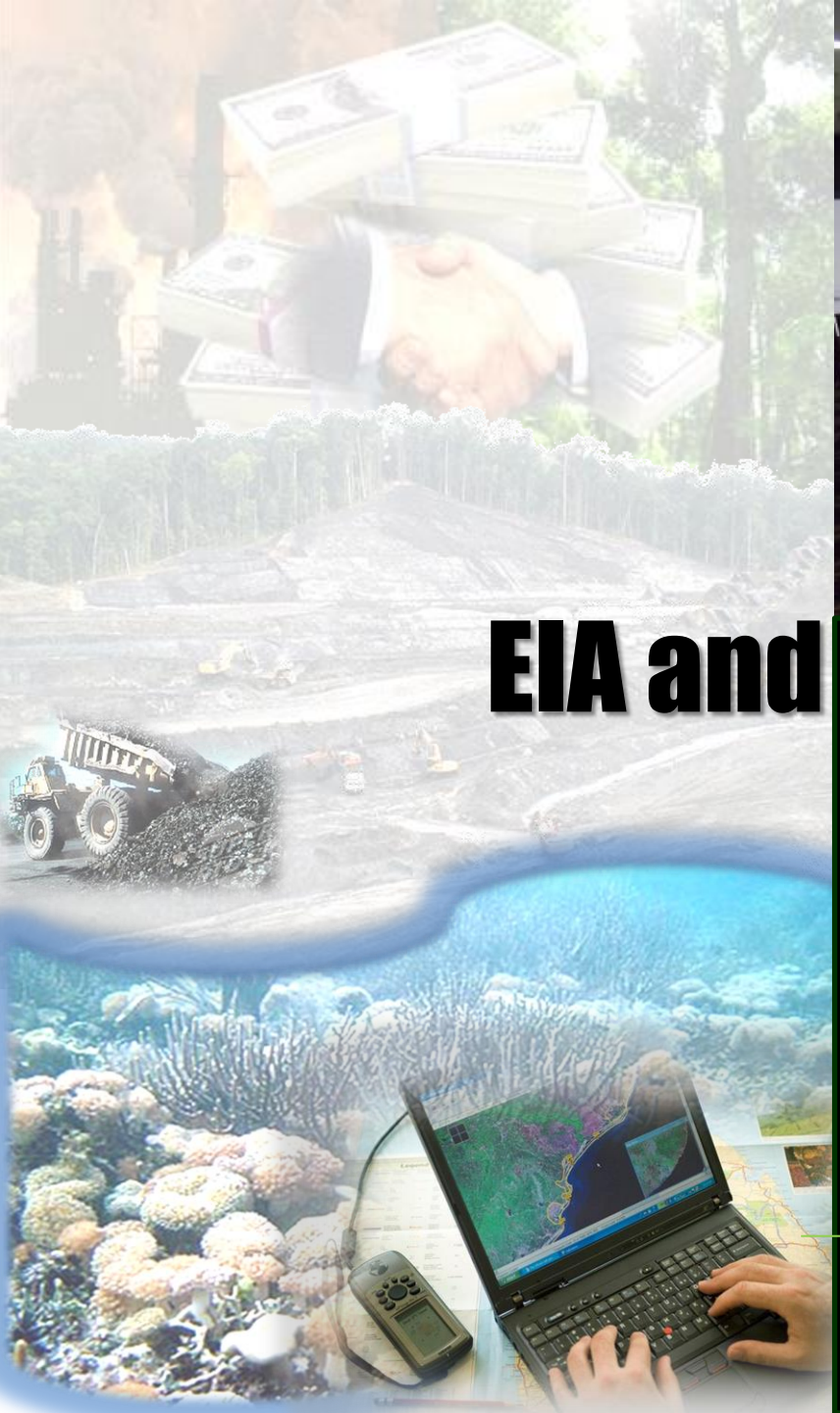


EIA and Sustainable Finance:
A Good Practice of Indonesia

Erik Teguh Primiantoro

Head of Sub-Directorate for EIA System Development and Technical Assistance

Ministry of Environment and Forestry-Indonesia
DG for Forestry and Environmental Planning
Directorate for Environmental Impact Prevention of Business and Activty

Sustainable Finance: Integrating EIA into Credit/Loans Decision Making Process

Article 33 paragraph (4) & Article 28H paragraph (1) the Indonesia Constitution of 1945

- Enviromentally sound businesses and/or activity) and
- Good and healthy environment

EPMA Act No. 32/2009: EIA, EP & Green Economic Instruments

Bank Act Number 7 of 1992 as revised by Bank Act Number **10 of 1998**

Prudential Principle & obligation to have EIA (AMDAL) for large scale and/or high risk businesses

Bank Indonesia Regulation (PBI) Number 14/15/PBI/2012: Bank Asset Quality Assessment

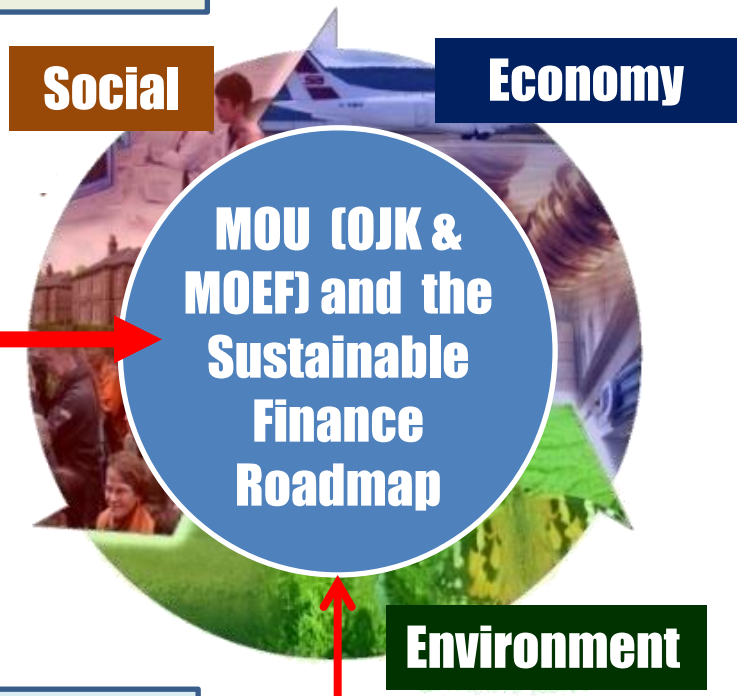
Environmental Management Effort is one of the debtor's business prospect criteria for determining credit quality (Article 10 and 11)

Bank Indonesia's Circulation Letters:

- No. 15/28/DPNP (31 July 2013) for Conventional Bank; and
- No.13/ 10 /DPbS (13 April 2011 for Shariah Bank

Environmental Management Effort is translated into

1. Amdal/UKL-UPL and Environmental Permit; and
2. Implementation of EMP/Environmental Permit (i.e. PROPER: The Corporate Environmental Performance Rating Program)



To accelerate the process in creating Sustainable Banking

MOU: OJK and MOEF

OJK and KLH implement several joint efforts embodied in memorandum of understanding, which contains:

1. Harmonization of policy in financial services sector with policy in environmental protection and management;
2. Harmonization of policy in environmental protection and management with policy in financial services sector;
3. Appropriation and use of environmental data and information for developing sustainable financial services;
4. Research/survey in the framework of drafting policy concept for sustainable finance; and
5. Improvement of capacity and competency of human resources in financial services sector in the field of environmental protection and management.

http://www.ojk.go.id/en/berita-dan-kegiatan/siaran-pers/Pages/joint-press-release-memorandum-of-understanding-between-environment-ministry-klh-and-financial-services-authority-ojk.aspx

Sustainable Finance Program

1. Developed by Indonesian Financial Services Authority (OJK) in collaboration with other Institutions i.e,. MOEF, Ministry of Energy and Mineral Resources (MOEMR), USAID, WWF;
2. Strengthening and enhancing EIA system and Implementation;
3. Developed Sustainable Finance Roadmap;
4. Capacity Development:
    a. Capacity building and rising awareness;
    b. Sustainable Finance Coordinating Forum; and
    c. The sector-specific guidelines on Environmental and social risk management (ESRM).

Capacity Building and Rising Awareness on Environment & Social Risk Assessment

Training on Environmental Risk Assessment for bank officers (Photos: USAID and OJK, 2015)

Developing Guidelines for Sustainable Finance

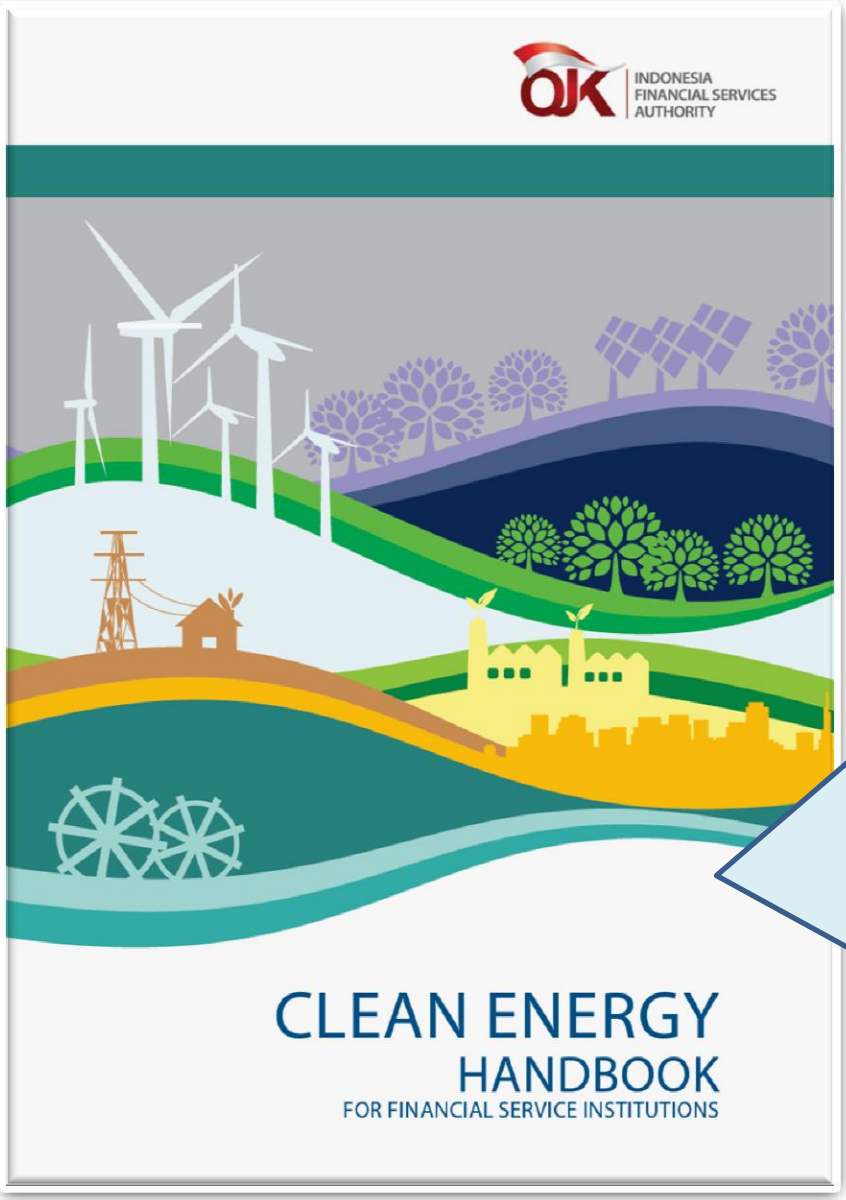
1. **Roadmap for Sustainable Finance (2015-2019)** http://www.ojk.go.id/id/Documents/Pages/Keuangan-Berkelanjutan/roadmap%20keuangan%20berkelanjutan.pdf
2. **Clean Energy Handbook for Financial Institutions** http://www.ojk.go.id/id/Documents/Pages/Keuangan-Berkelanjutan/buku-energi-bersih.pdf
3. **Green Building Hanbook for Financial Instututions** http://www.ojk.go.id/id/Documents/Pages/Keuangan-Berkelanjutan/Pedoman%20Pembiayaan%20Isi.pdf
4. **A Guideline for Financial Institutions: Environmental Document for Energy Sector** http://www.ojk.go.id/id/Documents/Pages/Keuangan-Berkelanjutan/dokumen%20lingkungan%20hidup.pdf
5. **Guidelines of Green Lending Model of Industrial Efficiency Energy for Financial Institutions** http://www.ojk.go.id/id/Documents/Pages/Keuangan-Berkelanjutan/Green%20Lending%20Model%20Final.pdf
6. **Environmental, Social and Governance Integration for Banks: A Guide to Starting Implementation** http://www.ojk.go.id/id/Documents/Pages/Keuangan-Berkelanjutan/panduan%20implementasi.pdf

Roadmap for Sustainable Finance in Indonesia

1. **Chapter 1. Framework of the Roadmap**
   a. Background;
   b. Objective of the Development of the Roadmap for Sustainable Finance;
2. **Chapter 2. Goal and Principle of Sustainable Finance in Indonesia**
   a. Definition of Sustainable Finance in Indonesia
   b. Goal and Principle of Sustainable Finance ;
3. **Chapter 3. Plan and Implementation to Strengthen Sustainable Finance**
   a. Increase Supply of Sustainable Financing
   b. Increase in Demand Sustainable Finance Products ;
   c. Oversight of Sustainable Finance Implementation and Coordination with the Relevant Ministries/Agencies
4. **Implementation Plan (Matrix)**

http://www.ojk.go.id/id/Documents/Pages/Keuangan-Berkelanjutan/roadmap%20keuangan%20berkelanjutan.pdf

Clean Energy Handbook For Financial Service Institutions (OJK and USAID 2014)



I. INTRODUCTION TO CLEAN ENERGY

II. THE REGULATION OF CLEAN ENERGY

III. FINANCING SCHEMES FOR SMALL-SCALE RENEWABLE ENERGY PROJECTS

IV. ICED APPROACH TO EVALUATING CLEAN ENERGY PROJECTS

V. MINI-HYDRO POWER, BIOGAS POWER, BIOMASS POWER, SOLAR PHOTOVOLTAIC ELECTRICITY, WIND POWER

http://www.ojk.go.id/Files/publication/CE_Handbook_ENG-OJK.pdf or http://www.ojk.go.id/id/Documents/Pages/Keuangan-Berkelanjutan/buku-energi-bersih.pdf

Clean Energy Handbook For Financial Service Institutions (OJK and USAID 2014): Evaluate Environment and Social Issues

No	Due Diliegence Item	Note
1.	Review description of project facilities (examples include plantations, refineries substation, transmission line, roads, administration/ maintenance complex, housing complex).	Identify potential risks that may affect project design and investment and/or operational costs.
2.	Check status of compliance with environmental requirements, i.e., obtaining the environmental permits and licenses for all project-related facilities (AMDAL/ UKL/UPL)	This is a condition precedent for the effectiveness of the PPA and financing agreement. A review should make sure that project operations would be able to meet environmental standards.
3.	Review the AMDAL/UKL/UPL and determine if there are any critical socio-environmental issues to be addressed for project development and operation, and whether they have been reflected in the project cost	Ensure that the UKL/UPL could address and mitigate the environmental and social risks.
4.	Check and review if public consultation procedures and activities have been completed (or planned). Review key public concerns and how they are addressed in project planning/AMDAL documents. Have there been any protests or negative publicity regarding the project	Lenders will want to protect their reputation and avoid investment in projects with high social risks.
5.	Do the local communities understand the benefits of the development of renewable energy projects for them?	Renewable energy is indigenous; support from local communities will help ensure the sustainability of the project

Clean Energy Handbook For Financial Service Institutions (OJK and USAID 2014): Environment and Social Due Dilegence Check List

No	Due Dilegence Item	Necessary Information	Check	
			Yes	No
1.	Review Amdal/UKL-UPL	a. Is Amdal/UKL-UPL in Place	☐	☐
		b. UKL-UPL addresss and mitigates environmental and social risk	☐	☐
		c. Critical soscial-environmental issues are addressed for project development and operation	☐	☐
		d. Critical socio-environmental issues are reflected in the project cost	☐	☐
2.	Review description of project facilities	Is there any potential risk that may affect project design and investment and/or operational costs?	☐	☐
3.	Review public consultation procedures and activities	a. Are the procedures and activities completed (or planned)?	☐	☐
		b. Review key public concerns and how they are addressed in projectplanning/AMDAL documents.	☐	☐
		c. Have there been any protests or negative publicity regarding the project?	☐	☐
4.	Review support from the local communities	Does the local community understand the benefits of the development of renewable energy projects for them?	☐	☐

Environmental, Social and Governance Integration for Banks: A Guide to Starting Implementation (OJK and WWF 2014)

Environmental, Social and Governance Integration for Banks: A Guide to Starting Implementation (OJK and WWF 2014)
http://www.ojk.go.id/id/Documents/Pages/Keuangan-Berkelanjutan/panduan%20implementasi.pdf (Indonesia)
Or
http://d2ouvy59p0dg6k.cloudfront.net/downloads/wwf_environmental_social_governance_banks_guide_report.pdf (English)

CONTENTS

Foreword

1. Introduction to the Guide
- 1.1 Who is the Guide for?
- 1.2 What are the Guide's objectives?
- 1.3 Scope of the Guide

2. The business case for ESG in banking
- 2.1 What is ESG?
- 2.2 Why is ESG relevant to banks?
- 2.3 ESG in emerging markets
- 2.4 Drivers for ESG integration

3. Developing your ESG strategy
- 3.1 Establishing your ESG ambition level
- 3.2 Understanding your risk exposure and your current level of integration
- 3.3 Determining your ESG risk appetite
- 3.4 Responding to ESG risks
- 3.5 Developing your ESG policy framework and finalizing your ESG strategy

4. Implementing your ESG strategy
- 4.1 Creating an operating model and organizational structure
- 4.2 Soft controls
- 4.3 Integrating ESG into your budgeting and capital allocation processes
- 4.4 Client and transaction approval – lending
- 4.5 Integrating ESG in ECM, DCM business activities
- 4.6 Client engagement

5. Monitoring and reporting on your ESG integration
- 5.1 Why develop KPIs?
- 5.2 Criteria for performance indicators
- 5.3 Developing an internal process
- 5.4 Sustainability reporting

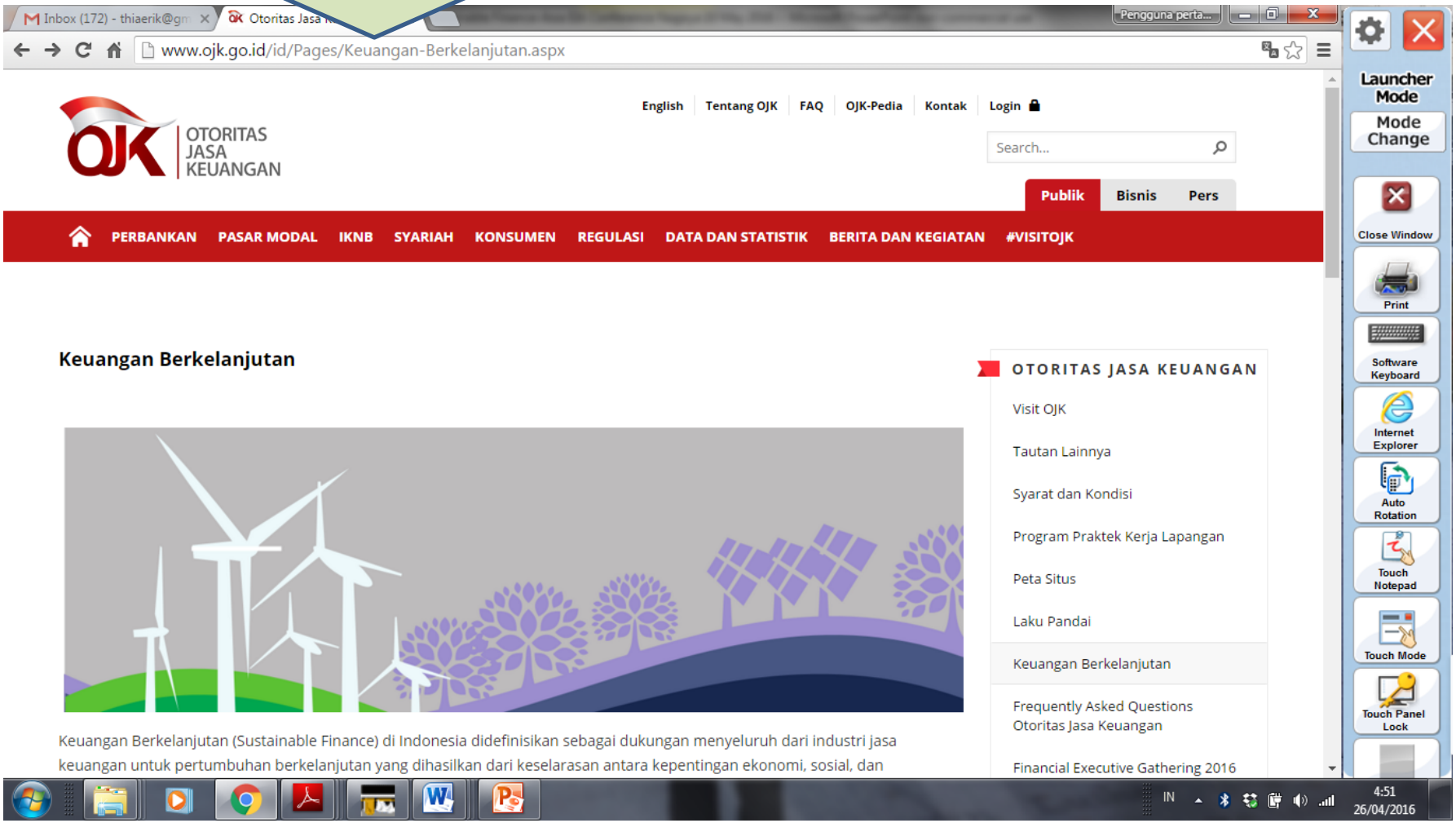
A Guideline for Financial Institutions: Environmental Document for Energy Sector (USAID, OJK and MOEF, 2015)

http://www.ojk.go.id/id/Documents/Pages/Keuangan-Berkelanjutan/dokumen%20lingkungan%20hidup.pdf

1. **Environmental Laws and Regulations**:
   a. Laws and Regulation in Environment and Forestry;
   b. Laws and Regulations in Banking Sector related to Environmental Management;
   c. Laws and Regulations in Energy Sector related to Environmental Management;
2. **Environmental Permit Governance in Indonesia**
   a. Definition of Amdal, UKL-UPL dan Environmental Permit (EP);
   b. Amdal, UKL-UPL and EP in the Indonesian Permit Governance;
   c. Amdal, UKL-UPL dan Environmental Permir Procedure/Process;
   d. Types of Business and Activity Shall Have AMDAL and UKL-UPL;
   e. Environmental Permit Implementation;
   f. Environmental Compliances
3. **Environmental and Social Risk Assessment in the Financial Institutions**
   a. Sustainable Financial Roadmap (2015-2019);
   b. International Environmental and Social Risk Governance;
   c. Detailed Assessment of Amdal and UKL-UPL related to financial assessment of clean energy projects

Developing Information Hub for Sustainable Finace

http://www.ojk.go.id/id/Pages/Keuangan-Berkelanjutan.aspx



Thank You

For Further Information, Please Contact:

Ministry of Environment and Forestry - Indonesia

Directorate General for Forestry and Environmental Planning

Directorate for Environmental Impact Prevention of Business and Activity

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Jl. D.I. Panjaitan Kab. 24 Kebon Nanas Jakarta Timur 13410

Building A Floor 6, Telp/Fax: 021-85904925

http://www.menlh.go.id/ and http://www.dadu-online.com