Sukuk and Islamic fund as biodiversity-finance solution in Indonesia

Bayuni Shantiko (UNDP/BIOFIN Indonesia)

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Outline

- BIOFIN Process
- Strategizing Islamic giving for biodiversity
- Green Sukuk for Biodiversity
What is a Policy and Institutional Review?

**BIOFIN**

- **Biodiversity Finance Initiative (BIOFIN) Process**

**BER**: Biodiversity Expenditure Review; Sources of funding; expenditures
- (Ministry of Finance)

**PIR**: Policy and Institutional Review; Policies define biodiversity expenditures
- (MOEF)

**Finance needs**: strategy documents and action plans to be costed
- (Bappenas)

**Financing Plan**: feasible financing mechanisms; institutional preparedness; legal preparedness
- (Ministry of Finance)

**Beyond BIOFIN**: Piloting Financial Mechanism; institutional mandates; existing capacities and structures
Biodiversity Finance Plan

74 existing financial mechanisms

83 potential financial solutions

41 Government
4 Donor
18 private companies
2 national FIs
20 Civil society

43 Government
3 Donor
12 private companies
15 Civil society
14 national FIs

Define category of financial result
Mapping
Prioritization & Consultation (ref. IBSAP)
Rapid Screening
Proposal
<table>
<thead>
<tr>
<th>State Budget</th>
<th>Zakat, Infaq, Shadaqah, Waqf</th>
<th>Debt for Nature Swap</th>
<th>Rare Species Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aid Coordination</td>
<td>Impact Investment through Green Islamic Bonds</td>
<td>Corporate Social Responsibility (CSR)</td>
<td>Bioprospecting</td>
</tr>
<tr>
<td>Tariff/fee/tax/for water</td>
<td>Environmental Trust Fund</td>
<td>Biodiversity Offset</td>
<td>Tourism fee &amp; Commercial Advertisement</td>
</tr>
<tr>
<td>Wastewater fees and penalties</td>
<td>Crowdfunding</td>
<td>Green Sukuk</td>
<td>Ecological Fiscal Transfer</td>
</tr>
</tbody>
</table>
Strategizing Islamic Giving for Biodiversity
Selayar Islands Regency

- Area: 10,504 km² (approx. 77% sea)
- Population: 130K inhabitants
- Resources: coconut, fish, nuts (cashew, walnut), agriculture, beautiful landscape
- Takabonerate NP is the third largest atoll in the world
- Problem: destructive fishing practice, low value added products, mangrove exploitation
- The initiative aims to increase income of community while preserving environment
Proposed activities

- Two coastal communities
- Forming group of each activity
  - VCO and cooking oil
  - Coconut charcoal
  - Nata de coco
  - Shredded dry fish
  - Fish ball
- Capacity building on production and marketing
- Awareness raising on mangrove protection and marine waste management
## Expected Benefit

<table>
<thead>
<tr>
<th>Economic</th>
<th>Social</th>
<th>Biodiversity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase income of coastal community</td>
<td>Increase capacity of poor people</td>
<td>Reduce pressure on mangrove</td>
</tr>
<tr>
<td></td>
<td>Enhance social capital of local communities</td>
<td>Improve sustainable fishing practice</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Efficient use of resources</td>
</tr>
</tbody>
</table>
Green Sukuk for Biodiversity
Green sukuk as financial solution

- Global Sukuk issuance volume increased significantly around $98 billion in 2017
- An innovative finance to close the national budget gap
- There is a potency to finance biodiversity project
- Indonesia is among the first issuance of sovereign bond
**INDONESIA GREEN BOND/SUKUK FRAMEWORK**

**Pillar I:** Use of Proceeds
- **Use of Proceeds**

**Pillar II:** Project Evaluation and Selection
- **Budget Tagging Process to identify green projects** (supported by UNDP)

**Pillar III:** Management of Proceeds
- **MoF as issuer should guarantee 100% of proceed used to finance green project**

**Pillar IV:** Reporting
- **Reporting**

**Benchmark Green Framework:**
- Poland
- Fiji
- France

**The Green Eligible Sectors according to Green Framework**
- **Renewable energy**
- **Use of Clean Technology for Power Generation**
- **Sustainable Natural Resource Management**
- **Resilience to Climate Change for Disaster Risk Areas**
- **Sustainable Transportation**
- **Green Tourism**
- **Sustainable Agriculture**
- **Green Building**
- **Energy and Waste Management**
The flow of budget tagging process on planning and budget cycle

1. Emission reduction & resilience target
   - Ministries/Institutions (M/I)

2. Work Plan of M/I
   - National Development Planning Agency & M/I

3. Budget Work Plan of M/I
   - Ministry of Finance & M/I

4. Implementation of Work Plan and Budget Work Plan
   - M/I

5. Indication of Emission Reduction & Resilience Index

6. Budget for Climate Change, Emission Status and Resilience Index
   - Ministry of Environment and Forestry & Ministry of Finance
How to determine eligible project?

Underlying asset should be tagged as capital expenditure

Capital expenditure is expenditure for the acquisition of assets and/or adding value to fixed assets/other assets that benefit more than one accounting period and exceed the minimum capitalization of fixed assets/other assets set by the government

(Ministry of Finance regulation No. 108/2018)

"Eligible Green Projects" refer to projects which promote the transition to low-emission economy and climate resilient growth, including climate mitigation, adaptation, and biodiversity
### Example of Selected Project (2016)

#### Transport: Sustainable Transport (Billion IDR)

<table>
<thead>
<tr>
<th>Type of Projects</th>
<th>Brief Description</th>
<th>Amount Committed as at (date)</th>
<th>Project Lifetime</th>
<th>Target Results (GHG Emission Reduction)</th>
<th>Other indicator(s)</th>
<th>Line Ministry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Railway</td>
<td>▪ Double Track Railways in North Path</td>
<td>2,138</td>
<td>&gt;10 years</td>
<td>0.566 MT Co2</td>
<td>No. of passengers (person)</td>
<td>Ministry of Transportation</td>
</tr>
<tr>
<td></td>
<td>▪ Trans Sumatra Railways</td>
<td>2,846</td>
<td>&gt;10 years</td>
<td>0.194 MT Co2 (estimate)</td>
<td>Distance of Railways (km)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Jabodetabek Urban Railways</td>
<td>1,014</td>
<td>&gt;10 years</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Energy: Renewable Energy & Energy Efficiency (Billion IDR)

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<th>Type of Projects</th>
<th>Brief Description</th>
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<th>Project Lifetime</th>
<th>Target Results (GHG Emission Reduction)</th>
<th>Other indicator(s)</th>
<th>Line Ministry</th>
</tr>
</thead>
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<td>Solar Hydropower</td>
<td>▪ Solar Power Plants,</td>
<td>23,480</td>
<td>5 years</td>
<td>7374 Gg CO2</td>
<td>24,745 MW</td>
<td>Ministry of Energy and Mineral Resources</td>
</tr>
<tr>
<td></td>
<td>▪ Wind Power Plants,</td>
<td>782</td>
<td>5 years</td>
<td>88529 Gg CO2</td>
<td>20 MW</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Microhydro Power Plants</td>
<td>18,785</td>
<td>5 years</td>
<td>34706 Gg CO2</td>
<td>6,33 MW</td>
<td></td>
</tr>
</tbody>
</table>
Challenges

- Activities and output related to sustainable management of natural resource sector are few compare to climate mitigation related activities/output.

- The amount of the budget from the Sustainable management of natural resources sector are still very small.

- This due to relevant ministry tagged output that has a direct impact on reducing GHG emissions only, and the absence of criteria and indicators as a guide for identification of biodiversity project.

Potential Project from Biodiversity Sector

Type of Project: Avoid or reduce carbon loss/ increase carbon sequestration

Activities: Conservation of Biological Resources

Output:

- Procurement of Ecotourism Facilities & Infrastructure for Forest Fire Control in Conservation Areas
- Procurement Conservation Areas Facilities for forest fire control in conservation areas inside and outside NP
Next steps

• Further identification of potential activities and involving other ministries related to habitat and biodiversity conservation, with reference from IBSAP documents and other related documents;

• Dissemination results of climate budget tagging and green sukuk activities to ministries and agencies to increase awareness and understanding

• Prepare the guidelines for determining habitat and biodiversity conservation project with relevant criteria and indicators
Thank you

bayuni.shantiko@undp.org