



PT SMI Green Bond/Green Sukuk Framework

CONTENTS

1. Introduction
2. Background
 - a. About PT SMI
 - b. Commitments and Environmental Policies
3. Application of Indonesia Financial Services Authority Regulation on Green Bonds and ASEAN Green Bond Standards
4. Framework Overview
 - a. Use of Proceeds
 - b. Project Evaluation & Selection
 - c. Management of Proceeds
 - d. Reporting
5. Ensuring Compliance

This Green Bond Framework (Framework) has been created in the interest of transparency, disclosure, integrity and quality to demonstrate how PT Sarana Multi Infrastruktur (“PT SMI”) will issue Green Bonds/Green Sukuk (Islamic Bonds, hereafter Green Bonds).

1. Introduction

PT SMI recognizes that Green Bonds are an important tool to channel investments in green assets and thereby contribute to the Republic of Indonesia’s (ROI) Nationally Determined Contributions. PT SMI has engaged *Center for International Climate and Environmental Research - Oslo* (CICERO) to provide a Second Party Opinion to confirm that the underlying projects of Green Bond issuance are beneficial for the environment and the validity of the Framework and provide investors with an independent assessment. The World Bank Group also reviewed PT SMI’s Green Bond Framework for alignment with international best practices. The Framework and the Second Party Opinion will be published on PT SMI’s website [<https://www.ptsmi.co.id/>].

2. Background

- a. **About PT SMI:** PT Sarana Multi Infrastruktur (Persero) (“PT SMI”), established on 26 February 2009, is an infrastructure financing company 100% owned by the Government of Indonesia through the Ministry of Finance. PT SMI’s role is to support the Government of Indonesia’s infrastructure development agenda by facilitating financing for infrastructure projects in Indonesia through partnerships with private and/or multilateral financial institutions, preparing projects and serving as advisors. PT SMI, an accredited entity of Green Climate Fund [14 December 2016], contributes to the sustainable development and climate resilience of communities in Indonesia by financing water, renewable energy generation, transport and agriculture-related infrastructure projects. Other sectors financed by the company include oil and gas, and social infrastructure such as urban infrastructure, education facilities infrastructure, regional infrastructure, tourism infrastructure, hospital infrastructure and penitentiary infrastructure. For more information, please visit: <https://www.ptsmi.co.id/>
- b. **Commitments and Environmental Policies:** Indonesia is one of the most vulnerable countries to climate-induced disasters. Its extensive tropical landscape and seascape with high biodiversity, high carbon stock values and energy and mineral resources are all contributing factors for the nation to be at the forefront of climate action and environmental protection. Furthermore, Indonesia’s position close to the global ocean conveyor system make it particularly vulnerable to natural disasters that will likely to be exacerbated by climate change.

The Government of Indonesia is strongly committed to combating climate change and as such has made a number of commitments to step up its climate change adaptation and mitigation priorities. As part of a responsible and committed global community, Indonesia has ratified the Paris Agreement in 2016 and submitted its Nationally Determined Contributions (NDCs). It sets out Indonesia’s commitment to a low carbon and climate resilient future. For 2020 and beyond,

Indonesia aims to reach archipelagic climate resilience from comprehensive adaptation and mitigation programs, and disaster risk reduction strategies.

In response to the Indonesian government's low carbon and green growth policy and the global agenda of climate changes, PT SMI as the catalyst for better infrastructure in Indonesia, is committed to promoting green financing. It recognizes the need to measure emissions in the relevant sectors (energy, transportation, land use, etc.) and is working to increase its capacity to assess emissions of its portfolio. In line with its commitment to increase financing of renewable energy and energy efficiency PT SMI established a Sustainable Financing Division in early 2016. Since then, the company has financed two renewable energy projects.

PT SMI is also committed to managing its business activities in an environmentally-and-socially-friendly manner. This approach is in line with the triple bottom line concept (people, planet, profit) in which projects that are financed by PT SMI are expected to impart benefits on the affected communities and environment in addition to financial profit. In implementing the commitment, PT SMI refers to the Environmental and Social Safeguard (ESS) framework and guidelines that are aligned with related national laws and subject to periodic reviews. The framework and guidelines are referred to as Environmental and Social Management Framework (ESMF) and Environmental and Social Management System (ESMS).

3. Application of Indonesia Financial Services Authority Regulation on Green Bonds and ASEAN Green Bond Standards:

PT SMI complies with the provisions stipulated in the Indonesia Financial Services Authority Regulation Concerning Green Bonds (Number 60/POJK.04/2017). The company's Green Bond Framework is consistent with the 2017 Green Bond Principles (GBP), as held by International Capital Markets Association (ICMA), as well as the ASEAN Green Bond Standards (2017). PT SMI is considering issuing Green Bonds under this Framework, as described herein.

4. Framework Overview

The Framework is aligned with the four core components of the Green Bond Principles (GBP) and the ASEAN Green Bond Standards: Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds, and Reporting.

a. Use of Proceeds

PT SMI Green Bonds (Green Bonds) will raise funds for a pool of eligible green projects (Eligible Projects), including new and existing projects, which should have clear environmental benefits, promote the transition to low carbon and climate resilient growth, and aim to conserve, preserve, and/or improve the qualities and functions of the environment. The Green Bonds will finance projects in the following sectors:

- a. Renewable energy
- b. Energy efficiency;
- c. Sustainable pollution management and prevention
- d. Sustainable natural resources and land use management
- e. Clean transportation

f. Sustainable water and sewage management

Ineligible Projects

PT SMI will not finance fossil fuel and nuclear power, through its Green Bonds. In addition, PT SMI's ESMS guidelines do not permit the financing of the following:

1. Production or trading of any products or activities regarded illegal under the State Acts and Regulations or International Conventions and Agreements or items that are internationally banned, such as illegal drugs, pesticides/herbicides, ozone-depleting substances, polychlorinated biphenyls (PCBs), wildlife or products as regulated under Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES);
2. Arms and ammunition production or trading;
3. Alcoholic beverage (excluding beer and wine) production or trading;
4. Tobacco production or trading;
5. Gambling, casinos and similar companies;
6. Radioactive material production or trading. Excluding production or trading for medical devices, quality control (measurement) instrument and other equipment in very small quantity and or properly protected;
7. Unbonded asbestos fiber production or trading. Excluding the purchase or use of bonded cement asbestos sheets with asbestos concentration of less than 20%;
8. Driftnet fishing in the marine environment by using more than 2.5 km net;
9. Production or activities related to the exploitation and hazardous work by forced labor 1/ child labor 2;
10. Trading of deforestation result coming from tropical rainforest;
11. Production or trading of timber or other forest production apart from sustainably managed forest.

Table 1. Examples of Eligible Projects in Each Eligible Sector

Eligible sector	Eligible projects
Renewable energy	<p>Generation and transmission of energy from renewable energy sources, including offshore and onshore wind, solar, tidal, hydropower (≤ 10 MW) and geothermal</p> <p>Research and development of products or technology (“R&D”) for renewable energy generation, include turbines and solar panels</p>
Energy efficiency	<p>Improvement of the energy efficiency of infrastructure, which results in an energy consumption of at least 10% below the average national energy consumption of an equivalent infrastructure</p> <p>Research and development of products or technology (“R&D”) and their implementation that reduces energy consumption of underlying asset, technology, product or system(s); including LED lights, improved chillers, improved lighting technology, district heating, smart grids, and reduced power usage in manufacturing operations</p>

Sustainable pollution management and prevention	The management of land pollution and waste: <ul style="list-style-type: none"> • Waste treatment and decontamination • Waste prevention • Waste to energy activity
Sustainable natural resources and land use management	Irrigations
Clean transportation	<ul style="list-style-type: none"> • Developing clean transportation systems (electricity transportation, hybrid vehicle, light rail transit, mass rapid transit) • Transportation network upgrade to higher climate resilient design standards
Sustainable water and sewage management	<ul style="list-style-type: none"> • Waste minimization, collection, management, recycling • Rehabilitation of landfill areas • Water supply • City drainage

b. Project Evaluation and Selection

PT SMI has a project selection and evaluation process in place for all projects it funds. According to this process projects are evaluated based on financial viability as well as environmental and social risks. The Corporate Development and Management Initiative Division, Environmental and Social Safeguard Division, Financing and Investment Division, Legal Division and Finance Division are in charge of conducting due diligence, project approval review, and technical monitoring with respect to environment and social risk management and supervising mitigation activities throughout the project life cycle.

In addition, projects are selected for funding through Green Bond proceeds if they meet eligibility sectors described in section 4a. Eligible Green projects will go through the following steps:

- 1) The Business Unit will prepare the list of existing and pipeline projects portfolio. The Corporate Development and Management Initiative Division will build the underlying basket of eligible green projects from the list of tagged projects using the above eligibility and exclusionary criteria.
- 2) The Environmental and Social Safeguard Team will check compliance on ESS Framework.
- 3) The final list will be approved by a team comprising Corporate Development and Management Initiative, Financing and Investment Division, Sustainable Financing Division, Legal Division and Finance Division to ensure that selected projects are in compliance with Indonesian Green Bond Regulations. The team comprises Senior Managers and Directors.
- 4) The Environmental and Social Safeguard Team will monitor the environment and social risks and supervise mitigation activities throughout the project life cycle.

Environmental and Social Risks

All Green Bond projects will be screened according to PT SMI's ESMS (<https://www.ptsmi.co.id/wp-content/uploads/2017/08/Project-ESMS-Guidelines.pdf>).

c. Management of Proceeds

The proceeds from each Green Bond issued will be allocated and managed by PT SMI's Finance Division following specific recommendations from its Business Units (Financing and Investment Division and Sustainable Financing Division). The Finance Division will track the allocation of proceeds to such projects within its internal management system, including brief descriptions of the projects, the regions in which the projects are located, and the amount of proceeds allocated to the projects.

100% (one hundred percent) of the Green Bond proceeds will be used to finance Eligible Projects. The proceeds of each Green Bond can be used both for the financing and/or refinancing of eligible Green projects. If all or a proportion of the proceeds are used for re-financing, PT SMI will provide an estimate of the share of financing vs. re-financing, and where appropriate, also clarify in the annual report which Eligible Projects may be re-financed. PT SMI will allow a look-back period of two years for re-financed projects.

PT SMI's Finance Division together with other supporting Divisions will be responsible for the issuance process and management of proceeds. The Business Units (Financing and Investment Team and Sustainable Financing Division team) will ensure that the proceeds are used in accordance with this Framework.

Pending allocation, net proceeds from the sale of the notes may be invested in cash, cash equivalents and/or marketable securities, in accordance with PT SMI's fund management policies.

d. Reporting

To enable investors to follow the implementation of its Green Bond Program, PT SMI will establish a page on its website which will include, among other things:

- 1) Key information about the Green Bond Program and Framework, including project selection criteria;
- 2) Independent second opinion on the Green Bond framework and selected projects;
- 3) Monitoring of compliance with governance, environmental and social aspects as well as any safeguard and risk assessment documentation.

As long as there are outstanding Green Bonds issued under this Framework, PT SMI will also publish a report on an annual basis (annual report) on its website that includes, at the minimum, the following information:

- 1) A list of the projects to which Green Bond proceeds have been allocated
- 2) Brief description of the projects
- 3) Total signed amount
- 4) Amount of Green Bond proceeds allocated (allocated amount) to such projects.
- 5) The expected environmental impacts of the projects (where relevant and possible)

The annual report will be reviewed and approved by a senior level team comprising Financing and Investment, Sustainable Financing, Corporate Development and Initiative Management, Legal and Finance Divisions.

5. Ensuring Compliance

For each Green Bond issuance and as long as the Green Bonds are outstanding PT SMI will mandate external independent auditors/environmental experts to provide, on an annual basis, assurance on the environmental credentials of the project (including any material changes), allocation of the net proceeds of the Green Bonds to Eligible Projects and the alignment with the Green Bond Framework, which will be attached to its annual report, submitted to the Financial Services Authority and disclosed on PT SMI's web page.