Workshop on SCALING UP GREEN FINANCE IN INDONESIA

30 November 2022
Le Meridien Hotel, Jakarta
House Rules and tips for ATTENDEES.

MUTE your microphone.

Switch off your video during the presentation and panelists’ interventions.

For questions, use the message chat box.

For best viewing, choose Side-by-side: Speaker mode.

BACKGROUND

According to ADB estimates, Southeast Asia needs $130 billion per year from 2016 to 2030 to climate-resilient infrastructure investments. With the region having been severely affected by the COVID-19 pandemic, public budgets are constrained, and public entities need to urgently leverage financing instruments to attract private capital to meet climate and development goals.

Southeast Asia is seeing an increase in the issuance of green, social, sustainable, and other labeled (GSS+) bonds, yet the region still comprises a small fraction of the global total. The first half of 2022 saw $8 billion of GSS+ issuance in Association of Southeast Asian Nations (ASEAN) markets, which accounted for only 26% of global issuance for the same period. Global and domestic investors are increasingly considering environmental and sustainability factors in their investment decisions, and they are seeking greater diversity in their portfolios over short-term profit optimization.

Indonesia’s sustainable bond market has been supported by the government’s strong commitment through regular issuances of sovereign green sukuk (Islamic bonds), well-developed green and Sustainability-Development Goal (SDG) bond frameworks, and the active role of the Financial Services Authority (OJK). However, Indonesia’s domestic green bond market is still small. Consequently, it is crucial that the capital market play a larger role in mobilizing private capital to support sustainable investments in Southeast Asia in its transition to a low-carbon economy.

OBJECTIVES

This workshop aims to: (i) raise awareness of green and other thematic bonds among potential bond issuers, (ii) explain the process of issuing bonds and how they can be incorporated into a company’s financing strategy, (iii) share key success factors from existing green and other thematic bond issuers’ perspectives, (iv) discuss approaches for developing climate-friendly investment portfolios and the role of institutional investors in promoting green bond market, and (v) discuss how development partners can assist the issuance of green and other thematic bonds in Indonesia.
FOR ENGLISH SPEAKERS

1. If you would like to listen in **ENGLISH**, click **INTERPRETATION**, and select **ENGLISH**.

2. **YOU DON’T NEED TO CHANGE THE CHANNEL WHEN SPEAKING.** Don’t worry, your voice will be audible.

When in channel, speak **English**, otherwise your speech will overlap with the interpreter.
UNTUK PENGGUNA BAHASA INDONESIA

Jika Anda ingin mendengar terjemahan dalam BAHASA INDONESIA, klik **INTERPRETATION**,

Lalu pilih **INDONESIAN (Bahasa)**, Channel Khusus Bahasa.

**TIDAK PERLU PINDAH CHANNEL** saat BICARA.
Jangan khawatir, pembicara dan interpreter bisa mendengar Anda.

Jangan bicara menggunakan bahasa selain Indonesia kala mengakses Channel Indonesian.
WELCOME REMARKS

Ibu Sujala Pant
Deputy Resident Representative
United Nations Development Programme, Indonesia
OPENING REMARKS

Mr. Khoirul Muttaqien
Department Head of Capital Market Supervision
Financial Services Authority (OJK)
STATE OF GREEN AND OTHER THEMATIC BONDS MARKET DEVELOPMENT

Karthik Iyer
Director of Programmes
Climate Bonds Initiative, and Senior Capital Market Expert, ASEAN Catalytic Green Finance Facility
GSS+ State of the Market
- Scaling up green finance in Indonesia

A Joint Initiative by the Financial Services Authority (OJK), Indonesia Stock Exchange (IDX), Asian Development Bank (ADB) and United Nations Development Programme (UNDP)

Karthik Iyer- Director, Climate Bonds Initiative
30 November 2022
The next 10 years will be critical to the future of the world’s climate. We need to meet the IPCC target of a **50% cut in global emissions** in 10 years.

We can achieve this target through financing activities to transition from a high-carbon to a low-carbon economy. According to OECD estimates, the investment required to meet this is **$5-7TN per annum** across the highest carbon emitting sectors.

- Climate Finance commitments of **$100 bn** under UNFCCC from Developed to Developing nations **have not been delivered** as of now.
- Annual adaptation costs in low- and middle-income countries are estimated to climb to **$300 billion** by 2030.
- Southeast Asia seen as a **very vulnerable** area and while most of the SEA nations have aspirational commitments under their NDCs conditional on receiving finance. **$200 billion** per year for climate adjusted infrastructure investments needed to achieve the 2030 targets.
- Public finance alone cannot cover this and will need international flows of global private capital and a **range of instruments and innovative approaches** to adhere to commitments and prevent climate-related disruptions.

- **GSS+ bonds** are a CRITICAL way of catalyzing such financing needs QUICKLY and to a **PORTFOLIO of projects** rather than project by project so as to meet the **SCALE** of need.
We know what we need to do ...and the capital is there

“All infrastructure has to, now be green...

And rivers of capital need to flow to assets and projects that are the right ones for the 2050 world we have to build.”

-Christiana Figueres, UNFCCC
Green bonds are debt securities issued by financial, non-financial or public entities where the proceeds are used to finance 100% green projects and assets.

Just like regular vanilla bonds. “green” is a bonus feature to the bond.

It’s about the projects and assets, not the issuer.

The *green* label is a tool for investors.

### Basics of Green Bonds

<table>
<thead>
<tr>
<th>Proceeds to climate projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Vanilla bonds – no complicated structure</td>
</tr>
<tr>
<td>- Comparable pricing</td>
</tr>
<tr>
<td>- Refinance as well as project</td>
</tr>
<tr>
<td>- 90% investment grade</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Any entity</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Governments &amp; DFIs</td>
</tr>
<tr>
<td>- Corporates</td>
</tr>
<tr>
<td>- Asset owners: PPPs, banks, utilities, etc</td>
</tr>
<tr>
<td>- Municipalities</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Any structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Senior unsecured</td>
</tr>
<tr>
<td>- Asset-backed</td>
</tr>
<tr>
<td>- Covered bonds</td>
</tr>
<tr>
<td>- Other: loans, Sukuk</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Transparency to climate asset or project</td>
</tr>
<tr>
<td>- Independent review</td>
</tr>
<tr>
<td>- Reporting on use of proceeds</td>
</tr>
</tbody>
</table>
• ICMA, EU Sus Fin, Japan GBS
• EU Regulations, Singapore subsidies for verification
• Climate Bonds, ASEAN principles
• Climate Bonds Taxonomy, EU Sustainable Taxonomy, ASEAN Taxonomy
• EU technical criteria, Climate Bonds Sector criteria, ACGF criteria
• Corporate Issuers, Governments, States, etc.
The Principles
Guidance on sustainable finance instruments

Thematic Universe today

Sustainable Development

Environmental
- Climate change mitigation
- Climate change adaptation
- Other environmental
  - “Low-carbon”
  - Climate
    - Green
      - Socioenvironmental
        - “Sustainable”

Social
- working conditions, including slavery and child labour
- local communities, including indigenous communities
- conflict and humanitarian crises
- health and safety
- employee relations and diversity

Economic
- executive pay
- bribery and corruption
- board diversity and structure
- fair tax strategy

Governance

Examples- High Emitting/Hard to abate industries/sectors

- Power sector
- Transport
- Fossil fuels
- Chemicals
- Agriculture and food
- Forestry and land use
- Cement
- Buildings
- Steel
- Mining
Trillions p.a. of Investment needed globally

- **New spending**
  - $3.5 New spending on low-emissions assets and enabling infrastructure

- **Current spending**
  - $1.0 Spending reallocated from high- to low-emissions assets
  - $2.0 Continued spending on low-emissions assets and enabling infrastructure
  - $2.7 Continued spending on high-emissions assets

**Total annual spending in the Net Zero scenario: $9.2 trillion**

From “The net-zero transition: What it would cost, what it could bring”, McKinsey Global Institute, January 2022
Robust plans: Action, financing, and governance:

Plans need to detail actions to achieve 1.5°C pathway, as well as respective Financing and Governance.

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Measure</th>
<th>Bond standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>SLB</td>
<td>National target</td>
<td>TBC</td>
</tr>
<tr>
<td>SLB</td>
<td>Company target</td>
<td>TBC</td>
</tr>
<tr>
<td>Targeted finance e.g. use of proceeds bonds, green loans, etc.</td>
<td>Asset pathways and/or asset characteristics and/or bundles of decarbonising measures</td>
<td>Climate Bonds Standard / Taxonomy EU GBS / Taxonomy Others</td>
</tr>
</tbody>
</table>

1. Paris-aligned targets
   - Select sector-specific transition pathway aligned with Paris Agreement Goals
   - Company-specific KPIs that align as early as possible with that pathway
   - Science-based Include Scope 1, 2, & 3 emissions and Address short-, medium-, and long-term

2. Robust Plans
   - Action: Set strategy and plan to deliver on KPIs
   - Financing: Prepare associated financing plan, cost estimates, sources of funding
   - Governance: Implement (changes to) relevant governance frameworks to enact change
Forward-looking, performance-based debt instruments
Tied to Sustainability Performance Targets (SPTs) and Key Performance Indicators (KPIs)
General Corporate Financing
Potential pitfalls around setting credible targets

Sustainability-linked bonds

Use of Proceeds Instrument
Ring-fencing of funds to pre-defined assets (Similar to green bonds)
General lack of market standards and definitions
CBI developing sector-specific criteria (Cement, Chemicals, Steel)

Transition bonds
Basics of Green Bonds

Sovereign SLBs (SSLBs): Uruguay’s step-ups and -downs

Sovereign SLB structure incentivises issuer to overachieve on National Targets/NDCs

<table>
<thead>
<tr>
<th>Full name</th>
<th>Government</th>
<th>Amount Issued</th>
<th>USD1.5bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country of Risk</td>
<td>Uruguay</td>
<td>Issue Type</td>
<td>Sovereign</td>
</tr>
</tbody>
</table>

Issue Date 28 October 2022 | Maturity Date 28 October 2023

GHG Emission targets: powerful incentive to reduce emissions and debt costs
- KPI 1.1 is NDC aligned: -50% by 2025
  - Requires accelerating existing decarbonization and transition from 1.6%/y 2014-2019 vs. -2.4%/y for KPI 1.1
- KPI 1.2 encourages 2% overperformance
  - While not the case for Uruguay, NDC’s often criticized for lack of ambition, these provides incentive for overachievement

Powerful plans to achieve targets centering on Agri-food Transition
- Long term framework detailed in National Climate Change Policy (PNCC)
- 76% of national emissions are from Agriculture, and 19% from Energy
  - Increasing sustainable agri-practice includes: better pasture management, strategic supplementary feeding, adequate animal health control
  - Uruguay has a 94% Renewables energy mix (2020) – and increasing

<table>
<thead>
<tr>
<th>KPI Metric</th>
<th>SPY</th>
<th>SPY deadline</th>
<th>Financial Mechanism</th>
</tr>
</thead>
<tbody>
<tr>
<td>GHG Emissions</td>
<td>-50%</td>
<td>31 Dec 2025</td>
<td>Step-up 15bps</td>
</tr>
<tr>
<td>KPI 1.2</td>
<td>-52%</td>
<td>Step-down 15bps</td>
<td></td>
</tr>
<tr>
<td>Native Forest Area</td>
<td>100%</td>
<td>Step-up 15bps</td>
<td></td>
</tr>
<tr>
<td>KPI 2.2</td>
<td>103%</td>
<td>Step-down 15bps</td>
<td></td>
</tr>
</tbody>
</table>

Forest Conservation Targets: Good for mitigation as well as ecosystems
- KPI 2.1 creates financial cost for loss of forest cover, but no change
  - Mitigation: Forest cover is the single-largest carbon sink in the country
    (Note: KPI 1 is measured in gross emissions: doesn’t include CO2 removal by carbon sinks)
- KPI 2.2 commits Uruguay to increasing forest cover:
  - Ecosystem: Agri is main cause of deforestation in region;anti-deforestation or re-forestation policies have grown forest stock 30% 1980-2012, but shrank 2% 2012-2016.

Strong case for growth of EM: Sovereign SLBs: Shrink emissions for interest savings
- If Uruguay overachieves its GHG emission NDC (-3.2%/y) it will save approx. USD33.7m in interest payments on this bond
- Potential for USD67.1m savings if both targets achieved
- Strong example for EM sovereigns to gain cheaper financing in return for climate progress
Green: USD2.0tn
Social: USD617.0bn
Sustainability: USD678.9bn
SLB: USD192.9bn
Transition: USD12.7bn

Cumulative GSS+ issuances hits $3.5 tn – 2006 to Q3 2022

2022 YTD volumes (as at Sep 2022): $635.7bn

Source: CBI – Sustainable Debt Market Summary Q3 2022
**Green Bond Pricing H1 2022 (Climate Bonds Initiative)**

**Methodology**
- Designed to capture the most liquid portion of the green bond market and is therefore limited to USD and EUR bonds with a minimum original issue size of USD 500m.
- Developed market (DM), emerging market (EM) and supranational issuers (SNAT) are included.
- Investment grade rated
- Minimum term to maturity of three years at issue

**Report Highlights**
- Green bonds in both EUR and USD performed well on all metrics in the primary market, on average
- Total assets in green bond ETFs ended H1 2022 at USD1.75bn
- Sustainability-linked bonds exhibit evidence of greenium
- Green bonds maintain better liquidity in secondary market

**Working Paper (Amundi Asset Mgmt.)**

**Methodology**
- Intra-curve method at the security level and a matching method at the asset class level.

**Report Highlights**
- Both methods show small negative but significant premia of −4.7 bps & −2.2 bps.

**Greenium Article (ING THINK)**

**Methodology**
- Greenium calculated using a curve model to stay agnostic to circumstances and fair.

**Report Highlights**
- Existence of greenium justified by higher demand for green bonds.
GSS+ in the ASEAN

- Record issuance of green, social, sustainability (GSS) debt in 2021: USD24bn
- Green dominates; sustainability growing
- Singapore leads green, Thailand leads social & sustainability
ASEAN Climate Commitments

- **Singapore**: Net-Zero carbon emission by 2050
- **Vietnam**: net-zero carbon emissions by 2050; stop deforestation by 2030 and phase out coal-fuelled power generation by 2040
- **Malaysia**: 2050 carbon neutrality goal, and a commitment to stop building new coal-fired power plants
- **Indonesia**: net-zero emissions by 2060 or sooner (the previous target was 2070)
- **Thailand**: carbon neutrality by 2050 and net-zero emissions by 2065 (announced at COP26)
- **Philippines**: carbon emission reduction target to 75% by 2030
ASEAN in focus – More can be done

Rising commitments and material prize in SEA ...

- 8 out of 10 SEA countries committed to Net Zero targets
- Estimated growth in number of new SRTI commitments by corporate firms in SEA between 2021 and 2022
- $1 trillion annual green economic opportunities for SEA by 2030

... with increasing investment in last 2 years ...

- $15 billion invested cumulatively by various investors in SEA since 2020, with ~45% deployed in last three quarters (Q3 2021 till Q1 2022)
- $11 billion deployed cumulatively by corporate firms in SEA since 2020, with a focus on Renewables and Built environment
- More investment value on sustainability-focused start-ups by private equity/venture capital investors in SEA in 2021 than 2020

... but more can still be done to unlock full potential

- ~3 Gt emission gap for SEA to 1.5°C aligned levels in 2030
- $3 trillion cumulative investment required in SEA to be on track to 1.5°C by 2030
- ~50% of SEA's GDP is contributed by SMEs who need to be engaged for the green economy

Southeast Asia's Green Economy 2022 Report Investing behind new realities – BAIN & CO, TEMASEK, MICROSOFT, 2022
Despite an increase in Southeast Asian issuance of GSS+ bonds in 2020-2021, this is still only a fraction of the global green bond’s issuance and less than 3% of the local currency bond issuances.

The Challenge is one of CAPACITY, on:
- Green and thematic bond frameworks and the application of frameworks to identify eligible projects
- The cost and process of bond issuance
- Credit ratings and risk perceptions especially of new issuers such as city governments and state-owned enterprises (SOEs)

The challenge is especially severe at City and SOE levels:
- A lot more sub-sovereign issuance of bonds is needed to free up sovereign balance sheets and to better link external financier discipline and governance to project implementation.

Next Steps & ADB role in supporting ASEAN
**Principles of an ambitious transition**

1. In line with 1.5 degrees trajectory
2. Established by science
3. Offsets don’t count
4. Technological viability trumps economic competitiveness
5. Action not pledges

**Hallmarks of a credible company transition**

1. Paris aligned targets
2. Robust plans
3. Implementation action
4. Internal monitoring
5. External reporting

---

*ACGF*
ASEAN GSS+ BONDS INITIATIVE - SCALING UP GREEN, SOCIAL, SUSTAINABLE, AND OTHER LABELED (GSS+) BONDS IN SOUTHEAST ASIA

Anouj Mehta
Country Director
Thailand Resident Mission, Asian Development Bank
The GSS+ Bonds Initiative
Scaling up Green-Social-Sustainable-Blue Bonds Across Southeast Asia ..1 bn by 2025

Anouj Mehta, ADB
30 November 2022
The Context

Table 1: Estimated Infrastructure Investment Needs by Region, 45 DMCs, 2016–2030
($ billion in 2015 prices)

<table>
<thead>
<tr>
<th>Region/Subregion</th>
<th>Investment Needs</th>
<th>Annual Average</th>
<th>Investment Needs as % of GDP</th>
<th>Investment Needs</th>
<th>Annual Average</th>
<th>Investment Needs as % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Asia</td>
<td>492</td>
<td>33</td>
<td>6.8</td>
<td>565</td>
<td>38</td>
<td>7.8</td>
</tr>
<tr>
<td>East Asia</td>
<td>13,781</td>
<td>919</td>
<td>4.5</td>
<td>16,062</td>
<td>1,071</td>
<td>5.2</td>
</tr>
<tr>
<td>South Asia*</td>
<td>5,477</td>
<td>365</td>
<td>7.6</td>
<td>6,347</td>
<td>423</td>
<td>8.8</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>2,759</td>
<td>184</td>
<td>5.0</td>
<td>3,147</td>
<td>210</td>
<td>5.7</td>
</tr>
<tr>
<td>The Pacific</td>
<td>42</td>
<td>2.8</td>
<td>8.2</td>
<td>46</td>
<td>3.1</td>
<td>9.1</td>
</tr>
<tr>
<td>Asia and the Pacific</td>
<td>22,551</td>
<td>1,503</td>
<td>5.1</td>
<td>26,166</td>
<td>1,744</td>
<td>5.9</td>
</tr>
</tbody>
</table>

*Includes Afghanistan.

Public Sector Constraints

Private Capital Availability

Scale and Time

Context
Opportunities To Tap Global Capital Markets

Context

- "Thematic Sovereign Bonds"
- Municipal & SOEs with large needs
- Growing Asian economies
Municipal green bonds - the future of climate financing due to their innumerable advantages to various stakeholders......

- Enhances autonomy of local government to reduce dependence on centre/state government funds
- Increases access to low cost and long term capital to finance sustainable projects
- Improves profile of the issuer and enhances engagement of the citizens
- Broadens domestic & global investor base due to close proximity of issuer to use of proceeds

Asking the right questions: Johannesburg completes a groundbreaking municipal bond issue (English)

In 2004 the city of Johannesburg sold two municipal bond issues, among the very few such issues in Africa. These issues marked the city’s recovery from near bankruptcy as well as an even more ambitious capital financing program. This time-consuming Johannesburg navigated its way with credible answers. Its path offers guidance and insights on how to finance infrastructure.

Pune raises Rs 200 crore in first municipal bond issue in 14 years

ICM City plans to issue VND3 trillion in municipal bond

Ghaziabad becomes tenth city in India to raise municipal bonds: Secretary

New Delhi: Ghaziabad has become tenth city in India and second city in Uttar Pradesh to raise municipal bonds of Rs 150 crore for the construction of a tertiary sewage treatment plant, according to Ganga Shankar Mishra, Secretary MWUD.

Mishra said that this is the first “Green Bond.”
Municipalities are eligible to issue bonds in Thailand, but the current government regulations limit the total bond issues to only 10% of a municipality’s budget and require approval from a borrowing committee led by the provincial governor.

Omnibus Law on Job Creation, 2020 has simplified bureaucratic process for muni bond issuances. As per the new law, municipal governments are no longer required to seek approval from DPRD, local house of representatives.

Mandanas regulation will strengthen the decentralisation opportunity for state/municipal governments and giving them higher autonomy for decisions on financing portfolio to fund state level projects.

Public Debt Management Law, 2017 and State Budget Law, 2015 have permitted municipality governments to issue bonds to finance budget deficits, with bond issuing volume must be within the annual sub-national government debt limit approved by the National Assembly.

ADB can bring forward a combination of Technical Assistance and blended finance tools, de- risking mechanism and policy interventions to assist the municipalities in their bond issuance journey.
Green Municipality bonds need to contextualise on the three pillars to attract investments

Despite adherence to the three pillars, green municipality/local government bonds face a multitude of challenges which need to be addressed

1. Fiscal constraints and legal barriers
Local governments lack of autonomy to independently raise funds from capital markets due to legal constraints and policies. This leads to high degree of dependence on central governments to fund sustainable growth projects
Ramp up speed will be determined by enhancing autonomy and limiting legal barriers and increasing policies/incentives

2. Financial and market based challenges
Municipalities lack financing rigour and diligence. Capital market flows are sparked up towards "Investment grade" instruments and cities perform poorly on these ratings reducing level of subsciptions and diversity of investors.
Improved financing rigour and diligence, technical assistance and credit enhancement will help in better ratings

3. Green Labelling and taxonomy challenges
Municipalities need to entail to proper obligations of disclosure, proceeds management, governance, tracking and reporting to attract wider base of investors. Its necessary to apply the concepts of taxonomy and criteria to validate green projects.
Transparency in governance, processes and disclosure will help bridge these challenges at scale

Enabling Environment
Capacity building, Shadow ratings, De-risking & targeted Technical Assistance/Knowledge sharing
<table>
<thead>
<tr>
<th>Opportunity</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green Bonds</td>
<td>Green Bonds were created to fund projects that have positive environmental outcomes or contribute to climate change reduction. Most green bonds issued are green ‘use-of-proceeds’ where the proceeds from these bonds are earmarked for green projects but are</td>
</tr>
<tr>
<td>Sustainability Bonds</td>
<td>Sustainability bonds are any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance a combination of green and social projects. Sustainability-linked bonds are a variant where the financing or structuring of the bond’s coupon rate is linked to the entity’s achievement of set KPIs and Environmental/ESG objectives, failing which there is an uptick of the coupon rate as a penalty.</td>
</tr>
<tr>
<td>Transition Bonds</td>
<td>Transition bonds are a relatively new class of bond that aim to help companies in industries with high greenhouse gas (GHG) emissions (known as brown industries) raise capital specifically to finance decarbonization, to address the urgency of meeting the Paris Agreement's temperature targets,</td>
</tr>
</tbody>
</table>
But Challenges Also: “Thematic” Bonds

- Cost of preparation
- Monitoring & Reporting
- What standards to use
- Competing Bond Issuances

Challenges
ADB Support Has Demonstrated Value Already...and more TA available

- Under the ASEAN Catalytic Green Finance Facility, ADB supported 2 Thai GSS+ Bonds bond issuances in 2019-21, with support being provided to a third (Indonesia).

- Pilot demonstrated strong demand and replication potential.

- ACGF Green Recovery Platform (launched in 2021) includes a 5 year program on supporting green capital markets development.

**Thailand Sovereign Bond**

Issuer: Public Debt Management Office  
Bond: $5.2 billion (2020-21), sustainability bond, supporting low-carbon transport and COVID-19 recovery.

**Thailand Housing Bond**

Issuer: National Housing Authority  
Bond: Two social and sustainability bonds (2020-21) ~ USD 400 million to support affordable housing and energy efficiency.

$5.6 billion
Raised by 3 Thailand Bond Issuances supported by ACGF TA in 2020 & 2021
The Proposed GSS+ Bonds Initiative
Overview: GSS+ Bonds Initiative

3-year program, under ACGF

To mobilize $1 billion in financing for **green, social, sustainable** and **blue** projects and investments in ASEAN countries, through the deepening and strengthening of capital markets.

**Outcome 1**
Creating enabling environment and ecosystems to strengthen green and sustainable capital markets

**Outcome 2**
De-risk and catalyze signature GSS+ Bonds issuances in the region

Leverage ADB and ACGF TA and Loan Resources

Increase access to capital markets and investment from domestic and global sources into ASEAN countries

Accelerate GSS+ Bonds Bond issuances from sovereign, city and SOE levels
3-Pronged Activity Pillars

‘Activity 1’: Capacity & Policy Strengthening
Target: 3 regional capacity building events by 2025; 1-2 regional / national policies finalized
Focus on development of ecosystems & Enabling environment development PLUS also on origination of pilot bond issuers

‘Activity 2’: Development of ‘Signature’ Pilot GSS+ Bonds
Target: 4-5 bond issuances by 2025 mobilizing at least $1 billion funds in issuance
Support all aspects from frameworks to issuance ready bonds (apart from book-building and lead managing of the launch)

‘Activity 3’: Structuring of Enabling Funds & Mechanisms
Target: 3 Financial Mechanisms/Instruments Developed and Proposed to DMCs by 2025
To utilize ADB sovereign loans for supporting bond issuances where needed

TA Grants Support
TA & ADB-ACGF Loan Support

TA & ADB-ACGF Loan Support
Roundtables to identify champions and build capacity

Focused Roundtables with Global Partners Aimed at Identifying ‘Potential GSS+ Bonds Champion Entities’

- Focused on Prioritized City Governments & SOEs
- Also focus on Regulatory Agencies
- Bring in Global Experts; e.g. CBI, ICMA, KFW, Others
- Showcase ADB TA Support and Identify Potential Pilot Bonds
- Showcase Bond Frameworks and Processes of Issuance
- Share Actual Transaction Examples esp. Innovative Finance Structures
- This will provide positive momentum for sharing the concept of bonds across ASEAN
Supporting regional and national policy frameworks

Advisory support to strengthen regional and national policy frameworks for green capital markets.

1. Capacity & Policy Strengthening

Regional
- Support for the development of the ASEAN Taxonomy on Sustainable Finance, including through ASEAN Capital Markets Forum.
- Engagement in and inputs to ASEAN Taxonomy Board and working groups.

National
- Support for national green finance / NDC financing strategies, including for bonds.
- Development of national taxonomies and related systems.

This will help strengthen national frameworks to catalyze GSS+ Bonds issuances across ASEAN.
Identify ‘Signature’ Bonds

Participation and guidance in initial discovery and scoping phase to demonstrate actual bonds issuance or “Signature GSS+ Bonds Bond Issuance” in the ASEAN region.

A Signature GSS Bond Issuance will include at least one of the given below features-

- **Thematic Bond Type**: Maiden issuance by tapping into a thematic bond type which hasn’t been issued in the country till now by either a Sovereign or Sub-sovereign level.

- **Issuer Selection**: Identifying a first time issuer either at a Sovereign or a Sub-Sovereign level including State owned entities and Municipalities/Cities.

- **ADB Investment Support**: ADB can anchor funding support to de-risk/enhance credit and/or make investments through its private sector participation approach.

This will provide **positive marketing** and **external positioning** for ADB, leading to further trajectory of ADB supported GSS bond issuances across ASEAN nations.
Integrated Approach for piloting signature bonds

Support to pilot issuers will work across a number of areas

Support to governments and agencies to support Green/Sustainable finance initiatives with targeted Technical assistance, de-risking, credit enhancement and innovative financing solutions

2. Development of ‘Signature’ Pilot GSS+ Bonds

Bond Frameworks
- Identify-develop appropriate framework and localize for the potential issuer
- Ensure alignment to global best practices
- Enable external reviewer accreditation-certification for the framework

Identify Projects
- Use frameworks to identify eligible projects
- Assess bond size vis-a-vis portfolio and pool of assets
- Assess eligibility and certification requirements

Institutions
- Support shadow credit rating
- Structure appropriate credit enhancement structures where needed
- Help create Governance and M&E for post bond issuance monitoring & reporting

Bond Structures
- Develop bond structure including coupon structure and guarantees for risk-return balancing
- Support shadow book building & outreach
Example: Pooled Vehicles

What is the model?
Nordic Local Government Funding Agencies (LGFAs) have used the concept of aggregated platforms to pool issuing entities to tap into the international market at competitive cost of capital, and even achieving benchmark bond deals and competitive pricing which are then passed onto the underlying entities. Some are also listed on Stock Exchanges.

The Nordic Model is based on decentralization and cooperation between regions and municipalities to deliver an extremely wide range of services to the people they serve.

Where has it been implemented?
Finland, Denmark, Norway, Sweden, Iceland.

Example: MDFs

What is the model?
- The Canada Green Municipal Fund of the Federation of Canadian Municipalities was endowed with $414 million from the Government of Canada, and supports both public and private sector-led initiatives for innovative municipal infrastructure solutions with clear environmental benefits, public value, and model business cases and technologies.
- The International Municipal Investment Fund (IMIF), an investment fund with a first closing target of 350 million EUR was set up by UN Capital Development Fund (UNCDF) and United Cities and Local Governments (UCLG) in collaboration with the Global Fund for Cities Development (Fonds Mondial de Development Des Villes-FMDV) to focus exclusively on supporting cities and local governments specially in developing countries for accelerating the achievement of the SDGs and the Paris Agreement.

Example: Land Value Capture

What is the model?
A key example of Land Value Capture is seen in the Hong Kong Mass Transit Railway, which operates without government subsidy and is highly profitable. Revenues are derived from profit sharing with private developers (mostly for residential projects) in real estate sale, and from renting and managing MTRC-owned properties (in particular for commercial and office operations).

In addition to providing a stable and abundant source of income, developing property along the railway benefits MTRC by attracting residents to amenities and housing near the stations, which contributes to railway patronage.

Where has it been implemented?
Hong Kong, Sao Paolo, Hyderabad

• SOEs and City governments with less track record or lack of a credit rating as well as greenfield projects might see less interest from global investors

• Credit enhancement structures and ‘skin-in-the-game’ financing especially from MDBs such as ADB can help improve this risk perception for private investors

• Innovative finance structures and models should be replicable
Activity 3: Example of an “Enabling Bond Fund” that will be proposed

**Government**

**Sovereign Loans, Concessional Finance, TA**

**DFIs & Climate Donors**

---

**“BOND ENABLING FUND/FACILITY”**

Blended De-Risking Facility to provide credit enhancement support

- Technical support (credit rating, verification, capacity)
- First-loss and exit guarantees
- Low-interest capex loans for eligible projects

---

**Management**

Can be at national or regional government level or by a special purpose vehicle or a national development bank

Supported by ADB TA Funds

---

**Global Capital Flows**

Private Capital to bonds & projects

**Green Bond Sponsors**

**Project-level bond sponsors**

**Local governments / munis**

---

**3. Structuring of Enabling Funds & Mechanisms**
The Support

The GSS+ Bonds Initiative Implementation

Team of Experts -> TRM Office Bangkok Base

Global Partners for Capacities / Knowledge

TA Funds For piloting
Thank You

Contacts:
• TRM: Anouj Mehta, Country Director
• ACGF: Naeeda Crishna Morgado, Infrastructure Specialist (Innovation and Green Finance)
• ERCD: Kosintr Puongsophol, Financial Sector Specialist
STRENGTHENING ECOSYSTEM FOR SUSTAINABLE FINANCE DEVELOPMENT IN ASEAN+3

Kosintr Puongsophol
Financial Sector Specialist
Asian Development Bank
BUILDING ECOSYSTEM FOR SUSTAINABLE BOND MARKET DEVELOPMENT IN ASEAN+3

ASEAN+3 Asian Bond Markets Initiative

Kosinr Puongsophol
Asian Development Bank
Email: kpuongsophol@adb.org
ASEAN+3 ASIAN BOND MARKETS INITIATIVE (ABMI)

ASEAN+3 Finance Ministers’ and Central Bank Governors’ Meeting (Annual)

ASEAN+3 Deputy Finance Ministers’ and Deputy Central Bank Governors’ Meeting (Semiannual)

Task Force Meetings (Semiannual)

ABMI Secretariat: Asian Development Bank

Chiang Mai Initiative Multilateralization

ASEAN+3 Macroeconomic Research Office

Technical Assistance and Coordination Team

CH TH

TF1: Supply
Promoting Issuance of Local Currency Denominated Bonds

JP SG
TF2: Demand
Facilitating the Demand of Local Currency Denominated Bonds

JP MY
TF3: Regulations
Improving Regulatory Framework

KR PH
TF4: Infrastructure
Improving Related Infrastructure for the Bond Market
TECHNICAL ASSISTANCE: CREATING ECOSYSTEMS FOR SUSTAINABLE LOCAL CURRENCY BONDS FOR INFRASTRUCTURE DEVELOPMENT IN ASEAN+3

For more TA info, please visit: https://www.adb.org/projects/53300-001/main

SUPPLY
Guide issuers and underwriters throughout sustainable bond issuance process
Develop sustainable bond framework based on international and regional standards
Address other constraints that are market-specific
- Local verifier
- Regulatory support

DEMAND
Create a regional green bond information section on the AsianBondsOnline
Other market-specific initiatives to promote greater demand for sustainable bonds

MARKET PRACTICES
Make Asian voices heard
Document and publish case studies to guide other interested issuers, and develop good practices in issuing bonds
Leverage on other initiatives under ABMI

For more information, please visit:
PRE-CONDITIONS AND SCOPE OF TA SUPPORT

PRE-CONDITIONS:
1. Sustainable bonds to be issued in local currency of ASEAN+3 markets e.g., IDR, SGD
2. The bond should at least align with the ASEAN Green, Social or Sustainability Bond Standards developed by the ASEAN Capital Markets Forum (ACMF), plus other international standards such as Climate Bond Standards and/or ICMA’s sustainable bond principles
3. Issuers should demonstrate willingness to issue sustainable bonds on a regular basis
4. Issuers must be willing to share experience in issuing sustainable bond with ADB so that a case study can be published

SCOPE OF TA SUPPORT:
1. Support issuers in identifying eligible projects/assets that are aligned with international/regional standards and principles
2. Confirm internal process and controls
3. Review draft sustainable bond framework --> create good storyline
4. Engage, facilitate, and seek external review processes with external reviewer and/or approved verifier
5. Participate in roadshow to educate investors, media and press release

HOW TO APPLY:
1. Get in touch with ADB (kpuongsophol@adb.org) and (rsupangan@adb.org) for further discussion

DEVELOP OVERALL ECOSYSTEM: for example, strengthen capacity of local service providers to become an internationally recognized green bond verifier, market awareness and capacity building programs etc
ASEAN+3 Sustainable Bonds Highlights

1. LAUNCH OF GREEN BOND VERIFICATION SERVICE BY DOMESTIC CREDIT RATING AGENCIES (TRIS Rating, RAM Sustainability and Fiin Group)

2. LAUNCH OF THE GREEN BOND SECTION ON ASIANBONDSONLINE to disseminate information on sustainable local currency bond market development in ASEAN+3 to international investors
   - Green bond issuance handbook (English, Bahasa Indonesia, Thai, Vietnamese, Cambodian)
   - ASEAN+3 sustainable bonds highlights

3. KICKED OFF SERIES OF WEBINARS AND MARKET AWARENESS PROGRAMS

4. TECHNICAL AND HAND-ON SUPPORT TO PRIVATE SECTOR ISSUERS
MAJOR ACHIEVEMENTS UNDER EXISTING TA (2020-2022)

March 2020
The TA approved by ADB, financed by the People’s Republic of China (PRC) Poverty Reduction and Regional Cooperation Fund

August 2020
Two local credit rating agencies (TRIS Rating and RAM Sustainability) accredited by the Climate Bonds Initiative (CBI) as green bond verifiers

November 2021
First social bond by a corporate real sector issuer in ASEAN (TFG) ASEAN+3’s sustainable finance initiative presented at COP26

June – July 2020
First regional workshop for ASEAN+3 regulators and potential local green bond verifiers

November 2020
Green bond section on the AsianBondsOnline launched in collaboration with TF2

December 2021 - February 2022
Green bond section on the AsianBondsOnline launched in collaboration with TF2

August – September 2022
First green bond verification by RAM Sustainability

June – July 2022
Green bond issued by CPN Social Bond issued by GSB ASEAN+3 Sustainable Finance Report published

October – November 2022
First green bond in Cambodia approved SPO completed for SME Bank and GHB ASEAN Green Bond Market Survey published

Experience sharing session (CPN and Exim) Roundtable with global impact investors (12 Sep) Green bond issued by Exim Bank (9 Sep) Green bond guidance (Cambodian version)

Almost $500 million mobilized in ESG financing (as of Sep 2022)

More than 4,300 people attended over 35 workshops (as of Sep 2022)

More than 4,300 people attended over 35 workshops (as of Sep 2022)

More than 4,300 people attended over 35 workshops (as of Sep 2022)

More than 4,300 people attended over 35 workshops (as of Sep 2022)

NOTE: TFG = Thaifoods Group, CPN = Central Pattana, GSB = Government Savings Bank, Exim = Export Import Bank of Thailand, GHB = Government Housing Bank
NEW PHASE OF SUSTAINABLE BOND TA

1. **Greater support to financial institutions and SMEs:** Given the significance of SMEs, the new phase of TA will emphasize support for financial institutions by providing green/social loans to SMEs.

2. **Promote product innovations and inclusivity:** Financial institutions can finance green/social loans with sustainable bonds and/or innovative sustainable deposit schemes. This would enable all relevant stakeholders (borrowers, investors, retail depositors) to promote sustainability, thereby rendering sustainable finance products more accessible and affordable.

3. **Better disclosure and greater transparency:**
   - Collaborate with regulators and stock exchanges to promote greater ESG impact disclosure and promote adoption of the Task Force on Climate Related Financial Disclosures recommendations.
   - Pilot ESG rating for listed companies/sustainable bond issuers and identify areas for improvements. This will be conducted in collaboration with international rating agencies.

4. **Advance market ecosystem:** Continue to provide hand-holding support to potential sustainable bond issuers, including financial institutions, and strengthen capacity of local verifiers. Continue the regulatory support and knowledge support, including the sustainable finance survey.
**COMPLETED TRANSACTIONS**

- First social bond under AMBIF and CGIF guaranteed
  - THB 1 billion ($30 million), 5 years maturity
  - Support job creation and economic advancement in local communities.
  - Subsequently issued two more social bonds totaling THB 1.5 billion

- First green bond by Thailand’s real estate and retail industry developer
  - THB 1 billion ($30 million), 3 years maturity
  - Support investments in green projects and achieve the company’s ‘Journey to Net Zero’ plan by 2050.

- First social bond by state-owned financial institution in Thailand
  - THB 10 billion ($295 million), 3 years tenor
  - Support government policies e.g. low-interest loans to grassroots customers to address informal debt; developing occupational capabilities of unemployed etc
  - Significant demand from local investors, leading up to 2 times bid-to-cover ratio
  - Supported in collaboration with ASEAN Catalytic Green Finance facility
  - Included in the ABF index

- First floating-rate green bond by issued under Thai Overnight Repurchase Rate (THOR).
  - THB 5 billion ($150 million), 3- and 4-years maturity
  - Support investment in green projects, particularly solar and wind projects
COMPLETED TRANSACTIONS

- First ever green bond will be issued in Cambodia
- Aligned with the ASEAN green bond standards
- Approximately $3 million in local currency equivalent
- Finance EDGE-certified green office building in Phnom Penh

- To be issued on 9th December 2022

- First social bond by a corporate issuer (nonfinancial institution) in the Philippines under the ASEAN social bond standards
- PHP 2 billion ($34 million), 3 years tenor
- Support contract growing program: rice and hybrid seeds (buyback scheme for rice and hybrid seeds), farmers education program, plant expansion and employment generation
THANK YOU

FOR FURTHER INFORMATION:

Satoru Yamadera
Advisor
syamadera@adb.org

Kosinrut Puongsophol
Financial Sector Specialist
kpuongsophol@adb.org

Richard Supangan
Senior Economics Officer
rsupangan@adb.org

Alita Lestor
ADB Consultant
alestor.consultant@adb.org
ACCELERATING SDGS
INVESTMENT IN INDONESIA
THROUGH THEMATIC BONDS

Nila Murti
National Project Manager for UN ASSIST Joint Programme
United Nations Development Programme
WHAT ARE INDONESIA’S APPROACHES TO SUSTAINABLE FINANCE DEVELOPMENT?

Agus Saptarina
Director of Accounting Standards and Governance Directorate
Financial Services Authority (OJK)
Green Bond and Sustainability Bond Development in Indonesia

Financial Services Authority
30 November 2022
Agenda

01 Sustainable Finance Milestones in Indonesia

02 Development of Green Bonds in Indonesia: Regulation, Issuance, Monitoring and Policy of the Green Bonds Market

03 Macroprudential Inclusive Financing Ratio

04 Thematic Bond
Sustainable Finance Milestones in Indonesia
Sustainable Finance Milestones in Indonesian Capital Market

- **Before 2014**
  - Limited Liability Companies Law year 2007: Companies conduct business related to / in the area of natural resources must carry out Social and Environmental Responsibilities
  - First Sustainability index was issued in 2009 (Sri Kehati Index)

- **2014**

- **2017**
  - OJK Rule No.51 year 2017 regarding the Implementation of Sustainable Finance for Financial Institution, Issuers, & Public Companies
  - OJK Rule No.60 year 2017 regarding Issuance and Requirements for Green Bonds

- **2018**
  - Decision of OJK Commissioner No.24 year 2018 regarding 25% reduction in levy fees for green bond registration statement
  - Public offering of PT SMI green bond

- **2020**
  - Sustainable Finance Roadmap Phase II (2021-2025)
  - Relaxation of the implementation of sustainable finance for Issuers and Public Companies
  - ESG Leader Index

- **2021**
  - OJK Circular Letter No.16 year 2021 regarding Form & Content of the Annual Report of Issuers & Public Companies
  - Guidelines for Sustainable Finance Implementation for Securities Companies
  - Task Force on Sustainable Finance in the Capital Market
  - Mini website for Sustainable Finance in Indonesia Capital Market
  - ESG Sector Leader IDX KEHATI
  - Quality Index 45 IDX KEHATI

- **2022**
  - Indonesia Green Taxonomy
  - Implementation of Sustainable Finance for Investment Manager
  - Issuance of green bonds by PT. BRI Tbk & PT. BNI Tbk
Development of Green Bonds in Indonesia: Regulation, Issuance, Monitoring and Policy of the Green Bonds Market
<table>
<thead>
<tr>
<th>Sustainability Frameworks by OJK</th>
<th>Incentive:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Indonesia Sustainable Finance Roadmap Phase I (2014)</td>
<td>• <strong>KDK Nomor 24/KDK.01/2018</strong></td>
</tr>
<tr>
<td>• POJK 29/POJK.04/2016 and SEOJK 30/SEOJK.04/2016 there is an obligation for EPP to report Social and environmental responsibility according to GRI G4 (2016)</td>
<td>Adjustment of the amount of the registration fee levied on the registration statement in the context of a green bond public offering of 25% of the predetermined rate</td>
</tr>
<tr>
<td>• OJK Rule No. 51/POJK.03/2017 (2017)</td>
<td>• <strong>Kep-00038/BEI/05-2020</strong></td>
</tr>
<tr>
<td>• <strong>OJK Rule No. 60/POJK.04/2017</strong></td>
<td>The annual listing fee for Environmentally Friendly Debt Securities (Green Bond) is 50% (fifty percent) of the listing fee.</td>
</tr>
<tr>
<td>• Technical guidelines for Banks regarding the implementation of POJK Number 51/POJK.03/2017</td>
<td></td>
</tr>
</tbody>
</table>
Indonesia Green Bond has characteristics:
- Verifier (individual/group/corporation) → green eligible projects;
- Action plan if green bond becomes “not green” (max 1 year);
- Buyback if green bond becomes “not green”;

Eligible Projects
- renewable energy;
- energy efficiency;
- pollution prevention & control;
- sustainable management of living natural resources & land use;
- terrestrial & aquatic biodiversity conservation;
- environmentally friendly transportation;
- sustainable water & waste water management
- climate change adaptation;
- eco-efficient products;
- environmentally friendly buildings that meet national, regional, or international certification standards; and
- business activities and/or other environmentally sound activities.

Obligation
- Pre-Issuance
  - Submission of registration statement
  - Prospectus information
- Post-Issuance
  - Fund usage report
  - Reports on the results of periodic reviews of Environmental Experts
### Public Offering of Corporate Green Bonds

<table>
<thead>
<tr>
<th>Green Bond</th>
<th>Amount Issued (USD)</th>
<th>Date Issued</th>
<th>Use of Proceed/Project</th>
</tr>
</thead>
</table>
| 1. Sarana Multi Infrastruktur | 33.5 Million        | 9 July 2018   | • 36.3% for Renewable Energy  
• 63.7% for Eco-friendly Transportation |

(0.4% of total public offering of Corporate Bond in 2018)

| 2. Bank Negara Indonesia      | 335 Million         | 22 June 2022  | Eligible Environmentally Friendly Projects (renewable energy sector, energy efficiency, waste-to-energy processing and waste management, sustainable use of natural resources and land use, conservation of terrestrial and aquatic biodiversity, environmentally friendly transportation, sustainable management of water and wastewater, climate change adaptation, Building environmentally sustainable agriculture) |

(4% of total public offering of Corporate Bond in 1 Jan – 16 Sept 2022)

| 3. Bank Rakyat Indonesia      | 335 Million         | 21 July 2022  | • The two mitigation projects consist of two projects that will develop low emission palm oil mass, a transportation system in the form of environmentally friendly transportation,  
• One adaptation project. Adaptation project will develop water treatment plant and irrigation system |

(4% of total public offering of Corporate Bond in 1 Jan – 16 Sept 2022)
### Indonesian Government Green Bond/Sukuk

<table>
<thead>
<tr>
<th>Bond/Sukuk</th>
<th>Amount Issued (Juta USD)</th>
<th>Date Issued</th>
<th>Use of Proceed/Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Republic of Indonesia</td>
<td>1250</td>
<td>March 2018</td>
<td>Energy, buildings, transport, waste, land use, adaptation</td>
</tr>
<tr>
<td>2. Republic of Indonesia</td>
<td>750</td>
<td>February 2019</td>
<td>Buildings, transport, waste, land use, adaptation</td>
</tr>
<tr>
<td>4. Republic of Indonesia</td>
<td>750</td>
<td>June 2020</td>
<td>Energy, waste, water</td>
</tr>
<tr>
<td>6. Republic of Indonesia</td>
<td>750</td>
<td>June 2021</td>
<td>Renewable Energy, resilience to climate change, waste management, transport</td>
</tr>
<tr>
<td>7. Republic of Indonesia Sustainable Development Goals (SDG)</td>
<td>500,8</td>
<td>September 2021</td>
<td>-</td>
</tr>
<tr>
<td>8. Republic of Indonesia</td>
<td>350.5</td>
<td>November 2021</td>
<td>sustainable transportation, resilience to climate change</td>
</tr>
<tr>
<td>9. Republic of Indonesia</td>
<td>1500</td>
<td>June 2022</td>
<td>-</td>
</tr>
</tbody>
</table>
Macroprudential Inclusive Financing Ratio (RPIM)
Issuance of RPIM Terms

Bank Indonesia Regulations

- PBI number 23/13/PBI/2021 concerning Macroprudential Inclusive Financing Ratio for Conventional Commercial Banks, Sharia Commercial Banks, and Sharia Business Units
- PBI Number 24/3/PBI/2022 concerning Amendment to PBI 23/13/PBI/2021 concerning Ratio of Macroprudential Inclusive Financing for Conventional Commercial Banks, Sharia Commercial Banks, and Sharia Business Units

Regulation of Members of the Board of Governors

PADG Number 24/6 PADG/2022 concerning Regulations for Implementing Macroprudential Inclusive Financing Ratios for Conventional Commercial Banks, Sharia General Banks, and Sharia Business Units
Issuance of RPIM Terms

Banks can fulfill RPIM through (i) direct and supply chain inclusive financing; (ii) through financial service institutions/public service agencies/business entities; (iii) purchase of Inclusive Financing Securities; and/or (iv) other inclusive financing.

### 1. DIRECT FINANCE AND SUPPLY CHAIN

- Financing for Micro, Small & Medium Enterprises (Definition according to PP No.7/2021)
- Financing for groups/clusters/corporations/SMEs (combination of several MSMEs without or by forming a Business Entity)
- Financing to Non-LK Business Entities (Non-MSMEs). (Supplier/Distribution/Partner/Plasma/Developer Financing)
- Inclusive Financing for Low Income Individuals (including mortgage loans for hospitals/RSS)

### 2. FINANCING THROUGH FINANCIAL SERVICE INSTITUTIONS/BLU/BUSINESS ENTITIES

- Financing Through Rural Bank (BPR/BPRS)
- Financing Through Non-Bank Financial Services Institutions (i.e. Fintech PPT, Venture Capital, KSP) (PNM, LPEI, BAV, SMF, Pegadaian, Askrindo)
- Funding Cooperation with Business Service Entities (Government Investment Center/PIP)
- Funding Cooperation with Business Entities ( Cooperatives with savings and loan business licenses)

### 3. INCLUSIVE FINANCING SECURITIES PURCHASE

- Inclusive Collateral/Underlying SSB (Inclusive EBA, Inclusive covered Bond, inclusive covered MTN, inclusive SUKBI)
- SSB Commitment to Inclusive Use (Inclusive SBN, Inclusive Bonds, Inclusive MTN, Inclusive SBK)
- SSB Sustainable Development/Finance (Sustainable (green/social bond), CWLS)
- Inclusive Financing Deposit Certificate
Thematic Bond
**Definition:**
Traditional fixed income instruments that allow investors to finance specific investment themes such as climate change, health, food, education, access to financial services and social housing.

**Types of Thematic Bonds**

- **Social Bond**
  - Core Components of Social Bonds:
    - Use of proceeds
    - Project Evaluation and Selection Process
    - Management of Proceeds
    - Reporting

- **Sustainability Bond**
  - Core Components of Sustainability Bond:
    - Use of proceeds
    - Project Evaluation and Selection Process
    - Management of Proceeds
    - Reporting

- **Sustainability Linked Bond**
  - Core Components of Sustainability Linked Bond:
    - Selection of Key Performance Indicators
    - Calibration of Sustainability Performance Targets
    - Bond characteristics
    - Reporting
    - Verification

- **SDG Bond**
  - Core Components of SDG Bond:
    - Use of proceeds
    - Project Evaluation and Selection Process
    - Management of Proceeds
    - Reporting
OJK'S CHALLENGES TO CLIMATE CHANGE & SUSTAINABLE FINANCIAL ISSUES

- Low Green Loan/Financing Portfolio and Green Bond issuance (only 3 Issuers, namely SMI, BBNI, BBRI)
- The low awareness of the financial industry regarding sustainable finance initiatives
- Huge untapped green investment opportunities, including the role of institutional investors in choosing ESG-based investment portfolios
- The Government of Indonesia's commitment to the Paris Agreement and the country's steps to achieve the goal of Net Zero Emission
THANK YOU

Financial Services Authority
2022
Q&A
INDONESIAN GREEN TAXONOMY: HOW IS IT RELEVANT TO SUSTAINABLE BOND ISSUERS?

Dedy Sugiono
Division Head of Surveillance Department and Integrated Financial Services Sector Policy
Financial Services Authority (OJK)
Indonesia Green Taxonomy 1.0

Department of Surveillance and Integrated Policy for Financial Services Sector 2022
LAW NO 16 OF 2016
Indonesia has ratified the Paris Agreement through the enactment of Law Number 16 of 2016 concerning Ratification of the Paris Agreement to the United Nations Framework Convention on Climate Change.

National Target on Emission Reduction by 2030

43.20% or 31.89%

With international support
Without international support

Projection of Emission Reduction per sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>GHG Emission Level 2030 (MtC02eq)</th>
<th>GHG Emission Reduction 2030 (MtC02eq)</th>
<th>Annual Average Growth BAU (2010-2030)</th>
<th>Average Growth 2000-2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CM1</td>
<td>CM2</td>
<td>CM1</td>
<td>CM2</td>
</tr>
<tr>
<td>1. Energy*</td>
<td>453.2</td>
<td>1,669</td>
<td>1,311</td>
<td>1,223</td>
</tr>
<tr>
<td>2. Waste</td>
<td>88</td>
<td>296</td>
<td>256</td>
<td>253</td>
</tr>
<tr>
<td>3. IPPU</td>
<td>36</td>
<td>69.8</td>
<td>63</td>
<td>61</td>
</tr>
<tr>
<td>4. Agriculture</td>
<td>110.5</td>
<td>119.68</td>
<td>110</td>
<td>108</td>
</tr>
<tr>
<td>5. Forestry and Other Land Uses (FOLU)**</td>
<td>647</td>
<td>714</td>
<td>214</td>
<td>15</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,334</td>
<td>2,869</td>
<td>1,953</td>
<td>1,632</td>
</tr>
</tbody>
</table>

Notes
- BAU : Business as Usual
- CM1 : Counter Measure 1 (without int’l support)
- CM2 : Counter Measure 2 (with int’l support)

Green constitution as a mandate of
The 1945 Constitution of the Republic of Indonesia (UUD 1945)

“Every person is entitled to live prosperous physically and spiritually, to have a place to reside, and to acquire a good and healthy living environment as well as be entitled to obtain health care”
- Article 28 H

“The land and waters and the natural wealth contained in it shall be controlled by the state and utilized for the optimal welfare of the people”
- Article 33 Paragraph (3)

“The national economy shall be conducted by virtue of economic democracy under the principles of togetherness, efficiency with justice, sustainability, environment insight, autonomy, as well as by safeguarding the balance of progress and national economic unity.”
- Article 33 Paragraph (4)
The Journey of Sustainable Finance OJK

- Sustainable Finance Roadmap Phase II (2021-2025)
- Sustainable Finance Task Force

2016 Developing Sustainable Finance Information Hub and Pilot Project for:
- First Movers on Sustainable Banking
- Bali Center for Sustainable Finance

2017 Regulation regarding Implementation of Sustainable Finance (OJK Regulation No. 51/2017) and Green Bond (OJK Regulation No. 60/2017)

2018 First Green Bond/Sukuk issued, incentive for Green Bond issuance, and Indonesian Sustainable Finance Initiatives/IKBI

2019 Indonesia became the First Mover for Sustainable Initiatives in Emerging Countries, implementation of OJK Regulation No. POJK 51/2017 for Banks

2020 Incentives for the development of Electric Vehicle Sector (continued until 2023)

2021 Indonesia Green Taxonomy Version 1.0

2022 OJK Strategic Initiatives
- Develop the regulatory framework for Carbon Exchange
- Develop Financial Services Sector (FSS) reporting system that includes green financing/instruments in accordance with the green taxonomy
- Development of risk management framework for FSS and risk-based supervision guidelines for supervisors in the context of implementing climate-related financial risks
- Development of innovative and feasible project financing or financing schemes
- Increase awareness and capacity building for all stakeholders

Establishment of Sustainable Finance Task Force in the Financial Services Sector, which is a forum for cooperation and coordination with industry to respond the developments of sustainable finance issues in national, regional, and global forums.
Indonesia Green Taxonomy

Indonesia Green Taxonomy/Taksonomi Hijau Indonesia (THI)
Economic activity classification that supports environmental protection and management efforts, as well as mitigation and adaptation to climate change.

- THI Edition 1.0 is a living document and is seen as a national milestone as launched by the President of the Republic of Indonesia on January 20, 2022
- Developed in collaboration with 8 technical ministries (KLHK, Kemenhub, KemenESDM, Kemenparekraf, KKP, Kemenperin, Kementan, PUPR).
- Has been through a series of public discussions with relevant stakeholders (academics, K/L, NGO, Sustainable Finance Task Force, International Organizations, etc).

Objectives

- As a basis for policy formulation from OJK and other ministries or institutions.
- As a guideline for disclosures, risk management, and development of innovative sustainable finance products and/or services for FSS and green bond issuers.

Development of THI

- Nationally Determined Contributions (NDC) Indonesia
- Kategori Kegiatan Usaha Berwawasan Lingkungan (KUBL) based on POJK 60/2017
- Klasifikasi Baku Lapangan Usaha (KBLI) + proposed additional sectors (aside from KBLI) for further development based on K/L recommendations

THI was developed through a mapping of economic sectors based on Indonesia Standard Industry Classification/ Klasifikasi Baku Lapangan Usaha Indonesia (KBLI) 2017 (including proposed additional subsectors), NDC, Environmental Based Business Activity/ Kategori Kegiatan Usaha Berwawasan Lingkungan (KKUBL), as well as threshold from technical ministries.

Classifications in THI:

**GREEN:** Protect, restore, & improve environmental protection and management, as well as climate change mitigation and adaptation, and comply with the government standards.

**YELLOW:** Meet several green criteria and/or transition towards green.

**RED:** Do not meet the yellow and/or green criteria.

- 2,733 sectors and sub sectors were mapped.
- 919 (KBLI Level 5) and 198 (additional sectors out of KBLI) of which had been clarified to each thresholds (green/yellow/red) from relevant technical ministries.

THI – Next Step

- Reporting mechanism for Financial Services Industry/ IJK (initiated with pilot project for banking sector) based on THI to obtain green magnitude portfolio from IJK. Reporting will be applied in a gradual manner with consideration of industries’ level of maturity and readiness.
- Update THI’s framework with Indonesia’s national interest, latest policies, technological advances and international sustainable finance initiatives (ex: ASEAN Taxonomy).
Indonesia Green Taxonomy

Urgency and Target

Urgency of Developing Indonesia Green Taxonomy

1. The need for standardization regarding green definitions and criteria.
2. The need for regular monitoring in the implementation of financing to the green sector.
3. The need for improvement in reporting carried out by the FIs.

Target of Indonesia Green Taxonomy

1. Basis for developing incentive/disincentive policies from OJK and various other Ministries/Institutions.
2. Guideline for information disclosure and risk management in the FIs, Issuers, and Public Companies.
3. Basis for the development/innovation of sustainable finance products and/or services for FIs and Issuers.

Complete version of THI can be accessed via https://ojk.go.id/keuanganberkelanjutan
### Indonesia Green Taxonomy – Edition 1.0 (Rice Farming)

<table>
<thead>
<tr>
<th>Related NDC</th>
<th>Agriculture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 1 KBLI</td>
<td>Agriculture, Forestry and Fisheries</td>
</tr>
<tr>
<td>Level 2 KBLI</td>
<td>Agricultural Crops, Livestock, Hunting and Other Related Activities</td>
</tr>
<tr>
<td>Level 3 KBLI</td>
<td>Annual agriculture crop</td>
</tr>
<tr>
<td>Level 4 KBLI</td>
<td>Rice Farming</td>
</tr>
<tr>
<td>Level 5 KBLI</td>
<td>Crossbreed/Hybrid Rice</td>
</tr>
</tbody>
</table>

| Automatically considered as Green Sector? | No |

<table>
<thead>
<tr>
<th>Red Threshold/Criteria</th>
<th>Does not meet the Yellow and Green criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3. Having SOP for the commodity being developed and/or a certificate from a competent officer (Controller of Plant Destruction Organisms (POPT)/Supervisor for Quality of Agricultural Products (PMHP)) stating the level of use of pesticides and contamination of water sources according to food safety standards.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Yellow Threshold/Criteria</th>
<th>Ministry of Agriculture</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1. Understood Good Agriculture Practices (GAP) - self-declare.</td>
</tr>
<tr>
<td></td>
<td>3. Having SOP for the commodity being developed and/or a certificate from a competent officer (Controller of Plant Destruction Organisms (POPT)/Supervisor for Quality of Agricultural Products (PMHP)) stating the level of use of pesticides and contamination of water sources according to food safety standards.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Green Threshold/Criteria</th>
<th>Ministry of Agriculture</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GAP Certificate and/or Organic SNI and/or Organic Certificate.</td>
</tr>
</tbody>
</table>
Thank You

Sustainable Finance Website
https://www.ojk.go.id/keuanganberkelanjutan/

Contact: sektorhijau@ojk.go.id
HOW TO ISSUE GREEN AND OTHER THEMATIC BONDS? WHAT IS THE APPETITE OF INDONESIAN INVESTORS AND UNDERWRITERS?

Kosintri Puongsophol
Financial Sector Specialist
Asian Development Bank
GREEN BOND ISSUANCE PROCESS AND THE APPETITE OF INDONESIAN INVESTORS AND UNDERWRITERS

Kosintr Puongsophol
Financial Sector Specialist
Asian Development Bank
Email: kpuongsophol@adb.org
INTRODUCTION TO SUSTAINABLE BONDS
OVERVIEW OF SUSTAINABLE BOND MARKET IN ASEAN

### SUSTAINABLE BONDS OUTSTANDING IN THE ASEAN MARKET BY ISSUER TYPE

- **USD million**

<table>
<thead>
<tr>
<th>Year</th>
<th>Development Bank</th>
<th>Financial Corporate</th>
<th>Government-Backed Entity</th>
<th>Non-Financial Corporate</th>
<th>Sovereigns</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>0</td>
<td>2,500</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2017</td>
<td>0</td>
<td>2,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2018</td>
<td>1,000</td>
<td>3,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2019</td>
<td>2,000</td>
<td>4,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2020</td>
<td>2,500</td>
<td>5,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2021</td>
<td>3,000</td>
<td>6,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Jun 2022</td>
<td>3,500</td>
<td>7,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

### ASEAN ISSUANCE OF GREEN, SOCIAL AND SUSTAINABILITY BONDS

- **USD million**

<table>
<thead>
<tr>
<th>Year</th>
<th>Green</th>
<th>Social</th>
<th>Sustainability</th>
<th>Sustainability-linked</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2017</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2018</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2019</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2020</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2021</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Jun-22</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: *AsianBondsOnline* computations based on Bloomberg LP data.
OVERVIEW OF SUSTAINABLE BOND MARKET IN ASEAN

SHARE OF GREEN, SOCIAL AND SUSTAINABILITY BONDS OUTSTANDING BY COUNTRY

SUSTAINABLE BONDS OUTSTANDING AND SHARES TO TOTAL BOND MARKET

Source: AsianBondsOnline computations based on Bloomberg LP data.
KEY PRINCIPLES AND STANDARDS – ICMA PRINCIPLES

**The Principles**

**Use of Proceeds**
- Green, Social, Sustainability Bonds ("GSS" or "UoP")
  - Core Components:
    1. Use of Proceeds
    2. Process for Project Evaluation and Selection
    3. Management of Proceeds
    4. Reporting
  - Key Recommendations:
    1. Bond Frameworks
    2. External Reviews

**General Purposes**
- Sustainability-Linked Bonds ("SLBs")
  - Core Components:
    1. Selection of Key Performance Indicators (KPIs)
    2. Calibration of Sustainability Performance Targets (SPTs)
    3. Bond characteristics
    4. Reporting
    5. Verification

**Use of Proceeds**
- Green Bond: Finance projects with clear environmental benefits (e.g. renewable energy, energy efficiency, climate change adaptation)
- Social Bond: Finance projects that directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes especially but not exclusively for a target population (e.g. poor, vulnerable, unemployed, uneducated)
- Sustainability Bond: Finance a mix of green and social projects

**Source:** International Capital Market Association

---

**GREEN, SOCIAL AND SUSTAINABILITY BONDS ARE SUBJECT TO THE SAME CAPITAL MARKET AND FINANCIAL REGULATION AS OTHER LISTED FIXED INCOME SECURITIES.**
KEY PRINCIPLES AND STANDARDS – ASEAN STANDARDS

Four core components:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

Two key recommendations:

1. Bond Frameworks
2. External Reviews

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Green Bonds</th>
<th>Social Bonds</th>
</tr>
</thead>
</table>
| Use of Proceeds           | No fossil fuel power                             | **Negative list**: projects which involve activities that pose a negative social impact related to:  
|                           |                                                  | • Alcohol                                         |
|                           |                                                  | • Gambling                                        |
|                           |                                                  | • Tobacco                                         |
|                           |                                                  | • Weaponry                                        |
| Issuer eligibility        | Must have geographical or economic connect to the ASEAN region |
| Reporting                 | • More frequent periodic reporting to increase transparency |
|                           | • Continuous disclosure and ensure that information is publicly accessible from a website designated by the Issuer throughout the tenure of the bonds |
Combination of the ASEAN Green Bond Standards (AGBS) and the ASEAN Social Bond Standards (ASBS)

The Issuer of an ASEAN Sustainability Bond must comply with both the ASEAN GBS and the ASEAN SBS. The proceeds allocated for the Project must not be used for Ineligible Projects specified by the ASEAN GBS (i.e. fossil fuel power generation projects) as well as the ASEAN SBS (i.e. projects which involve activities that pose a negative social impact related to alcohol, gambling, tobacco and weaponry).

Source: Philippine Securities and Exchange Commission
WHAT CAN GREEN BONDS FINANCE?

GREEN PROJECT CATEGORIES INCLUDE, BUT ARE NOT LIMITED TO:

- Renewable energy
- Energy efficiency
- Pollution prevention and control
- Environmentally sustainable management of living natural resources and land use
- Terrestrial and aquatic biodiversity conservation
- Clean transportation
- Sustainable water and wastewater management
- Climate change adaptation
- Circular economy adapted products, production technologies and processes and/or certified eco-efficient products
- Green buildings

Source: Climate Bonds Initiative and International Capital Market Association
WHAT CAN SOCIAL BONDS FINANCE?

SOCIAL PROJECT CATEGORIES INCLUDE, BUT ARE NOT LIMITED TO:

- Affordable basic infrastructure (e.g. clean drinking water, sewers, sanitation, transport, energy)
- Access to essential services (e.g. health, education and vocational training, healthcare, financing and financial services)
- Affordable housing
- Employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, including through the potential effect of SME financing and microfinance
- Food security and sustainable food systems
- Socioeconomic advancement and empowerment

EXAMPLES OF TARGET POPULATION

- Living below the poverty line
- Excluded and/or marginalized populations and/or communities
- People with disabilities
- Migrants and/or displaced persons
- Undereducated
- Underserved, owing to a lack of quality access to essential goods and services
- Unemployed
- Women and/or sexual and gender minorities
- Aging populations and vulnerable youth
- Other vulnerable groups, including as a result of natural disasters

“Target populations” can vary depending on local contexts and, in some cases, may address the general public.

Source: International Capital Market Association
ISSUANCE AND LABELING PROCESSES
OVERVIEW OF ISSUANCE PROCESS

1. About this Guidance Note
2. Identifying Green Projects and Assets
3. Developing a Green Bond or Sustainable Finance Framework
4. Confirming Internal Processes and Controls
5. Reporting on Allocations and Green Credentials
6. Setting Up for Impact Reporting
7. Engaging the External Reviewer
8. Managing the External Review Process
9. Seeking Certification or Recognition
10. Media, Stakeholders, Indices, and Listings
11. Post-Issuance Reporting and Disclosure
12. Further Issuance of Labeled Instruments
IDENTIFYING ELIGIBLE PROJECTS, ASSETS, AND EXPENDITURES

**Owned Projects and Assets**
- **Physical assets:** Existing and operational equipment, machinery, infrastructure, buildings, or land
- **Projects:** Equipment, machinery, infrastructure, and/or buildings in construction, redevelopment, (e.g., upgrades, expansion); and similar asset-value creation or enhancement activity

**Financing Arrangements for Projects and Assets**
- Capital expenditure undertaken to increase the value and/or lifetime of the physical assets or projects
- Acquisition costs or purchase price for an entity (e.g., company, division or similar)
- Long leaseholds on land, buildings, and infrastructure; or leasing structures resulting in right-of-use assets and liabilities
- Loans and mortgages
- Subsidies, taxes and other incentives, credit schemes and grants, and other similar arrangements provided by public entities or agencies, including local and national governments

**Related and Supporting Expenditures**
- Relevant installation and routine maintenance expenditure and upgrades undertaken to maintain the value and/or lifetime of the asset
- Relevant performance monitoring costs with respect to tracking climate credentials (e.g., GHG emissions) and climate information services
- Relevant research and development, training, and program implementation costs and expenditures

GHG = greenhouse gas.
## PREPARING A FRAMEWORK

### GREEN BOND FRAMEWORK

<table>
<thead>
<tr>
<th>A</th>
<th>A statement on the green objectives of the green bond;</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>How the green objectives of the green bond are positioned within the context of the issuer’s overarching objectives, strategy, policy and/or processes relating to environmental sustainability;</td>
</tr>
<tr>
<td>C</td>
<td>Confirmation that the bonds that will be issued under the green bond framework are aligned with one or more established approaches to labeling. This may include statements of alignment with applicable standards such as the Green Bond Principles, the Association of Southeast Asian Nations Green Bond Standards, the Climate Bonds Standard, or local or regional regulations or guidelines;</td>
</tr>
<tr>
<td>D</td>
<td>A summary of the green projects and assets that will be associated with the green bond such as sectors covered or geographic distribution;</td>
</tr>
<tr>
<td>E</td>
<td>The list of proposed green projects and assets associated with the green bond (if this is available and/or can be disclosed prior to issuance of the green bond);</td>
</tr>
<tr>
<td>F</td>
<td>A description of the decision-making process that has been used to select the green projects and assets;</td>
</tr>
<tr>
<td>G</td>
<td>A summary of the approach to the management of unallocated proceeds from the green bond and the expected timeline for green bond proceeds to be fully allocated;</td>
</tr>
<tr>
<td>H</td>
<td>An estimate of the share of the green bond proceeds that will be used for financing new green projects and assets and the share used for refinancing existing green projects and assets, including the relevant green projects and assets or investment areas that may be refinanced and how long since those green projects and assets were originally financed; and</td>
</tr>
<tr>
<td>I</td>
<td>The intended approach to providing update reports while the green bond remains outstanding.</td>
</tr>
</tbody>
</table>

**Selection of green projects and assets**

The selection process determines whether the green projects and assets meet the relevant eligibility requirements of the chosen set of green definitions or taxonomy. This should include any green standards or certifications referenced in the selection criteria. It can also refer to exclusion criteria or any other process applied to identify and manage potentially material environmental, social, or governance risks associated with the projects and assets.

**Management of the green bond proceeds**

These need to cover three key aspects with respect to management of proceeds:

- **Tracking of proceeds**
  - The proceeds of the green bond can be credited to a sub-account, moved to a sub-portfolio (often called “ring-fencing”) of proceeds, or otherwise tracked by the issuer in an appropriate manner and documented (often called “earmarking”) of proceeds.
- **Earmarking funds to green projects and assets**
  - An earmarking process can be used to manage and account for funding to the green projects and assets and enables estimation of the share of the green bond proceeds being used for financing and refinancing.
- **Managing unallocated proceeds**
  - The balance of the green bond proceeds that have not yet been allocated to green projects and assets can be managed so that the proceeds are not being used for non-green projects and assets. This usually involves holding cash or cash-equivalent instruments as part of a broader Treasury function.

**Reporting on allocations, eligibility, and impact**

This refers to processes to bring together all of the relevant information and provide robust reports for internal and external audiences. See further details on reporting in Post-issuance Reporting and Disclosure.
PRE-ISSUANCE EXTERNAL REVIEW PROCESS

1. The issuer provides its package of key documents and access to relevant people for interviews, usually based on an information request from the external reviewer.

2. The external reviewer assesses the readiness of the issuer and the proposed bond to meet all of the nominated requirements (e.g., Green Bond Principles, Association of Southeast Asian Nations Green Bond Standards, or Climate Bonds Standard, among others).

3. The external reviewer conducts desk-based review of documents, interviews with relevant people from the issuer, confirmation of assertions based on external sources (e.g., government approvals, satellite imagery), follow-up questions, and clarification on specific topics. Procedures can also include site visits to specific projects and assets, but this is not very common.

4. The external reviewer prepares a checklist or template that the external reviewer uses to document its findings.

5. The external reviewer provides a draft report to the issuer, who then provides feedback on the preliminary findings and any further information or clarification required.

6. The issuer and external reviewer have a close-out call.

7. The external reviewer finalizes the report and provides it to the issuer.

8. The issuer provides the external reviewer’s report to the potential investors and other stakeholders, such as regulators or certification systems, prior to issuance of the green bond.
APPROACHES IN SELECTING STANDARDS AND PRINCIPLES

GLOBAL APPROACHES:
- Green Bond Principles,
- Climate Bonds Initiative

REGIONAL APPROACHES:
- ASEAN Green Bond Standard,
- EU Green Bond Standard

NATIONAL APPROACHES:
- Japan, India, Indonesia, Mexico,
- People’s Republic of China,
- South Africa, etc

ASEAN = Association of Southeast Asian Nations, EU = European Union.
ALLOCATION, ELIGIBILITY AND IMPACT REPORTINGS

The allocation reporting part of the update report should include the following:
- confirmation that the green bond is aligned with one or more established approaches to labeling, including statements of alignment with other applicable standards such as the Green Bond Principles, the ASEAN Green Bond Standard, the Climate Bonds Standard, domestic regulations in the People’s Republic of China, Japanese Green Bond Guidelines, or other approaches;
- a statement on the objectives of the green bond;
- the list of green projects and assets to which proceeds have been allocated (or reallocated);
- the amounts allocated to the projects and assets;
- an estimate of the share of the projects and assets that has been refinanced, and the look-back period used to calculate the refinancing rates;
- the geographical distribution of the projects and assets.

ASEAN = Association of Southeast Asian Nations

The eligibility reporting part of the update report should include the following:
- confirmation that the green projects and assets continue to meet the relevant eligibility requirements that are described in the green bond framework, and
- information on the environmental characteristics or performance of green projects and assets that are relevant to the eligibility requirements.

The impact reporting part of the update report (if it covers impact reporting) should include the following:
- expected or actual outcomes or impacts of the green projects and assets with respect to the objectives of the green bond;
- qualitative performance indicators and, where feasible, quantitative performance measures of the outcomes or impacts of the green projects and assets; and
- methods and the key underlying assumptions used in preparation of the performance indicators and metrics.
DIFFERENT APPROACHES TO TRACKING GREEN BONDS AND GREEN PROJECTS

Individual Green Bonds are aligned with specific Green Projects

All Green Bonds are aligned with the entire portfolio of Green Projects
## FREQUENTLY-ASKED QUESTIONS BY ISSUERS

1. How much does it cost?
2. What are the benefits in terms of cost of capital?
3. How much time will it take to prepare everything?
4. Will it distract the deal team from the core objective of capital raising?
5. Will I get my name in the newspaper / industry news?
6. What are the risks?
7. What happens if it goes badly?
8. Is this new focus on green and sustainable really going to last?

## LESSONS LEARNED

1. Issuers often require hand-holding support. They are not sure whether their projects/assets are aligned with sustainable bond standards/principles
2. Having a market champion is important
3. Transparency is what investors want and expect from sustainable finance products, both before the transaction and from the ongoing reporting
4. Pricing benefit is possible but other benefits dominate for issuers and borrowers
5. Almost all treasurers who label a transaction want to figure out how to do another
6. This green / blue / sustainable / ESG trend is not going away
GREEN BOND MARKET SURVEY FOR ASEAN:

INSIGHTS INTO INSTITUTIONAL INVESTORS' AND UNDERWRITERS' PERSPECTIVES

In collaboration with Global Green Growth Institute
SURVEY ON GREEN BONDS AND SUSTAINABLE FINANCE IN ASEAN
Insights on the Perspectives of Institutional Investors and Underwriters

INTEREST IN INVESTING IN GREEN BOND

INTEREST IN ISSUING GREEN BOND
SURVEY ON GREEN BONDS AND SUSTAINABLE FINANCE IN ASEAN
Insights on the Perspectives of Institutional Investors and Underwriters

OPTIMAL INVESTMENT SIZE

OPTIMAL ISSUANCE SIZE
SURVEY ON GREEN BONDS AND SUSTAINABLE FINANCE IN ASEAN
Insights on the Perspectives of Institutional Investors and Underwriters

MOST PROMISING SECTORS FOR GREEN BOND INVESTMENT

MOST PROMISING SECTORS FOR GREEN BOND ISSUANCE
SURVEY ON GREEN BONDS AND SUSTAINABLE FINANCE IN ASEAN
Insights on the Perspectives of Institutional Investors and Underwriters

KEY OBSTACLES FOR INVESTING IN GREEN BOND

- No clear benefits of green bonds as opposed to conventional bonds
- Absence of policy guidance from regulators related to green bonds
- Lack of internal guidance and resources for such type of investment
- Inadequate supply of green bonds or limited green bond issuances
- Higher risk inherent in green bonds
- Other

KEY OBSTACLES FOR ISSUING GREEN BOND

- No clear benefits of green bonds as opposed to conventional bonds
- Lack of internal guidance and resources to consider new products
- Lack of eligible project pipelines
- Lack of knowledge or awareness on green bonds
- Absence of policy guidance from regulators related to green bonds
- Other

Brunei Darussalam, Cambodia, Lao PDR, Indonesia, Malaysia, Singapore, Thailand, Philippines, Viet Nam
SURVEY ON GREEN BONDS AND SUSTAINABLE FINANCE IN ASEAN
Insights on the Perspectives of Institutional Investors and Underwriters

KEY DRIVERS FOR GREEN BOND INVESTMENT

KEY DRIVERS FOR GREEN BOND ISSUANCE

0% 5% 10% 15% 20% 25% 30% 35%
Standardization of green taxonomy External review of green bonds framework Tax incentives for green bond investors Preferential treatment of low-carbon assets Penalties for investing in high-carbon assets Regulatory support and guidance from regulator Requirement by law to allocate certain portion of portfolio to green assets Demand from your stakeholders Green mandates for bond investors Other

Brunei Darussalam Cambodia Indonesia Lao PDR Malaysia Philippines Singapore Thailand Viet Nam

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%
Standardization of green taxonomy Availability of local reviewer or or subsidies for green bond issuers Tax incentives for green bond issuers Preferential treatment of low-carbon assets by investors and lenders Demand from investors Demand from stakeholders Promoting ESG reporting on stock exchanges Other

Brunei Darussalam Cambodia Indonesia Lao PDR Malaysia Philippines Singapore Thailand Viet Nam
THANK YOU
PANEL DISCUSSION: MARKET PERSPECTIVES

Adam Cotter, Senior Executive Banking, DZ BANK AG, Singapore
Djumala Sutedja, Director and Head of Fixed Income and Balance, PT. BNP Paribas Asset Management
Ecaterina Bigos, Chief Investment Officer, Fixed Income APAC, AXA Investment Managers
Johanna Richter, Portfolio Manager, KfW Development Bank
Karthik Iyer, Director of Programmes, Climate Bonds Initiative, and Senior Capital Market Expert, ACGF

Moderator: Pin Hsuan Wu, Financial Sector Specialist, Asian Development Bank
Q&A
ASIA BOND MONITOR 2022 NOVEMBER
AND DEVELOPMENT ISSUES IN
ASEAN+3 SUSTAINABLE BOND
MARKETS

Shu Tian
Senior Economist
Asian Development Bank
Between 31 August and 4 November, the deterioration of financial conditions accelerated.

- Short- and long-term bond yields collectively rose in emerging East Asia.
- In all emerging East Asian financial markets, currencies depreciated against the US dollar, equity markets retreated, and risk premiums widened more significantly than in earlier months in 2022.
- Relatively large, consecutive monthly portfolio outflows were also recorded in September and October.
- The risk outlook to regional financial conditions remained tilted to the downside.

In Q3 2022, the expansion of emerging East Asia’s local currency bond market moderated.

- LCY bond issuance totaled USD2.2 trillion in Q3 2022, contracting 1.1% q-o-q after expanding 13.6% q-o-q in Q2.
- LCY bonds outstanding in emerging East Asia reached USD22.0 trillion at the end of Q3 2022, on slowing growth of 2.3% q-o-q compared to 3.1% q-o-q in the previous quarter.
- The expansion of ASEAN+3’s sustainable bond market also slowed in Q3 2022, with issuance contracting about 25% from the previous quarter.
Regional monetary tightening accelerated on persistent inflationary pressure

All major emerging East Asian central banks tightened their monetary stances during the review period to safeguard price and financial stability.

Inflationary pressure persisted in most emerging East Asian markets.

### Changes in Monetary Stance in Major Advanced Economies and Select Emerging East Asian Economies

<table>
<thead>
<tr>
<th>Economy</th>
<th>Policy Rate 5-Nov-2021 (%)</th>
<th>Policy Rate 4-Nov-2022 (%)</th>
<th>Rate Change (%)</th>
<th>Change in Policy Rates (basis points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>0.25</td>
<td>4.00</td>
<td>↑0.75</td>
<td>+375</td>
</tr>
<tr>
<td>Euro Area</td>
<td>(0.50)</td>
<td>1.50</td>
<td>↑0.50</td>
<td>+200</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0.10</td>
<td>3.00</td>
<td>↑0.90</td>
<td>+290</td>
</tr>
<tr>
<td>Japan</td>
<td>(0.10)</td>
<td>(0.10)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>China, People’s Rep. of China</td>
<td>2.95</td>
<td>2.75</td>
<td>↓0.20</td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>3.50</td>
<td>4.75</td>
<td>↑0.25</td>
<td>+125</td>
</tr>
<tr>
<td>Korea, Rep. of</td>
<td>0.75</td>
<td>3.00</td>
<td>↑2.25</td>
<td>+225</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1.75</td>
<td>4.25</td>
<td>↑2.50</td>
<td>+225</td>
</tr>
<tr>
<td>Philippines</td>
<td>2.00</td>
<td>4.25</td>
<td>↑2.25</td>
<td>+225</td>
</tr>
<tr>
<td>Singapore</td>
<td>4.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td>0.50</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Viet Nam</td>
<td>4.00</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: The up (down) arrow for Singapore signifies monetary policy tightening (loosening) by its central bank. The Monetary Authority of Singapore utilizes the Singapore dollar nominal effective exchange rate (S$NEER) to guide its monetary policy.

Source: ADB, *Asia Bond Monitor November 2022*.
**Financial conditions weakened on aggressive monetary tightening**

*From 31 August to 4 November, long term and short-term bond yields rose, risk premiums widened, equity markets retreated, and currencies depreciated in all emerging East Asian markets.*

### Changes in Global Financial Conditions

<table>
<thead>
<tr>
<th>Major Advanced Economies</th>
<th>2-Year Government Bond (bps)</th>
<th>10-Year Government Bond (bps)</th>
<th>5-Year Credit Default Swap Spread (bps)</th>
<th>Equity Index (%)</th>
<th>FX Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>117</td>
<td>97</td>
<td>—</td>
<td>(4.7)</td>
<td>—</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>5</td>
<td>74</td>
<td>5</td>
<td>0.7</td>
<td>(2.1)</td>
</tr>
<tr>
<td>Japan</td>
<td>4</td>
<td>3</td>
<td>13</td>
<td>(2.5)</td>
<td>(5.2)</td>
</tr>
<tr>
<td>Germany</td>
<td>93</td>
<td>75</td>
<td>8</td>
<td>4.9</td>
<td>(1.0)</td>
</tr>
</tbody>
</table>

| Emerging East Asia            |                               |                               |                                       |                  |            |
| China, People’s Rep. of       | 2                             | 6                             | 28                                     | (4.1)            | (4.1)      |
| Hong Kong, China              | 140                           | 100                           | —                                      | (19.0)           | (0.005)    |
| Indonesia                     | 123                           | 34                            | 14                                     | (1.9)            | (5.7)      |
| Korea, Rep. of                | 48                            | 48                            | 41                                     | (5.0)            | (5.7)      |
| Malaysia                      | 31                            | 40                            | 20                                     | (4.9)            | (5.7)      |
| Philippines                   | 132                           | 136                           | 17                                     | (6.0)            | (4.1)      |
| Singapore                     | 38                            | 51                            | —                                      | (2.8)            | (0.7)      |
| Thailand                      | 20                            | 67                            | 25                                     | (0.8)            | (2.9)      |
| Viet Nam                      | 172                           | 139                           | 18                                     | (22.1)           | (5.7)      |

Note: Data reflect changes between 31 August and 4 November 2022.

Source: ADB. Asia Bond Monitor November 2022. Manila.
Long-term bond yields in most regional markets exceeded their early 2019 levels

The spillover of higher bond yields from advanced economies, continued monetary tightening, and inflationary pressure pushed up 10-year bond yields across the region. Most markets saw yields above their early 2019 levels.

Source: AsianBondsOnline.
Regional currencies collectively depreciated against the US dollar, posting a weighted average depreciation of 4.2% during review period, mainly driven by a strong dollar.

In September, regional currencies’ average depreciation against the US dollar was 3.3% (GDP-weighted), compared with a decline of 0.7% (GDP-weighted) in the region’s average real exchange rate.

Source: ADB. Asia Bond Monitor November 2022. Manila.
Regional equity markets recorded large losses, weighed down by the PRC and Hong Kong, China

The region’s monthly average market-weighted equity return recorded -6.5% in September and October, compared to -2.2% during the first 9 months of 2022, 0.1% during Q2 2022, and -4.1% during Q3 2022.

Between 31 August and 4 November, regional equity markets recorded a market-weighted average loss of 7.5%, largely driven by the PRC and Hong Kong, China. During the same period, equities decline 4.7% in ASEAN, 5.0% in the Republic of Korea, and 4.7% in the US.

Movements in Equity Indexes in Select Emerging East Asian Markets

Source: AsianBondsOnline.
Credit default swap spreads rapidly widened, reaching Q2 2020 levels

The region’s monthly average GDP-weighted CDS spread, which is a typical risk premium measure, widened by 24 bps during September and October, compared with only 7 bps during the first 9 months of 2022, and 7 bps during Q3 2022.

Changes in Credit Default Swap Spreads in Select Emerging East Asian Markets (senior 5-year)

Historical Credit Default Swap Spreads in Select Emerging East Asian Markets (senior 5-year)

Note: Figures refer to change between 31 August 2022 and 4 November 2022. Source: ADB. *Asia Bond Monitor November 2022.* Manila.
Relatively large portfolio outflows were recorded in September and October.

Regional equity markets recorded aggregate net outflows of USD9.1 billion in September and October, largely driven by outflows from the PRC.

Net outflows were recorded in most regional bond markets in September on subdued investment sentiment and less attractive yields in some markets.

**Foreign Capital Flows in Equity Markets in Emerging East Asia**

**Foreign Capital Flows in Local Currency Bond Markets in Emerging East Asia**

Note: Data as of 4 November 2022.
Source: ADB. Asia Bond Monitor November 2022. Manila.
LCY bond market expansion moderated amid deteriorating financial conditions

LCY bonds outstanding in emerging East Asia reached USD22.0 trillion at the end of Q3 2022 on moderating growth of 2.3% versus 3.1% in Q2 2022.

Regional bond issuance in Q3 2022 contracted 1.1% q-o-q to USD2.2 trillion on reduced issuance in the public sector. Corporate bond issuance in Q3 2022 expanded, largely supported by the PRC’s 7.2% q-o-q growth. Corporate bond issuance in ASEAN contracted 2.0% q-o-q in Q3 2022 on rising interest rates and a bleak economic outlook.

LCY Bonds Outstanding in Emerging East Asia by Market

USD billion

LCY Bond Issuance in Emerging East Asia by Bond Type

USD billion

Source: AsianBondsOnline.
ASEAN+3 sustainable bonds reached USD521.6 billion in Q3 2022 on slowing growth of 1.7% versus 5.0% in Q2 2022. Sustainable bonds outstanding worldwide reached USD3.1 trillion at the end of September, posting 4.5% q-o-q growth. The global market tripled in size from USD1.0 trillion in Q4 2019. ASEAN+3 accounted for 16.9% of the global total at the end of September.

**Sustainable Bonds Outstanding in Global Markets**

Sustainable bond issuance in ASEAN+3 fell to USD49.8 billion in Q3 2022, contracting 25.3% q-o-q and reversing the 2.6% q-o-q growth in Q2 2022. During the pandemic, there was improved diversification in terms of market profile and bond type.

**Sustainable Bonds Outstanding in ASEAN+3 Markets**

Source: ADB. Asia Bond Monitor November 2022. Manila.
ASEAN+3’s sustainable bond market has potential for government segment growth, more LCY bonds, and longer-tenor bonds.

The private sector accounted for 85.5% of regional sustainable bond issuance in Q3 2022. At the end of Q3 2022, government bonds comprised 75.9% of ASEAN+3’s total outstanding bonds; however, the government bond segment’s share was only 11.3% in the sustainable bond market.

Despite a higher share of LCY bonds in the total bond market in ASEAN+3 (95.0%) than in the EU (82.7%), ASEAN+3 has a lower share of LCY bonds outstanding in the sustainable bond market (61.0%) compared to the EU (83.8%).

Local Currency Bonds as a Share of Total Sustainable Bonds in ASEAN+3 and EU Markets, September 2022

Source: AsianBondsOnline.
Efforts needed to boost demand for long-tenor sustainable bonds in ASEAN+3

ASEAN+3 sustainable bond markets have a high concentration of short-tenor financing, with 75.6% of sustainable bonds outstanding having tenors of 5 years or less at the end of Q3 2022, compared with 36.0% in EU markets. The average size-weighted tenor of outstanding sustainable bonds at the end of September was 4.4 years, compared with 7.5 years in the region’s conventional bond market.

Source: AsianBondsOnline.
The risk outlook to the region’s financial sector remains tilted to the downside.

In the short-term:
- a bleak economic outlook and persistent inflationary pressure in most regional economies
- uncertainties regarding the PRC’s slowdown, monetary tightening in the region and globally, and the ongoing Russian invasion of Ukraine

Over the medium-term, the transition to net zero will involve a reallocation of resources, innovation, and a shift in jobs to low-carbon activities, posing challenges to the financial sector:
- Challenges to financial stability
  - Asset vulnerability (lower asset quality and stranded assets, especially in carbon-intensive sectors)
  - Value adjustments due to climate change risks
- Market development
  - Standardized taxonomies
  - Data and information disclosure
  - Impact assessment and measurement
SOVEREIGN ISSUANCE OF SUSTAINABLE BONDS: FACTS AND FUTURE TRENDS

Bhaveer Shah
Vice President
Climate & ESG Research, MSCI
CASE STUDIES: GREEN AND OTHER THEMATIC BOND ISSUANCES AND POLICY INTERVENTIONS
INDONESIA BLUE FINANCING
CASE STUDY: ALTERNATIVE FINANCING TO MARINE

Gelwynn Daniel Hamzah Yusuf
Chief of Planner, Deputy for Maritime and Natural Resources,
Ministry of National Development Planning/BAPPENAS
Reporting Our Progress on

Blue Finance Strategy to Support the Implementation of Sustainable Blue Economy Development

Gellwynn Jusuf
Chief Planner, Deputy for Maritime Affairs and Natural Resources,
Ministry of National Development Planning/Bappenas
ICCTF
Global Transformation from **Green** to **Blue** Economy

- **2008: Green Economy**
  - Terrestrial Based Renewable Energy
  - Green building, etc.
  - Sustainable Agriculture

- **2012: Green-Blue Economy**
  - Waste water infrastructure
  - Prevention of plastic pollution/recycling
  - Fisheries Infrastructure
  - Water transportation

- **2018: Blue Economy**
  - Marine protection/conservation
  - Sustainable fisheries
  - Marine tourism
  - Marine renewable energy
Indonesia's Blue Economy Potential

17,508 ISLANDS (rely on and are connected by sea)

3 MILLION KM² Exclusive Economic Zone

290,000 KM² territorial sea area

80,791 KM coastline

65% of total Indonesia's area covered by sea

5.23 MILLION fishermen and fish farmers

“Within the Exclusive Economic Zone, Indonesia has the right to manage and utilize all of its ocean resources for the purposes of exploration and exploitation, conservation and development of natural resources (Djuanda Declaration, 1957).”
The Importance of Blue Financing in Indonesia

**INDONESIA'S VISION 2045**

The *maritime* sector's contribution will reach **12.5%** of GDP in 2045.

**FISCAL NEEDS**

- **US$1.64 Trillion** is needed to finance the 7 National Development Agenda.
- The *state budget* can only finance **20–25%**.

**FINANCING GAP 75–80%**

Required innovative financing

- **Multilateral Development Bank**: $941.3 million
- **Foreign government budget**: $469.6 million
- **Public service agency**: $22.7 million
- **Development Bank**: $5.0 million
- **State-owned enterprise (Non-bank)**: $1.2 million
- **Central government budget**: $0.8 million
- **Commercial bank (regional)**: $0.5 million
- **Corporate actors**: $210.4 million
- **Commercial bank**: $168.0 million
- **Commercial bank (SOE)**: $159.8 million
- **Unknown**: $82.9 million
- **Private foundation**: $22.6 million

590+ Project-level, financial disbursement data

- **US$ 644 M**
- **US$ 1.4 B**

Private | Public

Million US$
Current Policies Regarding Blue Financing (Sovereign) in Indonesia

- **Kemenkomarves’ Blue Financing Strategic Document**
- **Blue Economy Development Framework**
- **Blue Financing Strategic Document**
- **SDGs Government Securities Framework**
- **Blue Finance Instruments Development Guideline**

Resources:
- US$3.5 billion & Rp5.4 trillion (2018–2019)
- EUR 500 million (Sept 2021)
- To be determined

Related Documents:
- **Blue Finance Policy Note**
- **Kemenkomarves Financing Strategic Document**
Current Policies Regarding Blue Financing (Sovereign) in Indonesia

- **Blue Economy Development Framework**
- **Kemenkomarves’ Blue Financing Strategic Document**
- **Blue Finance Policy Note**
- **SDGs Government Securities Framework**
- **Blue Finance Instruments Development Guideline**

**Key Policies and Instruments:**

- **US$3.5 billion & Rp5.4 trillion** (2018 – 2019)
- **EUR 500 million** (Sept 2021)
- **SDG Bond**
- **BLUE Bond/Sukuk**
- **Green Bond/Sukuk**
- **Non-Sovereign Bond**

**To be determined**
Blue Finance Discovery Process

1. Context & Situational Assessment
2. Develop Strategy
3. Capital Requirements
4. Channeling/Delivery Options
5. Implementation and Exit Strategy
Way Forward: Blue Economy Implementation in Indonesia

Blue economy initiative is stated in the upcoming RPJMN 2025-2029 and RPJP 2025-2045.

All Ministries/Agencies gathered to integrate blue economy activities in various regional-based projects and sectors.

Blue Finance Advisory Committee creates synergy and declares clear roles of each stakeholder involved to enable blue financing at scale.
Thank you

Website
www.icctf.or.id

Phone Number
(021) 80679386

Email Address
secretariat@icctf.or.id
CASE STUDIES: NATIONAL MORTGAGE CORPORATION OF MALAYSIA (CAGAMAS)

Datuk Chung Chee Leong
Chief Executive Officer
Cagamas Berhad
CASE STUDIES: GREEN, SOCIAL AND SUSTAINABILITY BOND ISSUANCES AND POLICY INTERVENTIONS

WORKSHOP ON SCALING UP GREEN FINANCE IN INDONESIA

Datuk Chung Chee Leong
President/ Chief Executive Officer Cagamas
30 November 2022
CAGAMAS BERHAD AT A GLANCE
(incorporated 2nd December 1986)

- Established by BNM to support the national agenda of increasing home ownership and promoting the development of Malaysia's capital markets
- Development and promotion of Islamic finance within Malaysia
- 100% owned by Cagamas Holdings Berhad, which is 20% owned by Central Bank of Malaysia (BNM), and 80% owned by commercial and investment banks in Malaysia

OBJECTIVES
- Through the issuance of conventional and Islamic securities, Cagamas funds the purchase of housing loans and financing through its Purchase With Recourse (PWR) and Purchase Without Recourse (PWOR) schemes
- The provision of liquidity to financial institutions at a reasonable cost to the primary lenders of housing loans encourages further expansion of financing for houses at an affordable cost

SHAREHOLDERS

BUSINESS MODEL

CREDIT RATING
- A3 Stable (Moody’s)
- AAA/P1 Stable (RAM Rating Services Berhad)
- AAA/MARC-1 (Malaysian Rating Corporation Berhad)
WHY CAGAMAS EMBARK ON SUSTAINABILITY JOURNEY?

Support and promote the 17 Sustainable Development Goals (SDGs)

In line with Malaysia’s aspiration to achieve net-zero carbon emission by 2050

To support JC3* in building climate resilience within the Malaysia financial sector

Conversion of Cagam’s funding/investment activities to aligned with SDGs, COP26 and JC3

Reaffirming and deepening the Company’s mission – sustainable development

JC3: a platform established by Bank Negara Malaysia and Securities Commission Malaysia comprises 20 industry participants to pursue collaborative actions for building climate resilience within the Malaysia financial sector.
5 UNSDGs goals that aligned to Cagamas’ mandate to promote homeownership and contribute to the nation development

6 Clean Water and Sanitation
7 Affordable and Clean Energy
8 Decent Work and Economic Growth
11 Sustainable Cities and Communities
17 Partnerships for the Goals
CAGAMAS SUSTAINABILITY ROADMAP

Reaffirming and deepening Cagamas’ core mission of providing affordable housing vis-à-vis sustainable development and its responsibilities towards the environment.

**2019**
- Establishment of Cagamas Sustainability Bond/Sukuk Framework

**2020**
- Establishment of Cagamas Sustainability Framework

**2021**
- Enhancement of Sustainability Framework to include Cagamas Green Initiative

**2022**
- Establishment of Cagamas Sustainability Investment Framework

**2023**
- To develop Green Home Financing Standard for new home and home improvement financing
### CAGAMAS SUSTAINABILITY ROADMAP (cont.)

**2019**
- **Establishment of Cagamas Sustainability Bond/Sukuk Framework**
  - Establishment of Cagamas Sustainability Bond/Sukuk Framework has led to Cagamas
    - Issued Malaysia’s first ASEAN Sustainability SRI Sukuk for affordable housing in 2020 &
    - Issued Company’s first Sustainability Bonds for SMEs
  - Part of Cagamas’ commitment to spearhead the development of Malaysia’s debt capital market and promotion of Islamic finance.

**2020**
- **Establishment of Cagamas Sustainability Framework**
  - Issued a blueprint for the Company towards embedding sustainable practices into the Group’s business and operations.
  - 3 thematic pillars to the framework are:
    - **Pillar 1:** Promote Sustainable Home Ownership
    - **Pillar 2:** Employer of Choice
    - **Pillar 3:** Positive Societal Impact

**2021**
- **Enhancement of Sustainability Framework to include Cagamas Green Initiative**
  - Introduced **Pillar 4: Positive Environmental Impact** to facilitate Cagamas’ green agenda initiative.
  - Pillar 4 represents our commitment towards climate change mitigation and adaptation and spearhead the provision of green financing for homes and home improvements to consumers.

**2022**
- **Establishment of Cagamas Sustainability Investment Framework**
  - For the new investment proposal, the issuer will be screened for exclusion based on the 6 criteria below:
    - Nuclear
    - Weapon
    - Alcohol
    - Tobacco
    - Child labour
    - Gambling/adult entertainment

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>Establishment of Cagamas Sustainability Bond/Sukuk Framework</td>
</tr>
<tr>
<td>2020</td>
<td>Establishment of Cagamas Sustainability Framework</td>
</tr>
<tr>
<td>2021</td>
<td>Enhancement of Sustainability Framework to include Cagamas Green Initiative</td>
</tr>
<tr>
<td>2022</td>
<td>Establishment of Cagamas Sustainability Investment Framework</td>
</tr>
</tbody>
</table>
ESTABLISHMENT OF CAGAMAS SUSTAINABILITY BOND/SUKUK FRAMEWORK
CAGAMAS SUSTAINABILITY BOND/SUKUK FRAMEWORK

Aligned with local and international principles, standards and guidelines

International Capital Market Association
- Green Bond Principles
- Social Bond Principles
- Sustainability Bond Guidelines

Asean Capital Markets Forum
- ASEAN Green Bond Standards
- ASEAN Social Bond Standards
- ASEAN Sustainability Bond Standards

Securities Commission Malaysia
- Sustainable and Responsible Investment Sukuk framework

Use of proceeds to purchase loans/financing/assets related to:

- Renewable energy
- Energy efficiency
- Green Buildings
- Low carbon transportation
- Affordable housing
- Sustainable water and wastewater management
- Employment generation

LIVING IN A BRIGHTER FUTURE
To-date, Cagamas has issued **MYR2.5 billion (USD0.6 billion)** of Sustainability Bond and Sukuk in total which comprises of:

- MYR700 million of ASEAN Sustainability Bond
- MYR400 million of ASEAN Sustainability SRI Sukuk
- MYR455 million of ASEAN Social Bond
- MYR935 million of ASEAN Social SRI Sukuk

Proceeds from the issuances were used for the purchase of loans/financing related to:

- Affordable Housing
- Small Medium Enterprises
- Renewable Energy
- Wastewater Management
ESTABLISHMENT OF CAGAMAS SUSTAINABILITY INVESTMENT FRAMEWORK
CAGAMAS SUSTAINABILITY INVESTMENT FRAMEWORK

This framework signifies the Company’s commitment towards adoption of sustainable practices in its investment activities. It will be based on 2 main approaches: **Exclusion and ESG integration**

### Exclusion
For any new investment proposal, the issuer will be screened for exclusion based on the 6 criteria below

- **i. Nuclear**: Products and services for nuclear industry. Generation of nuclear power.
- **ii. Weapon**: Lethal defense equipment, defense services, retail of arms, sale of ammunition and guns.
- **iii. Alcohol**: Production of alcohol products for retail sales and alcoholic beverage.
- **iv. Tobacco**: Production, retail and distribution of Tobacco products.
- **v. Child Labour**: Employ or benefit from child labour.
- **vi. Gambling/Adult Entertainment**

### ESG Integration
Integration of ESG factors into investment considerations via **Dual Analysis Approach**.

#### Dual Analysis Approach of Investment Counterparties

**Fundamental Credit Analysis**

**ESG Analysis**

Additional dimension to analyse investment counterparties

Approved Investment Counterparty

### SRI Bond/Sukuk
The Company may consider investing in Green / Sustainable / Social Bond or Sukuk issuances that are aligned to either one of the following principles:

- **i. ICMA’s 2021 Green Bond Principles, 2021 Social Bond Principles and 2021 Sustainability Bond Guidelines**;
- **ii. ASEAN Green Bond Standards updated, ASEAN Social Bond Standards and ASEAN Sustainability Bond Standards endorsed by the ASEAN Capital Markets Forum (ACMF); and**
- **iii. The Sustainable and Responsible Investment Sukuk framework issued by the Securities Commission Malaysia dated November 2019.**

There will be no explicit SRI Bond/Sukuk target but progress will be monitored on a periodic basis.
WHAT’S NEXT?

CAGAMAS GREEN AGENDA
EFFICIENT GREEN ECOSYSTEM TO INCREASE BANKS’ GREEN PORTFOLIO

Cagamas’ Green Agenda aimed to develop a benchmark green home standard which is recognised and acceptable across the value chain of the Malaysia housing industry to enhance the efficiency of Malaysia’s green housing ecosystem.

**GREEN DEFINITION**
(including Guidelines and Standards)

- Climate Change & Principle-based Taxonomy (CCPT)
- JC3
- SC’s Sustainability-linked Sukuk Framework

**INCREASE SUPPLY OF GREEN PRODUCT**

- Easy access to financing
- Cheaper financing rate
  - E.g., banks’ readiness to offer financing to green sectors especially SMEs and with competitive financing rates

**ENABLER**
- Regulators
- Verifier/Second Opinion Providers

**CREATE DEMAND FOR GREEN PRODUCT**

- Tax incentives/rebates
  - Tax exemption for Electric Vehicle
  - Rebate for purchasing energy efficient appliances

- Cheaper financing rate
  - E.g., banks offer preferential housing rate to green certified homes, zero interest rate loan for installation of rooftop solar

**INCREASE SUPPLY OF GREEN PRODUCT**

- Tax incentives
  - Green technology Tax Incentives

- Subsidised funds / Guarantee
  - BNM’s green funds for SMEs
  - Guarantee from CGC, Danajamin

**BANKS OFFER GREEN FINANCING**

- Climate Change & Principle-based Taxonomy (CCPT)
- JC3
- SC’s Sustainability-linked Sukuk Framework

**Notes:**
1. Applicable for companies that acquire qualifying green technology assets/undertake qualifying green technology projects and/or for qualifying green technology service provider companies
2. Wholly owned by Bank Pembangunan Malaysia Berhad (Malaysia Development Bank)
EXPANDING AFFORDABLE HOUSING MANDATE TO INCLUDE GREEN HOUSING

LIVING IN A BRIGHTER FUTURE

MERGING AFFORDABLE HOME WITH GREEN

• House price may be higher but potential lower energy bills will result in higher disposable income of B40 and M40.

• Role of Cagamas
  • As catalyst to promote green home loans with attractive rates/incentives for B40 and M40
  • Bridging the green home loans and green bond market
CHALLENGES: THERE ARE DISCONNECTS ALONG THE VALUE CHAIN

Current

Supply:
Green Residential Building and Townships
✓ One-time green certification*

Financing:
Green Home Financing
✓ One-time green certification

Second Opinion Provider:
Based on preliminary feedback
• RAM Sustainability:
  ✓ Continuous green certification
• MARC:
  ✓ One-time green certification could be possible

How do we get there?

1. Collaboration with Government/related stakeholders
2. Work closely with value chain stakeholders

No green issuance

Green Issuance Hinges on Second Opinion Provider

Future

Supply:
Green Home Standard with
• One-time green certification (G1)
• Continuous green certification (G2)
• Green home designed based on Government’s green specification (G3)

Financing:
Green Home Financing complied with G1, G2 or G3

Second Opinion Provider:
Various tier of green rating based on G1, G2 or G3

Green Issuance

Ultimate Goal: 10% of Green Asset by 2030

*Green certification is to be provided by recognised green certification bodies such as Green Building Index (GBI), GreenRE, LEED and etc.
COOPERATION ON GREEN HOUSING FINANCE

On 21 September 2022, Cagamas and Asian Development Bank (ADB) inked a Technical Assistance to identify challenges for scaling up green residential mortgages in Malaysia including for the affordable housing segment and housing in smaller towns.

Signing of Memorandum of Understanding between Cagamas and ADB
ABOUT THE TECHNICAL ASSISTANCE

• To overcome the current challenges in the green housing market, Cagamas is working together with ADB on a Technical Assistance to achieve the following:

1. Increase accessibility to green affordable home and make it inclusive to all segments, including the female-headed household

2. Living in a green home reaps potential longer-term benefits of lower utility cost which translates into higher disposable household income for B40 and M40

3. Spearheading the issuance of green bond/sukuk market related to green mortgages

• The TA has an overarching objective to identify the challenges and constraints for scaling up inclusive and green residential mortgages in Malaysia, including the affordable housing segment and housing outside big urban centres and in smaller cities.

• The findings will produce knowledge on how the green mortgage market could be expanded, including to the B40 and M40 and female headed household segments, of which can then be transformed into the issuance of Cagamas green bond/sukuk in future to support these market segments.
LIVING IN A BRIGHTER FUTURE

AWARDS AND ACCOLADES

2022

- **Industry Leadership Award**
- **Islamic Issuer of the Year-Quasi-Sovereign**
- **Best Quasi (Sovereign Sukuk)**
  - 1.5 billion ringgit triple-tranche commodity Murabaha sukuk
- **Top Issuance (Conventional)**
- **Top Issuance (All)**
- **GIFA Market Leadership Award (Islamic Securitization)**

---

**2022 Awards and Accolades**

- **OBPA**
- **GIFA**
- **Islamic Issuer of the Year-Quasi-Sovereign**
- **Best Quasi Sukuk**
- **Top Issuance - Conventional**
- **Top Issuance - All**
- **Islamic Finance Advocacy Award**
- **Islamic Issuer of the Year-Quasi-Sovereign**
- **Top Traded Amount - Quasi-Sovereign**
- **Top Traded Amount - Conventional**
- **Islamic Finance Advocacy Award**
- **Best Local Currency Sukuk**
- **Islamic Finance Advocacy Award**
- **Best Local Currency Sukuk**
- **Islamic Issuer of the Year-Quasi-Sovereign**

---

**35 Years of Commitment**

---

**LIVING IN A BRIGHTER FUTURE**

---

**ADB**
Disclaimer

This presentation was prepared exclusively for the benefit and internal use of the recipient. This presentation does not carry any right of publication or disclosure to any other party. Neither this presentation nor its content may be used for any other purpose without prior written consent of Cagamas Berhad (“Cagamas”).

The information in this presentation reflects prevailing conditions and our views as of this date, all of which are accordingly subject to change. In preparing this presentation, we have relied upon and assumed, without independent verification, the accuracy and completeness of any information available from public sources.

Except as required by law, Cagamas and their officers, employees, agents and advisers do not accept any responsibility for or liability whatsoever in respect of any loss, liability, claim, damage, cost or expense arising as a consequence (whether directly or indirectly) of reliance upon any information or any statement or opinion contained in this document, nor do they make any representation or warranty (whether expressed or implied) as to the accuracy or completeness of this documents or its contents. This presentation is not an offer documents and cannot give rise to any contract.
THE END

Cagamas Berhad
Registration No. 198601008739 (157931-A)

Level 32, The Gardens North Tower, Mid Valley City,
Lingkaran Syed Putra, 59200 Kuala Lumpur,
Malaysia.

TEL : +603-2262 1800
FAX : +603-2282 9125
E-MAIL : info@cagamas.com.my
WEBSITE : www.cagamas.com.my
SUSTAINABLE BOND TRANSACTIONS SUPPORTED BY ASIAN DEVELOPMENT BANK

Kosintr Puongsophol
Financial Sector Specialist
Asian Development Bank
SUSTAINABLE BOND TRANSACTIONS SUPPORTED BY ADB

Kosinr Puongsophol
Asian Development Bank
Email: kpuongsophol@adb.org
THA: Support to ASEAN’s First Sovereign Sustainability Bond

ADB has supported Thailand’s Public Debt Management Office to issue ASEAN’s first sovereign sustainability bond in 2020

Key Features:

1. 15-year bond, more than 3 times oversubscribed, issued with an interest rate of 1.585%, lower than the market yield of the existing 15-year benchmark bond
2. Reopened several times THB 30,000 --> 212 billion
3. Proceeds were used to finance green infrastructure (24%) and social impact projects supporting the country’s recovery from the COVID-19 pandemic (76%)
4. Green bond portion was certified by the Climate Bonds Initiative and was listed on the Luxembourg Green Exchange

ADB/ACGF Support:

1) project selection, 2) framework development, 3) external review 4) certification, 5) annual review and 6) bond listing, 7) Green Infrastructure Investment Opportunities report

PDMO Bond issuances with ACGF Support

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>$1.67 billion</td>
</tr>
<tr>
<td>2021</td>
<td>$3.57 billion</td>
</tr>
<tr>
<td>2022 (Nov)</td>
<td>$1.83 billion</td>
</tr>
</tbody>
</table>
Case Study - Accelerating Green Finance in Thailand

The Thailand sovereign sustainability bond is certified by the Climate Bonds Initiative and featured in CBI's Sovereign Bond Survey 2021.

PDMO DG featured in the Climate Bonds Initiative Conference 2020

Awards from The Asset

Global listing

Examples of technical assistance:

- United Nations Development Programme (UNDP)
- Inter-American Development Bank (IDB)
- Asian Development Bank (ADB)
- Mexican government
- Indonesia government
- Seychelles government
- Thailand government
- The World Bank
- France government
- UK government
- United States government
- European Union
- IFC

Luxembourg Green Exchange

Kingdom of Thailand
ADB has supported Thailand’s National Housing Authority to issue the country’s first social bond in 2020, and first sustainability bond by an SOE in 2021.

**Key Features:**
1. Demonstrated practical, step-wise approach in integration ESG into operations
   1. 2020 – issued social bond to support affordable housing projects
   2. 2021 – issued sustainability bond to integrate energy efficiency components in affordable housing projects

**ADB/ACGF Support:**
1) project selection, 2) framework development, 3) external review, 4) certification, 5) annual review
ADB has collaborated with the Government Savings Bank to issue the Thailand’s first social bond by state-owned financial institution. The framework allows the bank to raise funds through:

- Social bond issuance
- Social deposit scheme

GSB will use the proceeds to support its social agenda, aimed at eradicating extreme poverty and reducing inequality.

- support government policies such as providing low-interest loans to grassroots customers to improve their living conditions and address informal debt;
- develop occupational capabilities, especially among the unemployed and vulnerable groups impacted by COVID-19
- support entrepreneurs and communities through low-interest loans and other remedial measures targeting SMEs affected by the pandemic

Experienced significant demand from local investors, leading up to 2 times bid-to-cover ratio.

GSB Bond issuance with ACGF Support

Social Bond (2022) $285 million
• ADB has collaborated with the Export-Import Bank of Thailand to issue its first green bond. This was also the first floating-rate green bond issued under Bank of Thailand’s Thai overnight repurchase rate.

• Exim Thailand will use the proceeds to support clean energy projects.

• Under the framework, Exim Thailand can also issue social bond to support implementation of the government’s policy to provide low-interest rate loans to SMEs, including nonperforming loan debtors who have undergone debt restructuring.

• Currently, Exim Thailand’s green portfolio is around 50 billion baht (US$1.5 billion), and planning to grow to 100 billion baht (US$ 3 billion) by 2027 --> meeting its ambition of becoming Thailand's sustainable development bank
LESSONS LEARNED

Regulatory guidance is critical

Issuers often require technical support e.g., project selection, bond framework

Capacity development is required at all levels

Market ecosystem e.g. selecting right SPO providers

Market champions can help to accelerate market growth
COMPLETED TRANSACTIONS

- First social bond under AMBIF and CGIF-guaranteed
- THB 1 billion ($30 million), 5 years maturity
- Support job creation and economic advancement in local communities.
- Subsequently issued two more social bonds totaling THB 1.5 billion

- First green bond by Thailand's real estate and retail industry developer
- THB 1 billion ($30 million), 3 years maturity
- Support investments in green projects and achieve the company's ‘Journey to Net Zero’ plan by 2050.

- First social bond by state-owned financial institution in Thailand
- THB 10 billion ($295 million), 3 years tenor
- Support government policies e.g. low-interest loans to grassroots customers to address informal debt; developing occupational capabilities of unemployed etc
- Significant demand from local investors, leading up to 2 times bid-to-cover ratio
- Supported in collaboration with ASEAN Catalytic Green Finance facility
- Included in the ABF index

- First floating-rate green bond by issued under Thai Overnight Repurchase Rate (THOR).
- THB 5 billion ($150 million), 3- and 4-years maturity
- Support investment in green projects, particularly solar and wind projects
COMPLETED TRANSACTIONS

- First ever green bond will be issued in Cambodia
- Aligned with the ASEAN green bond standards
- Approximately $3 million in local currency equivalent
- Finance EDGE-certified green office building in Phnom Penh
- To be issued on 9th December 2022

- First social bond by a corporate issuer (nonfinancial institution) in the Philippines under the ASEAN social bond standards
- PHP 2 billion ($34 million), 3 years tenor
- Support contract growing program: rice and hybrid seeds (buyback scheme for rice and hybrid seeds), farmers education program, plant expansion and employment generation
THANK YOU
Q&A
CLOSING REMARKS

Jiro Tominaga
Country Director
Indonesia Resident Mission, Asian Development Bank
THANK YOU FOR YOUR PARTICIPATION