

Regulating Sustainable Financing for Cleaner Energy in Indonesia: Mitigating Greenwashing Risks and Ensuring Corporate Sustainability Performance

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Abstract. This study examines Indonesia's growing demand for cleaner energy, which has driven the development of sustainable financing. However, challenges such as greenwashing and brand image manipulation remain significant concerns. This study addresses two research questions: first, whether current regulations sufficiently support sustainable financing; and second, what responsibilities stakeholders hold in promoting transparency and authenticity in corporate sustainability practices. The study aims to analyse the scope of existing legal regulations on sustainable financing for cleaner energy in Indonesia, identify gaps in policy and enforcement, and assess stakeholder responsibilities in its implementation. Using a qualitative approach that combines normative legal analysis, literature review, and document study, this research evaluates current regulations and their effectiveness in supporting sustainable financing for cleaner energy in Indonesia. The findings are valuable for policymakers, legal scholars, and professionals in energy finance and environmental law. This study provides insights to strengthen regulatory frameworks in sustainable financing and offers guidance for developing clearer, more effective policies for cleaner energy in Indonesia.

Keywords: Sustainable Financing, Clean Energy, Corporate Sustainability

1 Introduction

Indonesia is committed to achieving the Net Zero Emission (NZE) target by 2060, which has been ratified in Law Number 16 of 2016 as part of the Nationally Determined Contribution (NDC).[1] This effort involves a massive transition to cleaner energy, which is in line with the projected increasing market demand for sustainable energy.[2] Minister of Finance Sri Mulyani Indrawati emphasized that sustainable finance is one of the elements that cannot be separated from making the transition to affordable and equitable clean energy.[3] To encourage the use of environmentally friendly energy, the government has implemented a number of incentives for companies that comply with environmental standards; while also

imposing sanctions on companies that fail to meet sustainability obligations (see Article 42 paragraph (2) letter c of Law Number 32 of 2009 concerning Environmental Protection and Management). This step aims to ensure that companies in Indonesia play an active role in reducing emissions and adverse environmental impacts.

Several companies, including companies engaged in the financial services sector, have implemented the above. For example, Bank Central Asia has increased its sustainable finance portfolio. The portfolio of The Sustainable Business Activity Category (Kategori Kegiatan Usaha Berkelanjutan or KKUB) increased from IDR 183.2 trillion to IDR 202.6 trillion.[4] In addition, Bank Central Asia has also optimized the Sustainability Linked Loan (SLL) scheme which has been distributed as much as IDR 319 billion in 2023. Furthermore, BCA also provided funding of IDR 2.1 trillion in 2023 for a number of New and Renewable Energy (EBT) projects.[4]

In addition to Bank Central Asia, Bank Rakyat Indonesia has also implemented the concept of sustainable finance, through the Sustainable Loan Portfolio and Sustainable Fund Portfolio concepts. In the Sustainable Loan Portfolio, until December 2022, Bank Rakyat Indonesia has distributed IDR 694.9 trillion or 67.5 percent of the total credit distribution to KKUB. The amount increased by 13.1 percent compared to December 2022. Overall, Bank Rakyat Indonesia has distributed KKUB credit to 10 types of sustainable business activities.[4] Meanwhile, in the Sustainable Fund Portfolio, Bank Rakyat Indonesia issued a Sustainability Bond in March 2019 which was considered the first environmentally friendly bond in Indonesia.[5] The largest Sustainability Bond offering in Southeast Asia is one of BRI's real contributions to carrying out sustainable business activities. All funds received are subject to the obligation to support the financing of various projects related to achieving sustainability goals. Until December 2022, the funds from the issuance of the Sustainability Bond have been fully utilized with a composition of 31% used for green projects and 69% used for social projects.[5]

Similar things have also been implemented by Bank Mandiri which is committed to sustainability through the issuance of green bonds in the form of Domestic Green worth IDR 10 trillion which will fund environmentally friendly projects, such as renewable energy and clean transportation.[6] In addition, Bank Mandiri launched the Repurchase Agreement Environmental Social Governance (Repo ESG) worth USD 500 million as an innovative step to support the financing of social and environmental projects in Indonesia and Southeast Asia.[6] The Hongkong and Shanghai Banking Corporation Limited is a funding company that also supports sustainable projects through Green Loans and Green Trade Finance, which offer financing in accordance with the Green Loan Principles for various environmentally friendly business activities.[7] It is important to note that The Hongkong and Shanghai Banking Corporation Limited also provides Sustainability-linked Loans and Sustainability-linked Trade Finance which allows companies to get a reduction in interest rates if they achieve sustainability targets.[7]

Companies are required to respect human rights in their operations, as stipulated in the National Action Plan for Human Rights. However, the state remains responsible for ensuring that existing regulations are enforced, while companies are required to

fulfill their obligations on human rights and environmental sustainability.[8] This relationship between the state and companies reflects a shared responsibility arrangement, meaning that the government, through various regulations, regulates and supervises companies to ensure that they comply with sustainability and human rights standards.

Although regulations have been implemented in such a way, greenwashing practices are still a significant problem.[9] Greenwashing refers to the act of creating an environmentally friendly image merely as a corporate communication strategy through green claims that cannot be substantiated or proven for their accuracy or impact on the environment. Terra Choice defines greenwashing as the “act of misleading consumers regarding the environmental practices of a company or the environmental performance and positive communication about environmental performance”, meanwhile Baum defines greenwashing “the act of disseminating disinformation to consumers regarding the environmental practices of a company or the environmental benefits of a product or service”. [10]

Some companies often use sustainable financing as an effort to strengthen their “green image” without real commitment. For example, PT Bentoel, one of the major tobacco companies in Indonesia, built Taman Slamet in Malang as part of an effort to improve the company’s image and demonstrate its commitment to the environment. Taman Slamet adds to the list of parks in Malang and has become a popular new destination for residents to relax with family and friends.[11] However, this initiative can be seen as a form of greenwashing, where PT Bentoel seeks to create an environmentally friendly image without fully addressing the negative impact of its tobacco production. While the park may seem like a positive contribution to the community, PT Bentoel’s tobacco factory continues to produce products that are harmful to public health. This contradiction highlights that despite the positive aspects of the park, the company’s actions do not truly reflect a genuine commitment to sustainability and public health. Instead, it seems to be more about improving the company’s public image rather than addressing the environmental and health concerns associated with the tobacco industry.

The issue of greenwashing cannot be separated from the development of Sustainable Finance regulations.[12] Companies tend to only take opportunistic actions that focus on disclosing positive information to improve the company’s image.[13] The concept of greenwashing was also addressed in the case of KLM Royal Dutch Airlines N.V., decided by the Amsterdam District Court on March 20, 2024, where the company was found guilty of greenwashing through its ‘Fossil-Free Movement’ campaign. Through this campaign, KLM Royal Dutch Airlines N.V. case purportedly made significant investments in sustainable fuels while providing misleading information.[14] According to the Amsterdam District Court, greenwashing is defined as “putting forward untrue or unverifiable claims,” referring to making claims that are either false or cannot be proven. Although the Netherlands does not yet have specific regulations regarding environmental claims, the court referred to the Unfair Commercial Practices Directive in adjudicating the case.

As a form of implementation, the government has launched the Business Risk

Assessment and Human Rights (PRISMA)[15] application from the Ministry of Law and Human Rights and licensing requirements from the Ministry of Energy and Mineral Resources (ESDM) to monitor company compliance with sustainability regulations.[16] Statistical data related to clean energy needs in Indonesia show a significant increase in demand. Based on a report from the Ministry of Energy and Mineral Resources (ESDM), the portion of renewable energy in the national energy mix reached 13.09 percent in 2023, up from 12.28 percent in 2022.[17] The government's target is to reach 23 percent renewable energy by 2025, in accordance with Indonesia's commitment to a sustainable energy transition and reducing greenhouse gas emissions.[18] The data shows an increase in the need for clean energy by 10 percent per year; while Indonesia's total carbon emissions are still at an alarming level.

Data from the Energy Institute think tank in 2024 entitled "Statistical Review of World Energy 2024", emissions in the energy sector in Indonesia in 2023 reached 701.4 million tons of carbon dioxide.[19] This figure is expected to increase in the near future due to dependence on coal for power generation.[19] Furthermore, the databoks report shows Indonesia as the second largest carbon emitter in the world from the land conversion sector.[20] This makes Indonesia enter the top 10 countries with the largest emissions in 2023.[21]

Despite this, the root of emission reduction can be traced back to funding, namely ensuring that funding is prioritized for projects that are in line with sustainable goals. Financial Services Authority (FSA) has introduced the concept of sustainable financing, through Financial Services Regulation Number 51 of 2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions (FSI), Issuers, and Public Companies (POJK 51/2017) and the Sustainable Finance Roadmap Phase II (2021-2015) [sustainable financing regulations / documents]. The importance of strict regulations and effective law enforcement is crucial at this time so that sustainable financing goals can be achieved.

As can be seen from the introduction, the main challenges in implementing sustainable finance in Indonesia are not only in terms of regulation but also in its supervision and implementation. For more effective implementation, it is necessary to explain the responsibilities of each stakeholder, also in relation to preventing greenwashing practices in enforcing regulations.

The problem of greenwashing in sustainable finance has been discussed for example in Dempere et.al.[22] which examines greenwashing's impact on investment as well as calling for more stringent regulations to combat greenwashing effectively. With regard to sustainable financing, Taghizadeh-Hesary & Yoshino further emphasizes on the need for sustainable long-term investments for renewable energy projects in Asia,[23] as well as elaborating on investors and financial institutions reluctance in financing green projects due to its high risk that can be tackled with strategies such as green credit guarantee schemes[24]. Nevertheless, no research has been conducted on Indonesia specifically in relation to sustainable financing for cleaner energy despite Indonesia's massive potential for renewable energy projects. To fulfill such needs, this study will answer the following research questions: 1. To what extent has sustainable financing for cleaner energy been regulated in Indonesia?

2. What are the responsibilities of each stakeholder in the implementation of financing for cleaner energy in Indonesia?

It is hoped that this study will provide insights as well as recommendations on regulating and implementing sustainable finance in relation to providing cleaner energy sources as well as meeting emission targets.

2 Method

This research adopts a qualitative methodology for normative legal analysis to achieve comprehensive insights. Primary and secondary legal materials are the main sources, collected through thorough document analysis of books, journals, articles, and relevant reports. The findings are presented using qualitative descriptive analysis, organizing and detailing data narratively to provide a clear depiction of the legal issues and insights into the interpretation and application of relevant laws. By integrating normative legal analysis, literature review, and document study, this research evaluates the current regulatory framework's effectiveness in supporting sustainable financing for cleaner energy in Indonesia, while addressing greenwashing risks and ensuring corporate sustainability performance. Using a qualitative approach that combines normative legal analysis, literature review, and document study, this research evaluates current regulations and their effectiveness in supporting sustainable financing for cleaner energy in Indonesia. The regulations assessed in this research would be the following:

1. Law Number 32 of 2009 concerning Environmental Protection and Management (UUPPLH);
2. Law Number 30 of 2007 concerning Energy;
3. Financial Services Authority Regulation Number 51 of 2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies (POJK 51/2017);
4. Financial Services Authority Regulation Number 14 of 2023 concerning Carbon Trading Through Carbon Exchanges (POJK 14/2023);
5. Financial Services Authority Regulation Number 17 of 2023 concerning the Implementation of Governance for Commercial Banks (POJK 17/2023); and
6. Financial Services Authority Regulation Number 18 of 2023 concerning the Issuance and Requirements of Debt Securities and Sukuk Based on Sustainability (POJK 18/2023).

3 Result and Discussion

3.1 Indonesian Regulations on Sustainable Financing for Cleaner Energy in Indonesia

The regulatory framework for sustainable financing in Indonesia, particularly in the context of cleaner energy, is shaped by various laws and regulations aimed at promoting

environmental sustainability. The basic legal instrument is Law Number 32 of 2009 concerning Environmental Protection and Management (UUPPLH), which mandates environmental protection and management through the principle of sustainability (see General Explanation number 1 of UUPPLH). The principle of sustainability means that everyone has obligations and responsibilities towards future generations and their fellow generations through efforts to preserve the ecosystem and improve the quality of the environment (see the Explanation of Article 2 letter b of UUPPLH). UUPPLH not only establishes basic principles but also designs instruments that can encourage environmental awareness and responsibility, both at the individual and corporate levels. One of these instruments is through incentives and disincentives with the aim of developing an environmentally friendly financial institution and capital market system (see Article 42 paragraph (3) letter c of UUPPLH). This instrument is to encourage environmentally friendly practices among businesses, thereby encouraging a financial ecosystem that supports sustainable development.[25] Incentives are given to business actors who have a positive impact on the environment and natural resource reserves (SDA), while disincentives are given to business actors who have a negative impact on the environment and Natural Resources as mentioned in the definition of incentives and disincentives in the Explanation of Article 2 paragraph (2) letter c of UUPPLH.

In addition to the UUPPLH, Financial Services Regulation Number 51 of 2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies (POJK 51/2017) also outlines the principles of sustainable finance (see Article 2 paragraph (2) of POJK 51/2017). This regulation defines sustainable finance as a comprehensive support system of the financial sector aimed at achieving sustainable economic growth by aligning economic, social, and environmental interests (see Article 1 number 8 of POJK 51/2017). Based on Article 4 paragraph (1) of POJK 51/2017, Financial Services Institutions are required to make investments in line with the implementation of sustainable finance which is then included in the Sustainable Finance Action Plan.

Furthermore, there is also the Financial Services Authority Regulation Number 14/POJK.04/2023 concerning Carbon Trading Through Carbon Exchanges (POJK 14/2023). This regulation aims to create an efficient carbon market, which allows companies to trade their carbon emissions (see Article 7 paragraph (1) of POJK 14/2023). With the existence of a carbon exchange, it is hoped that it can encourage companies to reduce their greenhouse gas emissions and invest in cleaner technologies so that they are more active in managing their emissions and contributing to climate change mitigation efforts.[26] POJK 14/2023 is expected to strengthen existing market mechanisms and provide incentives for companies to invest in more sustainable practices.[27] Research shows that carbon markets can be an effective tool in reducing emissions, by providing companies with the flexibility to choose the most efficient way to meet their emission reduction targets.[28] With a clear legal framework, it is hoped that more companies will participate in carbon trading, thereby creating a better ecosystem for environmental sustainability.[29]

In addition to the above regulations, there is the Regulation of the Financial Services Authority of the Republic of Indonesia Number 17 of 2023 concerning the Implementation of Governance for Commercial Banks (POJK 17/2023). That one of the manifestations of good governance in banks is the implementation of sustainable finance

(see Article 2 paragraph (4) letter o of POJK 17/2023). Banks are obliged to prepare and publish sustainability reports in accordance with the provisions of Article 96 paragraphs (1) and (2) of POJK 51/2017. Banks are required to implement sustainable finance in all their business activities and prepare sustainable finance action plans as stated in Article 123 paragraph (1) of POJK 17/2023. In addition, paragraph (2) mention that banks must have and allocate part of their funds for social and environmental responsibility as support for the implementation of sustainable finance. POJK 17/2023 encourages banks to develop products and services that support sustainability, such as financing for renewable energy projects and other environmentally friendly initiatives. With incentives for investment in sustainable projects, banks are expected to play an active role in supporting the transition to a low-carbon economy (See Article 124 of POJK 17/2023).

Furthermore, there is also Regulation of the Financial Services Authority of the Republic of Indonesia Number 18 of 2023 concerning the Issuance and Requirements of Debt Securities and Sukuk Based on Sustainability (POJK 18/2023) which focuses on the issuance of debt securities and sukuk that are aligned with sustainability goals, thereby facilitating the development of financial instruments that support cleaner energy initiatives.[30] The implementation of this regulation is critical to the advancement of green financing mechanisms, such as green sukuk, which have gained traction as viable instruments to fund renewable energy projects. Research shows that green sukuk can play an important role in financing new and renewable energy investments,[31] thereby contributing to Indonesia's energy security and environmental sustainability.[32]

In this context, various stakeholders are involved in the development and implementation of sustainable financing regulations. The Financial Services Authority (FSA) acts as a supervisor of the financial sector, while the Ministry of Environment and Forestry is responsible for environmental policy. In addition, financial institutions, public companies, and civil society also have important roles in implementing sustainability principles in their business practices. Thus, the success of this regulation is highly dependent on effective collaboration between all relevant parties to create a financial ecosystem that supports sustainable development in Indonesia.

Greenwashing, as defined in one study, refers to the publication of sustainability reports solely for the purpose of enhancing a company's public image.[33] The term "greenwashing" was first introduced by environmental activist Jay Westervelt...[10] The term is defined in several English dictionaries, including the Merriam-Webster Dictionary, as the practice of promoting environmentally friendly initiatives to distract attention from a company's poor environmental practices.[10] A similar definition of greenwashing can also be found in the Oxford English Dictionary.[10]

Sustainability reports can generally be classified into two categories: Selective Disclosure and Decoupling.[10] Greenwashing through Selective Disclosure, as defined by Terrachoice, involves misleading consumers by selectively presenting positive information about a company's environmental performance while concealing negative aspects.[34] Comparable definitions of Selective Disclosure are found in the works of Dermas and Burbano, Baum,[35] and Tateishi.[36] These definitions commonly associate Greenwashing Selective Disclosure with the act of suppressing unfavorable information while exclusively highlighting favorable details about a company's

environmental practices. Conversely, greenwashing through Decoupling is understood as a company's "symbolic action." [10] Decoupling, or "separation," refers to greenwashing practices where symbolic measures are undertaken by a company to comply with external pressures regarding environmental performance or green commitments, without corresponding substantive actions. [10]

This renders greenwashing a critical issue for consideration in the formulation of regulations, particularly those governing sustainable finance. [12] Companies, acting rationally, often disclose only information that positively impacts their public image. Such efforts to enhance public perception are viewed as opportunistic behavior. [13] According to legitimacy theory, such behavior is natural, as companies seek to align their practices with societal norms and stakeholder expectations to secure their continued existence. [13] Further research into 250 companies in Indonesia indicates that the primary motivation behind sustainability report disclosures is the enhancement of corporate image within society. [9] The same study concludes that such disclosures are primarily aimed at satisfying stakeholder demands. [9]

3.2 Stakeholder Responsibilities in Sustainable Financing for Cleaner Energy

The implementation of sustainable financing in Indonesia requires the roles and responsibilities of various stakeholders to ensure that the principles of sustainability are implemented effectively [37] as mentioned in the previous section. FSI, Issuers, and Public Companies are required to implement Sustainable Finance in their business activities. A visual representation of the stakeholders' map is provided below, outlining the key stakeholders and their interrelations within the scope of this analysis:



Fig. 1. Stakeholders Map

Public companies and issuers as the main subjects in economic activities have an important role in ensuring sustainable business practices as mentioned in Article 2 of POJK 51/2017. Public companies and issuers are required to implement operations that maintain the sustainability of environmental functions, as mandated in Article 68 of the UUPPLH.

In addition, everyone who carries out business and/or activities is required to provide accurate and transparent reports regarding the environmental impact of the products and services provided, in accordance with the obligations in Article 68 of the UUPPLH. FSI (see Article 3 for the classification of financial service institutions under the scope of POJK 51/2017), including but not limited to public companies and issuers, have the main responsibility in preparing and implementing the Sustainable Finance Action Plan as stipulated in Article 4 of POJK 51/2017. This Sustainable Finance Action Plan serves as a guideline for the strategy and implementation of sustainable finance initiatives, by containing concrete steps to integrate environmental, social, and governance aspects into business activities.[38]

OJK acts as a regulator and supervisor of the financial sector, [31] has the responsibility to set policies and regulations, such as POJK 51/2017 and POJK 14/2023, which encourage the integration of sustainability aspects in financial and business activities. FSA is also tasked with supervising the implementation of Sustainable Finance Action Plan by FSI and evaluating the effectiveness of the implementation of sustainable finance.[39]

The government, both central and regional, plays a role in regulating, facilitating, and providing incentives to support the use of new and renewable energy.[40] This is regulated in Article 21 of Law Number 30 of 2007 concerning Energy (Law 30/2007), which states that the government is responsible for increasing the use of renewable energy and providing facilities and incentives for business entities and individuals who invest in these energy sources. The government, in this case the Environmental Supervisory Officer, has an obligation to supervise the implementation of related regulations as mandated in Article 71 of the UUPPLH and enforce the law to ensure compliance with sustainability standards as mandated by the first pillar of National Action Plan for Human Rights.

Civil society also plays a role as an independent supervisor that ensures that sustainable financial practices are carried out transparently and accountably.[41] Public participation in this supervision is important to encourage increased environmental awareness and stricter supervision of business actors. Collaboration between the government, FSI, companies, FSA, and the community is expected to be able to create a financial ecosystem that supports sustainable development and environmental conservation in Indonesia. The implementation of regulations such as POJK 51/2017 and the use of instruments such as green sukuk and carbon trading can increase the role of the private sector in green initiatives and help reduce the impact of climate change.

Stakeholders in a company, FSI, issuers, and public companies, have obligations regulated by various regulations. Failure to comply with these obligations can result in

the application of administrative and even criminal sanctions. These sanctions aim to ensure that the principles of corporate governance and social responsibility are implemented properly, maintain public trust, and support the sustainability of the company's operations.[42]

According to Article 13 of POJK 51/2017, there are administrative sanctions for stakeholders who violate the provisions stated in Article 2 paragraph (1), Article 3 to Article 7, Article 8 paragraph (1), Article 10, and/or Article 12. These administrative sanctions are in the form of written warnings or reprimands for FSI. In addition, for issuers and public companies that are not FSI, violations of Article 2 paragraph (1), Article 10, and/or Article 12 may also be subject to similar administrative sanctions.

In addition to POJK, UUPPLH also regulates stricter administrative sanctions. Article 76 paragraph (2) of Law 32/2009 states that administrative sanctions can be in the form of written warnings, government coercion, freezing of environmental permits, or revocation of environmental permits. This provision provides a strong legal basis for enforcing regulations against companies that do not fulfill their obligations in environmental management. For example, if a company fails to comply with instructions given by the government as a form of coercion, then based on Article 81 of the UUPPLH, the person responsible for the business or activity can be fined for any delay in implementing government coercion sanctions. This shows that negligence in complying with environmental obligations can result in significant financial fines, which are designed to motivate higher compliance.

On the other hand, the UUPPLH also regulates criminal sanctions outlined in Articles 97 to 120. Serious violations, such as causing severe environmental damage, can be processed through criminal channels with more serious legal consequences, including the threat of imprisonment and large fines. The enforcement of these criminal sanctions aims to provide a deterrent effect and ensure that stakeholders are responsible for running their operations sustainably and in accordance with legal standards.[43]

Overall, sanctions imposed on stakeholders who do not fulfill their obligations include administrative sanctions such as reprimands, written warnings, fines, government coercion, and even freezing or revocation of permits. In cases of more serious violations, criminal sanctions can be applied, involving the threat of imprisonment and large fines. The application of these sanctions is supported by a clear legal basis, as regulated in POJK 51/2017 and Law 32/2009, to ensure that companies act responsibly and in accordance with applicable laws and regulations.

3.3 Policy Recommendations for the Implementation of Sustainable Financing for Cleaner Energy in Indonesia

The implementation of sustainable finance in Indonesia requires an improved regulatory framework to support more effective implementation[44], [45], especially in financing cleaner energy projects.[46] Based on the provisions in Article 17 of POJK 35/2018, there is a lack of clarity regarding the standards for due diligence obligations for finance companies that wish to engage in sustainable financing. This lack of clarity creates a gap that should be addressed by adopting elements of the European Union Corporate Sustainability Due Diligence Directive (EU CSDDD)

standards. The EU CSDDD is the first regional due diligence law, it also represents a political compromise between EU member states and has been closely followed by civil society and the business world.[47] This standard mandates the implementation of a materiality assessment process to evaluate the material impacts of business operations on the environment and society, involving the identification, prioritization, and management of significant adverse impacts.[48] Furthermore, it provides more specific guidance for assessing social and environmental risks to ensure that funded projects meet comprehensive sustainability criteria, encompassing not just financial considerations but also broader social and environmental aspects.[48] In addition, supervision of the implementation of sustainability policies also requires a more regular internal monitoring and evaluation system, as regulated in Article 56 of Financial Services Regulation Number 35 of 2018 concerning Finance Company Business Organizers (POJK 35/2018). This system must involve measurable sustainability indicators, including reducing greenhouse gas emissions and using renewable energy. The implementation of standardized supervision will ensure that financial institutions can monitor the effectiveness of sustainability policies consistently and make adjustments when necessary.

In order to implement effective regulations, an ethics council is needed to independently oversee the implementation of sustainable finance[49]. This council functions to monitor the company's compliance with sustainability standards, provide policy recommendations, and act as a mediator in potential conflicts that may arise related to the implementation of sustainability. With the existence of an ethics council, the company's accountability in implementing sustainability principles can be increased, so that public trust in the financial sector's commitment is also strengthened. Another recommendation that needs to be considered is the determination of air quality limit standards that must be met in sustainable projects. This standard is important to ensure that the business activities being financed not only contribute to economic growth but also maintain the quality of the environment. These standards should refer to international standards such as those issued by the World Health Organization (WHO) contained in the WHO Global Air Quality Guidelines,[50] to ensure safe air for the community. By integrating air quality limits into financing requirements, financing companies can ensure that the projects they fund do not damage the environment.

This regulatory recommendation aims to strengthen the legal basis for the implementation of sustainable finance, so that it can support environmentally friendly and sustainable projects in Indonesia. Clearer due diligence specifications, regular internal monitoring, the establishment of an ethics council, and the establishment of air quality standards will increase transparency and efficiency in the implementation of financing. These steps support Indonesia in achieving its long-term goal of balanced sustainable development, integrating economic, social, and environmental aspects.

4 Conclusion

Indonesia's Achieving sustainable financing for cleaner energy in Indonesia requires

collaboration among a diverse array of stakeholders, each playing a crucial role in advancing the nation's goal of reaching net-zero emissions by 2060. Key participants in this effort include the government, represented by the Ministry of Environment and Forestry and FSA, as well as financial institutions, public companies, and civil society organizations. The Ministry of Environment and Forestry is responsible for formulating and enforcing environmental policies, ensuring compliance with sustainability regulations, and promoting renewable energy. This ministry also oversees the environmental impact of corporate activities and enforces environmental laws. Meanwhile, FSA, as the financial sector regulator, develops guidelines for sustainable finance and monitors compliance with environmental, social, and governance (ESG) standards, promoting transparency and responsible financing practices. Financial institutions play their part by integrating sustainability into their financing practices, creating sustainable investment products, and ensuring alignment with national sustainability goals. Public companies contribute by adhering to environmental regulations and reporting on their sustainability practices to ensure that their operations are environmentally responsible and socially beneficial. Civil society organizations act as watchdogs, advocating for transparency and accountability and ensuring that affected communities' voices are heard.

Despite existing regulatory frameworks, Indonesia faces significant challenges in implementing sustainable financing. One prominent issue is greenwashing, where companies exaggerate or misrepresent their environmental efforts to enhance their public image without making substantive changes. This practice erodes public trust and undermines genuine sustainability initiatives. Cases such as those in Kalimantan and Malang highlight the critical need to enhance Corporate Social Responsibility (CSR) policies to ensure they prioritize not only corporate profitability but also environmental sustainability and social welfare. Accordingly, stringent regulations and transparency in the disclosure of corporate environmental impacts are essential to prevent CSR from being exploited as a greenwashing tool and to ensure it genuinely advances sustainability objectives.

Additionally, the lack of stringent oversight and verification mechanisms allows misleading claims to persist without accountability. To address these challenges, Indonesia needs to implement several critical measures: establish due diligence standards, enforce regular evaluations, set air quality standards, and create an oversight board. In conclusion, achieving sustainable financing for cleaner energy in Indonesia demands a collaborative effort among all stakeholders, with clear delineation of responsibilities and stringent regulatory enforcement. By addressing existing gaps and fostering a culture of transparency and accountability, Indonesia can make significant strides toward its sustainability goals and strengthen public trust in its commitment to environmental stewardship.

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