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## Press Release: Task Force 5 T20 India 2023 Side Event Framework to Enhance Financing Capacity and Incentivize Natural Assets Preservation

**BALI, 10 JUNE 2023.** The T20 India, the Task Force 5 T20 India, the Institute for Economic and Social Research, Faculty of Economics and Business, Universitas Indonesia (LPEM FEB UI) and the Centre for Strategic and International Studies (CSIS) Indonesia together hosted the Side Event of the T20 India titled “Building Bridges to Sustainable Finance: The Reform Agenda of International Financial Institutions” that was held on 8-10 June 2023. In parallel to the main purpose of the Side Event that is discussing the need for reforms and action plans to implement the reform, the Side Event developed a **Policy Brief Dissemination: Framework to Enhance Financing Capacity and Incentivize Natural Assets Preservation** as one of the agenda of the event. The objective of the dissemination was to discuss the importance of developing natural capital accounts to overcome urgent global challenges that are climate change, biodiversity loss, and inequality, and also to call for G20’s leadership in driving the transition towards its implementation.

This dissemination had the honour of having prominent speakers worldwide from leading think tanks, international organizations, and government representative. This session was chaired by **Jahen Rezki (Director of Research, Institute for Economic and Social Research, University of Indonesia)**, accompanied by notable figures sharing their time to provide their perspectives including **Matthew Agarwala (Economist, Bennett Institute for Public Policy)**, **Professor Amar Bhattacharya (Senior Fellow, Brookings Institute)**, and **Dr. Nella Hendriyetty (Fiscal Policy Institute, Indonesia Ministry of Finance)**.

**Agarwala** presented the policy brief, where he discussed the limitations of the current economic model focused on GDP growth and highlighted the urgent challenges of climate change, biodiversity loss, and inequality. He called for a shift towards a forward-looking capital model that recognizes the value of natural capital, human capital, and social and institutional capital. Agarwala emphasized the role of the G20 in driving this transition, urging the integration of environmental economic statistics and natural capital accounts into core economic indicators. He also proposed incorporating natural capital into the financial system, including risk assessment measures based on climate change and biodiversity loss. To bridge the gap, he suggested using machine learning techniques to adjust credit ratings based on environmental changes. Ultimately, he emphasized that GDP alone is insufficient to assess creditworthiness and risks associated with natural resource depletion, highlighting the importance of investing in natural capital for a sustainable and resilient future.

The policy brief presented a set of recommendation as follows:

1. Develop a visionary capital model built upon emphasizing the value of natural capital, human capital, social capital, and institutional capital.
2. For G20 country members in particular, push for the integration of environmental economic statistics and natural capital accounts into traditional core economic statistics.
3. Assimilate natural capital, including climate- and biodiversity science-backed risk assessment into the financial system.
4. Take advantage of machine learning techniques in environmental studies to adjust credit ratings based on environmental changes.

In response to Agarwala's propositions, **Prof. Amar Bhattacharya** highlighted the importance of defining natural capital and recognizing its national and global benefits. The G20 was identified as a key player in leading efforts to address natural capital and biodiversity, emphasizing the need for global attention and focused action. While progress has been made in measuring natural capital, the focus now shifts towards creating comparable assessments for actionable outcomes. Policy development and leadership are essential in tackling natural capital challenges, with the G20 and coalition of finance ministers on climate action playing a significant role. Financing ecosystem services derived from natural capital presents challenges due to long-term benefits and externalities. Exploring alternative financing options, including low-cost and concessional finance, is crucial to align financial systems with the recognition of risks and opportunities in the natural capital domain.

**Nella Hendriyetty** wrapped up the discussion by stressing the importance of leadership at national and regional levels to effectively implement sustainable financing. Multilateral Development Banks (MDBs) alone are insufficient in this regard. Risk financing insurance and climate budget tagging were identified as crucial mechanisms for energy transition. Indonesia, for instance, is implementing regulations to provide fiscal incentives for private investors and has established a pooling fund for disaster risk financing, bolstering the country's capacity to address climate-related challenges effectively. These strategies aim to strengthen the framework for disaster risk financing and enhance resilience.

To see the full coverage of the event, please watch our recorded live stream on YouTube: <https://www.youtube.com/watch?v=QV6vOuGQRCo&t=3392s>