Sustainable Investment: Indonesia's Path to Economic Decarbonization

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1 Executive Summary

Economic decarbonization and energy transition are crucial policies that Indonesia must pursue to achieve its two important targets: the Golden Indonesia Vision 2045 and Net Zero Emissions by 2060. Developing countries are also facing difficult choices in managing the potential and challenges of economic decarbonization. Among them is the issue of critical minerals which - increasingly important in the energy transition but sensitive to geopolitical conditions.

The article explores Indonesia's comprehensive approach to sustainable finance, recent developments in the regulatory landscape, and TaxPrime's innovative solutions for organizations navigating this transition.

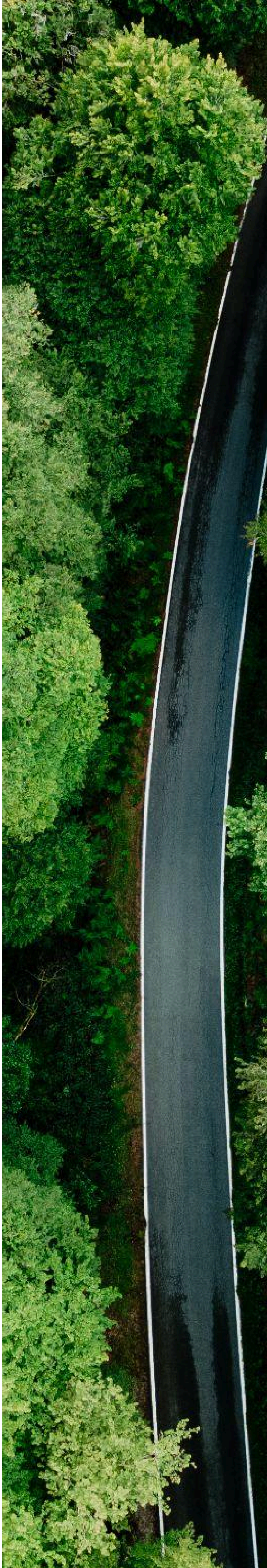
Development and Implementation of Indonesia Green Taxonomy (THI)

As environmental, social, and governance (ESG) considerations become increasingly critical in the global financial system, Indonesia is taking significant steps to align its financial sector and listed company with sustainability goals. As part of an effort to support climate change funding, OJK published the Indonesia Green Taxonomy (THI) in 2022. A leading initiative in this effort is the implementation of the Green Taxonomy, a framework designed to guide the financial industry in supporting environmentally sustainable activities and fostering investments that drive long-term positive impacts.

Building on this commitment, THI serves as an economic activity classification that supports environmental protection and management efforts, as well as mitigation and adaptation to climate change. The taxonomy aims to improve capital allocation and sustainable financing to support the achievement of Indonesia's sustainable development targets.

This initiative supports the country's commitment to the Paris Agreement and promotes investments that adhere to environmental, social, and governance (ESG) criteria. This taxonomy was launched in 2022 and later updated in February 2024 under the title "Taxonomy for Sustainable Finance in Indonesia" (TKBI). This taxonomy is the result of collaboration among stakeholders to advance sustainable finance and environmental conservation in Indonesia.

The Green Taxonomy plays a crucial role in classifying eco-friendly business activities, thereby providing a clear roadmap for sustainable investments across the country. By aligning with this taxonomy, the financial sector can identify opportunities for growth while supporting Indonesia's transition to a greener economy.



One of the key components of Indonesia's sustainable finance agenda is the promotion of sustainable investments. This emerging trend in the financial industry refers to investment practices aimed at achieving financial returns while advancing long-term environmental, social, or governance goals. By integrating traditional investment approaches with ESG insights, sustainable investments contribute to global efforts to tackle critical issues like climate change, biodiversity loss, and social inequality.

Driven by rising global demand for sustainable investments, Indonesia has introduced a range of regulations, incentives, and market opportunities to encourage businesses to adopt ESG metrics. This not only helps manage risks but also positions the country as a competitive player in the green finance sector.

In May 2023, Indonesia became the first country in the world that offered Sovereign Blue Bonds to the public in accordance with the International Capital Market Association (ICMA) principles. The issuance of these blue bonds demonstrates Indonesia's commitment to the development of the blue economy and especially sustainable financing. In addition, through the ESG framework, the Indonesian Government is also encouraging the use of more sustainable, innovative financing instruments by implementing the green bond or Sharia-compliant bond (Sukuk) Framework and the SDG Government Securities Framework.

Cumulative Green Sukuk issuance value:	**USD 6.9 BILLION**	
Global Green Sukuk:	Retail Green Sukuk:	Project-based Green Sukuk:
USD 5 BILLION	**USD 1.5 BILLION**	**USD 450 MILLION**

Source: *Ministry of Finance, 2023*

The Indonesian Government has successfully entered the market and issued Green Sukuk. The total investment mobilization from the Green Sukuk issuance reached USD 6.54 billion through global Green Sukuk (USD 5 billion), Retail Green Sukuk (USD 1.5 billion) and project-based Green Sukuk (USD 450 million) (Kementerian Keuangan, 2023).

Sustainable Investment

Sustainable investment has grown significantly over the last ten years as more investors have become concerned about sustainability issues such as the effects of climate change and companies' environmental, social, and governance (ESG) issues as well as increasing their understanding of the broader implications of their investments.

According to Global Sustainable Investment Alliance data, sustainable investments in five major markets (Europe, the United States, Japan, Canada, Australia, and New Zealand) reached USD 35.3 trillion in the first half of 2020.[1] This figure increased by 15% compared to the previous two years. In this report, sustainable investment refers to an investment that takes ESG factors into account when selecting and managing a portfolio of sustainable investments.

In addition, according to Global Sustainable Fund Flows (Morningstar, 2022), global sustainable fund assets amounted to USD2.74 trillion in December 2021.[2] In comparison to the previous year, this figure increased by 53%. This global sustainable fund includes open-ended and exchange-traded funds that claim to have a sustainable investment objective and/or use ESG criteria in their investment selection. Although Europe (81%), which has been the most developed and diverse ESG market until now, and the United States (13%), still dominate, sustainable funds in the Asian region (Japan, China, Hong Kong, India, Indonesia, Malaysia, Singapore, Taiwan, Thailand, and South Korea) are on the rise. In the same period, sustainable funds in this region amounted to USD94.8 billion (3%).

In Indonesia, sustainability is defined as a 'sustainable' condition in which all economic, environmental, social, and governance dimensions are in balance. This can be accomplished by making efforts to manage resources that ensure environmental protection and functions while also improving community welfare and human rights protection. This business transformation in the spirit of sustainable development would thus balance investment and business goals for prosperity, people, planet, peace, and partnership (5P).

In other words, the 5P, sustainability, and ESG concepts all share common points and objectives. In line with this progress, Indonesian investment regulations, specifically Law No. 25 of 2007 on Investment and Presidential Regulation No.16/2012 on the General Plan of Investment (RUPM), support or align with sustainable investment. Because it is based on an Indonesian philosophy of sustainability, as well as the essence of global standards and sustainability principles, this guideline will be known as "Panduan Investasi Lestari" in Indonesia Term.

Sustainable Business

A sustainable business is one that consistently implements sustainable transformation with good ESG in order to have a positive impact on the environment (ecological approach) and community welfare (inclusive approach). Sustainable business practices can also contribute to the achievement of Sustainable Development Goals (SDGs).

To run a sustainable business, business actors must have a business strategy that provides project overall information about the business, as well as ESG aspects and preferred impacts. This business strategy is used as a reference for investors in determining how business actors can achieve their goals within a specific time frame, as well as describing whether the business is feasible and capable of dealing with future business challenges and risks. A sustainable investment business strategy can be stated in a written document that includes all business information, company strategies, or steps in pursuing sustainable transformation throughout the value chain while still ensuring sound financial returns.

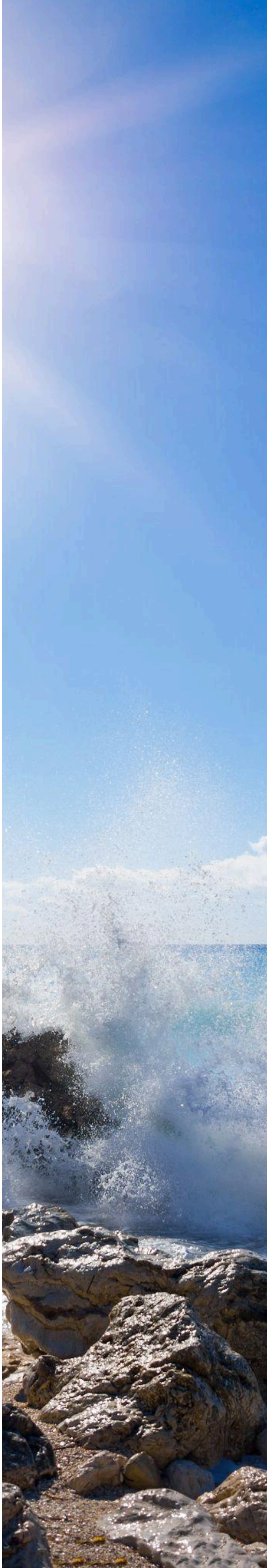
Key Characteristics of Sustainable Business

Ecological	Contribute to climate change mitigation and/or adaptation, or implement broader environmental and social sustainability measures such as using sustainable production methods, contributing to efficient use of resources, managing waste, or conserving biodiversity.
Inclusive	Create local work opportunities, particularly for marginalized communities such as youths, women, and low-income households, while also integrating these communities into local and global value chains as suppliers, distributors, or customers.

Source: *adopted from SEED, 2021*

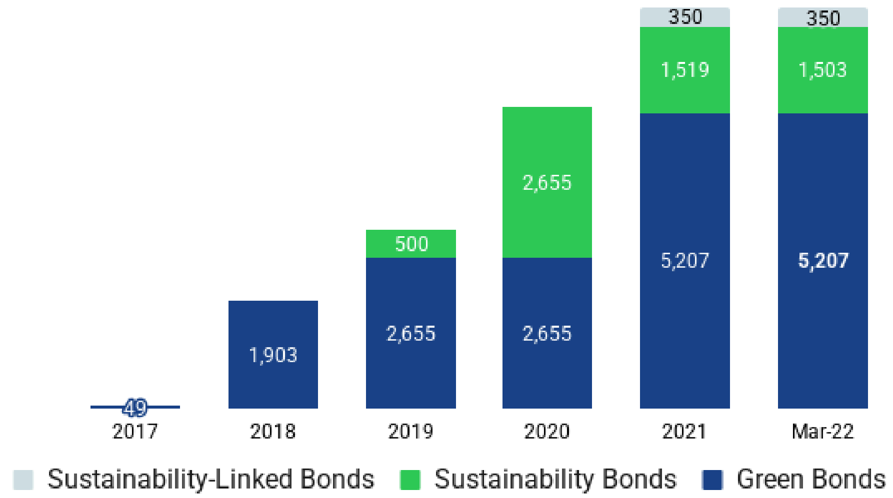
Growth of the Sustainable Investment in Indonesian Market

The sustainable bond market has demonstrated extraordinary growth and transformation between 2017 and 2022. Green Bonds emerged as the market leader, comprising approximately 75% of all sustainable bond instruments, reflecting robust investor interest in environmental initiatives. The diversification into Sustainability Bonds and Sustainability-Linked Bonds from 2019 onwards suggests market maturation and growing sophistication in sustainable investment. This trend reflects broader Indonesia commitments to sustainable development and climate action. The substantial growth also indicates increasing awareness among investors and issuers about the importance of environmental, social, and governance (ESG) factors in investment decisions.



Most of the green bonds traded in the Indonesian market are issued by the central government and state-owned enterprises. The private sector, including financial institutions, has also issued green bonds for renewable energy projects and nature-based solutions. The green bonds are the most common type of sustainable bonds traded in the Indonesian market, followed by sustainability bonds and sustainability-linked bonds. Meanwhile, bond issuers in Indonesia have not issued social bonds, perhaps because they prefer sustainability bonds instead. Or perhaps corporate issuers may believe that social projects are not bankable, which means the government should take the lead in developing the social bond market (ADB, 2022).

Circulating Sustainable Bonds by Type (million USD)



Source: *ADB*

In order to realize sustainable investment and support sustainable development in Indonesia, green bonds are a strategic and relevant step. Green bonds, as financial instruments that allocate funds for projects with positive environmental impacts, enable investors and issuers to contribute to climate change mitigation efforts and environmental conservation at relatively low costs. By financing eco-friendly projects such as renewable energy, sustainable agriculture, and green infrastructure, green bonds contribute to Indonesia's efforts to address environmental challenges and promote long-term economic strength.

Investor diversification, investor loyalty, and innovation potential in a rapidly growing market are some of the reliable advantages of green bonds. Additionally, the issuance of green bonds aligns with government focus on sustainable growth and can increase transparency and understanding regarding sustainable investments. The increasing global demand for sustainable investments further boosts the liquidity and attractiveness of green bonds, making them a smart choice for forward-thinking investors seeking both profit and purpose.

What are the challenges of investors in adopting sustainable financing?

Anticipating adequately for relevant risks

Financial institutions need clearer guidelines and get to the deep issues of E, S and G metrics.

Translating ESG strategy into the organisation's ecosystem

Global expansion of requirements for managing and reporting on ESG action.

Lack of awareness of sustainable finance

Encouraging businesses and the public to understand that lasting profits can be achieved by adopting a long-term perspective.

Inadequate Regulations

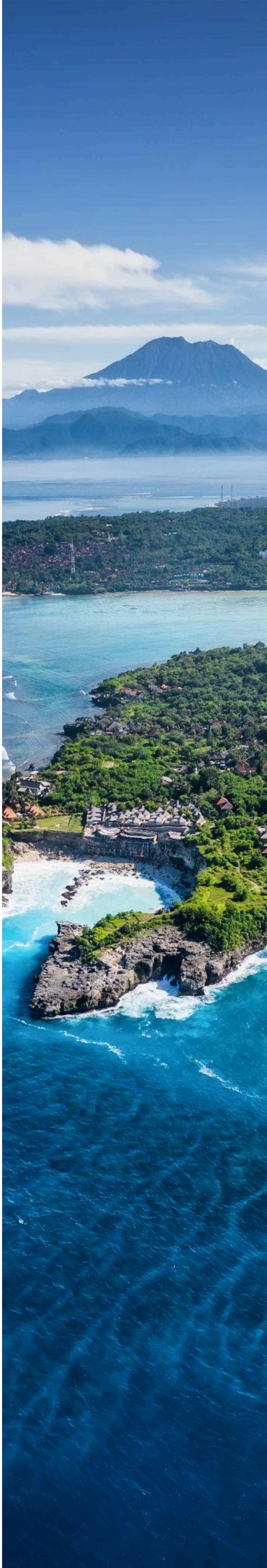
Uneven implementation across sectors. The financial sector has clearer guidelines through POJK No. 51, while other sectors lack consistent specific frameworks.

Fragmented ESG Measurement Standards

Global standards like GRI, SASB, and TCFD exist, Indonesia framework implementation is inconsistent.

Limited Access to Sustainable Financial Products

Sustainable financing instruments, such as green bonds or sustainability-linked loans, are not yet widely available in Indonesia.



Adapting stakeholder management and spreading ESG knowledge – The lack of understanding among both internal and external stakeholders continue to hinder effective ESG engagement and the expansion of the sustainable fund market.

Embedding ESG into current risk practices– Ensure long-term business resilience by integrating ESG risks in every stage of the risk management framework.

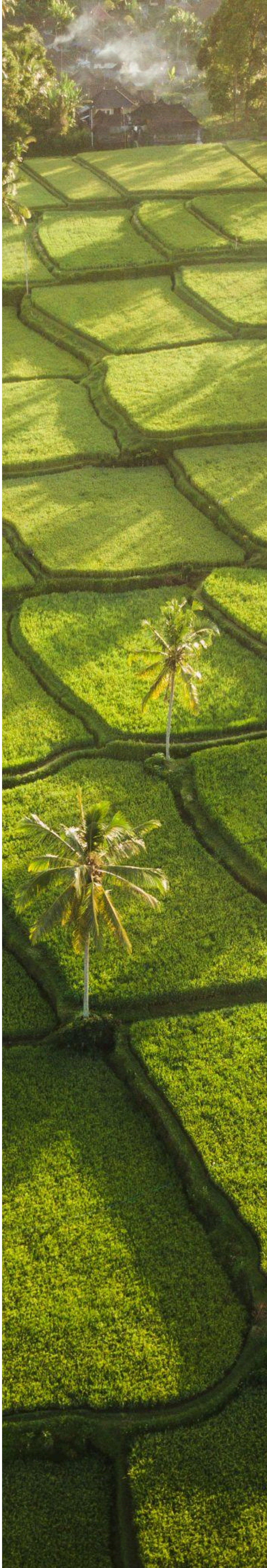
How we can help you

At TaxPrime, we've developed sophisticated solutions that make ESG reporting both efficient and precise, featuring advanced data management capabilities that cover everything from green financing project identification to real-time ESG metric tracking. Our platform's automated data collection and customizable reporting templates provide the clarity and confidence organizations need to drive their sustainability initiatives forward.

Beyond just reporting, we deliver deep expertise in navigating the intricate landscape of ESG implementation and regulatory compliance. Our framework integration services ensure your organization stays aligned with both sustainability standards and OJK requirements, while our automatic updates keep you ahead of regulatory changes.

- **Comprehensive Guide to ESG Integration**

  The Comprehensive Guide to ESG Integration outlined in the document offers a structured approach for businesses to adopt sustainability across operations. It introduces sustainable finance instruments, such as Green Bonds and Sustainability-Linked Loans, aligning with global and regional taxonomies to secure funding for environmentally focused projects. Materiality assessment is emphasized to identify critical ESG priorities through industry benchmarking and trend analysis, ensuring resources target high-impact areas.



For ESG strategy, the guide provides actionable steps like gap analysis, policy development, and implementation roadmaps to bridge compliance gaps and drive long-term goals. Governance structure design is addressed through tailored policies (e.g., anti-corruption, ethical codes) and organizational adjustments to embed accountability. Stakeholder engagement frameworks include training, supplier surveys, and tools like AA1000 standards to align internal and external stakeholders with sustainability objectives.

- **Regulatory Compliance and Risk Management**

Navigating sustainability regulations requires expertise in OJK sustainable finance frameworks to ensure compliance with Indonesia's reporting mandates and green bond standards, alongside alignment with the Indonesia Green Taxonomy for sector-specific sustainability classifications. Mastery of international standards (e.g., GRI, TCFD, CDP) ensures global credibility, while ESG risk assessment methodologies (e.g., Sustainalytics, MSCI) systematically identify and mitigate risks like environmental liabilities or governance gaps. Strategic investor connections link businesses to ESG-focused financiers, securing funding aligned with sustainability criteria, while third-party verified opinions validate green finance instruments (e.g., bonds, loans) against taxonomies, enhancing transparency and trust.

This holistic approach combines regulatory precision, risk mitigation, and strategic alignment, empowering organizations to meet evolving compliance demands while positioning themselves as leaders in sustainable finance and governance.

Concluding Remarks

Indonesia's transition toward sustainable investment and green finance presents both challenges and opportunities for companies and individuals. As your dedicated ESG consultants, we recognize that each organization's journey toward sustainability is unique and deserves a tailored approach.

Through our technology-driven solutions and seasoned guidance at TaxPrime, we help organizations navigate the complexities of sustainability while creating lasting stakeholder value. Our comprehensive ESG solutions and deep expertise position us as more than just a service provider but a strategic partner committed to transforming sustainability challenges into opportunities for growth and innovation.

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