

# Corporate Green Bond In Indonesia

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- Regulation
- Green Bond Issuance
- Challenges

- ❑ Regulation for Green Bond was issued by Financial Service Authority (Otoritas Jasa Keuangan/OJK) on December 21, 2017 (No. 60/POJK.04/2017)
- ❑ This is one of steps taken by OJK in accordance to the road map of Indonesia's capital market to promote sustainability financing
- ❑ This regulation provides legal framework for green bond issuance in Indonesia

“The Regulation mostly adopts the Green Bond Principle by ICMA”

- ❑ Use of proceeds:
  - ❖ The eligible projects is the same with ICMA
  - ❖ At least 70% of the bond proceeds must be used to finance eligible green project
  - ❖ Progress of the use of proceeds must be reported to OJK
  - ❖ The proceeds can be directed to other eligible project
  - ❖ The changes must be supported by opinion or evaluation report of the substitute project
- ❑ Process for Project Evaluation and Selection :
  - ❖ Opinion or evaluation report from independent party
  - ❖ Competency evidence of the evaluator

## ❑ Management of Proceeds

- ❖ The proceeds must be managed in an separate account
- ❖ The eligibility of the projects must be reviewed at least once in a year
- ❖ If the project is deemed no longer eligible, issuer has 1-year remedial period
- ❖ If in 1 year the issuer fails to do the remedial, bond holder may ask the issuer to buy-back the bond, or compensation in the form of higher coupon

## ❑ Reporting:

- ❖ OJK regulates what to be reported in prospectus (info memo), a basis used by OJK to approve the bond issuance
- ❖ After the approval from OJK, prospectus must be made publicly available
- ❖ Items relating to the issuer's obligations to bond holders must be stipulated in trusty agreement

## ❑ Others

- ❖ Obligation to contain green bond issuance in Annual Report is not regulated
- ❖ OJK may give incentive for green bond issuance but form of incentive is not mentioned. This will be regulated in separated regulation

# GREEN BOND IN INDONESIA

On July 9, 2018 PT Sarana Multi Infrastruktur (“SMI”), a government body under MOF with the main purpose of financing the infrastructure, issued the first green bond in Indonesia

- ❑ Size of Issuance: IDR500.0 bio ( $\pm$  USD 34.5 mio) vs Planned IDR1.0 tn ( $\pm$  USD 69.0 mio)
  - ❖ Relatively small compared to size of conventional bond issuance
  - ❖ Downsizing is due to the lack of demand and higher than expected coupon
  - ❖ The green bond was issued together with Sukuk
- ❑ Projects being financed:
  - ❖ Jakarta’s Light Rapid Transit (LRT) : 36%
  - ❖ Mini Hydro Power Generator : 36%
  - ❖ Water Treatment Plant : 28%

# GREEN BOND IN INDONESIA

- ❑ Credit Rating:
  - ❖ idAAA from PEFINDO
  - ❖ Superior support from GOI and the highly-important role for infrastructure development
- ❑ Green Opinion:
  - ❖ Medium Green from Cicero (Norway-based)
  - ❖ They also give opinion for Sukuk Green Bond issued by GOI
- ❑ Tenor:
  - ❖ 3 years : IDR251.5 bio
  - ❖ 5 years : IDR149.5 bio



## □ Coupon:

- ❖ 3 years : 7.55% p.a (vs benchmark rate 7.08% p.a)
- ❖ 5 years : 7.80% p.a (vs benchmark rate 7.18% p.a)
- ❖ Coupon rate is comparable with those of Sukuk

## □ Investor:

- ❖ Government-linked institutions (social security, government officer saving and insurance): 40.0%
- ❖ Mutual Fund : 36.0%
- ❖ Banks : 9.0%
- ❖ Pensiun Fund : 8.0%
- ❖ Corporates : 5.0%
- ❖ Insurance : 2.0%

# CHALLENGES

- ❑ Lack of understanding from both issuer and investor on the benefits of green financing
- ❑ Issuers still consider cost and effort to issue green bond more costly than conventional
- ❑ Coupon rate and credit rating remain the main consideration for investor
- ❑ Incentive for green bond is yet to be regulated



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THANK YOU