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Indonesia's Strategy for Sustainable Finance

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Abstract
According to the 2030 Agenda for Sustainable Development, inclusive green growth is considered to be the pathway to sustainable development. The transition to a resource-efficient green economy is especially challenging for developing countries due to a huge funding gap to implement the Agenda. Governments can play a proactive role in this process by incorporating sustainability factors into national financial systems to channel capital flows into green projects. Indonesia has greatly advanced toward a more sustainable financial system. Its experience in this sphere is especially valuable for the Russian Federation, which is currently shaping its policy of financing sustainable development. The study aims to identify the key facets of Indonesia's strategy for sustainable finance. The authors outline the major aspects of Indonesia's action plan and examine its regulatory framework for sustainable finance, including the domestic green bond market. They also analyze Russia's current initiatives to promote sustainable finance at the national level.
The authors come to the conclusion that the Indonesian strategy for sustainable finance is distinguished by specific objectives and principles of sustainable finance closely tied to national development priorities; a clear-cut action plan with time-bound measures to create a conducive environment for sustainable finance; a comprehensive regulatory framework embracing the entire financial sector; a phased approach to the transition to sustainable financing; and strong regulatory support for financial institutions during the transition period.

Keywords: *sustainable development, sustainable financing, green economy, low-carbon economic growth, environmentally friendly projects, green investments, green bonds*

JEL: *G28, Q56, Q01*

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INTRODUCTION

Making a gradual transition to sustainable, environmentally oriented growth has been one of the key issues on the agenda of the international community. In 2000, all the United Nations (UN) member states agreed on the Millennium Development Goals (MDGs), including the commitment to ensure environmental sustainability, which were to be achieved by 2015. Then, in 2015, the MDGs were replaced by the more ambitious, interrelated Sustainable Development Goals (SDGs) promoting the adoption by the UN member states of inclusive green economy strategies and policies. As reported by [UN DOCO, 2018, p. 3], the average annual funding gap to meet the SDGs in developing countries by 2030 is estimated to be USD 2.5 trillion.

In addition to large-scale investments, a fundamental shift to a resource-efficient green economy involves a change in the technological paradigm and industrial diversification toward state-of-the-art, environmentally sound technologies and eco-innovations. This poses a serious challenge for developing economies considering limited financial resources, the existing technological gap with developed countries, and the current patterns of production. Given the latter, developing economies will have to make a huge leap forward in the adoption of clean technologies and acceleration of their diffusion so as not to be left far behind in the ongoing green technological revolution. To achieve an important breakthrough, they should integrate sustainability considerations into their national financial systems, which will enable them to channel capital flows into green projects, contributing to sustainable high-tech economic growth. Therefore, building an effective sustainable financial system is currently a pressing issue for most developing economies, requiring a properly thought-out, feasible solution.

The last decade has witnessed a lively growing interest of researchers and analysts in sustainable finance. Taking into account the absence of universally accepted definitions of sustainable and green finance to date, some researchers focus on terminological aspects, looking into the key concepts relating to sustainability [Soppe A., 2009; Haigh M., 2012]. Other studies are aimed at supporting national decision makers in working out a coherent sustainable finance policy [Yakovlev I.A., Kabir L.S., 2018; Yakovlev I.A. et al., 2017]. A group of researchers from Japan has recently published a noteworthy paper on the drivers of green bond market growth [Tolliver Cl. et al., 2019]. Their findings show that nationally determined contributions[1] have the largest positive and statistically significant impact among the observed variables on green bond market growth.

International organizations have also been making an enormous contribution to developing the concept of sustainable finance and its toolkit. In 2014, the United Nations Environment Programme (UNEP) established the Inquiry into the Design of a Sustainable Financial System which has become the leading international platform to mainstream green economy principles and instruments. In 2016, the UNEP Inquiry issued a background note clarifying the distinctions and the relationship between low-carbon, climate, green and sustainable finance [UNEP Inquiry, 2016]. According to it, sustainable finance is interpreted as a broad term embracing a strong green finance component (Fig. 1). A year later, the UNEP Inquiry together with the World Bank Group proposed a groundbreaking industry wide roadmap for a sustainable financial system for all the financial sector stakeholders to promote policy cohesiveness [UNEP Inquiry, World Bank Group, 2017].

This article focuses on the strategy adopted by Indonesia to incorporate sustainability principles into the national financial system. The Indonesian experience is of great interest, as it is one of a handful of developing economies which have an overarching set of sustainable finance policies in place and have started reporting on the progress made in their implementation [SBN, IFC, 2018]. It may be especially useful for the Russian Federation, which, unlike Indonesia, has just begun its path to an inclusive sustainable financial system. The article is aimed at identifying the main elements underlying Indonesia's strategy for sustainable finance.

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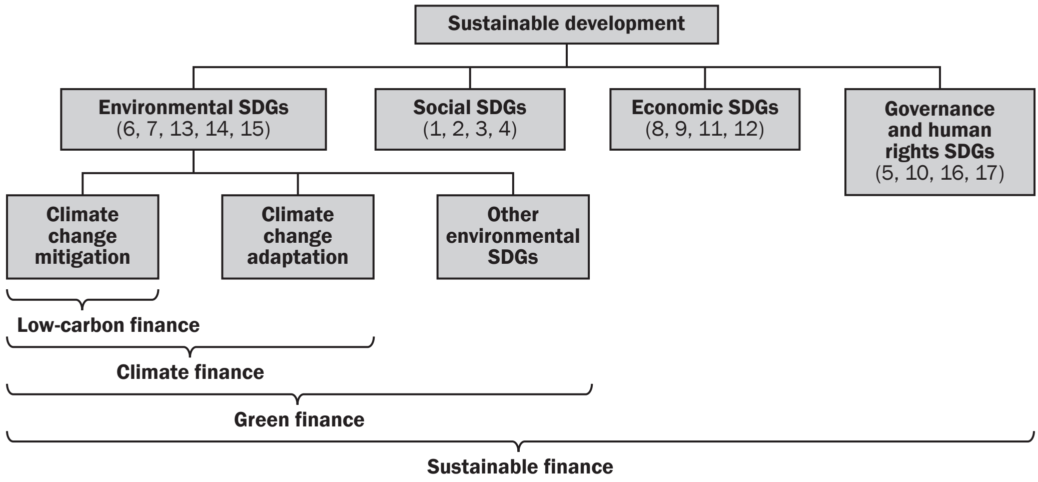
[1] *"Nationally determined contribution" means a nationally determined target of reduction in greenhouse gas emissions based on the 2015 Paris Agreement, and mitigation actions to meet the target.*

Figure 1

The scope of sustainable finance



Sources: compiled by the authors based on [UNEP Inquiry, World Bank Group, 2017].

This paper is structured as follows. It starts with outlining the major aspects of the national roadmap for sustainable finance implemented by Indonesia, and the key features of regulations imposed on the financial sector. The second part analyzes the approach of the financial regulator to the development of the domestic green bond market and the factors contributing to its growth. The third part gives a brief overview of Russia's current initiatives to align its financial system with the 2030 Agenda for Sustainable Development. The article concludes with determining the peculiarities of the Indonesian strategy for the development of the sustainable finance market, and beneficial aspects of the Indonesian experience which would be worth using in Russia.

INDONESIA'S ACTION PLAN AND THE KEY REGULATIONS ON SUSTAINABLE FINANCE

In 2014, the Financial Services Authority of Indonesia (OJK) issued a Roadmap for Sustainable Finance, which marked a milestone in mobilization of finance for sustainable development. The International Finance Corporation, the Swiss State Secretariat for Economic Affairs, and the United States Agency for International Development as well as all the relevant national ministries provided valuable feedback on the draft document.

This Roadmap is of great importance for several reasons. First, it introduces *the definition of sustainable finance aligned with* the UN SDGs and *national development priorities*. According to the Roadmap, sustainable finance embraces a number of aspects [OJK, 2014]:

— the establishment of industrial and economic superiority to cope with pressing environmental and social issues;

— the *transition from a carbon-intensive economy to a low-carbon one*;

— the *encouragement of environmentally friendly investments* across the sectors of the economy;

— the backing for the national development principles set forth in the Medium Term National Development Plan.

Second, it identifies the main *objectives and principles underlying Indonesia's sustainable finance program*. Both objectives and principles include a strong environmental component to incorporate environmental risk factors into the decision-making process of financial institutions (FIs) in Indonesia and promote transparent environmental governance practices among FIs and their clients. One of the principles establishes the need to develop economic sectors through *increased financial flows* mainly *into* the *industry, energy, agriculture in the broadest sense, infrastructure, and the micro, small and medium enterprise* sector while at the same time striking a balance between economic, environmental and social considerations.

Third, the Roadmap outlines *a course of actions* to channel finance into sustainable development related activities. It also sets *a time frame* for the accomplishment of the action plan and the major *strategic goals* which should be achieved in the medium to long term (Fig. 2).

Figure 2

Indonesia's sustainable finance action plan for the period 2015–2024

Strategic goals	**Actions and tools**
Increase supply of sustainable financing	• Develop *policies / regulations to increase sustainable finance portfolios of FIs* (2015–2016); • provide *prudential incentives* (2015–2016); • offer *fiscal and non-fiscal incentives*, including tax holidays, feed-in tariffs, targeted loans, and guarantee schemes (2016–2018); • establish a special *award* for FIs setting the highest standard in sustainable financing (2016–2024); • develop *green products for both banking and non-banking sectors* (2015–2024); • spur the *development of the domestic green bond market* by providing government institutions and industry practitioners with adequate support (2015–2024); • organize *environmental analysis trainings* of the staff of FIs and the Financial Services Authority (2015–2019); • develop *green lending models for priority sectors* (2015–2019); • create *information hub* (2016); • carry out *joint research* on sustainable finance with national and international research institutes (2015–2024).
Increase demand from investors for sustainable finance products and services, including green products	• Increase *access of FIs to global public funds,* considering a risk mitigation mechanism (2015–2024); • implement *an outreach campaign program* to enhance public understanding of sustainable finance (2015–2019).
Enhance oversight and coordination in the implementation of the sustainable finance program among the relevant ministries / agencies	• Issue an *umbrella policy and regulation on sustainable finance,* laying down principles and supervision guidelines on the implementation of Indonesia's sustainable finance program (2015–2016); • gradually make *sustainability reporting mandatory* to ensure its transparency to the public and supervision of the Financial Services Authority (2016–2017); • establish *a Sustainable Finance Forum* (2015–2024).

Note: the years in brackets indicate the implementation periods.
Sources: compiled by the authors based on [OJK, 2014].

At the beginning of 2016, the Financial Services Authority launched the First Mover Initiative for the banking sector. The eight largest banks in Indonesia, including BRI Syariah, Bank Mandiri and others, joined it, committing themselves to pioneering sustainable banking in Indonesia.

Since February 2016, these banks had taken part in a number of capacity building and technical assistance programs provided for them by the Financial Services Authority in cooperation with the World Wildlife Fund Indonesia (WWF Indonesia) and GIZ's[2] Emerging Markets Dialogue on Finance. These programs covered the integration of environmental, social and governance (ESG) factors into the risk management system of the banks as well as the improvement of the existing sustainable palm oil financing policies.

The initiative turned out to be successful, as it had brought tangible results, such as improved policies and standard operating procedures in each of the participating banks as well as enhanced quality of financing, especially for businesses with high environmental and social risks. After it had come to the end, all eight banks arrived at the unanimous agreement that there was a strong need for a broader sustainable finance initiative.

To formalize this agreement, they signed a memorandum of understanding with WWF Indonesia in May 2018, which marked the successful beginning of a new market-led initiative on sustainable finance. This industry-wide initiative aspires to enhance the capacities of financial institutions in Indonesia for ESG risk management; support the development of financial products and services relating to sustainable development; and establish a fruitful dialogue with the government, financial institutions participating in similar initiatives at the international level, and other stakeholders. Its participants have already drawn up a short-term roadmap and are currently working on a roadmap for a long-term period.

In 2017, the Financial Services Authority introduced the much-anticipated Regulation No. 51/POJK.03/2017 on the Implementation of Sustainable Finance for Financial Service Institutions (FSIs), Issuers, and Public Companies. This regulation is binding on all the participants of the financial sector. It sets forth a definition of sustainable finance, interpreted as broad financial sector support in the achievement of sustainable economic growth by balancing economic, social and environmental interests. Besides, it establishes eight fundamental principles of sustainable financing[3]: (1) responsible investment, (2) sustainable business strategy and practice, (3) social and environmental risk management, (4) governance, (5) informative communication, (6) inclusiveness, (7) priority sector development, and (8) coordination and collaboration.

The Regulation stipulates that FSIs, issuers and public companies must allocate part of their funds earmarked for performing their corporate social and environmental responsibilities (CSERs) to sustainable finance activities. FSIs, issuers and public companies are required to disclose the use of CSER funds in their sustainability reports, which must be submitted to the Financial Services Authority annually. To promote transparency of information on sustainable finance progress and its easy access for all the stakeholders, the Financial Services Authority has obliged FSIs, issuers and public companies to publish these reports on their official websites.

In addition to sustainability reports, a FSI that is also an issuer or a public company is bound to submit a sustainable finance action plan to the Financial Services Authority. The FSI's board of directors shall work out an action plan in detail, expanding on priority goals and ways of integrating sustainable finance principles into the key business processes.

Besides the responsibilities imposed on FSIs, issuers and public companies, Regulation No. 51 stipulates incentives for effective implementation of sustainable finance principles. It specifies that the Financial Services Authority can employ various non-financial incentive schemes, such as support in internal capacity building, or recognition and award programs.

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[2] *GIZ stands for Gesellschaft für Internationale Zusammenarbeit GmbH, a German development agency.*

[3] *Regulation of Financial Services Authority No.51/POJK.03/2017 on Application of Sustainable Finance to Financial Services Institution, Issuer and Publicly Listed Companies. URL: https://www.ifc.org/wps/wcm/connect/bab66a7c-9dc2-412f-81f6-f83f94d79660/Indonesia+OJK+Sustainable+Finance+Regulation_English.pdf?MOD=AJPERES&CVID=lVXU.Oy.*

Article 3 of the Regulation sets deadlines for FSIs, issuers and public companies to implement sustainable finance strategies, policies and procedures. These deadlines vary depending on the type of financial institution and the size of its total assets to ensure a smooth transition of the financial sector to sustainable practices. Large commercial banks[4] and foreign banks are the first to carry out the provisions of Regulation No. 51. Pension funds with total assets no less than IDR 1 trillion are the last to incorporate sustainability considerations into their investment decisions. The deadline for them to implement the Regulation has been postponed until the beginning of 2025. In case of a violation of the Regulation, the Financial Services Authority is authorized to impose administrative sanctions on non-compliant organizations, e.g. a written admonition.

To support banks in the adoption of sustainable finance principles pursuant to Regulation No. 51, the Financial Services Authority has published practical guidelines for them[5]. This guidance defines the meaning and criteria of sustainable business activities. It also contains a detailed list of economic activities that are not considered sustainable, to clarify for banks what types of projects they should avoid.

A SOUND GREEN BOND MARKET AS PART OF INDONESIA'S SUSTAINABLE FINANCIAL SYSTEM

Green bonds emerged as a highly promising innovative instrument for financing climate-focused or other types of environmentally friendly projects a little over a decade ago. In spite of a dramatic surge in issuances, green bonds still represent a small share of the overall bond market [Buttin E., 2016-2017, p. 23], and therefore public authorities have a vital role to play in supporting the development of the green bond segment.

Their active involvement in this process enables the removal of various barriers restraining the growth of investments in green bonds, especially the lack of understanding of risk and return characteristics of green bonds by investors and issuers [Bogacheva O.V., Smorodinov O.V., 2016, p. 59]. Thus, capacity building for both institutional investors and green bond issuers is considered essential to raise awareness of green bonds and kick-start the green bond market [SBN, CBI, IFC, 2018]. Reflecting upon challenges faced by investors, [Reichelt H., Keenan C., 2017] point out the absence of a universal agreement on what is "green". They emphasize that "those interested in the green bond market would want to have clarity about their own expectations for what they consider to be "green" [Reichelt H., Keenan C., 2017, p. 7]. [Bogacheva O.V., Smorodinov O.V., 2016, p. 71] highlight the absence of an effective mechanism for supervising fund flow directions among the major concerns of potential investors in green bonds.

These points make the role of public authorities in fostering the growth of the local green bond market all the more important for a number of reasons. First, public authorities can develop standard definitions of green projects closely tied to national development objectives and investment needs to channel finance into priority green sectors. Second, they can contribute to raising investor confidence by legally stipulating definitions of green bonds and green projects along with requirements for disclosure of the use of green bond proceeds, which is crucial to building a credible green bond market. Third, they can promote best practices in green bond issuance by aligning national standards with internationally recognized ones such as the Green Bond Principles or the Climate Bonds Standard and Certification Scheme.

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[4] *Commercial banks with equity between IDR 5 trillion and IDR 30 trillion, and banks with equity exceeding IDR 30 trillion.*

[5] *Technical Guidelines for Banks on the Implementation of OJK Regulation POJK Number 51/POJK.03/2017. URL: https://www.ifc.org/wps/wcm/connect/13d863ef-b8cf-4584-8602-14a63f9b9ede/Technical+Guideline+on+the+Implementation+of+POJK+51+2017+on+SF_English.pdf?MOD=AJPERES.*

Indonesia has established a regulatory framework for green bond issuance aimed at creating a favorable environment for the domestic green bond market to grow and flourish. In 2017, the Financial Services Authority introduced Regulation No. 60/POJK.04/2017 on the issuance of green bonds, with valuable input and comments from the World Bank as a pioneering issuer. This regulation, based on globally accepted green bond standards, such as the Green Bond Principles, the ASEAN Green Bond Standards, and the Climate Bonds Standard, has laid down a sound basis for developing a robust green bond market, as it provides clarity and consistency for both green bond issuers and investors.

First and foremost, it stipulates the definition of green bonds as bonds proceeds of which are used to finance or refinance in whole or in part environmentally sustainable business activities[6]. It also specifies eligible types of activities that can be financed through the issuance of green bonds, to prevent the risk of "greenwashing". These activities shall contribute to building a low-carbon and climate-resilient economy with a particular focus on the deployment of green technologies and the pursuit of resource efficiency. They pertain to such technology-intensive sectors of the economy as renewable energy, green transportation, sustainable water and wastewater management, energy efficiency, and environmentally sound infrastructure designed and constructed in accordance with advanced environmental standards. The share of the proceeds from the public offering of green bonds directed toward eligible green projects shall be no less than 70% of the total proceeds.

Issuers of green bonds are required to obtain an environmental expert opinion or assessment of the projects and assets underlying the green bond issuances to confirm their green status. Assessment results shall be disclosed in a prospectus for the public offering of debt securities alongside other information, such as anticipated environmental sustainability objectives as well as procedures and methods of identifying and managing social and environmental risks. This will promote transparency for investors to be able to make informed quality decisions.

Moreover, issuers of green bonds are obliged to regularly submit environmental review reports together with their annual reports to the Financial Services Authority until they fulfill all the obligations to green bond holders. This provision of the Regulation aims to alleviate investors' concerns about the use of the proceeds raised through green bonds for purposes other than those indicated by the issuer. Should the review report find that the underlying project no longer meets the eligibility criteria, issuers of green bonds are bound to come up with an action plan for remediation. If they fail to bring the project in compliance with the green activities criteria mentioned above, bonds are not qualified as green. In this case, green bond holders are entitled to request the issuer to buy the bonds back or grant them a compensation by increasing the bond's coupon rate. Once repurchased, bonds cannot be resold. Issuers are released from their obligation to repurchase bonds or provide green bond holders with a compensation if their failure to bring the project in compliance with the eligibility requirements has been caused by force majeure circumstances, e.g. natural disasters, wars, riots, fires, strikes, and other events significantly affecting the issuer's business.

Along with the aforementioned obligations of green bond issuers, Regulation No. 60 provides for incentives for green bond issuance, except for the cases when the underlying project is qualified as ineligible according to the results of the environmental review report. However, the Regulation does not specify the types of available incentives and administrative procedures for applying for them.

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[6] *Copy of Financial Services Authority Regulation Number 60/POJK.04/2017 on the Issuance and the Terms of Green Bond. URL: https://www.iced.or.id/wp-content/uploads/2018/02/English-SAL-POJK-60-Green-Bond.pdf.*

Any party violating the provisions laid down by Regulation No. 60, including those to cause the violation to occur, is subject to various administrative sanctions. The sanction measures encompass a broad range of enforcement options, such as restrictions and suspension of the business activity, revocation of the business license, and cancellation of approval or registration.

Thus, to sum up the main points which we have just considered, it seems that the Financial Services Authority has given issuers a clear signal that it is ready to strongly encourage the issuance of green bonds, but issuers are required to adhere to certain rules and standards. Through Regulation No. 60, the Financial Services Authority has also inspired confidence in green bond investors that their rights and interests are legally protected.

Such a consistent and clear stance on green bonds, adopted by the Indonesian financial regulator, has turned out to be effective. According to the findings of the Climate Bonds Initiative, Indonesia has been recognized as the largest ASEAN green bond market at approximately USD 2 billion. It accounts for 39% of the total green bond issuances in the ASEAN region, whereas Singapore (35%) and Malaysia (19%), followed by the Philippines, Thailand and Vietnam, lag far behind the leader [CBI, 2018, p. 2].

The Government of Indonesia, through the Ministry of Finance, has tapped into the potential of green financial instruments by issuing in March 2018 the world's first ever sovereign green sukuk, i.e. an innovative financial instrument conforming to Islamic Law (Sharia) as well as green bond principles. The issuance amounting to USD 1.25 billion with a five-year maturity period and annual yield of 3.75% was so appealing to a wide range of investors, including conventional, Islamic and green ones, that it was oversubscribed. As stated by [Ministry of Finance, RoI, 2019, p. 11] the proceeds raised through the green sukuk issuance were allocated to projects related to sustainable transport, renewable energy, waste to energy and waste management, energy efficiency, resilience to climate change, and disaster risk reduction.

In February 2019, the Ministry of Finance of Indonesia came up with the second issuance of green sukuk, valued at USD 750 million, with a maturity date due on August 20, 2024 and a periodic distribution rate of 3.90% p.a. [Ministry of Finance, 2019]. A strong demand of investors for this financial instrument has resulted in oversubscription. Proceeds from green sukuk are designated only for financing or refinancing eligible green projects[7] as defined by the Republic of Indonesia's Green Bond and Green Sukuk Framework. By attracting investors to projects contributing to the country's transition to a low-carbon economy through the green sukuk issuance, the Indonesian government has reaffirmed its commitment to reducing its pollution footprint in conformity with the Paris Climate Agreement, ratified by the Indonesian Parliament in October 2016.

The Ministry of Finance is responsible for managing proceeds raised through green sukuk and green bond issuances, and must ensure the use of the proceeds in strict conformity with the Republic of Indonesia's Green Bond and Green Sukuk Framework. Additionally, it must regularly monitor the progress of the projects financed through green bond proceeds involving relevant line ministries. If, as a result of the monitoring, a project is found to be non-compliant with the established requirements during the maturity period of the issued green bonds or green sukuk, it is substituted by a green project of equal amount which fully meets all the eligibility criteria.

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[7] *According to the Republic of Indonesia's Green Bond and Green Sukuk Framework, eligible green projects must belong to the following nine sectors: (1) renewable energy, (2) energy efficiency, (3) resilience to climate change for highly vulnerable areas and sectors/disaster risk reduction, (4) sustainable transport, (5) waste to energy and waste management, (6) sustainable management of natural resources, (7) green tourism, (8) green buildings, and (9) sustainable agriculture.*

The process of using the proceeds from the issuance of sovereign green sukuk is transparent for investors and the public at large. In February 2019, the Ministry of Finance of Indonesia published a detailed report in English with a list of projects refinanced/financed from the proceeds, as well as a brief description of each project and its environmental and social impact [Ministry of Finance, RoI, 2019].

RUSSIA'S INITIATIVES TO PROMOTE SUSTAINABLE FINANCE

The 2030 Agenda for Sustainable Development, promoting the global shift toward green economy thinking and green growth, has strongly influenced the strategic priorities of the Russian Federation's national development. Russian Financial Market Development Program for 2019–2021[8] states that Russia will have to join the global process and tackle the issues of *building a national system of financial instruments for sustainable development and organizing efficient methodological and verification systems for responsible financing instruments*.

In 2018, the Central Bank of the Russian Federation convened a Task Group on Responsible Financing including green finance under the Expert Council on the Long-Term Investments Market in order to gain a better insight into the issues of creating a favorable institutional environment for green finance. The Task Group published a diagnostic overview of the Russian green finance market with a comprehensive *roadmap* for its development. The Roadmap proposes specific measures along the following dimensions [Bank of Russia, 2018]:

— the development of an *ideology and a consolidated stance of regulators on the green finance market* at the national level;

— the establishment of a *methodological center*;

— the formulation of *principles and standards of green finance*;

— the establishment of a workable *system to verify green finance instruments* such as green bonds;

— the *creation and further development of an infrastructure* required for the effective functioning of *the green finance market*;

— the lobbying of the elaboration and introduction of *government measures to support the issuance of green finance instruments* (green bonds);

— *international cooperation*.

Continuing its work, in 2019 the Task Group developed the Concept of Establishing a Methodological Framework in Russia to Advance Green Finance Instruments and Responsible Financing Projects, made public recently [Bank of Russia, 2019]. This Concept is part of the efforts to set up a methodological center provided for by the Roadmap for the Formation of a National Green Finance Market.

Organizations of the financial sector are involved in the implementation of the aforementioned Roadmap on a voluntary basis. For example, in March 2019, the Moscow Stock Exchange (MOEX) and the Russian Union of Industrialists and Entrepreneurs (RSPP) signed a partnership agreement aimed at fostering responsible business practices among Russian issuers, improving their investment appeal and strengthening investors' trust in them. According to this agreement, since the beginning of April 2019, MOEX has been making *daily calculations of two sustainable development indices*: the Responsibility and Transparency Index, and the Sustainability Vector Index. Previously, they were calculated annually. The indices as well as their calculation methodology are available on the websites of MOEX and RSPP.

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[8] *https://www.cbr.ru/Content/Document/File/87952/fm_development_program_2019-2021.pdf.*

Furthermore, in April 2019, MOEX announced that it had joined the UN Sustainable Stock Exchanges Initiative, a global community of stock exchanges committed to contributing to the achievement of the UN SDGs. This step and the new edition of the MOEX Listing Rules enabled the *launch of a new Sustainability Sector* in August 2019. The MOEX Sustainability Sector consists of three segments: Green Bonds, Social Bonds and National Projects. Bonds issued by Russian and foreign issuers can be included in this sector provided that they comply with the principles developed by the International Capital Market Association (ICMA) or the standards of the Climate Bonds Initiative, which must be confirmed by an independent external review.

In addition to the initiatives discussed above, it is worth mentioning the efforts of "Expert RA" Rating Agency to create conditions for the verification of green finance instruments and projects. In April 2019, it announced the approval of the *methodology for a second party opinion on the bonds' compliance with the ICMA Green Bond Principles*. The elaboration of this document is closely related to the emerging demand for responsible finance instruments in the Russian market as well as the MOEX decision to create a separate sustainability-focused sector.

There are also a number of organizations whose proactive position in promoting sustainable finance in Russia greatly contributes to the implementation of the Roadmap for Green Finance. The National Financial Association (NFA) is one of them. It is preparing a draft of the concept of building a sustainable finance market in Russia, which is going to form a solid basis for the future Voluntary Russian Standards in Issuance of Green Finance Instruments. NFA is currently in the process of establishing the Russian Council for Sustainable Finance Instruments, aimed at developing a green bond market in Russia and proposing the best practices of sustainable financing for the Russian financial market.

The National Association of Concessionaires and Long-Term Infrastructure Investors (CoLTI) is another notable example. In March 2018, it published Recommendations for Sustainable Development and Green Investments. The Association believes that, when making financial and investment decisions, its members should consider not only economic, but also social and environmental factors to exert a positive impact on the environment and society as a whole. This is especially vital in the implementation of large infrastructure projects, as they affect the living conditions of the whole society and influence economic growth. To date, nine Russian companies which are members of the Association have already supported this initiative. Besides, since 2018, CoLTI has begun to do regular reviews "Sustainable Development and Green Investments", covering the latest events in the field of sustainable development and green investments both in Russia and abroad.

The interest of Russian companies in green finance instruments is growing. In December 2018, RSB HMAO Ltd issued the first green bonds in Russia based on the ICMA Green Bond Principles. Green bonds with a total nominal value of RUB 1.1 billion and maturity of 12.5 years were successfully placed on MOEX. In May 2019, one of the largest Russian state-owned company Russian Railways issued Euro denominated green bonds maturing in 2027. The issuance was oversubscribed by a factor of 3.6 due to strong investor demand. Sustainalytics, a global leader in ESG research and ratings, provided a second party opinion on the company's Green Bond Framework. In June 2019, the Russian Railways announced its intentions to place green bonds in the Russian market.

CONCLUSION

Our research has led us to conclude that Indonesia has worked out a coherent comprehensive strategy for sustainable finance. This strategy is characterized by *clearly defined objectives and principles* of sustainable finance, with *precise time limits* for their achievement. The undertaken *reforms* have been expanded beyond banking to *embrace the whole financial* *sector*, including institutional investors and capital markets. Pursuant to the new regulations, FSIs, issuers and public companies are all bound to allocate a part of their CSER funds to activities relating to the incorporation of sustainable finance principles into their everyday practice. The Indonesian Government has adopted a flexible phased approach to the implementation of financial system reforms with emphasis on the integration of ESG factors into risk management systems of financial institutions. It has provided financial institutions, especially institutional investors, with time to align their strategies and policies with sustainable finance principles.

The Indonesian strategy for sustainable finance is also distinguished by a *clear-cut action plan* divided into three parts in accordance with the established strategic objectives. This plan is focused on creating a conducive environment for sustainable finance and responsible business practices. It is based on specific time-bound measures to stimulate supply of sustainable finance, boost investor demand, and establish an effective oversight system of the sustainable finance program.

Strong regulatory support in the form of *capacity building programs, specific guidelines and incentives* is another prominent feature of Indonesia's strategy. Following the release of the Roadmap, the Financial Services Authority initiated capacity building programs within the framework of the First Mover Initiative discussed above, and developed a practical guidance for banks on the implementation of sustainable finance regulation. To increase supply of sustainable finance, the Indonesian government offers financial institutions an attractive incentive scheme, including reputational incentives.

The Indonesian government pays special attention to *addressing the problem of information asymmetry*, which is a serious obstacle to sustainable financing. The national action plan includes the development of a *green index* aimed at helping sustainability-focused investors to take informed decisions. Moreover, the Financial Services Authority has launched an *integrated sustainable finance information hub* to provide FSIs, investors, government officials and the wider audience with the latest information on the major developments in sustainable finance both at the national and international levels. It has also introduced *detailed requirements for reporting and disclosure of information on sustainable finance*, which not only helps to deal with the problem of information asymmetry, but also facilitates monitoring and oversight of the regulatory framework implementation.

Unlike Indonesia, the Russian Federation is currently shaping its policy of financing sustainable development. The Russian government is searching for the most effective forms and sources of financing sustainable and green investments. A growing number of financial sector organizations have been willingly getting involved in creating an institutional environment for sustainable financing. The above-mentioned initiatives undertaken by MOEX, NFA and CoLTI well illustrate this point.

However, in spite of fruitful efforts to promote sustainable finance described in the third part of the article, there is still no consolidated position of the government and the business community on what a national sustainable finance system should be like. The existing roadmaps aimed at building a trusted green finance sector lack clear, easily measurable objectives for both the medium and long term, implementation deadlines, and a list of responsible ministries/agencies to ensure effective monitoring and accountability. Therefore, they require more detailed elaboration. Besides, a serious barrier to sustainable financing in the Russian Federation is insufficient understanding by the society of the concept of sustainable finance, including green finance.

Taking into account that the Russian Federation is at the very beginning of its path toward a sustainable financial system, a wealth of practical experience gained by Indonesia in this sphere is valuable for it. The beneficial aspects of the Indonesian experience which are worth considering and making use of in Russia can be summarized as follows:

— The goals and principles of sustainable finance are tied to national development priorities.

— Precise and consistent definitions relating to sustainable finance are developed and legally stipulated to give a strategic policy course signal to the financial sector.

— Clear eligibility criteria of sustainable business activities are established to guide financial institutions in their decision-making.

— Capacity building programs with support and guidance from international experts in ESG risk management are offered to the staff of the financial regulator and financial institutions at the initial stage.

— An outreach campaign program to raise public awareness of sustainable finance is scheduled for several years at the initial stage as well.

— Powerful incentives for sustainability-related performance are provided for by the Roadmap and the corresponding regulation to stimulate supply of sustainable finance.

— A coherent regulatory framework for green bond issuance is set and aligned with internationally accepted green bond standards.

— Proper safeguards against greenwashing are introduced.

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Стратегия Индонезии в области устойчивого финансирования

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Аннотация
Вопрос обеспечения перехода к устойчивому экологически ориентированному росту — один из ключевых в повестке дня мирового сообщества. В итоговой декларации саммита G20, прошедшего в 2018 г. в Буэнос-Айресе, лидеры стран «Группы двадцати» заявили о поддержке Повестки дня в области устойчивого развития на период до 2030 года в качестве основы для такого перехода. В настоящее время страны ведут активный поиск ресурсов для финансирования проектов в области устойчивого развития, способствующих «зеленому» росту. Индонезия приняла и реализует «дорожную карту» по развитию устойчивого финансирования. Цель статьи — определить ключевые элементы стратегии Индонезии по развитию устойчивого финансирования. В исследовании описаны ключевые элементы плана действий Индонезии по внедрению факторов устойчивости в национальную финансовую систему и особенности формируемой системы регулирования деятельности финансовых институтов в области устойчивого финансирования, включая рынок «зеленых» облигаций.
Стратегия Индонезии по развитию устойчивого финансирования характеризуется наличием ясных целей и принципов устойчивого финансирования, четкого плана действий с конкретными сроками выполнения задач, поэтапным подходом к внедрению факторов устойчивости в национальную финансовую систему и комплексным характером системы регулирования, выстраиваемой на национальном уровне. Накопленный этой страной опыт в области устойчивого финансирования полезен для Российской Федерации, которая в настоящее время формирует собственную политику в данной сфере.

Ключевые слова: *устойчивое развитие, устойчивое финансирование, «зеленая» экономика, низкоуглеродный экономический рост, экологически благоприятные проекты, «зеленые» инвестиции, «зеленые» облигации*

JEL: *G28, Q56, Q01*