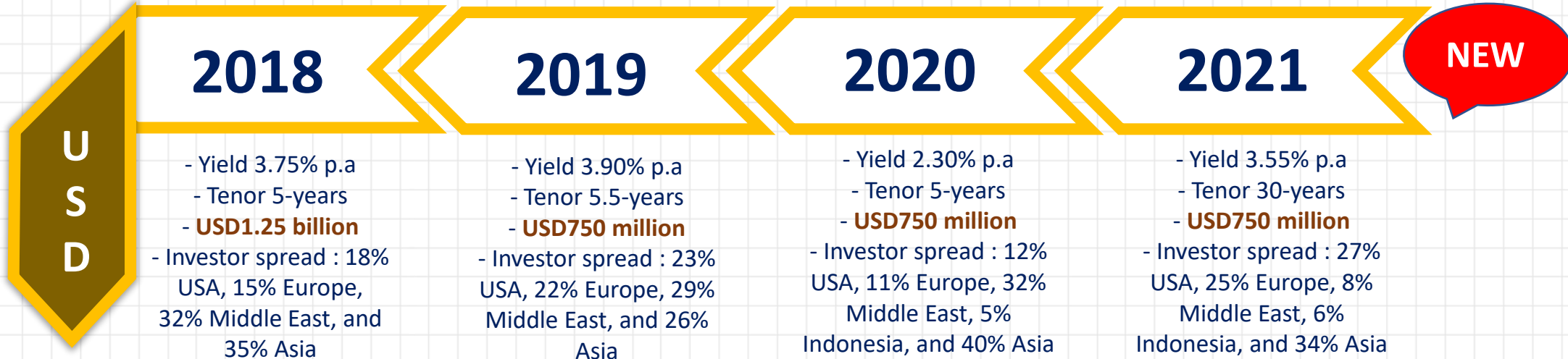
Green Bond or Green Sukuk funds issued under the Green Framework will be used to fund certain projects that have been tagged

Ministry of Finance will record all of Green Eligible Projects that have been reviewed and funded by the issuance of Green Bonds and Green Sukuk



# Green Sukuk Issuance

## Global Market

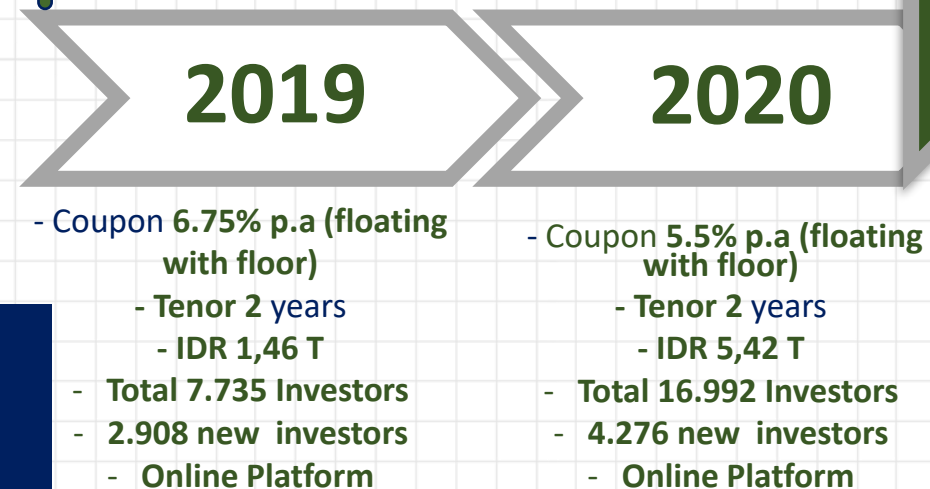


**Green Sukuk** is potential to be developed and used as climate funding in Indonesia even in the midst of COVID-19 pandemic

### GREEN SUKUK : 9 Juni 2021

1. First ever 30-year and the longest Green Sukuk issuance in the world
2. Reached 57% of Green Investor, an increase from 33% (2020) and 29% (2018 & 2019).
3. lowest ever 30-year yield, spread over UST and profit rate

## Domestic Market



# LAPORAN GREEN SUKUK

**1<sup>st</sup> Impact Report**  
Published in Feb 2019

Audited by:



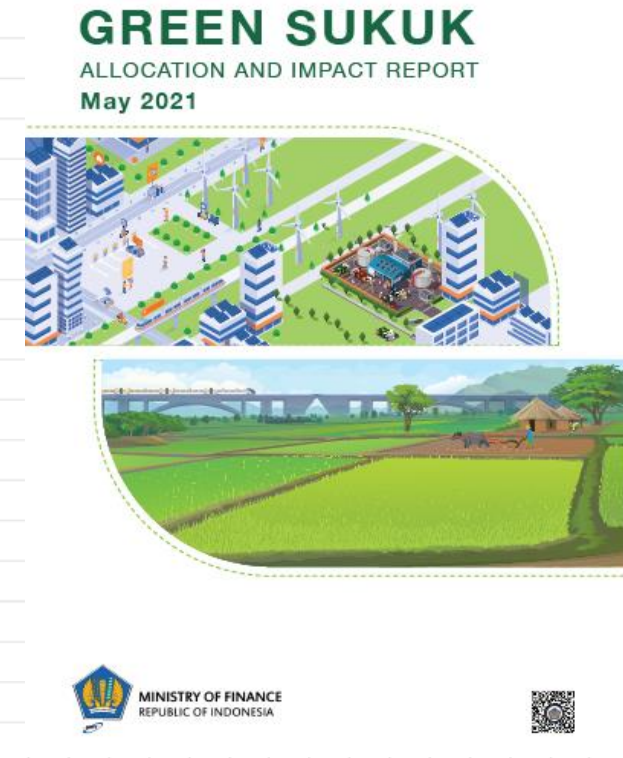
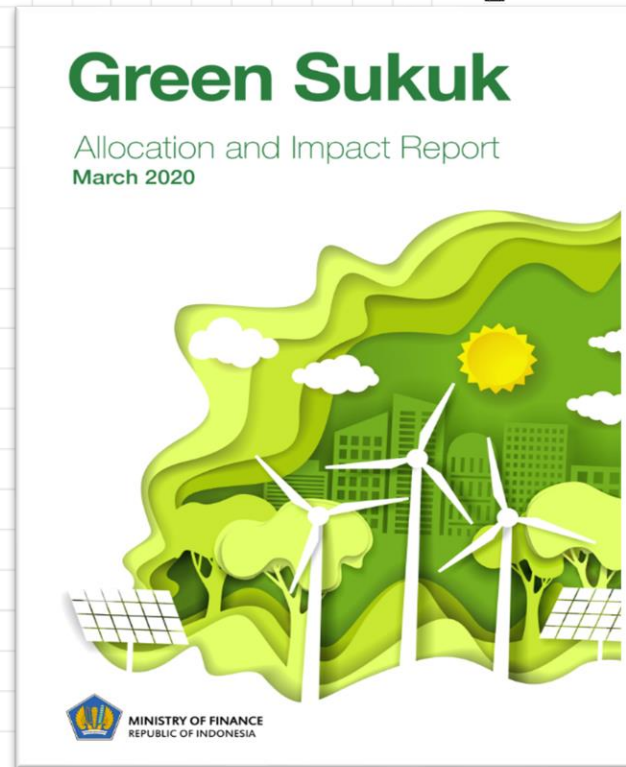
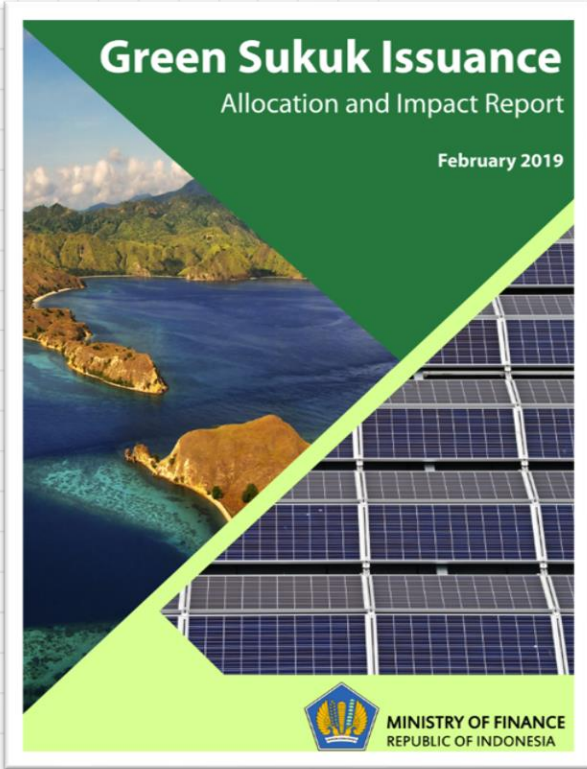
**2<sup>nd</sup> Impact Report**  
Published in Mar 2020

Audited by:



**3<sup>rd</sup> Impact Report**  
Published in May 2021

Audited by:



## APPROVAL BY SHARIA ADVISORS

 **CIMB ISLAMIC**

CIMB Islamic Bank Berhad



The Sharia Advisory Board  
of Citi Islamic Investment  
Bank



بنك دبي الإسلامي  
Dubai Islamic Bank

The Executive Committee of the Fatwa  
and Sharia Supervisory Board of Dubai  
Islamic Bank PJSC

**HSBC**   
Middle East

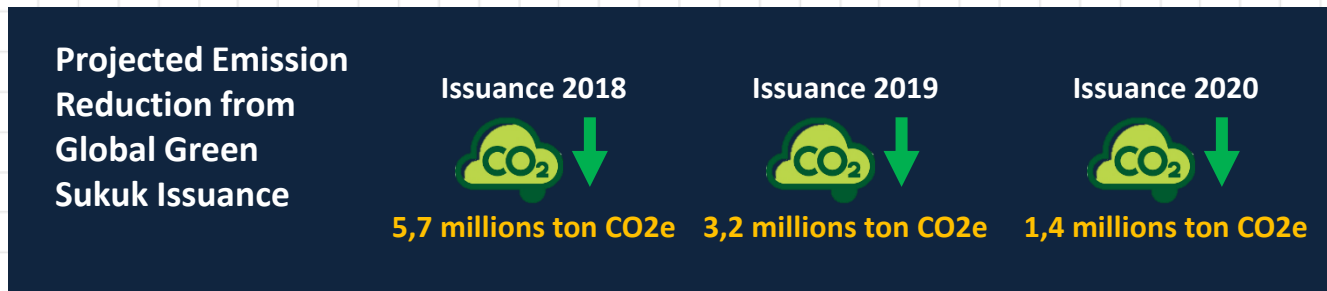
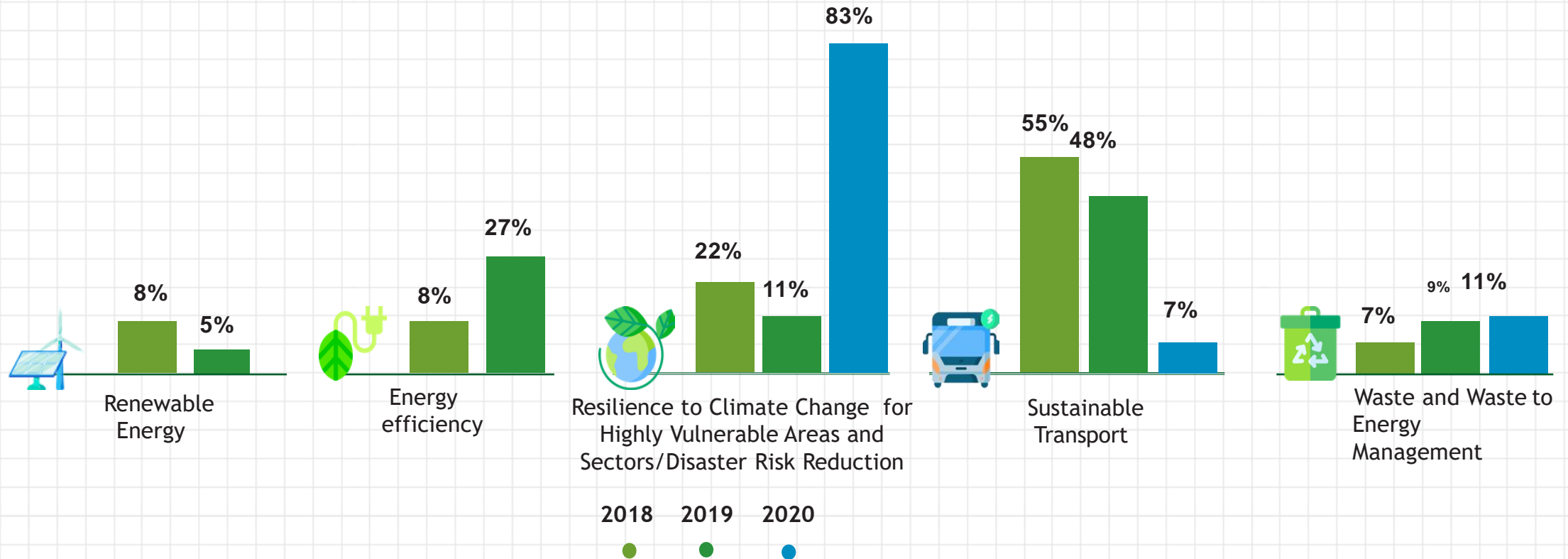
The Central Sharia committee of  
HSBC Bank Middle East Limited



Indonesia Council of  
Ulama



# GREEN SUKUK ALLOCATION



## Underlying Assets:



Ministry of Public Works and Housing



Ministry of Transportation



Ministry of Energy and Mineral Resources



Ministry of Agriculture

# LESSON LEARNED from Green Sukuk Issuance



**SYNERGY.** It needs to increase synergy among stakeholders to formulate policies and national development programs related to climate change control



**IMPACT INVESTING.** Measuring not only the **environmental** benefits of the investment, but also **economic** and **social** impact.



**SYSTEM INTEGRATION.** Strengthening and integrating the mechanism of climate budget tagging (CBT) with other system (e.g. SRN, AKSARA, KRISNA) to create effective and efficient financial governance and reporting



KEMENTERIAN KEUANGAN  
REPUBLIK INDONESIA

djppn

# THANK YOU

Have a Great Day!