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Understanding the Legal Aspects of Green Bonds in Indonesia

Indonesia has recently taken significant steps to promote green finance growth, including issuing relevant regulations to provide regulatory frameworks for green bonds. In December 2017, the Indonesia Financial Services Authority (Otoritas Jasa Keuangan or “OJK”) issued OJK regulation No. 60/POJK.04/2017 regarding Green Bond Issuance (“**POJK 60/2017**” or “**Regulation**”), which regulates 11 (eleven) *Kegiatan Usaha Bernawasan Lingkungan* (“**KUBL**”) or environmental activities that are eligible to be financed by the issuance of Green Bond. The Regulation was based on the Green Bond Principles developed by the International Capital Market Association (“**ICMA**”), with adaptations specific to the Indonesian capital market.

Green Bond is generally similar to conventional bonds, a debt statement containing a promise from the party issuing the securities to pay rewards in the form of coupons (interest) in a certain period and pay off the principal at the end of a predetermined time. The repayment period of bonds traded can consist of medium-term and long-term bonds (generally valid for 1-15 years or more).

The one factor distinguishing Green Bond from ordinary types of bonds is their designation. According to this understanding, funding from the issuance of Green Bond is allocated to finance environmentally sound projects.

This ARMA Update will discuss regarding Green Bond legal framework in Indonesia, including the provisions contained in the Regulation, such as (i) Business Activities that are Categorized as KUBL; (ii) Green Bond's Funding Flow; and (iii) Incentives for Green Bond Issuance.

Business Activities that are Categorized as KUBL

Only 11 (eleven) environmental-related business activities can be financed by issuing a Green Bond. Those 11 (eleven) sectors are:

- a. renewable energy;
- b. energy efficiency;
- c. pollution prevention and control;
- d. management of living resources and land use;
- e. conservation of living resources in land and sea;
- f. eco-friendly transportation;
- g. sustainable management of water and wastewater;
- h. climate change adaptation;
- i. products that can reduce the use of resources and produce less pollution (ecoefficient);
- j. green building that meets internationally recognized standards or certifications national, regional, or international; and
- k. business activities and/or other environmental activities.

Furthermore, the issuers of Green Bond must obtain an opinion or assessment from the Environmental Expert stating that the business activities benefit the environment.



Environmental Expert

As mentioned above, the issuance of a Green Bond must first be assessed by the Environmental Expert. Based on this Regulation, Environmental Experts can be interpreted as:

- a. an individual or group of natural persons who have the competence or expertise to assess, verify, or test the KUBL; or
- b. institutions with the competence or expertise to assess, verify, or try the KUBL.

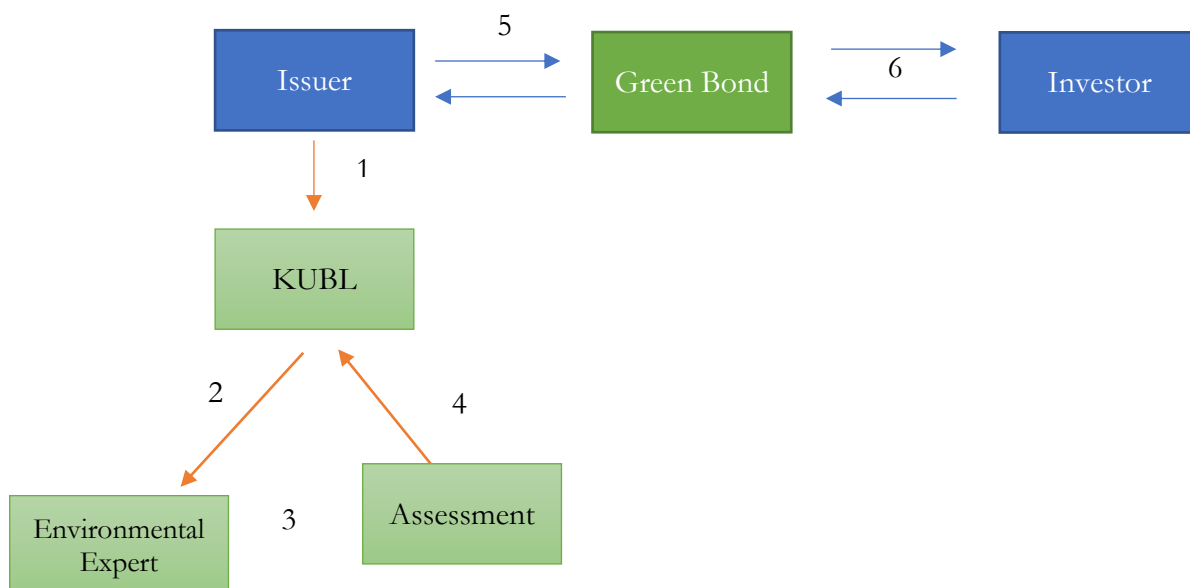
In addition to being tasked with providing an assessment as a condition for the issuance of a Green Bond, the Environmental Expert, in this case, is also responsible for conducting periodic reviews 1 (one) time in 1 (one) year, and when there are any material changes to the relevant KUBL. The results of the report by the Environmental Expert will later be attached to the Issuer's annual report, and be submitted to OJK.

How Green Bonds are Issued in Indonesia

The process of issuance of Green Bond involves the following steps:

1. Issuer Selection: The issuer selects the prospective project which may be eligible as a KUBL;
2. Project Selection: The selected project will be proposed to the Environmental Expert to be assessed;
3. Project Assessment: Environmental Expert will determine the KUBL in accordance with the certain standard;
4. Assessment Report: An assessment or report will be issued by the Environmental Expert regarding the proposed project, whether such project is eligible as a KUBL or not;
5. Green Bond Issuance: Issuer issues the Green Bond by including the environmental assessment report in its Prospectus;
6. Investment: Investors to invest in the Green Bond.

Please see the below chart for the process of the issuance of green bonds:



After the Green Bond offering application has been approved, the Issuer may proceed with bond issuance through normal procedure of bond issuance to the public. Funding obtained from the



Investors for the purchase of Green Bond must be **at least 70% utilized to finance the KUBL** as reported in the Prospectus.

Incentives for Green Bond Issuance

Parties that take part in supporting the growth of green finance may receive specific incentives. Article 223 of Law No. 4 of 2023 regarding Financial Development and Reinforcement (“**P2SK Law**”) states that such parties may receive incentives, including policy support, developed databases, and supporting infrastructures. Further, as for the issuance of Green Bond through Public Offering, per OJK Commissioner Board Decision No. 24 of 2018 and IDX Regulation No. I B of 2020, 2 (two) incentives can be given, as follows:

- a. OJK initial fee discount of 25%; and
- b. IDX Annual Listing Fee discount of 50%.

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