

First Corporate Green Bond in Indonesia

Supporting Indonesia's Efforts to Fight Climate Change

OVERVIEW

Indonesia, the largest archipelagic country in the world with extensive tropical rainforests, high carbon stock values and energy and mineral resources, is firmly committed to stepping up climate change mitigation and adaptation activities. As a responsible and committed member of the global community, Indonesia has ratified the Paris Agreement and submitted Nationally Determined Contributions (NDCs) that set out its commitment to a low carbon and climate resilient future. The green bond is a key tool to finance such activities.

Background

The Government of Indonesia is encouraging public and private sector issuers to contribute towards its mitigation and adaptation targets by issuing green bonds. Indonesia Financial Services Authority (FSA) developed green bond regulations in December 2017 with inputs and comments from the World Bank. The Ministry of Finance issued a green Islamic bond (sukuk) in February 2018.

In January 2018, the World Bank and Ministry of Finance convened key market participants, including state-owned enterprises (SOEs) and private sector issuers, investment banks, environment specialists, government officials and regulators to discuss the potential for green bond issuance in Indonesia. The objective was to leverage the World Bank's experience as pioneer green bond issuer to share international best practices and address the concerns of market participants.

PT Sarana Multi Infrastruktur (Persero) (PT SMI), an SOE under the Ministry of Finance, stepped forward to kickstart the local green bond market. As an infrastructure financing company, PT SMI was uniquely positioned to contribute to Indonesia's NDCs by mobilizing financing in



Photo credit PT SMI

renewable energy and low emission transport projects that directly reduce GHG emissions. PT SMI had already established a Sustainable Financing Division in 2016 to oversee green projects and Environmental, Social, and Advisory Evaluation Division to implement an Environment & Social Management Framework; and was approved as an accredited Direct Access Entity to the Green Climate Fund.

Challenges

There were no benchmarks for the issuance of green bonds in Indonesia. The FSA green bond regulations had not been tested. The ASEAN Green Bond Standards had not been used outside Malaysia. There was a lack of knowledge and understanding about the process and requirements for issuing a green bond. Moreover, PT SMI did not have the internal capacity to measure and report on metrics relevant for mitigation and adaptation impact reporting. Yet, as the first mover it was very important for PT SMI to set market standards in Indonesia.

Solution

The World Bank developed a technical assistance program for PT SMI. The engagement was funded by SECO (Swiss Secretariat for Economic Affairs) and Global Affairs Canada as part of a broader capital markets development program in Indonesia. The World Bank team included sustainable finance experts from Treasury, capital markets experts from the Finance, Innovation and Competitiveness Global Practice (FCI), and environment experts.

The Treasury team clarified requirements and compliance with local regulations, regional guidelines and international best practices. PT SMI's green bond framework was designed to comply with the FSA green bond regulations and align with ICMA's 2017 Green Bond Principles as well as ASEAN Green Bond Standards.

The team helped PT SMI establish a working committee; developed a green bond issuance roadmap; and drafted a green bond and sukuk framework. World Bank environment experts reviewed the framework for sustainability and environmental issues and helped build PT SMI's capacity to select, evaluate, and monitor projects. Finally, the World Bank FCI team facilitated the delivery of a second opinion by CICERO (Center for International Climate Research in Oslo). CICERO opined that "PT SMI's green bond and green sukuk framework provides a structured, sound approach to green financing for business activities that protect and/or improve the quality or function of the environment."

Project evaluation and selection

PT SMI's green bond eligible project categories included renewable energy, energy efficiency, sustainable pollution management and prevention, sustainable natural resources and land use management, clean transportation, and sustainable water and sewage management. These categories were selected to ensure alignment with the Government's mitigation and adaptation targets. Fossil fuel power generation was explicitly excluded.

PT SMI's green projects are evaluated based on financial viability and screened for environmental and social risks as well as the eligibility and exclusionary criteria outlined in the green bond framework. Its Corporate Development and Management Initiative (reporting directly to the President of PT SMI), Environmental and Social Safeguard (ESS) Division (reporting to the Risk Management Director), Financing and Investment Division, Legal Division and Finance & Investor Relations Division are responsible for conducting due diligence, project approval review, and technical monitoring of

environmental and social risk management throughout the project cycle. Final project selection and approval is made by senior-level representatives from the technical, legal, risk management, and financial departments.

Management of proceeds

Green bond proceeds are allocated and managed by the Finance & Investor Relations Division following recommendations from the business units (Financing and Investment Division and Sustainable Financing Division). The Finance & Investor Relations Division tracks allocation of proceeds within its internal management system, noting project descriptions, locations, and amount of proceeds allocated. Pending allocation, net proceeds from the sale of the bond is invested in cash, cash equivalents and/or marketable securities. All funds are fully allocated within one year.

At every stage of the process, PT SMI chose to take a conservative stance to ensure full compliance with international best practices. For instance, Indonesia's FSA regulation allows the use of 30% of green bond proceeds for "incidental expenses." PT SMI, however, committed to utilize 100% of proceeds for green projects. They also decided against using green bond proceeds to finance large hydro and biofuel from forest-based feedstocks.

Reporting

PT SMI committed to publishing an annual use of proceeds and environmental impact report on its website until the maturity of the green bond. The report will be reviewed by a senior-level team comprising Financing and Investment, Sustainable Financing, Corporate Development and Initiative Management, Corporate Secretary and Finance & Investor Relations Divisions. The World Bank is providing technical assistance to PT SMI for the preparation of the impact report.

Outcome

On July 9, 2018, PT SMI issued the first corporate green bond in Indonesia. See details below.

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| Issuer | PT Sarana Multi Infrastruktur (Persero) |
| Issuer Rating | id AAA (Pefindo) |
| Aggregate Size | IDR3tn program bond (first issuance IDR500bn) |
| Maturity | 3 yrs & 5 yrs |
| Tranche Size | IDR251.5bn (3 yrs) & IDR248.5bn (5 yrs) |
| Coupon Rate | 7.55% (3 yrs) & 7.80% (5 yrs) |
| Demand | IDR978bn |
| Use of Proceeds | LRT and Mini Hydro Power Plant |