Eco friendly Financing to Save Our Planets

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1. Green Policies in Business: Do we care?

Do we care for the world and the consequences of global warming? So let the world know how much we care for our planet by implementing green corporate practices. Pioneering green business practices is the buzzing trend of today's corporate world. Remove our old mentality of "change means installing expensive systems and all". Going green requires minimalistic budget and minor changes. Furthermore, green policies perhaps will be the great marketing strategy!

Running an environmentally friendly business helps reduce impact on the environment and preserves natural resources. Our business can help the environment in many ways. For example:

- use products that reduce reliance on natural resources (e.g. rainwater tanks, solar hot water systems)
- use products that are made from recycled material (e.g. office supplies made from recycled plastic, furniture made from recycled rubber)
- look at all business activities to see if we can do anything differently (e.g. reducing air travel by holding conference calls instead of interstate meetings).

Making business environmentally friendly not only benefits the environment but can also save money. However, introducing green policies will not only save money but it give us a variety of opportunities to do something for our planet and for future generation. Corporations can develop fresh new marketing techniques that are sure to work positive for business. Multinational corporations have developed the "go-green syndrome". They are not the first one to enter in the race. We realize for the first time any corporate strategy is actually benefiting our planet.

Strategies called "carbon-neutral" or "eco-friendly" policies became choices of green strategies in business. Most of us have information sources that outcome of corporate business strategies. Many corporations have started recycling paper, cans, ink cartridges and other recyclable materials. High volume of recycle material then it is possible to assign somebody who will give it to the recycling community or can give it to the government's waste department (if any).

Another best thing to save is the power and energy that will give cost-saving measures. Expert in energy audit will show the ways to reduce energy consumptions and actually reduce on the bills. Expert also will give a suggestion for free or inexpensive energy sources. How much money spends on newspaper advertisements and postal mails? How many of those papers go to trash? We have a better option to spend very less, create less pollution and still get much more benefits. It's the internet which has a very strong presence and greater audience base than any other media as of today.

1.1. Eco-Friendly Business and Government Policies around the Globe

Avoiding, reducing, reusing and recycling can lower costs. For example, a few simple changes to how deal with paper can involve our employee in environmentally friendly processes while saving money. Promoting environmentally friendly methods can set business apart from competitors and attract new customers who want to buy products and services from an environmentally friendly business.

The International Organization for Standardization (ISO) has developed ISO 14020 and ISO 14024 to establish principles and procedures for environmental labels and declarations that certifiers and eco-labelers should follow. In particular, these standards relate to the avoidance of financial conflicts of interest, the use of sound scientific methods and accepted test procedures, and openness and transparency in the setting of standards.

Australian Consumer Law (http://consumerlaw.gov.au/) provides a good example of government intervention on green business strategies. Businesses can claimed its products as eco-friendly, after followed roles from Australian Competition and Consumer Commission's green marketing and the Australian Consumer Law and comply with the Competition and Consumer Act 2010. Australian Consumer Law also stated that focusing more on environmental impacts can also help to attract and retain staff. Reducing the environmental impact of business will improve the sustainability of business. If businesses are less dependent on natural resources than competitors then green businesses will have ways to deal with rising costs due to climate change, and green businesses will have a greater chance of long-term success.

The Eco-Management and Audit Scheme (EMAS) is a voluntary environmental management instrument, which was developed in 1993 by the European Commission (http://ec.europa.eu/environment/emas). It enables organizations to assess, manage and continuously improve their environmental performance. The scheme is globally applicable and open to all types of private and public organizations. In order to register with EMAS, organizations must meet the requirements of the EU EMAS-Regulation. Currently, more than 4,600 organizations and more than 7,900 sites are EMAS registered.

The United States Environmental Protection Agency has deemed some ecolabels misleading in determining whether a product is truly "green" (https://www3.epa.gov/). In the United States, environmental marketing claims require caution. Ambiguous titles such as environmentally friendly can be confusing without a specific definition; some regulators are providing guidance. In Canada, one label is that of the Environmental Choice Program. Created in 1988, only products approved by the program are allowed to display the label.

In Asia, the environmentally friendly trends are marketed with a different color association, using the color blue for clean air and clean water, as opposed to green in western cultures. Japanese and Korean built hybrid vehicles use the color blue instead of green all throughout the vehicle, and use the word "blue" indiscriminately. There for, Korean and Japan will use blue strategy rather than green strategy.

1.2. Eco-Friendly Business and Government Policies: Indonesia

Indonesia, home to 230 million people, is one of the world’s major emerging economies and emitters of greenhouse gas emissions (GHG). According to its National Council on Climate Change, the country emitted about 2.1 giga tones of CO_2 ($GtCO_2$) in 2005, which is about 5% of global GHG emissions, while it contributed only 0.6% to world Gross Domestic Product (National Council of Climate Change).

At the global level, 57% of GHG emissions originate from fossil fuel combustion. Unlike China and India, most of Indonesia's emissions do not originate from industrial activities. In fact, 38% of the country's total emissions are from peatland (with the majority caused by fires) and 35% are caused by changes in land use. In a country that has the third largest tropical forests in the world, this will continue to mean considerable environmental degradation and health costs, a decrease in agricultural productivity, and material damage. Under a business-as-usual scenario, emissions from peat fire and land use and forestry are expected to grow to 1.64 $GtCO_2$ by 2030 (from 0.91 $GtCO_2$ in 2005), bringing the country's estimated total GHG emissions to 3.3 $GtCO_2$, according to the country's Second National Communication under the United Framework Convention on Climate Change (UNFCCC).

To overcome this unfavourable development in countries like Indonesia, "green growth" has been proposed as a new way of pursuing economic growth and development. This concept, which purportedly avoids environmental degradation, loss of biodiversity, and unsustainable use of natural resources has been connected to the "green economy for sustainable development and poverty reduction", a theme of Rio+20 United Nations Conference on Sustainable Development (United Nation University).

According to UNFCCC, several key strategic elements are identified as being required to achieve green growth, all of which apply to Indonesia:

a. phasing out oil subsidies
b. acceleration of innovation and diffusion of green technologies
c. supporting a sustainability transition through policies aimed at upgrading skills and capabilities of workers
d. strengthening of international cooperation

e. measuring progress by development of a transparent and responsible accounting framework involving social, economic and environment indicators.

Indonesia has the potential to reduce GHG emissions by 2.3 Gt by 2030, equal to 7% of global GHG emissions reduction, as required by the Intergovernmental Panel on Climate Change (United Nation University). Achieving this target and reaping the rewards of a Green Economy will not be easy given the competing goals of different national policies. While the energy policy of 2006 seeks to expand land for bio-fuel production, the climate policy of 2009 intends to implement a moratorium on deforestation. Thus, instead of enlarging the production of bio-fuels that can cause deforestation, keeping and improving productivity on existing plantations through technology and innovation has the potential to reap more benefits.

Regional autonomy and decentralization of economic and political power to provincial and local governments is crucial for this transition to pick up speed as these entities are better placed to address key social, economic and environmental concerns than the central government in Jakarta. The latter should limit its mandate to setting national standards and legal instruments for the transition to be in line with international climate economic and climate regimes.

Future policies will not only need to be more coordinated at the national level, they will also need to ensure a sustainability pathway for achieving green growth that reflects Indonesia's development trajectory. While Indonesia's GHG emissions now come to a large extent from peat fire and deforestation, in the future they will increasingly originate from the electricity and transportation sectors.

The suggestion for emission tax saving also becomes one innovative idea to reap our future target for emission reduction. This poses a whole set of challenges that, while new for Indonesia, have been dealt with by other, more developed countries. As Indonesia learns from them, perhaps its sustainability transition could eventually be a lesson for other developed and developing countries pursuing green growth.

1.3. Indonesia Eco Friendly Financial Services

Green car loans, energy efficiency mortgages, alternative energy venture capital, eco-savings deposits, and "green" credit cards; these items represent merely a handful of innovative, "green" financial products that are currently offered around the globe. In an age where environmental risks and opportunities abound, so too have the options for reconciling environmental matters with lending and financing arrangements most traditional banks did not practice "green" banking or actively seek investment opportunities in environmentally-friendly sectors or businesses. Only recently have "green" financial products and services become more prevalent; and not only among smaller alternative and cooperative banks, but also among diversified financial service providers, asset management firms and insurance companies. Although these companies may differ with regard to their stated motivations for increasing environmental products (e.g. to enhance long-term growth prospects, or sustainability principles on which a firm is based), the growth, variation and innovation behind such developments indicate that we are in the midst of a promising drive towards "green" financial product development into mainstream banking.

The nation's eighth largest banks, representing 46 percent of national banking assets, have committed to implementing sustainable financing as part of global environment goals. Bank Mandiri, Bank Rakyat Indonesia (BRI), Bank Central Asia (BCA), Bank Negara Indonesia (BNI), Bank Muamalat, BRI Syariah, Bank Jabar Banten (BJB) and Bank Artha Graha Internasional signed the commitment with the Financial Services Authority (OJK) and the World Wildlife Fund (WWF) Indonesia on November 23, 2015. The commitment was manifested in a pilot project called first step to becoming a sustainable bank. The agreement is a milestone taken by the banks less than a year after the OJK launched the 2014-2019 Sustainable Financial Roadmaps.

Through the green banking pilot project, participating banks were expected to balance their pursuit of profits with willingness to conserve the environment, serving as examples to their peers. The commitment would increase bank's power to encourage their clients to enact environmental, social and governance aspects in their business processes. The project would allow the bank to gradually build sustainability partnerships with major companies, while also spreading awareness of green activities in the lower segments of the market.

The pilot project would run for a year and a half starting in January 2016, with the first phase taking place in the palm oil sector, adding that the sector was selected because it was frequently associated with environmental issues. While not specifically directed at the forest fires, policing the environmental impact of projects and activities of companies that borrow funds from its banks will help Indonesia curb the burning that this year covered an area four times the size of Bali Island. Lit to clear land for plantations, the fires caused a smoky haze that spread as far as southern Thailand and the Philippines, and turned Indonesia into the world’s worst greenhouse gas polluter.

The pilot project was also based on the OJKs roadmap, part of a partnership with the government through the Environment and Forestry Ministry. The roadmap is hoped to help the country meet the UN's Sustainable Development Goals next year. The lender had started green finance projects in micro-hydro power plants and biomass and sustainable palm oil. As of September 2015, Mandiri's loans to palm oil plantations stood at Rp 49 trillion (US$3.57 billion), up by 8.8 percent year-on-year (Bloomberg-news).

Indonesia’s financial regulator will introduce rules to restrict banks’ lending to environmentally-damaging projects by 2018, which may eventually help the nation curb the forest fires that choke parts of Southeast Asia with thick haze for months each year. The Financial Services Authority, known as Otoritas Jasa Keuangan (OJK), is aiming to draft regulations by next year to target agriculture, energy, fishery and microfinance companies. The rules would build on guidelines for sustainable financing in the palm oil industry that the nation’s eighth largest banks will test starting in January.

The shift in banks’ strategies and actions towards sustainability is already underway. An increasing number of financial institutions have started to direct their resources and lending power to curb ecological degradation, and also to promote sustainable consumer practices and decision-making. The liability of lenders, borrowers' ability to meet financial obligations, ecological deficits, and business opportunities are some of the main factors currently driving this marriage between banking and sustainability. Further, this relationship continues to be strengthened through an array of developments, which are both internal and external to the operations of financial institutions.

2. Future Opportunities

NGOs and shareholders are increasingly demanding that financial institutions put in place sustainable banking policies and practices. Networks of NGOs and individuals regularly track the operations of financial institutions, worldwide, and their impact on environmental sustainability. These groups focus on influencing the activities of banks through research, international campaigns, outreach social and environmental monitoring, strategy development and partnerships with banks.

Typically, the introduction of environmental financial products and services are either "board-driven" or "client-driven". In the first case, the bank's board recognizes the opportunities and/or risks of an environmental issue, and then responds by defining one or more optimal "green" products or services. In the second case, the bank recognizes a considerable demand for a certain product or service, and responds by filling the niche. Indonesia however, more on government-driven rather than both driven describe above.

Board of BNP Paribas took an executive decision to enter the climate change market long before clients expressed the need for a specific service. Conversely, the Italian Banca Intesa waited to establish an emissions trading desk until a considerable number of corporate clients put forth a request for the service, which over time became highly profitable.

The growth potential for the green bonds market is considerable as budding US and European markets become more sophisticated and developing countries like India (Baa3 positive) and China (Aa3 stable) explore their use for the first time. Current standards and levels of accountability still leave a dent on investor confidence. Green bonds raise capital exclusively for projects or activities with specific climate or environmental sustainability aims (e.g., renewable energy, waste management and energy efficiency).

Pax World Global Environmental Markets Fund (ticker: PGRNX), a mutual fund that invests in companies that enhance how firm consume energy, food, water and agricultural resources, and dispose of waste. The fund is also boosting its alternative energy positions after a four-year hiatus. The U.S. accounts for about 40% of the fund's assets; China and Japan, about 25%.

2.1. Opportunities for Banking and Financial Services

In the US, a 2007 poll conducted by the Yale Center of Environmental Law and Policy's Environmental Attitudes and Behavior Project found that 83% of Americans consider global warming a “serious” problem. The study also found that, more than ever before, Americans claim to have “serious concerns about environmental threats”. Other environmental issues causing concern include: toxic soil and water (92%, up from 85% in 2004); deforestation (89%, up from 78%); air pollution (93%, up from 87%); and the extinction of wildlife (83%, up from 72% in 2005). The nationwide survey also showed 63% of Americans believe the US“ is in as much danger from environmental hazards, such as air pollution and global warming, as it is from terrorists.”

With respect to climate change, the above study found: 75% of respondents acknowledge their own behaviour can help reduce global warming; 81% feel it is their responsibility to take action against environmental challenge; and, these results “suggest that many Americans want greener products and are prepared to spend money to try new technologies that will help reduce GHG emissions”. Specifically, the poll found that 75% of the public is willing to purchase solar panels, and 67% would consider buying a hybrid vehicle.

In Canada, recent public opinion regarding the importance of environmental issues has climbed to extraordinary levels, during a very short period of time. Historically, polls on the Canadian public’s top priority saw “the environment” issue fluctuate between 4% and 12% for more than a decade. However, today, the Strategic Council Poll places this issue at 26%, and the

Environics Poll at 31%. This radical shift in popular opinion has simply never been seen before.

An ACNielsen survey (UCLA International Institute) shows that 28 percent of Indonesian adults in urban areas are aware of the global warming issue but only half of them believe it's a serious problem. The survey conducted using face-to-face interviews in February and March, 2007; the survey involved 1,700 respondents in Jakarta, Bandung, Semarang, Surabaya and Medan. The survey found most of those aware of the global warming issues were young and well-educated people. Those in higher expenditure groups who might become future leaders in the country's political landscape and private sector were also found to be aware of climate change issues.

The challenge for Indonesia is to convert the lack of awareness of global warming into concentrated and concerted actions from the entire population. Apart from preventing forest and peat land fires, the public should also be encouraged to save energy and use public transportation rather than private cars.
This facts become an opportunities for banking sectors, that majority of high income Indonesia citizens aware about global warming and they as well will become a major supporter for eco friendly financial services. Banking industries will responsible for lending based on affordability and environmental management systems at competitive interest rates. Banking financial products also helps homes and businesses to be more energy efficient. Maybe the scheme is to make renewable energy and energy security more affordable by reducing the burden of upfront costs.

Eco-Loans will assist households to invest in energy efficiency and security at low cost. Eco-Financing to business and commercial sector will support private sector energy efficient projects. Eco-Financing packages assist businesses to actualize energy efficiency at affordable interest rates by offering financial support for energy efficiency and renewable energy initiatives.

2.2. Opportunities for Capital Market

Increasing consideration is being paid to environmental issues when financing companies through capital markets (IPOs and bond issues). In particular, banks can play a pivotal and profitable role in assisting with IPOs for clean technology providers, carbon credit developers and other firms marketing environmental products and services.

Venture capital is needed by early stage businesses that seek profitable ways to meet environmental needs, prior to being traded publicly. Venture capital can help firms secure the funding required to grow, and ultimately lead to healthy returns for shareholders. Investment banks can then help growing firms to go public. For instance, in 2005, ABN AMRO Rothschild supported the Initial Public Offering (IPO) of EcoSecurities, which originates and trades carbon credits. Though it has only been public a short time, over the past year, Ecosecurities' shares climbed 88%.

In February 2007, Sindicatum Carbon Capital Limited (SCC), a specialist in climate change mitigation that uses capital and technology to convert GHG emissions into long-term sources of revenue, closed an equity private placement with CVCI and Black River Asset Management to provide SCC with a strong capital base to enhance climate mitigation projects worldwide via the implementation of best of class pollution abatement technology.

JPMorgan in 2007 (JP Morgan annual report 2008) unveiled what is believed to be the first US climate corporate bond index that favours debt issuers who pursue and implement climate-friendly policies. The new vehicle, JENI-Carbon Beta index, includes the same bonds as those in JPMorgan's benchmark JULI corporate bond index, but weighted according to the ranking of a firm's carbon emissions. The US market accounts for approximately one-sixth of the global US$30 trillion bond market. With this massive amount of money invested in bonds, JPMorgan's climate corporate bond index may effectively align investors' climate change concerns with their desire to maximize corporate profits.

The volume of green bonds sold in 2014 tripled to almost $37 billion from 2013, according to data from the Climate Bonds Initiative, and markets expect issuance to triple again to $100 billion in 2015. Also, in a shift that bodes well for green bond growth in developing markets, India's Yes Bank Limited (Baa3 stable), a large commercial bank, sold the country's first green bond in March 2015. At the same time, China's plan to open its debt capital markets could increase access to the country's large domestic savings' pool and provide transformational opportunities for green bonds. Moody's notes that investing in green bonds fits well with individual and institutional investors' growing sustainable, responsible and impact (SRI) investing mandates, which could underpin demand going forward. SRI investing, which has grown in recent years as sensitivity to social concerns has risen, may now account for as much as 35% of professionally managed assets worldwide (Moodys, 2014).

As of June 8, 2009, in an effort to develop its programs, KEHATI has made a close relationship with business sector and in cooperation with the Indonesia Stock Exchange (BEI) has launched KEHATI SRI Index, following the standard and regulation of Sustainable and Responsible Investment (SRI). The objective of the index establishment is to materialize biodiversity conservation programs by raising awareness and consciousness toward biodiversity, among the public, business sector and capital market, and provide an open information to the public at large in identifying the selected companies rated by the index, which are considered to have various kinds of consideration in running their business in relation to environmental concern, business management, community involvement, human resources, human rights, their business behavior and way of operation with internationally accepted business ethics. KEHATI has picked 25 selected companies considered eligible to meet KEHATI SRI Index criteria so that they can be used as guidance for investors. The presence of those companies will be evaluated twice a year, in April and October, and the result will be publicized by BEI, which can be followed through www.idx.co.id

3. Conclusion

Today, the majority of banks, as well as non bank financial institutions do not consider environmental, social and governance factors in their lending or investment process as a main consideration. While climate change is seen as a threat to Indonesia's long term economic development, lending and investment horizons remain short term. However, Indonesia's financial markets have seen a number of important design innovations over the past years aimed at encouraging green lending and investment, such as the development of sustainability ratings in its rapidly growing stock market, the SRI-KEHATI index and the recent launch of the SRI KEHATI ETF. While these are innovations that mirror developments in OECD countries, they are almost unique for a developing country.

Indonesia financial authority has a long way to go for financial sustainability especially in eco friendly financial services and products. Jakarta stock exchange already has SRI KEHATI index for sustainability-related indices, however not yet has a tradable green bond. OJK also launched a initiative programs followed by 8 banks in Indonesia to support eco friendly financing model. Whilst it belated policy than other countries such as Australia, US, Japan, Korea, etc, but the program will have a potential program to expand banking services on eco friendly products.

Placing Indonesia's economy onto a green and sustainable development pathway, as envisaged in the National Long Term Development Plan will require a large mobilization of investment. Estimates of the a annual investment needed are in the order of US$ 300-530 billion, with a large portion of this investment needed in critical infrastructure, as well as environmentally sensitive areas such as agriculture, forestry, energy, mining and waste. In addition, financing for SMEs and industry is critical for creating jobs and boosting productivity.

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PREFACE

This proceeding presents articles from SSBRN Symposium 2016 in Bali conducted by Social Science & Business Research Network (SSBRN) on Auguts 4-5, 2016. All of articles are research articles that are presented on the symposium. Using multidisciplinary research, SSBRN hopes that these articles may give benefit to business and social sciences communities. Readers can use these researches to guide their decision for better life.

SSBRN also thanks to all of our co-hosts. Atma Jaya University, University of Surabaya, Sanatha Dharma University, Universitas Pembangunan Nasional Yogyakarta, President University, STIE Kesuma Negara, Widya Mandala Catholic University, and Pelita Harapan University in Surabaya are generous co-hosts that give us much support. Many people also have made valuable contributions to this proceeding. We are indebted to them.

Bali, August 4, 2016

Dr. Dedhy Sulistiawan
Chairman

LIST OF ARTICLES