

OPINION



MAKING A POSITIVE IMPACT

ESG investment strategies can generate returns while having a beneficial impact on society, explains Perry Warjiyo, governor, Bank Indonesia.

INVESTING in social bonds reflects Bank Indonesia's conscious efforts in managing reserves to generate returns and deliver positive impacts on society. This investment strategy also aligns with the trend in recent years of responsible investment amid growing awareness of environmental, social and governance-related values and practices from investors.

Bank Indonesia's mandate of safeguarding economic and financial stability means there is a need to promote a sustainable and inclusive economy. We consider ESG risks as material to achieving our objectives and include them as part of our reserves management considerations. Our policy mix framework incorporates the view that climate change poses potentially material risks to the economy. These risks come from transition risk as a result of shifting to a low-carbon economy and physical risks due to climate-related disruptions.

Many factors have influenced our ESG investment strategy, such as the materiality of ESG risks, fiduciary duty, regulatory landscapes and risk mitigation. In recent years, there have been developments in the regulatory landscape at a global level in promoting ESG investing. In alignment with this progress, the Indonesian government is fully committed to achieving its nationally determined target under the

2015 Paris agreement. Based on these positive developments, we are confident that ESG investing can become part of the reserves portfolio management strategy since it enables us to incorporate broader portfolio diversification and provides opportunities to generate returns.

ESG assets are part of Bank Indonesia's reserves portfolio, along with other impact-labelled bonds such as green bonds and sustainability-linked bonds. In line with our commitment to engage in impact investing, these bonds have a growing share of total exposure in the reserves portfolio. We also seek to invest in social bonds as part of our effort to finance specific projects with positive social outcomes.

We are aware of the challenges of implementing and promoting sustainable finance. These challenges include inadequate awareness and expertise, lack of supportive regulatory reforms, high-cost sustainability products and data and limited access to sustainable instruments. Despite these challenges, Bank Indonesia consistently promotes ESG investing through its role as a monetary authority and regulator. As part of Indonesia's 2022 G20 presidency, through the Sustainable Finance Working Group, we are also making a serious effort to scale up sustainable finance with a focus on improving accessibility and affordability.●

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DESPITE THESE CHALLENGES, BANK INDONESIA CONSISTENTLY PROMOTES ESG INVESTING THROUGH ITS ROLE AS A MONETARY AUTHORITY AND REGULATOR. AS PART OF INDONESIA'S 2022 G20 PRESIDENCY, THROUGH THE SUSTAINABLE FINANCE WORKING GROUP, WE ARE ALSO MAKING A SERIOUS EFFORT TO SCALE UP SUSTAINABLE FINANCE WITH A FOCUS ON IMPROVING ACCESSIBILITY AND AFFORDABILITY.