



ACCELERATING SUSTAINABLE AND GREEN INVESTMENT IN INDONESIA

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Green Investment

The Importance:

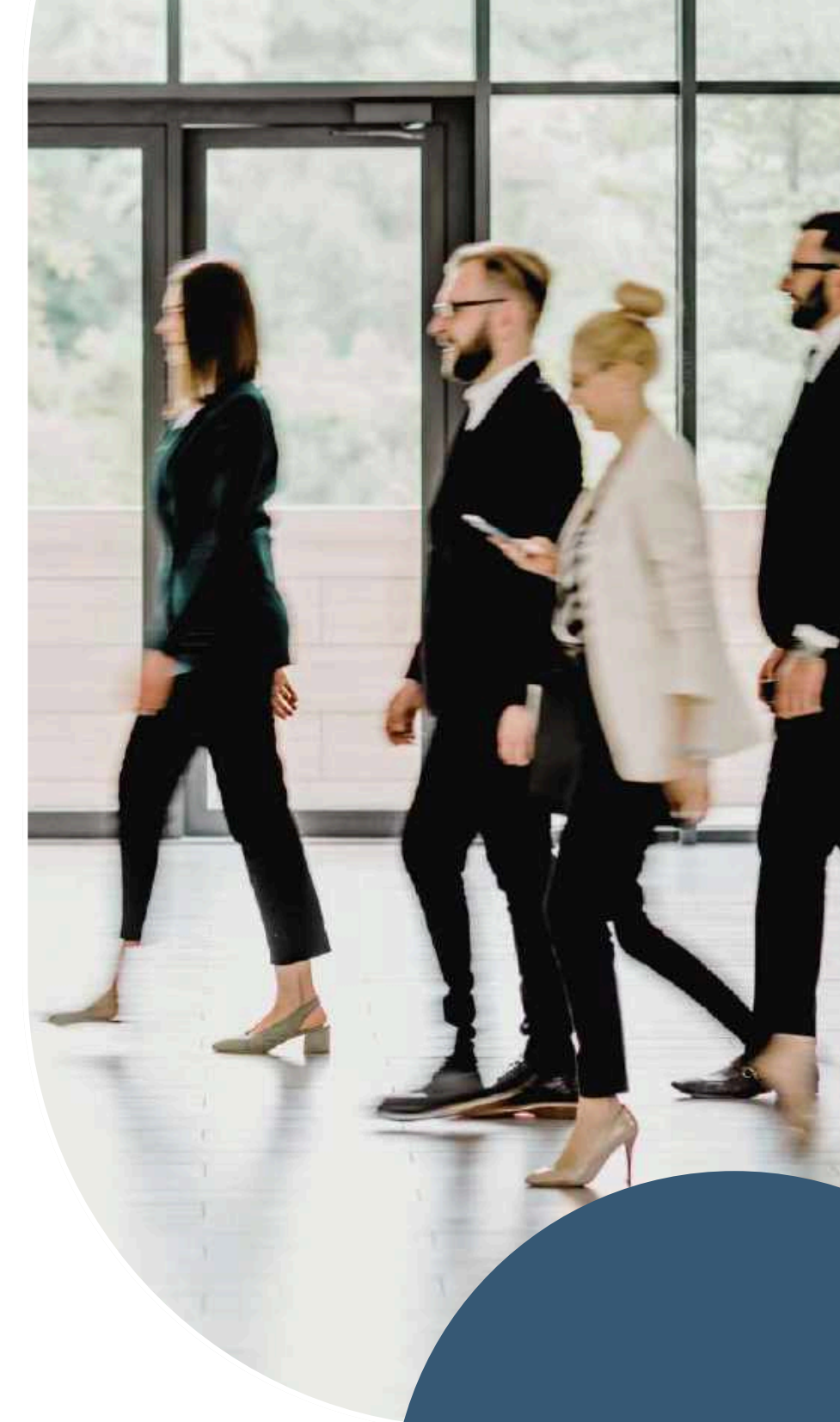
- Green investments are crucial not just as a niche market but as a fundamental part of our economic strategy
- They help ensure a livable planet for future generations and are a key response to global challenges

The Urgency:

- Climate change, resource depletion, and environmental degradation are issues that transcend borders and require collective action

Indonesia's Current Position

- The development of renewable energy as an indigenous energy resource is part of the energy resources diversification strategy stipulated in the 2014 National Energy Policy. Energy diversification and conservation are two main strategies to reduce reliance on fossil fuels and to ensure energy security of the country
- Indonesia has immense renewable energy resources, particularly solar with the highest potential, which has been proven as economically viable, yet the current energy plan shows continuous reliance on coal power
- Decarbonizing power sector is essential in ensuring Indonesia to meet its fair contribution towards Paris target, where Indonesia's power sector would need to at least double its renewable share target to 45% by 2030, currently set at 23% by 2025, and phase-out coal by 2040.



National Electricity Plan (RUKN 2019-2038)

- This renewable energy share target is enforced through the National Electricity Plan (RUKN 2019-2038) and must be implemented by PT PLN (State Electricity Company) and private business area holders
- Since RUKN only serves as the main reference document for power sector development planning in Indonesia, it lacks credible and comprehensive rules to accelerate renewable energy development
- This shortcoming must be addressed in the New and Renewable Energy Bill; however, the ratification process is still halted
- This uncertain regulatory framework for commercial actors, which revolves around incentives, electricity pricing, and the negotiation process, has discouraged private investment in renewable energy projects

Key takeaways:

renewable energy development in the power sector has a strong legal basis, but the implementation still faces several roadblocks, indicating that the plan is unclear and the implementing institutions are unprepared. Hence, we rate the implementation of RUKN 2019-2038 as “Medium”. The rating would improve if the government **addresses shortcomings regarding resources and monitoring mechanism.**

Indonesia's Opportunity

Strategic Advantage:

- Indonesia's vast natural resources and geographic position provide a unique opportunity to lead in green investments and sustainability efforts

How to leverage the advantage:

- Understanding the overview of Indonesia's current status in green investments
- Recognize the benefits it brings to our economy
- Address the challenges and obstacles that hinder its (potential) growth

Green Investment Trends

Global Impacts:

- Over the past decade, green investment has emerged as a powerful driver of global economic growth. This trend is fueled by the urgent need to combat climate change and the growing recognition of the economic benefits that sustainable practices bring
- The green economy represents a \$23 trillion investment opportunity in emerging markets by 2030 (International Finance Corporation)
- Global green bond issuance reached \$500 billion in 2022, highlighting significant growth from previous years

(Source: International Finance Corporation)

Key takeaways:

From the perspective of economic contribution, green investments play a crucial role in creating jobs, enhancing energy security, and driving technological innovation



Global Examples

Green investments contribute significantly to job creation, energy security, and technological innovation. For example, the renewable energy sector employed **over 12 million people worldwide in 2021**, according to the International Renewable Energy Agency (IRENA)

Germany:

- The Energiewende initiative aims for 65% of Germany's electricity to come from renewable sources by 2030
- This initiative has not only increased job creation but also promoted technological advancements and economic growth

Denmark:

- Denmark's leadership in renewable energy showcases how green investments can position a country as a global leader in sustainability

Indonesia: Journey towards the sustainability

- Indonesia stands at a crucial juncture in its journey towards sustainable development. Our country has made notable strides in green investment, particularly in renewable energy projects, sustainable agriculture, and ecotourism
- According to the Institute for Essential Services Reform (IESR), Indonesia attracted \$1.5 billion in renewable energy investments in 2022.
- However, there remains a significant gap when we compare our progress with other developing nations. Despite progress, Indonesia lags behind other developing nations in green investments, needing to accelerate efforts to catch up



Indonesia: Journey towards the sustainability



Emerging Market Green Bond Issuance is Highly Concentrated in Six Countries

Top 10 emerging market green bond issuers in 2022



Source: Bloomberg, CBI, Environmental Finance, IFC

Around 90 percent of all 2022 emerging market green bond issuance could be attributed to just six countries.

China remained the largest issuer over the year, with 73 percent of the total, up from 54 percent the previous year, while **Indonesia grew 2.4 times to \$2.6 billion.**

This was driven mainly by the two sovereign issues worth \$1.9 billion following the publication of the country's **Green Taxonomy in January 2022.**

Indonesia operates a mechanism that enables **tracking and evaluating** public expenditure from climate migration and adaptation

Opportunities for Green Bond Market Growth

- Issuance patterns reflect the prevailing economic, environmental and structural issues in individual markets. Uncertainty around geopolitics and the interest rate outlook feed into demand for green bonds. Political factors shaping sustainable finance policies and frameworks also play a part, as does the institutional makeup of individual countries
- Following the publication of a taxonomy for the region, several countries are in advanced stages of developing their own guidelines or classification systems detailing which economic activities qualify for environmental or sustainable investment
- After published taxonomies in 2022, Indonesia need to put some efforts to improve data and information disclosure and reporting frameworks will be key to ensuring these voluntary taxonomies support the development of GSSS markets in the region



Indonesia, Leader in Green Sukuk Issuance and Climate Budget Tagging

- Since 2018 when Indonesia issued the world's first sovereign green sukuk, a bond-like instrument that adheres to Islamic law, the country's government has continued to develop the market. Proceeds from the sukuk have been allocated toward projects in renewable energy, energy efficiency, sustainable transport, waste management, and resilience to climate change
- What makes Indonesia's climate finance initiatives ambitious is its Climate Budget Tagging mechanism, which enables the tracking and evaluation of climate-related expenditure from the national budget system. Indonesia is the first country in the world to have adopted this new climate finance tracking system (Recommended by the United Nations Development Programme and United Nations Environment Programme)
- Budget Tagging has proved an effective mechanism for preventing greenwashing and ensures financing is directed to areas of the economy where it is needed. It should also help with the government's commitment to climate finance even at times of regime change.





Comparative Performances

While Indonesia has attracted substantial green investments, we still lag behind countries like China and India, which have aggressively pursued green initiatives

China:

- In 2021, China invested over \$90 billion in renewable energy, becoming the world's largest producer of solar panels and wind turbines
- This aggressive investment has positioned China as a global leader in green technology

India:

- India aimed to achieve 175 GW of renewable energy capacity by 2022, attracting significant foreign investment
- This commitment demonstrates ambitious targets and substantial progress in green investment

Bridging the Gap

To bridge this gap, Indonesia must intensify its efforts to create an enabling environment for green investments, addressing both on improving policy and market conditions

- The benefits of green investment extend far beyond environmental sustainability. They are pivotal in driving economic growth and increasing national income
- Green investments lead to the creation of high-quality jobs, stimulate innovation, and enhance energy security
- They also attract foreign direct investment, boosting our economic resilience and global
- competitiveness

Economic Gains for Indonesia

- For Indonesia, the potential economic gains are substantial. By investing in renewable energy, we can reduce our reliance on imported fossil fuels, thus improving our trade balance
- Sustainable agricultural practices can increase crop yields and farmers' incomes, while eco-tourism can generate significant revenue and create jobs in rural areas
- According to a World Bank report, green growth could add \$30 billion to Indonesia's GDP by 2030 and create over 3 million jobs



Steps taken by Indonesia:

Incentives

The government has introduced tax breaks, subsidies, and streamlined permitting processes to support green energy projects

Regulatory Frameworks

Establishment of frameworks to support green financing and promote sustainable practices across industries.

Public-Private Partnerships

Collaboration between public and private sectors to share resources, risks, and accelerate green projects.

Local Capacity

The Indonesia Investment Authority (INA) is crucial for mobilizing funds for sustainable infrastructure projects

The Challenges:

Regulatory Hurdles

Complex regulations and bureaucratic obstacles can deter potential investors

Financial Barriers

High upfront costs and limited access to capital are significant challenges

Market Readiness

Need for mature markets and reliable infrastructure for green investments

Public Awareness

Engaging and educating the public about the benefits of green investments is essential

THANK YOU



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