

SUSTAINABLE FINANCE IMPLEMENTATION IN EMERGING MARKETS: A Preliminary Review of Initiatives In Indonesia



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- **Sustainable development** (1987) = development that meets the needs of the present without compromising the ability of future generations to meet their own needs.
- 25 September 2015 - **2030 Agenda for Sustainable Development** and its **17 Sustainable Development Goals (SDGs)**.
- Sustainable finance = a financial system - all risks and returns - economy, social, and environment - achievement of sustainable development goals.
- To describe the involvement of financial services companies in Indonesia in sustainable finance and to show an example of preparation of a financial services company to implement sustainable finance.





SUSTAINABLE DEVELOPMENT GOALS

17 GOALS TO TRANSFORM OUR WORLD

1 NO POVERTY



2 ZERO HUNGER



3 GOOD HEALTH AND WELL-BEING



4 QUALITY EDUCATION



5 GENDER EQUALITY



6 CLEAN WATER AND SANITATION



7 AFFORDABLE AND CLEAN ENERGY



8 DECENT WORK AND ECONOMIC GROWTH



9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



10 REDUCED INEQUALITIES



11 SUSTAINABLE CITIES AND COMMUNITIES



12 RESPONSIBLE CONSUMPTION AND PRODUCTION



13 CLIMATE ACTION



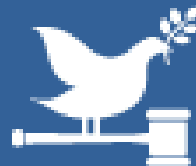
14 LIFE BELOW WATER



15 LIFE ON LAND



16 PEACE, JUSTICE AND STRONG INSTITUTIONS



17 PARTNERSHIPS FOR THE GOALS



Sustainable Finance Implementation in Indonesia

- Indonesia was one of the developing countries that take a leadership role in advancing sustainable finance solution (UN Environment Inquiry, 2018).
- The Roadmap for Sustainable Finance in Indonesia 2015-2019 was issued by the Indonesian Financial Service Authority (FSA) on 5 December 2014.
- FSA Regulation Number 51 Year 2017 on 18 July 2017 about Sustainable Finance Implementation.
- Time line to implement sustainable finance:
 - 1 January 2019 for Banks Tier 3 & 4, and foreign banks operated in Indonesia;
 - 1 January 2020 for Banks Tier 1 & 2, non bank financial services and listed companies.
- On those specific dates, each financial services company has to prepare:
 - a five years and annual Sustainable Finance Action Plan (SFAP);
 - a Sustainability Reporting and submit it to FSA every year.

But, companies had informally implemented sustainable business, before it become mandatory

- In 2007 - Law Number 40 year 2007 regarding Corporation. Article 74 - all companies operate in and/or related to natural resources have to implement social and environmental responsibilities.
- National Center for Sustainability Reporting since 2005 had conducted the Indonesia Sustainability Reporting Award (ISRA) to give award to companies that has published sustainability reporting.
- The Indonesian Capital Market and Financial Institutions Supervisory Board issued the regulation Number X.K.6 year 2006 stated that all annual report of listed companies have to describe activities and cost related to corporate social responsibilities to societies and environment.



Method

- **First** - find the participation of biggest financial services companies in Indonesia in achieving 17 SDGs.
 - Data of annual report, CSR report, and CSR information on company's web site was collected from 27 financial services companies (taken from top 200 Indonesian listed companies, in terms of revenue, in three years period of 2014, 2015, and 2016).
 - Content analysis on corporate reporting using "SDG Compass: Linking the SDGs and GRI → 0 if no information, 1 if reports provided one of indicators
 - 17 SDGs → maximum score = 17, minimum score = 0
 - The indicators of each goal of SDGs, e.g.
 - *SDG 1 (no poverty) = (i) availability of products and services for those on low incomes, (ii) economic development in areas of high poverty and (iii) physical and economic displacement.*
 - *SDG 2 (zero hunger) = (i) food safety and (ii) healthy and affordable food.*
- **Second** - a case study of a big Indonesian financial services company in preparing a comprehensive strategic and action plan to implement sustainable finance. Described the brief profile as well as the history of company's involvement and the future initiatives in sustainable finance practice as been mandated by Indonesia FSA.

Figure 1: Number of Companies Participated to SDGs

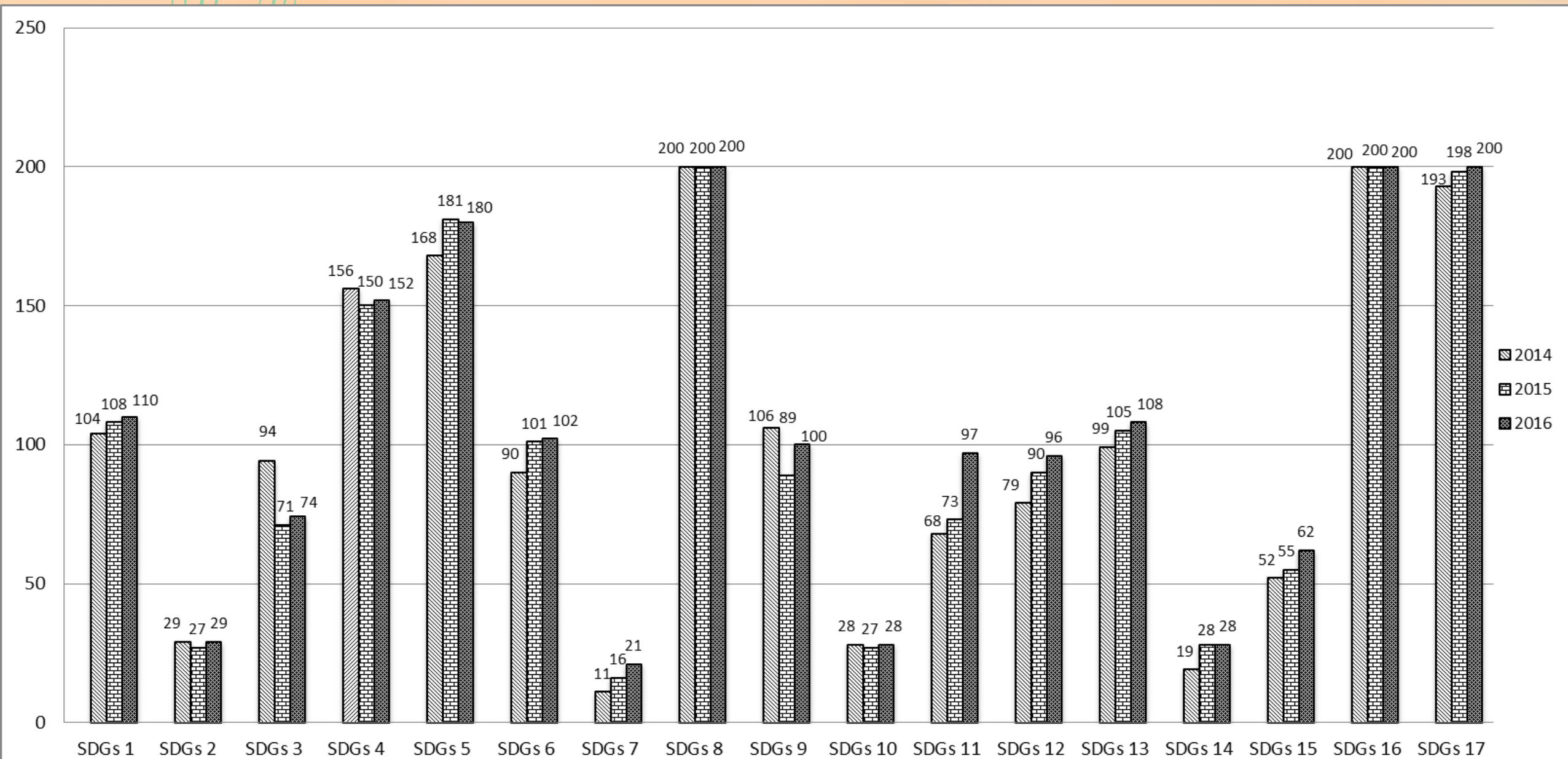
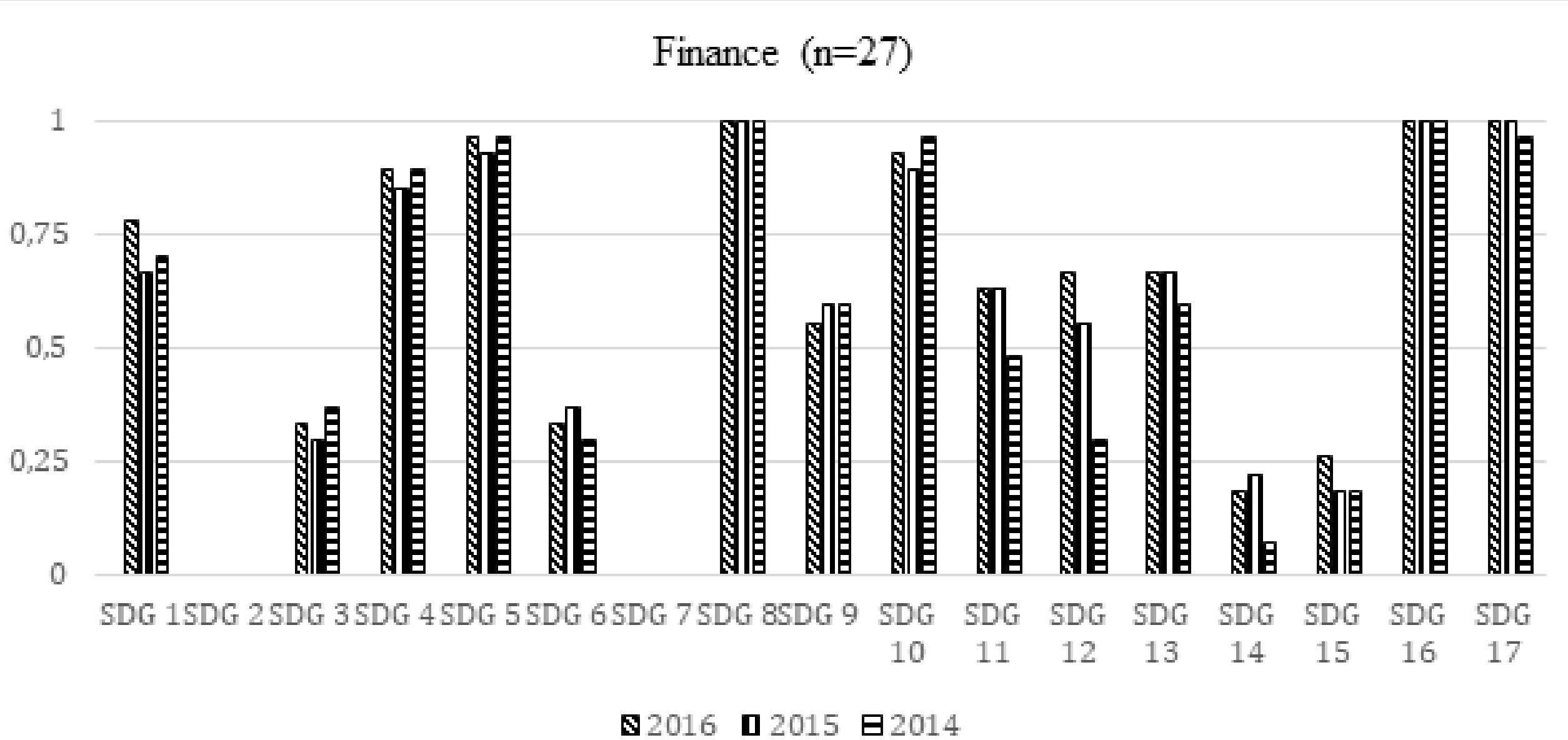


Figure 2: Finance – Percentage of Companies Participating to SDGs





Findings — participation of finance companies in Indonesia in achieving SDGs

Financial services companies in Indonesia had been good in effort to improve:

- economic prosperity, e.g. SDG 8 (decent work and economic growth), SDG 16 (peace, justice and strong institutions), and, SDG 17 (partnerships for achieving the goals).
- develop of human resources quality, e.g. SDG 4 (quality education) and SDG 5 (gender equality)
- solve social discrepancy issues, e.g. SDG 1 (no poverty) and SDG 10 (reduced inequalities)

However, this finance sector still contributed fairly and poorly to

- infrastructure development, e.g. SDG 9 (industry, innovation and infrastructure), SDG 11 (sustainable cities and communities),
- provision of clean and renewable energy, e.g. SDG 7 (available and clean energy),
- environmental preservation. e.g. SDG 6 (clean water and sanitation), SDG 12 (responsible consumption and production), and SDG 13 (climatic action). SDG 14 (life below water), and SDG 15 (life on land)



Findings (ii) – example of initiatives

- One of the oldest and also biggest bank in Indonesia,
- In the past, had published sustainability reporting annually since 2009. and for many years involved in sustainable finance activities to achieve sustainable development goals, e.g. (1) digital banking transformation, (2) Partnership and Society Outreach Program, and (3) Inclusiveness principle implementation
- However, involvement was sporadic, scattered, and had not been equipped with both sustainable risk management and sustainable products and services development.
- Had completed and submitted to FSA a five year and a one year sustainable finance action plan (SFAP):
 1. 5 year FSAP - five pillars, i.e. CSR, sustainable communication strategy, sustainable risk management, sustainable products and operations, and sustainable resources management.
 2. 1 year FSAP 2019 - nine programs, i.e. (1) sustainable finance policies and model (2) institutional strengthening and sustainable finance structure, (3) training on sustainable finance, (4) loan process digitization, (5) loan to informal workers, (6) banking access to disadvantage and remote areas, (7) environmentally friendly loan, (8) sustainable communication strategy and (9) publication of sustainable reporting and participating in Sustainable Finance Award.



Conclusions

- During the period before sustainable finance become mandatory, finance companies in Indonesia had participated well in several aspects of sustainable finance principles, i.e. participation in solving social and economic issues.
- However, their participation were limited, partially managed, and not equipped with essential elements of sustainable finance principles.
- Many are still need to be done in the years ahead by many parties to implement sustainable finance successfully:
 - Indonesia Financial Service Authority – need to do policy intervention to encourage certain financial service company to be more active in participating to several areas, while guiding other companies to focus in other areas, so nationally all important sectors will be fairly addressed. Also, to work together with fiscal authority to provide right incentives.
 - Finance industry associations - facilitate members to be more active in practicing sustainable finance.

