Accelerating Southeast Asia’s Innovative Finance for SDGs: Indonesia’s Pioneering Role

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Indonesia’s Pioneering Green Sukuk – Key Elements and Experiences

In 2016, the MOF developed and implemented the Climate Budget Tagging system – which allows for the tracking and monitoring of government’s spending on climate change mitigation and adaptation activities – The CBT has been utilized by the Ministry of Finance to develop innovative financing instruments in the form of Green Bond/Sukuk.

Prior to the Green Sukuk issuance, the Republic of Indonesia published a Green Bond and Green Sukuk Framework which indicates the green sectors that are eligible to be financed and/or refinanced by the Green Sukuk proceeds. The Framework was developed based on the Green Bond Principles (GBP), received a Second Party Opinion by CICERO, and was awarded Medium Green Shade.

Eligible Green Sectors

- Renewable Energy
- Waste to Energy and Waste Management
- Sustainable Management of Natural Resources
- Sustainable Transport
- Green Tourism
- Green Building
- Sustainable Agriculture
- Resilience to Climate Change
- Sustainable Development Goals

Green Sukuk Impact Report

- 1st Global Green Sukuk
  - USD 1.25 billion
  - March 2018

- 2nd Global Green Sukuk
  - USD 750 million
  - February 2019

- 1st Retail Green Sukuk (ST-006)
  - IDR 1.46 trillion (USD 104.4 million)
  - November 2019

- 3rd Global Green Sukuk
  - USD 750 million
  - June 2020

- 2nd Retail Green Sukuk (ST-007)
  - IDR 5.4 trillion (USD 385.7 million)
  - November 2020

- 4th Global Green Sukuk
  - USD 750 million
  - June 2021

Projected Emission Reduction (2018-2020)

- Over 690 km of railway track construction
- 7.3 million kWh of electricity capacity generation
- Improved solid waste management more than 5 million households

Other Measured Contributions

- 10.3 million tonnes CO2e

Non-Green

43%

Green

57%

Investor Type

March 2018

1st Global Green Sukuk USD 1.25 billion

February 2019

2nd Global Green Sukuk USD 750 million

November 2019

1st Retail Green Sukuk (ST-006) IDR 1.46 trillion (USD 104.4 million)

June 2020

3rd Global Green Sukuk USD 750 million

November 2020

2nd Retail Green Sukuk (ST-007) IDR 5.4 trillion (USD 385.7 million)

June 2021

4th Global Green Sukuk USD 750 million
UNDP’s support towards Thematic Bonds issuance

UNDP's Service Offer

Technical Assistance
- Pre-issuance Phase: support the Thematic Bond/Sukuk Framework development, the Project Selection process, and the coordination with project owners/stakeholders.
- Post-issuance Phase: support the data collection, impact measurement, development of impact report, and assurance process.

Institutional Strengthening and Capacity Building
- Support coordination with project owners/stakeholders;
- Conduct capacity assessment, training, and workshop;
- Prepare standard operating procedure for data collection and impact reporting draft;
- Develop impact measurement and reporting manual.

Campaign and Advocacy
- Succession of global and national events as well as media coverage to increase global visibility and raise awareness of the Thematic Bond initiatives.

SDGs Impact Standards for Bonds
Issued in March 2021, The focus of the UNDP SDG Impact Standards for Bonds is on an issuer’s impact management practices. The Standards can be applied to Use-of-Proceeds or to SDG-linked bonds where the coupon payable by the bond issuer is linked to achieving targets against specific SDG outcomes.

As a guide to map out their internal impact measurement and management practices (and design their impact management systems)

Issuers can use the Standards before they apply for certification, or even if they do not intend to apply for certification.

To review strengths and possible gaps in an SDG Bond Program’s adherence to the Standards.

To note any implications for rectification and marketing of an SDG Bond Program’s adherence to SDG claims.

UNDP’s Service Offer

1. Gatekeeper
   - Engage governmental stakeholders

2. Framework developer
   - Establish a Thematic Bond Framework
     - Integrate the SDG Impact Standards for SDG Bonds

3. Verifier/certifier pre-issuance
   - SDG Bond standards

4. Verifier/certifier pre-issuance; SDG Bond standards
   - Identify eligible budget items
   - Arrange an independent external review
     - Ensure alignment with the SDG Impact Standards for SDG Bonds

5. Underwriter
   - Issue the Thematic Bond
   - Monitor & report

6. Verifier, Monitor
   - Repeat

Repeat

2018 – Indonesia issued World’s first Sovereign Green Sukuk amounted USD 1.25bln
2020 – Mexico issued world’s first Sovereign SDG Bond amounted USD 890mln
2021 – New Development Bank issued USD 765mln SDG-linked Bond
Lessons Learned from Indonesia's Green Sukuk Experience

**PRE-ISSUANCE**

- **Green framework development** – ensure alignment with government plan and projects with national priorities, responding to the current and long-term needs and goals
- **Second opinion** – ensure compliance with the sharia and green principles, then further reviewed by second opinion provider
- **Project selection** – utilizing a robust system to identify and select eligible green projects e.g., climate budget tagging

**POST-ISSUANCE**

- **Strong stakeholder coordination** – through establishment of taskforce/ working groups as well as through having a clear and agreed workplan
- **Capacity and Knowledge** on Impact Measurement and Reporting
- **UNDP internal support** – leveraging technical expertise from global and regional network
- **Partnership** with other development banks/ partners – leveraging partner organizations' expertise and network

**Looking Ahead – Other Potential Innovative Financing Instruments in Indonesia:**

- SDGs/Blue Bond/Sukuk
- Municipal Bond/ Sukuk
- SDGs-Linked Loan
- Blended Finance
- Impact Fund
Thank you

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