Coal Finance & Green Taxonomy: Does it reflect the climate risks?

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August 26TH, 2021
Sustainable finance initiatives continue to rise

Sustainability coalitions and initiatives in the financial sector, by year of launch

Source: CPI, Sustainable Finance Integrity Framework, 2021
Financial Institutions continue to exit Coal Finance…

Over 100 Major Financial Institutions Now Have Coal Finance Restrictions
To date, over 100 globally significant financial institutions including public development banks, national development finance institutions, export credit agencies, private banks and insurance companies have developed formal thermal coal mining and/or coal-fired power plant exclusion policies.

- World Bank announces first restrictions: No new project finance except in ‘rare circumstances’
- 2 Multilateral Development Banks, 9 Development Finance Institutions follow World Bank adopting coal finance restrictions
- Asian Infrastructure Investment Bank proposes coal restrictions
- AXA becomes first global insurer to restrict project underwriting and insurance for new projects
- ING first global bank to set phaseout date for coal in power sector by 2025

2013
- Norwegian Sovereign Wealth Fund divests: Companies generating 30% revenue from coal excluded; estimated $8 billion divested from coal

2014
- First private bank coal restrictions announced by Bank of America

2015
- Export Credit Arrangement coal restrictions cover 35 ECAs

2016
- International Finance Corporation closes financial intermediary loopholes: 95% of lending “ringfenced” to avoid coal and promote clean energy

2017
- Standard Chartered announces end to new coal plant investment

2018
- Royal Bank of Scotland coal restrictions improved: tightens general lending to companies involved in coal

Global Financial Institutions >US$10bn AUM | Total
--- | ---
Multilateral Development Banks (MDB) | 7
Export Credit Agencies (ECA) | 35
Development Finance Institutions (DFI) | 9
Insurers / Reinsurers | 20
Global Banks (Private) | 34

Source: IEEFA, 100 and Counting Coal Exit, 2019

… but in Indonesia support remains
State budget (APBN): CBT still below fossil fuel subsidies

Despite the subsidy reform of 2015, fossil fuel subsidies remain at 9% of the total state budget on average since 2015. By contrast, spending for climate action is 6% of the total state budget on average since 2016.

Source: CPI Analysis of APBN & CBT
Fiscal Stimulus (PEN) dominated by support to dirty sectors

Allocations related to energy transition represent only 0.9% of the total PEN budget.

Source: CPI, 2021
Private finance: loans to RE still below loans to conventional utilities

Loans from Indonesian banks to RE vs conventional utilities (2018-2019)

Source: CPI, 2020
<table>
<thead>
<tr>
<th>Reference</th>
<th>Purpose</th>
<th>Use of green finance standards</th>
<th>Financial institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perpres 61/2011 on RAN-GRK; Ministry of Environment and Forestry Guideline for Climate Change Mitigation Actions;</td>
<td>To provide a reference for Ministries / Agencies in determining development activities in NDC sectors that contributes to climate change mitigation that has direct and indirect impacts on greenhouse gas emission reduction.</td>
<td>Climate Budget tagging, consisting of 17 ministries/ government institutions (2020)</td>
<td>OJK (Financial Services Authority) Sustainable Finance Roadmap (2014) and SF Framework (POJK 51/2017)</td>
</tr>
<tr>
<td>Source: CPI analysis, 2021</td>
<td>To provide guideline for financial institutions, capital market, and listed corporations to implement sustainable finance principle</td>
<td>Development of sustainable finance action plan and sustainability report for the financial institutions, capital market, and listed corporations</td>
<td></td>
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</tbody>
</table>
Green Taxonomy one of OJK’s priorities under Sustainable Finance Roadmap Phase II*

Current Sustainable Business Activities Category

1. Renewable Energy
2. Energy Efficiency
3. Pollution Prevention and Control
4. Sustainable Natural Resources and Land Use
5. Terrestrial and Aquatic Biodiversity Conservation
6. Sustainable Transportation
7. Sustainable Water and Wastewater Management
8. Climate Change Adaptation
9. Eco-efficient Products
10. Green Buildings
11. Other Environmentally Friendly Business Activities
12. Micro, Small and Medium Enterprises

Policies to be Developed

Green Taxonomy (2021-2022)

ESG Integration into risk management (2021-2023)

Key Performance Indicator (KPI) (2021-2023)

Developing Incentives (2021-2025)

Implementation Guideline for Capital Market and NBFI (2021-2025)

*Other priorities of SFR II include: strengthening market infrastructure, product innovation, coordination with government agencies

Source: CPI analysis, 2021
While OJK generally follows benchmarking, public sector green finance taxonomy still supports fossil fuel/ fossil fuel derivatives

<table>
<thead>
<tr>
<th>Mitigation Sector</th>
<th>Mitigation Activities</th>
<th>Benchmarking</th>
<th>Presidential Guidelines</th>
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</thead>
<tbody>
<tr>
<td>1 Transportation</td>
<td>Traffic control system</td>
<td>Not Available</td>
<td>Included</td>
</tr>
<tr>
<td>2 Transportation</td>
<td>Navigation system</td>
<td>Not Available</td>
<td>Included</td>
</tr>
<tr>
<td>3 Land Transport</td>
<td>New hybrid fleet</td>
<td>Excluded</td>
<td>Included</td>
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<tr>
<td>4 Land Transport</td>
<td>New fossil fuel fleet</td>
<td>Excluded</td>
<td>Included</td>
</tr>
<tr>
<td>5 Aviation</td>
<td>Supporting Infrastructure</td>
<td>Excluded</td>
<td>Included</td>
</tr>
<tr>
<td>6 Aviation</td>
<td>New Aircraft fleet</td>
<td>Excluded</td>
<td>Included</td>
</tr>
<tr>
<td>7 Energy</td>
<td>Clean Coal Technology</td>
<td>Excluded</td>
<td>Included</td>
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<tr>
<td>8 Energy</td>
<td>Gas network Infrastructure</td>
<td>Excluded</td>
<td>Included</td>
</tr>
<tr>
<td>9 Energy</td>
<td>Gas Refill Station</td>
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<td>Included</td>
</tr>
<tr>
<td>10 Energy</td>
<td>Co-Firing Gas</td>
<td>Excluded</td>
<td>Included</td>
</tr>
</tbody>
</table>

Source: CPI analysis, 2021
Ideally, a taxonomy should clearly differentiate:

- **Dirty**
  - Discouraged
  - Disincentivized

- **Transition**
  - Short term with Phase out date
  - Hedging transition impact

- **Green**
  - Encouraged
  - Incentivized

✓ Transparent
✓ Internalized Metrics
Framework for Sustainable Finance Integrity
A contribution to guiding action across the financial system
Consultation Draft

May 2021

Thank You

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