INDONESIA ISSUES WORLD’S FIRST SOVEREIGN GREEN ISLAMIC BOND

Indonesia has taken a leadership role on climate action – setting ambitious targets in its Nationally Determined Contributions (NDCs) of 29 percent reduction in emissions using its own resources and 41 percent with external resources by 2030. To meet the financing needs for Indonesia’s climate change commitments and to achieve its national emission reduction goals by 2030 requires at least USD $50 billion. To raise this money, the government issued a Green Sukuk worth USD $1.25 billion in February 2018. It was the world’s first sovereign bond exclusively aimed to fund climate change in a manner where financing is compliant with Islamic law. Those who invest in the bond are guaranteed that their money will be spent on green projects.

The challenge

How can the Indonesian government show investors that their dollars are going into sustainable green projects? How can sector ministries report back to the government in a transparent and effective way when it comes to the management of their projects and the money being spent on mitigation and adaptation measures? The challenge was to find a way to track the money being spent on climate change.

Our solution

For the past three years UNDP’s Governance of Climate Change Finance (GCCF) team – through an Indonesia CO programme called the SDF (Sustainable Development Financing) – has been working with the Ministry of Finance on the implementation of a budget tag that tracks green spending. The project is supported by Sweden and UKAID. Our team provided the support needed to develop the budget tagging tool and the framework for the Green Sukuk, which assisted in making the issuance successful.

Moving forward

UNDP’s GCCF is providing ongoing support to sector ministries in Indonesia – assisting with green project management as well as monitoring and evaluation. We are also providing advice to the Ministry of Finance in relation to best practices for reporting on climate finance. This information will be used to keep investors informed and to encourage future investment.