

# BLUE FINANCE

## INSTRUMENTS DEVELOPMENT GUIDELINE





## FOREWORD

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Economic transformation by maximizing the potential of the marine and fisheries sector called the blue economy is one of the actions taken by the Government of Indonesia to achieve the development agenda's target. The blue economy concept developed with inclusive and sustainable economic growth. The blue economy is expected to contribute 12.5% of the national Gross Domestic Product (GDP) in 2045, but the additional investment is needed to increase the growth potential of the blue economy related to cross-sectoral economic activities.

The blue financing initiative in Indonesia was developed to address financing challenges in the marine and fisheries sector in increasing the existing economic potential. To support the development of blue financing, several policy documents and blue financing strategies have been prepared, such as the Blue Economy Development Framework, Blue Finance Policy Notes, Blue Financing Strategic

Document, and the SDGs Government Securities Framework. However, the financing instrument to fund activities in the blue sector is still not available.

Blue Finance Instruments Development Guidelines prepared by the Ministry of National Development Planning/ National Development Planning Agency in collaboration with relevant Ministries/ Institutions and development partners provide implementation steps in developing funding instruments such as blue bonds or blue *sukuk*. These financial instruments will be developed to finance projects in marine and fisheries sector.

The Indonesia Climate Change Trust Fund (ICCTF) has been working closely with various stakeholders to have this guideline widely available. It is hoped that this document can complement and become a supporting document for blue financing policies and strategies that are already available and can accelerate the process of implementing blue financing in Indonesia.



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## ACRONYMS

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### A

(ADB) Asian Development Bank

### B

(Bappenas) Ministry of National Development Planning/National Development Planning Agency

(BFAC) Blue Finance Advisory Committee

(BFSC) Blue Finance Steering Committee

(BLU) Badan Layanan Umum / Public Service Agency

(BLU – LPMUKP) Public Service Agency - Marine and Fisheries Business Capital Management Institution

(BTT) Board of Technical Team

### C

(CMMAI) Coordinating Ministry for Maritime and Investment Affaires

### F

(FSA or OJK) Financial Services Authority

### G

(GBP) Green Bond Principles

(GoI) Government of Indonesia

### I

(ICMA) International Capital Market Association

(IEF or BPD LH) Indonesian Environment Fund

(IFC) International Finance Corporation

(IMO) International Maritime Organization

(IUCN) International Union for Conservation of Nature

(IUU) Illegal, Unreported, and Unregulated

## M

|          |   |
|----------|---|
| (MARPOL) | The International Convention for the Prevention of Pollution from Ships |
| (MDB)    | Multilateral Development Bank   |
| (MMAF)   | Ministry of Marine Affairs and Fisheries                                |
| (MPA)    | Marine Protected Areas  |
| (MoEF)   | Ministry of Environment and Forestry                                    |
| (MoF)    | Ministry of Finance   |
| (MSME)   | Micro, Small and Medium Enterprises                                     |

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## O

|        |  |
|--------|--|
| (OECD) | Organisation for Economic Co-operation and Development |
|--------|--|

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## R

|         |                                       |
|---------|---------------------------------------|
| (RPJPN) | National Long Term Development Plan   |
| (RPJMN) | National Medium Term Development Plan |

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## S

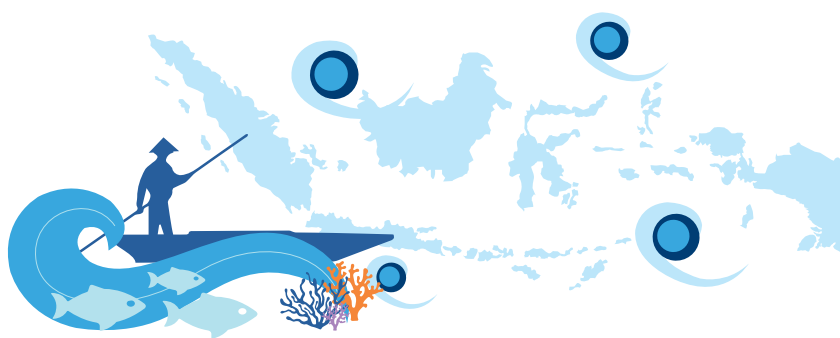
|        |   |
|--------|---|
| (SBSN) | <i>Surat Berharga Syariah Negara/ State Sharia Securities/Sukuk</i> |
| (SPO)  | Second Party Opinion  |
| (SDGs) | Sustainable Development Goals                                       |

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## U

|        |                                    |
|--------|------------------------------------|
| (UNDP) | United Nations Development Program |
|--------|------------------------------------|

## INTRODUCTION



Indonesia's Vision 2045 establishes the country's development agenda for the next 20 years, targeting a top five economy while sustainably utilizing its natural resources and addressing poverty alleviation<sup>1 2</sup>.

The achievement of the Indonesia's Vision 2045 is built on four pillars based on Pancasila and the 1945 Constitution which are: (1) Human Development and Mastery of Science and Technology, (2) Sustainable Economic Development, (3) Equitable Development, and (4) Strengthen National Resilience and Governance. As stated on the second pillar, this indicates that Indonesia has taken the leadership to become one of the largest economies in the world that is driven by investment and trade; industry and tourism acceleration; marine economy; food security and farmer welfare; energy and water security; and commitment to the environment. Indonesia is pursuing three strategies toward the global maritime axis: enhance the role of the maritime economy, a strong maritime security defense capability, and a strong maritime civilization<sup>3</sup>.

In developing a fast maritime economy, Indonesia will increase its role of the maritime economy to approximately 12.5% of GDP by 2045, with a focus on (1) developing efficient and effective maritime connections, (2) sustainable and competitive fisheries

industrialization, and (3) comprehensive marine tourism. In addition, the implementation plan of the strategy to establish a maritime civilization, the Government of Indonesia (GoI) will establish excellent maritime manpower, innovation in maritime technology, and a strong maritime culture. Furthermore, actions taken by GoI to build a powerful maritime are by creating strong and reliable maritime defense and security capabilities to face local and global challenges.<sup>4</sup>

Indonesia has developed a strong commitment to successfully implement the Sustainable Development Goals (SDGs) and achieving the 2030 Development Agenda. The action plans and roadmap serve as important tools to guide all stakeholders on the directions and targets of the Indonesian 2030 Agenda that requires a strong collaboration among stakeholders and commitments in both project implementation and financing.

To achieve these goals, Indonesia will need to focus on several key strategic sectors to deliver this target, one of which is its marine resources sectors and its marine economy. Indonesia has demonstrated its desire to drive economic transformation and diversification through Blue Economy, which incorporates a sustainable use of resources for

<sup>1</sup> Bappenas. 2019. Future Challenges on Indonesia Vision 2045. Retrieved from: <https://journal.bappenas.go.id/index.php/jpp/article/view/63/52>

<sup>2</sup> The Ministry of Investment. The Blue Economy holds the key to Indonesia's sustainable prosperity. Retrieved from: <https://www3.bkpm.go.id/en/publication/detail/news/blue-economy-holds-the-key-to-indonesias-sustainable-prosperity>

<sup>3</sup> Indonesia's Ocean policy Action Plan for 2021-2025 as per Presidential regulation n. 34/2022

<sup>4</sup> Bappenas, 2021. SDGs Government Securities Framework. Retrieved from: <https://djppr.kemenkeu.go.id/uploads/files/GSF/The%20ROI%20SDGs%20Government%20Securities%20Framework%20vf.pdf>



enhanced development.<sup>5</sup> However, the Blue Economy related sectors' growth is impeded by many blocking issues, including gaps in regulation, information, capacity, and, ultimately, finance,<sup>6 7</sup> most of which have been identified in the Blue Finance Policy Note, a living document prepared by the Ministry of National Development Planning/National Development Planning Agency (Bappenas) with the support of the World Bank.

A robust sustainable blue economy policy framework and coordination strategy is essential to create the necessary enabling environment<sup>8</sup> to achieve economic growth while ensuring sustainability. Fortunately, the overarching policy framework exists in Indonesia, through documents such as the National Long-Term Development Plan (RPJPN), National Medium-Term Development Plan (RPJMN), and National Ocean Policy. However, greater coordination, specifically around the numerous blue finance strategies, investments in innovative sectors such as blue carbon and various pilots remain necessary across sectors and levels of government. Given the challenges to blue finance around natural resources management, business readiness, investor environmental and social standards, coordination of actors, infrastructure, finance delivery mechanisms, and data and transparency, there is a need for a workplan that can coordinate actors, build consensus, and identify and prioritize specific actions to be taken.

A key barrier to unlock the marine potential of Indonesia is by addressing the financing gap in the blue sector. As current public and philanthropic financing sources are close to their maximum funding capacity, new approaches are essential to “crowd-in” private financing and enhancing the mobilization, management, and use of blue finance. While closing this gap is critical, it is challenging. It will involve addressing the enabling environment and policies relevant to the sector, as well as bringing sufficient financial resources to address Blue Economy financial needs in a strategic manner, as has been captured in a range of publications and reports, including the Blue Finance Policy Note and the Blue Finance Strategic Document developed by Coordinating Ministry for Maritime and Investment Affairs (CMMAI).

Key to the work plan will be identifying key government institutions that can lead the process and enable blue financing at scale in collaboration with key stakeholders. Coordination between Bappenas, Ministry of Finance (MoF), CMMAI, and Ministry of Marine Affairs and Fisheries (MMAF) is a necessity. Learning from the current implementation of the Ministry of Environment and Forestry (MoEF) and Indonesian Environment Fund (IEF or BPD LH) is also important, among other lessons from existing institutions involved in blended (public and private) and socially responsible financing.

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<sup>5</sup> OECD, Bappenas. 2021. Blue Economy Development Framework for Economic Transformation. Retrieved from: [https://perpustakaan.bappenas.go.id/e-library/file\\_upload/koleksi/dokumenBappenas/file/Blue%20Economy%20Development%20Framework%20for%20Indonesias%20Economic%20Transformation.pdf](https://perpustakaan.bappenas.go.id/e-library/file_upload/koleksi/dokumenBappenas/file/Blue%20Economy%20Development%20Framework%20for%20Indonesias%20Economic%20Transformation.pdf)

<sup>6</sup> Indonesian Government. 2021. SDGs Government Securities Framework. Retrieved from: <https://djppr.kemenkeu.go.id/uploads/files/GSF/The%20ROI%20SDGs%20Government%20Securities%20Framework%20vf.pdf>

<sup>7</sup> The World Bank. 2021. Reforms for a Blue Economy in Indonesia: Oceans for Prosperity. Retrieved from: <https://openknowledge.worldbank.org/handle/10986/35377>

<sup>8</sup> IFC. 2022. Guidelines for Blue Finance. Retrieved from <https://www.ifc.org/wps/wcm/connect/cdbfb6c5-2726-47a6-9374-6a6f86032dd4/IFC-guidelines-for-blue-finance.pdf?MOD=AJPERES&CVID=nWxsyxN>

## ENABLING ENVIRONMENT AND POLICIES



Under the guidance of the proposed Blue Finance Advisory Committee (BFAC) (see Appendix 1 for a brief description) as a coordinating body, and building on the extensive SDGs Republic of Indonesia Government Securities Framework (or SDGs Government Securities Framework) and *Sukuk* models, the following next steps are proposed:



**Coordination of a National Blue Finance Framework** – this is a priority to establish and agree on eligible use of funds (see appendix 2 for a sample). There are currently several and somewhat competing definitions of the blue financing framework, (e.g. the Organisation for Economic Co-operation and Development's (OECD) Blue Economy Development Framework; International Finance Corporation's (IFC) Blue Finance Framework), with a need to resolve these differences under the SDGs Government Securities Framework's umbrella and related international guidelines such as the Green Bond Principles (GBP). The Blue Finance Advisory Committee will need to rapidly address this overarching and consolidated framework to ensure a consistent approach across ministries and agencies, leveraging resources from United Nations Development Program (UNDP), Asian Development Bank (ADB) and others.



**Blue Tagging for national budgets** – Once relevant sectors are agreed, a crucial next step for GoI is Budget Tagging. Budget Tagging is an integral component of GoI's planning and budgeting process to identify and quantify capital requirement for thematic financing instruments. It is an integrated process by projects to identify and sort planned expenditures based on expected impacts (environmental, social and economic) conducted by the appropriate line ministry and validated by Bappenas. Bappenas and MoF are subsequently responsible for reviewing and approving projects, budget allocations and subsidies to be included in national budgets. As such, the GoI Budget Tagging process is designed to identify expenditure of projects that deliver benefits in accordance with GoI's agreed financing framework (SDGs Government Securities Framework) involving at least 22-line ministries<sup>9</sup>. This is a priority activity to be conducted once eligibility issues and criteria are addressed.



**Public Expenditure Review & Repurposing Government Spending** – Using the PER Guidelines provided by the World Bank, the identification of recommendations and draft regulations to address public expenditure (including government fiscal transfers) and incentivize sustainable business practices in the priority sectors will need to be addressed.

<sup>9</sup> Republic of Indonesia, SDG Government Securities Framework, 2021



**Blue Carbon** - There is a considerable interest in leveraging blue carbon (as a potential payment for ecosystem service (PES) model) mainly from Marine Protected Areas (MPA) to support MPA operating, capital investments and develop a reliable and long-term business model for marine and coastal ecosystem conservation. However, the policy consideration in relation to the national strategy and Nationally Determined Contributions (NDC) in the context of Presidential Regulation 98/2021 on Economic Valuation of Carbon including but not limited to implement regulations related to carbon pricing so that MMAF can realize carbon revenues that need to be addressed. This will require coordination between CMMAI, MoEF, MMAF and others.



**Monitoring and Reporting Framework** - While the SDGs Government Securities Framework includes a Monitoring and Reporting Framework, this framework is still lack of adequate “blue economy” metrics. At the same time, Indonesia’s sukuk instruments do not have blue economy metrics. Bappenas, in tandem with MoF and related partners, will develop a blue finance monitoring and reporting system based on the SDGs Government Securities Framework (and relevant international guidelines) and associated blue tagging to ensure investment impacts are robustly tracked and internationally credible.



**Capacity Building** - Human resource capacity at all levels of related ministries/agencies are essential to the success of Blue Finance implementation. Building the capacity through training for mid-level managers and officials can be applied for member of key ministries. The role of MoF will be essential to provide such capacity.

## RAISING FINANCIAL RESOURCES



Critical to the evolution of the blue economy is the raising of sufficient financial resources to address Blue Economy financial needs in a strategic manner. While there are several financing tools and mechanisms that may be considered (see Appendix 3), the utility of the tools is driven in large part by addressing the following consideration across multiple ministries as part of the “Blue Finance Discovery Process” (see Appendix 4):



### **Eligible Use of Funds –**

Eligible uses of funds will determine the type of financing instruments to be utilized. Considerations include capital vs operating costs; short term vs long term as well as associated generating revenue and repayment mechanisms. Addressing eligible investments (see Appendix 2 for a sample) in the context of guidance from the IFC, ADB, OECD, and the SDGs Government Securities Framework will result in a suite of potential investments spanning the priority demands and addressing the long-term threats to marine natural resources.



### **Amount (and Type) of Capital Required –**

Based on the prior eligibility criteria, an enumeration of the projects and investments should result in the identification of the amount of capital required by uses and types. This would inform whether uses are capital investment vs operating costs, as well as demand for grant vs equity or debt investments.



**Channelling modalities –** The agencies and entities that responsible for providing fiduciary management of the funds will need to addressed with MoF as part of the strategy development process, including addressing concerns related to “ringfencing” dedicated resources. Fortunately, Indonesia benefits from significant investments in robust channelling mechanisms for environmental finance, which need to be engaged to benefit the blue economy. Examples include BPD LH as an asset manager on behalf of Gol. This is particularly relevant if funds are to include solutions that fall under the responsibility of different line ministries (e.g., Tourism).



**MoF Approval** – The design criteria, terms, and conditions for MoF approval for any sovereign instruments (SBSN *Sukuk* or SDG Bond under the SDGs Government Securities Framework) will need to be addressed throughout the process. Parameters related to timing, term, amounts, and conditions should all be met based on MoF guidance and relevant international standards.



### **Instrument Characteristics**

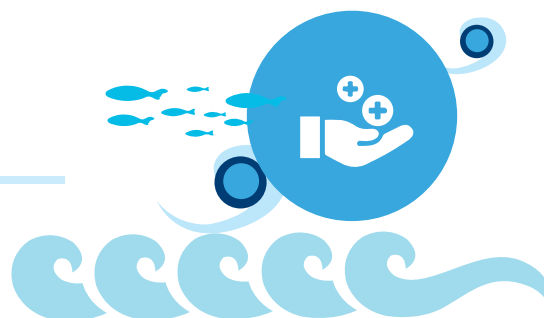
– Based on the MoF design criteria, appropriate instruments will have been identified (Bond; SBSN *Sukuk*, etc); ideally, respective term sheets summarizing key attributes should be developed in collaboration with MoF.



### **Identify and approach transaction partners and investors**

– together with the proposed term sheet(s) agreed by the principal agencies including SDGs Secretariat, Directorate of Sharia Financing MoF, and Directorate of Government Debt Securities MoF, this action would enable potential transaction partners (e.g., external reviewers, lawyers, banks, and investors) to be approached. and approach transaction partners and investors.

## **REVENUES**



As shared in the Blue Finance Policy Note, it is important to separate revenue options from financing instruments. Non-tax revenues are critical component of any sovereign or non-sovereign financing instrument, particularly in the post-covid environment. A number of revenue options are available to support the development of the blue economy in Indonesia but require further policy development and implementation capacity in order to effectively scale and raise required amounts. These range from user fees, levies and penalties

for payments for ecosystem services (such as carbon payments) and biodiversity offsets. Each of the sectors (tourism, fisheries, aquaculture, etc.) benefiting from healthy ocean ecosystems may be considered to contribute additional non-tax revenue options<sup>10</sup>.

The priority is developing policy recommendations to realize scalable non-tax revenue options from a range of sectors, particularly blue carbon and tourism.

<sup>10</sup> Bohorquez, J. (2022). A New Tool to Evaluate, Improve, and Sustain Marine Protected Area Financing Built on a Comprehensive Review of Finance Sources and Instruments. *Frontiers in Marine Science*. Retrieved from <https://www.frontiersin.org/articles/10.3389/fmars.2021.742846/full>

## LESSONS FROM THE GREEN BOND MARKETS



Indonesia is fortunate in that it has established a robust “green” strategy, upon which blue finance can build. Despite the relatively innovative nature of blue finance and the documented barriers, the green finance market offers lessons which, if applied, would facilitate the development of the blue finance market<sup>11</sup>, providing regulators (such as Financial Services Authority or OJK) with necessary assurances.

**Table 1:** Blue Bond Gaps and Mitigation Solutions<sup>12</sup>

| Gaps & Barriers  | Solutions   |
|--|---|
| Lack of guidance on blue bonds                               | ▶ Based on blue bond eligible projects on SDGs<br>Government Securities Framework, Green Bond Principles and other existing credible guidance |
| Lack of projects   | ▶ Provide feasibility support   |
| Lack of Corporates choosing to issue blue financial products | ▶ Explain benefits  |
| Projects are too small                                       | ▶ Bundle projects; scale projects with other capital  |
| Projects are too risky                                       | ▶ De-risk through multiple revenue streams<br>De-risk through credit enhancements or insurance  |
| Projects are too complex                                     | ▶ Clarify project structures  |
| Low issuer credit rating                                     | ▶ Add MDB guarantor   |
| Lack of awareness of benefits                                | ▶ Provide technical assistance  |
| Lack of credibility  | ▶ Develop blue standards, metrics, principles and verification mechanisms   |
| High transaction costs                                       | ▶ Standardize assessments; develop transaction tools  |

<sup>11</sup> Roth, N. (2022). *Blue Bonds: Financing resilience of coastal ecosystems*. Retrieved from [https://bluenaturalcapital.org/wp2018/wp-content/uploads/2019/05/Blue-Bonds\\_final.pdf?msclkid=7b338c26c4cf11ec846caaf793a6e114](https://bluenaturalcapital.org/wp2018/wp-content/uploads/2019/05/Blue-Bonds_final.pdf?msclkid=7b338c26c4cf11ec846caaf793a6e114)

<sup>12</sup> *ibid*

### Key lessons identified include:

- Buyers of green bonds remain a subset of the overall market.
- Emerging markets are an important source of green bonds, with China leading the market while other countries remain a small sub-set of the overall emerging market.
- Multilateral Development Banks are key partners in the development process, providing credentials, risk mitigation and technical assistance.
- Definitions matter, but at subsector/activity level, they should be very clear and specific.
- Guidelines, transparency and accountability are critical.
- Reporting requirements on use of proceeds and impact are critical to credibility.
- Institutional investors take time to cultivate and are risk averse, but critical to scaling the market.

Key challenges associated with attracting capital to sustainable marine and coastal investments include i) lack of track record of transactions (in comparison with terrestrial ecosystem investments); ii) lack of measurable and tradeable assets with strong monitoring, especially for nature-based investments (e.g., blue carbon); and iii) lack of reliable data related to fisheries, coral reefs, and marine ecosystems services and iv) lack of accepted and credible standards<sup>13</sup>.

## RECOMMENDED INSTRUMENTS



Based on the review undertaken for the Blue Finance Policy Note, several financial instruments have been tested and piloted in Indonesia, primarily in terrestrial ecosystems. Unfortunately, many of these efforts are not coordinated and do not effectively link to revenues and few have been tested in marine ecosystems. All would benefit from policy and enabling environment interventions identified here to improve their effectiveness and scalability.

While an increasing number of instruments are being tested in marine ecosystems, Indonesia has not yet tested blue bond (based on the SDGs Government Securities Framework) or blue sukuk, despite having successfully launched green versions of these instruments. The table below provides a summary of instruments and recommended next steps. Further details are available in the Blue Finance Policy Note.

**Table 2:** Summary Table of Financing Instruments and recommended next steps identified in Blue Finance Policy Note

| Instrument                                      | Tested in Indonesia                        | Next Steps  |
|---|--|---|
| SDG Bond  | Yes, but not for Blue                      | Development of Blue SDG Bond  |
| Blue Bond or <i>Sukuk</i>                       | No; but green <i>sukuk</i> has been tested | Test feasibility of blue bond/blue <i>sukuk</i>                     |
| Environmental Impact Bonds                      | No   | Test feasibility of carbon credit or PES based Instrument           |
| Insurance (Parametric Coral Reefs and Mangrove) | Yes (ADB & GEF; Mercy Corps)               | Test feasibility of parametric insurance for environmental impacts. |

<sup>13</sup> Coalition for private investment in conservation. (2021). *Conservation Finance*. Retrieved from <http://cpicfinance.com/wp-content/uploads/2021/09/CPIC-Conservation-Finance-Report-2021.pdf>

|                            |  |  |
|----------------------------|--|--|
| Trust Funds                | Yes  | Determine barriers to scale                                    |
| Blended Finance Facilities | Yes – primarily in terrestrial                           | Test scaling marine trust funds via BLU                        |
| Impact Investment          | Yes – esp. aquaculture, technology, fintech and plastics | Engage with relevant blended facilities directly to scale      |
| Debt for Nature Swap       | Yes, terrestrial   | Define linkages with priority sectors to scale                 |
|                            |  | Determine if opportunity arises for marine related investments |

A Blue SDG Bond and/or SBSN *sukuk* has been identified as a potentially viable option, subject to the completion of a formal feasibility assessment and meeting MoF design criteria. A sovereign instrument, issued with the backing of the GoI is more likely to attract investment to this relatively nascent sector at this time, assuming the enabling environment issues and the design criteria required by the MoF in are addressed.

This determination has been made based on the intended use funds; the nature of the anticipated underlying assets; and the lack of a robust financial pipeline of projects capable of generating adequate cashflows. While a blended finance vehicle may be viable in due course, the necessary prerequisites

for the success of such a facility are not currently in place. These include a) the presence of an adequately sized and robust pipeline of investment ready projects representing adequate absorptive capacity; b) robust impact metrics and monitoring systems; c) the ability to target relevant investors; d) structural and legal capacity to address issuer, channelling options and legal costs; e) strong implementation and operational capacity to minimize transaction costs and f) strong coordination between private and public stakeholders. Critically, the pipeline must be consistent and large enough to cover the high transaction costs associated with developing blended finance facilities which can be both time and resource intensive. It must be deep enough to give confidence to investors regarding the liquidity of the Bond.



## PROCESS OF BLUE BOND/SUKUK ISSUANCE



The issuance of a publicly traded bond in the capital markets is a complex process that is subject to securities laws and dedicated regulators that are specific to each jurisdiction. Bourses and exchanges also have their own requirements and rules. Issuers need to imperatively hire appropriate financial and legal advisers to guide them through the process. Accordingly, the purpose of this section is to identify the specificity of the issuance of a use-of-proceeds instrument such as a blue bond rather than summarize overall the various steps of a debt security transaction. In this, issuers will need to reflect the voluntary guidance of the principles provided by International Capital Market Association (ICMA), specifically:

- (i) Use of proceeds;
- (ii) Process for project evaluation and selection;
- (iii) Management of proceeds; and
- (iv) Reporting (Allocation and Impact Reporting).

### Pre-issuance

#### Principle 1: Use Of Proceeds

##### Create a Sustainable Bond/Sukuk Framework

A sustainable bond/sukuk framework is the foundation of sustainable bond/sukuk issuances. The framework is a publicly-disclosed document that outlines how the issuer will ensure that its blue bond/sukuk is structured according to the core components of the International Capital Market Association (ICMA) Principles (as above).

The framework can also reflect how the bond/sukuk is intended to contribute to global sustainability targets such as the SDGs. The framework should describe the issuer's overall sustainability policies and strategy. Investors will consider the bond framework carefully when deciding to invest in a bond/sukuk. The framework is typically developed jointly with the issuer's advisors including the specialized team of its lead underwriting bank as well as environmental consultants when needed.

##### Define and Confirm Project Categories

Eligible blue projects can cover the financing or refinancing of investments and other related and supporting expenditures, as well as physical and financial assets including bank loan portfolios. Issuers can refer to the non-exhaustive list of eligible project categories under the Green Bond Principles (GBP or the Principles)<sup>14</sup>. This document provides high-level additional guidance on eligible blue project categories in the section below with an illustrative matrix of indicative eligible projects.

##### Obtain an external review

The Principles recommend that issuers get an external review of the bond/sukuk framework before issuance and make it publicly available on their website. While there are multiple types of external reviews (third party certification, assurance, ratings), the most common approach is to seek a second party opinion (SPO) on the bond framework. This is generally done by the issuer contracting an SPO provider. SPOs are important to disclose to both potential investors and other key stakeholders of the company, country, or institution.

## **Principle 2:** **Process for project evaluation and selection**

The Blue bond framework should outline the process by which projects are selected. This includes the governance and responsibilities for ensuring selection of projects is aligned with the use of proceeds categories defined in Principle 1.

### **Post-issuance**

## **Principle 3: Management of Proceeds**

An essential feature of the Principles in relation to use-of-proceeds bonds is the focus on management and allocation of proceeds. The recommendations are quite specific and should be consulted directly in the text of the GBP. It is important to note that market practice has moved increasingly to the simpler tracking of “equivalent amounts” of net proceeds rather than the other methods mentioned in the GBP. It is also important to underline the recommendation for issuers to use an external auditor, or other third party, to verify the internal tracking method and the allocation of funds from the net proceeds.

## **Principle 4: Reporting**

The Principles recommend annual reporting of both allocations to projects and their expected impact. For impact metrics, there is not a globally accepted list of impact metrics for sustainable blue economy projects. This is because of the breadth of the sectors involved in the sustainable blue economy and the relative newness of the market. For green bonds, for example, many projects can be reported using a common indicator of tons of greenhouse gas emissions avoided. For sustainable blue economy projects, which span seafood to tourism to marine protected areas, there are a multitude of indicators to measure impact.

The development of appropriate indicators, defined in the framework, is recommended for now until there is a more globally harmonized set of impact indicators. ICMA's Harmonized Framework for Impact Reporting currently does not include explicit indicators for reporting of the impact of “blue bonds”, however, issuers can still consider the proposed metrics as guidance for their reporting.

## PROJECTS CATEGORIZED AS ELIGIBLE ON BLUE BOND/ SUKUK ISSUANCE



Before contemplating financing through a “blue bond/sukuk”, potential issuers need to identify eligible projects. The SDG Government Securities Framework and the GBP explicitly recognize several broad categories of eligibility for green projects which contribute to five environmental objectives:



**climate change mitigation**



**climate change adaptation;**



**natural resource conservation;**



**biodiversity conservation; and**



**pollution prevention and control.**

These are also highly relevant for the sustainable blue economy. However, given that the eligible project categories under the GBP are descriptive rather than prescriptive, issuers are not always clear on which blue projects are eligible under the Principles and /or considered as credible by international investors. This guide aims to synthesize key documents to create an indicative list of blue projects and eligibility criteria that are common across institutions. It is critical for potential issuers to go beyond the GBP and refer to other guidance if they want to avoid reputational risk in this area.

Appendix 2 provides an indicative and non-exhaustive categorization of blue projects that could be eligible for blue use of proceeds under the SDG Government Securities Framework and the GBP. For example, decarbonization of a domestic shipping fleet could contribute to the GBP category - clean transportation. Projects include assets, investments and other related and supporting expenditures such as research and

development that may relate to more than one category and/or environmental objective.

It is worth noting that while existing blue bonds also include freshwater-related projects, this guidance is aimed at highlighting to issuers the possibility to finance ocean-related projects.

In addition to the Principles and related ICMA guidance, issuers are encouraged to:

- Consult the Ocean Finance Handbook for clarity on sustainable blue economy financing instruments and to identify instances where “blue bonds” are not applicable;
- Exclude from their eligibility criteria projects involving any activity that is marked in the Recommended Exclusions for Financing a Sustainable Blue Economy list. The activities included therein cover various ocean-related

activities that should not be financed due to their damaging impact on the ocean, negative impact to other SDG areas and high risk; and Review the Turning the Tide: How to Finance a Sustainable Ocean Recovery and Diving Deep: Finance, Ocean Pollution and Coastal Resilience toolkits for detailed information on the sustainability and financing of each sector, as well as for guidance on how to implement the Sustainable Blue Economy Finance Principle in the corresponding “blue bond”. Further information on how “blue bond” categories relate to the environmental categories detailed above can be found in the Ocean Finance Framework and the Guidance for Blue Finance.

Additionally, the UN Global Compact Sector Specific Practical Guidance can be referred to for good practices in sustainability.

- Prepare a prioritized list of potential investments as part of the pipeline development process. This list would seek to both identify and quantify priority investments in a systematic manner, based on pre-defined criteria. Such criteria to include economic, social and financial impact as developed in the Blue Finance Discovery Process described in Appendix 4. A sample table of the steps involved is included in Appendix 5 for guidance.

## BENEFITS OF BLUE BOND/SUKUK ISSUANCE

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Blue bond/*sukuk* can be used to finance the sustainable blue economy by all types of public and private sector issuers. These include:

- Sovereigns and sovereign agencies
- Multilateral Development Banks (MDBs) and Development Finance Institutions
- Banks and other financial institutions
- Large and medium-sized companies
- Sub sovereign and Municipal entities



For an issuer, the main advantages of issuing use-of-proceeds bonds such as blue bond/*sukuk* are typically that they:

- Help to articulate and enhance credibility of its sustainability strategy;
- Improve diversification of its investor base, thereby expanding funding sources and potentially reducing exposure to bond demand fluctuations;
- Create opportunities for larger and longer-term financing;
- Lead, in some cases, to improved financing costs through excess demand (i.e., A “greenium”); and
- Lead to reputational benefits (e.g., Marketing can highlight issuer’s environmental credentials and support for blue investment).



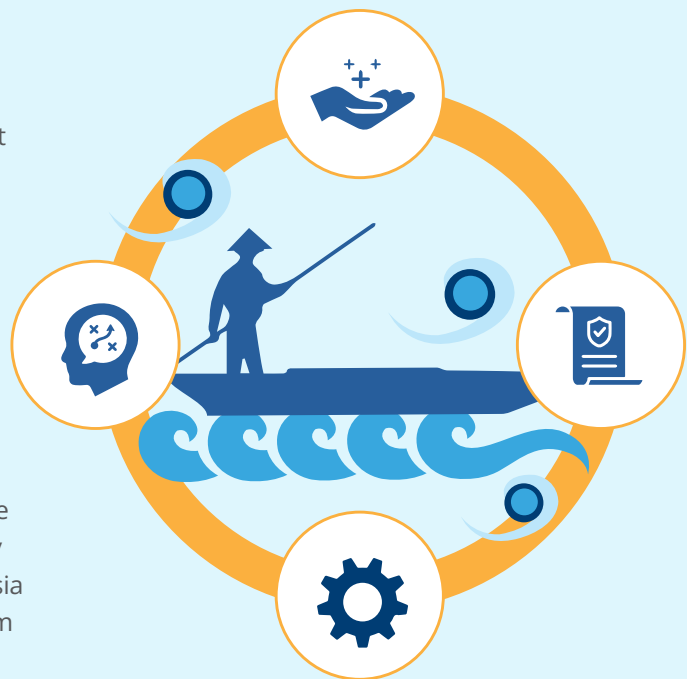
As use of proceeds bonds, blue bonds can also have internal benefits for issuers such as:

- Increased internal awareness on sustainability issues and related change in corporate culture;
- Integration of sustainability considerations into business-decision making;
- Increased interaction/synergies between different teams on sustainability matters;
- Adoption of new policies, processes, and tools to better track sustainable projects and assets; and
- Identification and better management of sustainability risks.

## CONCLUSION

Indonesia benefits from a robust investment policy environment and market. The opportunity now exists to build upon experiences such as the SDG Government Securities Framework and SBSN *Sukuk* experiences to address the significant gap in “blue financing” to achieve the nations worth goals. Through a strategic approach in addressing enabling environment and policy constraints, coupled with clearly defining eligible use of funds, quantifying the opportunities, and developing robust, highly impactful investments in the sector, Indonesia will be able to raise the necessary funds from governments and investors alike.

Intensive cooperation and collaboration of all stakeholders (public, private, philanthropy and community) in national, province and region level are one of the keys to successfully developing the blue economy in Indonesia. Given the rapid development of the Blue Economy, this is living document that can be adopted according to the latest circumstances.



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# APPENDIX

## APPENDIX - 1

# Structure of the Blue Finance Advisory Committee

Given the multiplicity of initiatives and activities in the blue economy, along with the need to effectively coordinate activities, and the intention of integrating sustainable blue financing as part of national goal, Bappenas will take a lead as Coordinator of the proposed Blue Finance Steering Committee (BFSC).

**Bappenas is expected to play role as coordinator with details as follows:**

- To coordinate and formulate policies in the fields of development planning, national development strategy, providing direction to sectoral, cross-sectoral, and cross-regional policies, national and regional macro-economic framework, engineering design of facilities and infrastructure, framework of regulations, institutions, and funding, and in the field of monitoring, evaluation, and managing the national development implementation with regards to the proposed BFAC.
- Second, to coordinate the seeking out of domestic and foreign sources of financing, and in the allocation of funds. Furthermore, to coordinate and synchronize the implementation of policies national development planning and budgeting BFAC. Finally, to coordinate strategic activities in the handling of urgent and large-scale problems, in accordance with the specially assigned tasks

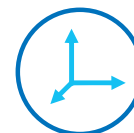
The committee's main roles are as follows:



- 1 Provide strategic plan and review the implementation



- 2 Responsible for formulating general and technical policies for the Finance Strategies, including asset allocation and overall evaluation.



- 3 Supporting the program in coordinating the funds with Ministry/Agency, development partners, civil community organizations, private sectors, and other financial institutions to manage the implementation of the program and their activities.



## BLUE FINANCE ADVISORY COMMITTEE

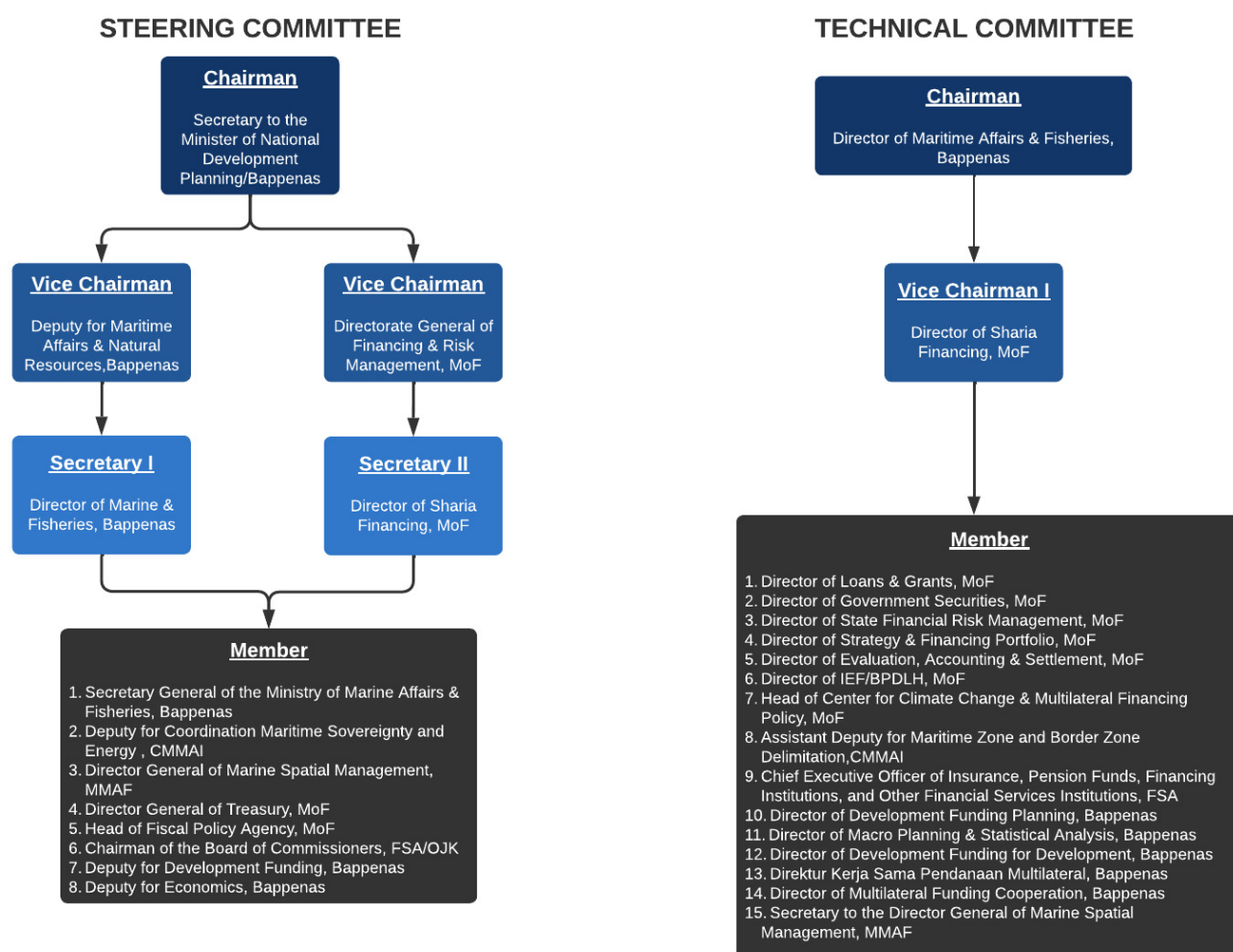


Figure 1. Blue Finance Advisory Committee

Ministry of Finance (MoF) is expected to play a role as follow; Formulating, stipulating, and implementing policies in terms of budgeting, taxes, customs and excise, treasury, State assets management, fiscal balance, and budget financing and risk management to support Blue Finance Advisory Committee (BFAC). Also, managing State properties/assets that are under the responsibility of Ministry of Finance to support BFAC; Holding education, training, and competence in terms of State finance; and providing substantial support to entire elements of organization in the Ministry of Finance.

The line Ministries will play role to play role as: Formulating, stipulating, and implementing policies in terms of internal or in region. Financial Services Authority (FSA or OJK) plays role as bridging with private sector, Banks and financial institution non-Bank to support BFAC. Donor as part who provide funding to support BFAC will be give advice to Board of Technical Team (BTT) about the progress. Represent from Academic and Business Association mainly mission provide advice or input to coordinator of Blue Finance Steering Committee (BFSC).

## APPENDIX - 2

### Potential Eligible Uses of Funds

Several taxonomies related to defining eligible blue investment sectors have been developed in recent years. These include the Guidelines for Blue Finance by the IFC<sup>22</sup>, The ADB Ocean Financing Initiative<sup>23</sup>, and the CMMAI, UNDP, and Archipelagic and Island States (AIS) Forum as part of the Blue Financing Strategic<sup>24</sup> document. Broadly, Blue Finance Policy Note mentioned that each of these includes investments in the following:

- **Ecosystem and Natural Resource Management** - includes ecosystem management and restoration, sustainable fisheries management, and aquaculture
- **Pollution Control** – includes solid waste management, resource efficiency and circular economies, non-point source pollution management and waste water management
- **Sustainable Coastal and Marine Development** – includes coastal resilience, coastal and marine tourism, ports and shipping and marine renewable Energy
- **Ocean Finance** – includes support for ocean finance instruments

The World Bank's Oceans for Prosperity report<sup>25</sup> identifies the following, priority sectors for deploying blue finance: (a) sustainable fisheries (including aquaculture); (b) tourism; (c) managing coastal and marine assets (marine protected areas) and (d) combating waste, plastics in particular. All these sectors require investment to ensure the long term sustainability of the underlying ecosystems. However, the challenge is how to make the necessary investments in a manner that is not detrimental

to the underlying ecosystem, does not exacerbate over-extraction of natural resources and, ideally, to contribute to the costs of effectively managing protected areas and healthy ocean ecosystems.

The sustainable management are based on 4 main aspect: (1) for future generations, (2) rational use<sup>26</sup>, (3) Equity in International Environmental Affairs<sup>27</sup> and (4) Integration of Environmental Considerations in Economic Development Plans and Policies<sup>28</sup>.

<sup>22</sup> IFC. (2022). *Guidelines for Blue Finance*. Retrieved from <https://www.ifc.org/wps/wcm/connect/cdbfb6c5-2726-47a6-9374-6a6f86032dd4/IFC-guidelines-for-blue-finance.pdf?MOD=AJPERES&CVID=nWxsyxN>

<sup>23</sup> The Asian Development Bank. (2019). *The ADB Ocean Financing Initiative*. Retrieved from <https://www.adb.org/sites/default/files/related/145041/Oceans%20Financing%20Initiative.pdf>

<sup>24</sup> CMMAI, UNDP, AIS Forum. 2020. Blue Financing Strategic Document.

<sup>25</sup> The World Bank. 2021. Reforms for a Blue Economy in Indonesia: Oceans for Prosperity. Retrieved from: <https://openknowledge.worldbank.org/handle/10986/35377>

<sup>26</sup> Rational use means that the resource in question must not been used to an extent or in a way that threatens the existence and/or the sustainability of the resource in question or dependent or associated resources. All forms of utilization have to be undertaken in a way that honours these considerations. There exists quite some jurisprudence affirming this aspect of sustainable development.

<sup>27</sup> Two different scenarios are broadly governed by this aspect: first, when it comes to taking or financing conservation and restoration measures, the need to take into consideration what caused the situation which made such measures necessary in the first place; and second, the participation in and contribution to international environmental organizations or arrangements.

<sup>28</sup> This aspect is reflected most comprehensively in Principle 4 of the Rio Declaration of 1992 which states: 'In order to achieve sustainable development, environmental protection shall constitute an integral part of the development process and cannot be considered in isolation from it'.

**Table 3: Indicative Blue Project Categories And Considerations<sup>29</sup>**

| Category   | Definition and Scope   | Sub-Categories   | Positive Consideration  | Exclusions <sup>30</sup>   |
|--|--|--|---|--|
| Sustainable Management of Natural Marine and Ocean Resources | <ul style="list-style-type: none"> <li>➤ Sustainable management of natural resources which substantially avoids or reduces carbon loss / increases carbon sequestration (through planting of new mangrove and seagrass areas and/or replanting of degraded areas)</li> <li>➤ Habitat and biodiversity conservation (through sustainable management of marine ecosystems, protection of coastal and marine environments)</li> </ul> | <ul style="list-style-type: none"> <li>• Natural Assets</li> <li>• Carbon, payment for ecosystem services policies, management and compliance</li> <li>• Coastal and marine environment protection policies, management and compliance</li> </ul>  | <ul style="list-style-type: none"> <li>• Rehabilitation and replanting of mangrove, seagrass or degraded areas</li> <li>• Coastal protection</li> <li>• Marine biodiversity conservation</li> <li>• Protection of marine environment</li> <li>• Improvement of marine spatial planning</li> <li>• Research and development for marine environment improvement</li> </ul>  |  |
| Sustainable Seafood <sup>31</sup>                            | <p>Projects that improve the environmental sustainability of seafood value chains, including fisheries and aquaculture.</p> <p>This category is closely related to the GBP's environmentally sustainable management of living natural resources and land use, and the terrestrial and aquatic biodiversity categories.</p>   | <p><b>Fisheries</b></p> <ul style="list-style-type: none"> <li>▪ Fisheries policy, management, and compliance</li> <li>▪ Sustainable fishing practices and operations (includes entire value chain)</li> </ul> <p><b>Aquaculture</b></p> <ul style="list-style-type: none"> <li>▪ Sustainable aquaculture operations (includes entire value chain)</li> <li>▪ Aquaculture policy, management and compliance</li> </ul> <p><b>Both</b></p> <ul style="list-style-type: none"> <li>▪ Certification schemes</li> <li>▪ Traceability and sustainable marketing</li> <li>▪ Cold chain and storage for small- and medium-sized fishing in areas with sustainable fishing quotas</li> </ul> | <p><b>Fisheries</b></p> <ul style="list-style-type: none"> <li>▪ Selective, low-impact gear or fishing activities</li> <li>▪ Minimize impact on surrounding ecosystem</li> <li>▪ Minimize bycatch</li> <li>▪ Vessel compliance and monitoring</li> <li>▪ Ghost Gear solutions</li> </ul> <p><b>Aquaculture</b></p> <ul style="list-style-type: none"> <li>▪ Nature-based solutions</li> <li>▪ Minimize invasive species and escapes</li> <li>▪ Biosecurity systems</li> <li>▪ Humane predator control</li> </ul> <p><b>Both</b></p> <ul style="list-style-type: none"> <li>▪ Certification or third-party verification</li> <li>▪ Traceable seafood products</li> </ul> | <p><b>Fisheries</b></p> <ul style="list-style-type: none"> <li>▪ Species on The International Union for Conservation of Nature's (IUCN) Red-list for Endangered, Threatened or Protected Species</li> <li>▪ Destructive and illegal fishing practices</li> <li>▪ Lack of by-catch measures</li> <li>▪ Lack of compliance with local, national or international laws and regulations</li> </ul> <p><b>Aquaculture</b></p> <ul style="list-style-type: none"> <li>▪ Farm siting illegal or impacting on key ecological areas</li> <li>▪ Use of harmful chemicals</li> </ul>  |
| Sustainable Ports  | <p>Projects that increase environmental performance and sustainability of port functions and infrastructure. This is closely related to the GBP's clean transportation category.</p>   | <ul style="list-style-type: none"> <li>▪ Decarbonization and renewable energy</li> <li>▪ Management of port pollution</li> <li>▪ Nature-based solutions and conservation objectives in port development</li> <li>▪ Integration of sustainable ports into wider sustainable development plans and marine spatial plans</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Green supply chains: renewable energy, waste management, sustainable sourcing</li> <li>▪ Green port technologies: alternative fuel supplies, shipyard capabilities for green retrofits, clean onshore power upgrades.</li> <li>▪ Spatial management and operational policies in place to protect marine species and IUCN red-listed habitats.</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Exceeding limit values for SO<sub>x</sub>, NO<sub>x</sub></li> <li>▪ Non-compliance with The International Convention for the Prevention of Pollution from Ships (MARPOL), International Maritime Organization (IMO), national regulations and best practice for Solid &amp; chemical waste/runoffs from ports into the sea</li> <li>▪ Evidence of Oil Spills and Non-compliance with MARPOL, IMO, national regulations and best practice for oil transfer and management.</li> <li>▪ Loss of critical IUCN red-listed habitats and species in the development and implementation of the port.</li> </ul> |

<sup>29</sup> UNEP FI. 2022. Recommended exclusions for Sustainable Blue Economy Financing, Geneva. Retrieved from: <https://www.unepfi.org/publications/turning-the-tide-recommended-exclusions/>

<sup>30</sup> ibid

<sup>31</sup> Read more about the seafood, maritime transportation, ports, marine renewable energy and the marine and coastal tourism sectors at UNEP FI. 2021. Turning the Tide: How to finance a sustainable ocean recovery – A practical guide for financial institutions, Geneva. Retrieved from: <https://www.unepfi.org/publications/turning-the-tide/>

| Category                            | Definition and Scope  | Sub-Categories   | Positive Consideration   | Exclusions <sup>30</sup>   |
|-------------------------------------|---|--|--|--|
| Sustainable Maritime Transportation | Projects that involve increasing environmental performance and sustainability of maritime transportation. This is closely related to the GBP's clean transportation category.   | <ul style="list-style-type: none"> <li>▪ Retrofitting vessels for: decarbonization and emissions reduction; energy efficiency; improved ballast water management.</li> <li>▪ Commissioning vessels that: utilize alternatives to heavy fuel oil; provide improved fuel efficiency; leverage alternative technologies for low-carbon transport; present significantly lower emissions profiles.</li> <li>▪ Sustainable vessel deconstruction and recycling (or scrapping). Offshore platform installation, operation, decommissioning, and transitioning to new functions in line with the sustainable blue economy.</li> <li>▪ Integration of maritime transportation with wider sustainable development plans, e.g., marine spatial planning and integrated coastal zone management.</li> </ul> | <ul style="list-style-type: none"> <li>▪ Renewable energy</li> <li>▪ Green supply chains: renewable energy, waste management, sustainable sourcing</li> <li>▪ Green shipping technologies that need funding, from research to installations</li> <li>▪ Safe and environmentally-sound offshore platform decommissioning</li> <li>▪ Circular economy designs</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Fossil Fuels</li> <li>▪ Exceeding limit values for SO<sub>x</sub>, NO<sub>x</sub></li> <li>▪ Ballast water discharge fosters invasive species</li> <li>▪ Waste disposal harming marine life</li> <li>▪ Oil Spills harming marine life, human health, coastal tourism</li> </ul> |
| Marine Renewable Energy             | Projects that increase contribution of marine and offshore renewable energy to energy mix and renewable energy projects that support other sustainable blue economy sectors. This category is closely related to the GBP's renewable energy and energy efficiency categories. | <ul style="list-style-type: none"> <li>▪ Development, operation, maintenance, and sustainable decommissioning of offshore wind (both fixed and floating installations), wave, tidal, floating solar, ocean thermal energy conversion and a number of conceptual energy generation technologies</li> <li>▪ Energy efficiency</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Renewable energy project that is integrated with wider sustainable development plan, including robust marine spatial plans, avoiding areas of high ecological value and migratory species routes</li> <li>▪ Reduction of bird strikes</li> <li>▪ Lifecycle approach to development</li> <li>▪ Minimization of pollution</li> <li>▪ Global best practices</li> <li>▪ Monitoring and data collection</li> </ul> | <ul style="list-style-type: none"> <li>▪ Noise pollution</li> <li>▪ Air pollution including greenhouse gas emissions</li> <li>▪ Seabed disturbances and impacts</li> </ul>   |

| Category  | Definition and Scope  | Sub-Categories  | Positive Consideration  | Exclusions <sup>30</sup>  |
|---|---|---|---|---|
| Sustainable Coastal and Marine Tourism                  | Projects that improve the environmental sustainability of coastal and marine tourism. This category is closely related to the GBP's environmentally sustainable management of living natural resources and land use category.   | <ul style="list-style-type: none"> <li>▪ Sustainable coastal and marine tourism planning and management</li> <li>▪ Sustainable tourism infrastructure development</li> <li>▪ Sustainable procurement and sourcing</li> <li>▪ Integration of sustainable tourism within wider sustainable development plans including marine spatial plans</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Visitor limits</li> <li>▪ Proper siting of developments</li> <li>▪ Cruise ships maintaining minimum safe distance from areas of high biodiversity, ecological value or protected areas</li> <li>▪ Ballast water and invasive species controls for cruise ships</li> <li>▪ Active management and conservation of ecosystems and wildlife</li> <li>▪ Active avoidance of areas of high ecological value</li> <li>▪ Waste management solutions and circular economy approaches</li> <li>▪ Noise pollution mitigation</li> </ul> | <ul style="list-style-type: none"> <li>▪ Destination development within protected areas, critical habitat for ETP species, or areas providing vital ecosystem services such as coastal flood defense</li> <li>▪ Air pollution including greenhouse gas emissions</li> <li>▪ Water pollution</li> <li>▪ Wildlife impacts for entertainment purposes</li> </ul> |
| Coastal Climate Adaptation and Resilience <sup>32</sup> | <p>➤ Projects that support ecological and community resilience and adaptation to climate change.</p> <p><u>Geographic eligibility:</u></p> <p>➤ Projects must be within 50 km of the coast or within the marine environment.</p> <p>This category is closely related to the GBP's green buildings and climate change adaptation categories.</p> | <ul style="list-style-type: none"> <li>▪ Disaster risk reduction</li> <li>▪ Protection of coastal development through use of green infrastructure and nature-based solutions</li> <li>▪ Development, construction, operation and maintenance of green infrastructure projects</li> <li>▪ Recovery of ecosystem services for natural infrastructure</li> <li>▪ Coastal adaptation to climate change</li> </ul> | <ul style="list-style-type: none"> <li>▪ Nature-based solutions</li> <li>▪ Protection of natural heritage</li> <li>▪ Green infrastructure</li> <li>▪ Integration of ocean health and climate adaptation in coastal development plans</li> <li>▪ Early warning systems for natural hazards</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Grey infrastructure in areas of high ecological value</li> <li>▪ Greenhouse gas emissions</li> <li>▪ Impacts to ecosystems and wildlife</li> </ul>   |
| Waste management  | Project that related with waste management such as; <ul style="list-style-type: none"> <li>- Marine debris/litter</li> <li>- Waste-to-Energy</li> <li>- Wastewater treatment</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Waste collection</li> <li>▪ Plastic waste conversion into infrastructure material</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Substantially reduce waste generation through prevention, reduction, recycling and reuse.</li> <li>▪ Achieve the Environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment.</li> </ul>  |   |

<sup>32</sup> Read more about the coastal infrastructure and resilience, and the waste prevention and management sectors at UNEP FI. 2022. Diving Deep: Finance, Ocean Pollution and Coastal Resilience, Geneva. Retrieved from: <https://www.unepfi.org/publications/diving-deep/>

| Category                               | Definition and Scope  | Sub-Categories  | Positive Consideration  | Exclusions <sup>30</sup> |
|--|---|---|---|--------------------------|
| Sustainable fisheries                  | Project that related with sustainable fisheries, including; <ul style="list-style-type: none"> <li>- Sustainable fishing</li> <li>- Sustainable aquaculture</li> <li>- Food security</li> <li>- Food processing</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Fish stock rebuilding actions</li> <li>▪ Promotion of sustainable practices and policies for activities along the fishery value chain (e.g. fish processing equipment, fish feeds supply, packaging, marketing, distribution)</li> <li>▪ Investment in goods and services to guarantee effective fisheries management</li> <li>▪ Monitoring in protected areas and enforcement of regulations against IUU fishing</li> </ul> |   |                          |
| Disaster management and risk reduction | Project that related with; <ul style="list-style-type: none"> <li>- Research on infrastructure for disaster risk reduction</li> <li>- Research on ocean disaster management (mitigation, preparedness, response, recovery)</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Disaster risk reduction</li> <li>▪ Disaster mitigation programs</li> <li>▪ Disaster preparedness programs</li> <li>▪ Development of disaster risk reduction infrastructures</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters</li> <li>▪ Develop quality, reliable, sustainable and resilient infrastructure, including regional and cross border infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all.</li> <li>▪ Strengthen the capacity of all countries, in particular developing countries, on early warning, risk reduction and management of national and global health risks.</li> </ul> |                          |
| Ecotourism                             | Project type of tourism that is founded primarily on a specific interest in the natural history of a region.<br><br>This project is closely related to Sustainable tourism index (Ministry of Tourism and Creative Economy), and SDGs 14.1.1: Index of coastal eutrophication and floating plastic debris density | <ul style="list-style-type: none"> <li>▪ Ecotourism in coastal/ marine area</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Integrate climate change measures into national policies, strategies and planning.</li> <li>▪ Devise and implement policies to promote sustainable tourism that creates jobs and promotes local cultures and products</li> </ul>   |                          |

## APPENDIX - 3

# Summary of Blue Finance Potential Instruments Identified in Indonesia

There are several potential financing options available for healthy marine ecosystems globally and in Indonesia, with some research identifying 21 financial instruments and 11 or more sources of finance, and more than 75 potential combinations<sup>33</sup>.

**Blue finance instruments** (distinct from blue finance sources) such as trust funds, impact investments, debt-for-nature swaps, revolving loan funds, compensation funds, sovereign wealth fund, debt conversion, corporate social responsibility, parametric insurance products, bonds, and blended finance all constitute possible financing solutions. In addition, there is a growing body of practice seeking to **develop sustainable financing sources** such as ecotourism, sustainable fisheries, sustainable aquaculture, and payments for ecosystem services. As an example, in 2018, the World Bank supported Seychelles for the development of the World's first

Sovereign Blue Bond, showing the adaptability of using these various funding instruments specifically for the blue economy. Indonesia specifically has previously issued green bonds/sukuks and the Gol is adapted to the deployment of bonds and blended finance instruments in general to support sustainable development initiatives.

Indonesia has already established some of the identified instruments such as Trust Funds and has attracted significant impact investment. At the same time, given that the use of funds is intended to address marine protected areas and coastal livelihoods, without an effective underlying asset, a limited number of scalable instruments are available. Potential scalable options at this time center on sovereign blue bonds or blue sukuku which would be issued by the Gol.

**Table 4:** Summary Table Of Blue Finance Potential Instruments (Blue Finance Policy Note)

| Instrument | Type                    | Pro   | Con   | Examples  |
|------------|-------------------------|---|---|---|
| Debt Based | SDG Bonds, Green Bonds  | Green and SDG instruments have been issued by Gol   | Blue instruments yet to be developed in Indonesia   | SDG & Green Bond issued by Gol  |
|            | Banking Sector          | Sector regulated by OJK;<br><br>OJK developed sustainable finance principles which guide lending from banks to Micro, Small and Medium Enterprises (MSME), and Corporates | Conservative lending;<br><br>Typically unfamiliar with Blue Economy Sector, particularly natural assets<br><br>See "Table 1. Blue Bond Gaps and Mitigation Solutions" above | Multiple bank facilities available for established enterprises with business fundamentals |
|            | Fin-Tech                | Rapid opportunity to scale; lower transaction costs   | Model relies on high volumes and low transaction costs  | Aruna   |
|            | State Owned Enterprises | Provide bridge between grant and commercial lending;<br><br>Support development of "bankability"<br><br>Linked to ministries and defined mandates                         | Conservative lending;<br><br>Typically unfamiliar with Blue Economy Sector, particularly natural assets<br><br>See "Table 1. Blue Bond Gaps and Mitigation Solutions" above | • PT PNM  |
|            | NGO or Donor supported  | Examples are being developed and tested in Indonesia<br><br>Focused on specific sectors / outcomes  | Limited pool of resources<br><br>Tightly focused<br><br>Robust business plan required   | Meloy Fund  |

<sup>33</sup> Bohorquez, J. 2022. A New Tool to Evaluate, Improve, and Sustain Marine Protected Area Financing Built on a Comprehensive Review of Finance Sources and Instruments. *Frontiers in Marine Science*. Retrieved from: <https://www.frontiersin.org/articles/10.3389/fmars.2021.742846/full>

| Instrument                  | Type  | Pro   | Con  | Examples   |
|-----------------------------|---|---|--|--|
| Other Bonds                 | Impact/Outcome based Bonds                            | Payments linked to outcomes or impacts  | Has not been successfully designed yet in a marine/MPA context in Indonesia  |  |
| Sharia Financing            | <i>Zakat</i> Funds, Green <i>Sukuk</i>                | Green Bond and Green <i>Sukuk</i> Framework exists and accepted by financial community  | Has not been tested in “blue” economy in Indonesia; restricted to asset financing<br><br>Market demand for “blue” product as yet unknown |  |
| Trust Funds                 | Government  | Gol familiarity with these mechanisms and options   | Capacity Constraints<br><br>Subject to grant fund availability   | <ul style="list-style-type: none"> <li>ICCTF</li> <li>BPD LH</li> </ul>  |
|                             | NGO   | Familiarity in Indonesia, with donors and NGO's<br><br>Transparent mechanism  | Presently grant supported;<br><br>Transaction costs can be high  | Blue Abadi Fund (linked to BLU-D)  |
| Capital Markets             | Private sector Debt and Equity                        | Regulated by FSA<br><br>FSA developed sustainable finance principles  | Blue sector considered unfamiliar and risky<br><br>See “Table 1. Blue Bond Gaps and Mitigation Solutions” above                          |  |
| Impact Investments          | Both equity and debt                                  | Very active in Indonesia esp. Aquaculture, fintech and plastics   | See “Table 1. Blue Bond Gaps and Mitigation Solutions” above   | Aqua Spark   |
| Philanthropy                | CSR<br><br>Direct grants                              | Corporate Social Responsibility (CSR) Fund or Environmental Improvement Fund ( <i>Dana Bina Lingkungan</i> )<br><br>Grants for livelihoods & conservation | Funds often targeted<br><br>Limited to “one off” gifts   | <ul style="list-style-type: none"> <li>Walton Family Foundation</li> <li>The David and Lucile Packard Foundation</li> <li>etc</li> </ul> |
| Development Partners        | ADB, UNDP   | Significant MDB support   |  | Blue Sea Finance Hub   |
| Blended Finance             | Philanthropy; development partners; impact investment | Significant opportunity to scale,<br><br>Good examples in Indonesia   | Requires robust pipeline; capacity and resources to address transaction costs  | The UN Global Coral Reef Fund<br><br>Tropical Landscape Finance Facility<br><br>SDG Indonesia One  |
| Debt for Nature Swaps       | Terrestrial examples                                  | Provides opportunity to unlock financing  | No marine or blue examples in Indonesia  | Seychelles & Belize  |
| Insurance                   | Coral Reef Insurance<br><br>Parametric Insurance      | Nascent pilots being developed in Indonesia<br><br>Strong Partners  | No working models to scale   |  |
| Ecological Fiscal Transfers |   | Unknown   | Unknown  |  |



## APPENDIX - 4

# Blue Finance Discovery Process

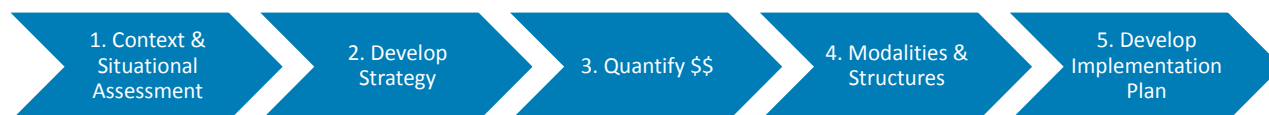


Figure 2. Blue Finance Discovery Process

The Blue Finance Discovery Process is a systematic, phased approach consisting of (i) contextual assessments; (ii) strategy development (which includes expected social, environmental and financial impacts); (iii) pipeline identification and quantification of investment requirements; (iv) identification of investment structures and channeling modalities; and (v) identification of investment implementation capacity. This process will ensure that each resulting strategy meets MoF design criteria, including (i) a clear business case, including the identification and mitigation of risks; (ii) definitions of eligible use of funds, recommended exclusions, and associated a resulting pipeline of investments; (iii) detailed feasibility assessments and proposed implementation strategies; (iv) governance and implementation mechanisms; and (v) exit strategy.

- **Context and Situational Assessment** – to contextualize the enabling and policy environment. Policies and frameworks are assessed; governance requirements evaluated, and capital requirements are broadly mapped. Data availability is considered, and risks identified and mapped. The role of the public, private and NGO sector assessed, along with the identification of relevant thematic instruments.
- **Strategy development** – to define the purpose of the intervention; determine whether a financing gap exists; identify and prioritize sources and uses of capital (including from NGO; private and public sector); risk mitigation requirements; ecosystem impact; verification mechanisms; the role of potential channeling options and intermediaries (state owned, private, NGO or other)
- **Capital requirements** – Quantify the pipeline of investments and capital requirements; understand cash flow and collateral structures; duration of financing and expected returns; risk mitigation mechanisms; role of public vs private markets
- **Channelling / Delivery options** – instrument structuring options; credit enhancement requirements delivery partners and mechanisms; pricing and transaction cost modelling.
- **Implementation and exit strategy**– implementation for the proposed strategy; ensuring ecosystem impacts and financial targets can be attained; realistic exit strategy targets can be attained; realistic exit strategy

## APPENDIX - 5

# Three Step Process for Project Pipeline Development

**Table 5:** Three Step Process For Project Pipeline Development

|  | A. Collect and document information   | B. Project Pipeline preparation   | C. Pipeline Prioritization  |
|--|---|---|---|
| <b>1. MPA Financing Strategy</b>                             | MPA inventory of assets; capital requirements<br><br>Assessment of economic potential (direct and indirect)                         | Develop non-tax revenue plans and related regulatory reforms and project budgets.<br><br>Develop detailed project pipeline  | Assess economic impacts (direct and indirect), revenue versus costs,<br><br>Identify Tier one and Tier two projects.  |
| <b>2. Coastal Economic Infrastructure Financing Strategy</b> | Inventory of potential infrastructure requirements<br><br>Assessment of economic (direct and indirect) potential                    | Preparation of detailed development plans (e.g. transport projects)   | Assess MPA and project readiness<br><br>Identify priority projects based on economic, social and biodiversity priorities  |
| <b>3. SME Financing Strategy</b>                             | Document MSME's by value chain; bankability; business plan readiness<br><br>Document Investment channeling options (intermediaries) | Screen and assess MSME's via Incubator & supporting services; provision of value chain, bankability and business plan readiness requirements<br><br>Create database of MSME's by sector, readiness & impact<br><br>Support access to scalable financing mechanisms requiring capital (e.g. BLU - LPMUKP, private credit, insurance schemes, etc.) | Investment readiness assessment based on broader enabling environment (e.g. MPA readiness, investments in infrastructure or reforms)<br><br>Define tier 1 and tier 2 MSMEs for incubator<br><br>Define tier 1 and tier 2 MSMEs for intermediary financing<br><br>Promote Investment opportunities |





# BLUE FINANCE

## INSTRUMENTS DEVELOPMENT GUIDELINE

Ministry of National Development Planning/ National Development Planning Agency (Bappenas)