Supporting OJK: Sustainable Finance First Movers, a first step in Sustaining commodities financing

Irwan Gunawan
Deputy Director Market Transformation
Bangkok, 8 November 2016
On 23 November 2015, 8 banks representing 46% of total national banking asset commit to be the first movers on sustainable banking. The commitment manifests in a pilot project called “First step to be a sustainable bank”, a partnership between Indonesia Financial Service Authority (FSA) and WWF-Indonesia.

Participating Banks

BANKBRI  mandiri  BNI  BCA

syariah  Bank Muamalat  bank bjb  BANK ARTHA GRAHA
Objectives

The pilot aims to support the participating banks in preparing their competency towards the targets in the Sustainable Finance Roadmap in Indonesia for the period of 2014-2019:

- Competency targeted through the pilot project is organization ability in managing environmental, social and governance (ESG) aspects in its business decision
- increasing funding portfolio for businesses implementing sustainable practices.

Primary goals

The results of this pilot project will lead to the following goals:

- Development of an applicable and inclusive regulation to integrate ESG aspects into banks’ operations and of a guideline on responsible lending to the palm oil industry for banks,
- Application of this pilot project to other industries such as agriculture, mining, fisheries and other industries.
- This pilot project enables a conducive roundtable dialogue for sustainable banking practitioners by involving banking experts and practitioners and industrial practitioners to exchange expertise and experiences.
Rationale

Government’s commitment on climate change
- The GoI has committed to reduce GHG emission by 25%-41% by 2030
- The GoI acknowledges forestry and land utilization significantly control climate change
- Moratorium on new licenses in primary natural forests and peatlands
- Moratorium on palm oil and mining new licenses (to be issued)

- Palm oil is a strategic commodity for Indonesia and the sustainability journey of this commodity is leading to other agri-commodities—a strong basis of lessons learned to other commodities;
- Banks has the ability to encourage this commodity’s sustainability performance;

Impact to business environment

A Structured Practical Approach

ESG Integration: Taking into account of ESG issues in bank operations and lending activities:
- A structured, systematic approach with logic and sequence
- Ongoing and evolving process

WWF ESG Guide offers practical guidance for banks:
- How to understand and assess the bank’s exposure to ESG risks
- What measures to put in place for managing and monitoring them
- How to leverage ESG issues for value creation and strategic growth
ESG Guide: 5 Steps to ESG Integration

**Goal**
- Establish Bank’s ESG target
- Understand ESG current risk exposure level
- Determine ESG risk appetite and develop a policy framework
- Integrate ESG into core operations
- Track progress in ESG strategy

**Output**
- Create ESG model pathway suitable to targeted bank
- Heat maps of risk exposure
- List of ESG issues to consider
- Score and benchmark of current integration versus peers
- Exposure limits and compliance with standards
- Potential risk indicators
- Thematic and sector policies
- Incentives and clear organizational responsibilities
- Client and transaction approval processes
- Client engagement protocols
- KPIs
- Internal monitoring process
- External sustainability report for stakeholders

**Activity**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Timeline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline identification of the current ESG integration level and ESG risk exposure within banks</td>
<td>Completed. Feb – Mar 2016</td>
</tr>
<tr>
<td>Established a coordination forum to share knowledge and updates</td>
<td>Completed. April 2016</td>
</tr>
<tr>
<td>A two days training on:</td>
<td></td>
</tr>
<tr>
<td>a. First steps to ESG integration</td>
<td>Completed. 3-4 March 2016</td>
</tr>
<tr>
<td>b. Organizational Structure for ESG integration</td>
<td></td>
</tr>
<tr>
<td>A three days of ESG master class on palm oil sector to provide in-depth understanding of the ESG issues associated with palm oil, and mitigating actions required to address material ESG mitigating issues in the lending portfolio,</td>
<td>Completed. Training and field visit to SMART plantation and mill. 30-1 Jun 2016.</td>
</tr>
</tbody>
</table>
Progress to date (2)

<table>
<thead>
<tr>
<th>Activity</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development of a lending policy framework focused on the palm oil sector (including transaction/client approval and client engagement processes and protocols, adopting simplified credit appraisal tools to carry out ESG due diligence and ESG risk classification processes to support the policy framework, as well as internal monitoring system of the developed policy)</td>
<td>On-going.</td>
</tr>
<tr>
<td>Training on the credit appraisal and due diligence tool</td>
<td>On Going</td>
</tr>
<tr>
<td>Recommendations for mitigating actions within loan covenants and client engagement and follow-up processes.</td>
<td>On Going</td>
</tr>
<tr>
<td>Implementing and monitoring ESG integration</td>
<td>Dec 2016 – Jun 2017</td>
</tr>
<tr>
<td>One time Palm oil masterclass for each pilot project member separately</td>
<td>Jan – Jun 2017</td>
</tr>
</tbody>
</table>

Thank You