

# Sustainable Finance on Management and Protection of Environment

(Study of sustainable finance implementation in Indonesia)

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**Abstract**—The implementation of the free trade at least makes a difference significant to the development in Indonesia, especially in matter of managing environment. In any process development, environment protection and good management and sustainable large be on the agenda, especially for developing countries. One form of protection in environmental management is to harness an instrument economic. Financial sustainable is one of demonstrate in relation environmental protection. The study aims to expound and described how the principle of the sustainable finance for environmental management and protection in Indonesia. Research methods was used in this study is juridical normative, namely that emphasize secondary data research. Research approach used is statute approach and conceptual approach. The results show that, the Financial Services Authority as the supervisor of the financial services sector in Indonesia has issued a policy through the Financial Services Authority Regulation (POJK) to implement the principles of sustainable finance and provide guidance for financial service institutions in Indonesia to implement sustainable finance for customers. Although it has collaborated with the Ministry of Environment and Forestry (KLHK) in implementing these principles, some obstacles to the absence of clear regulations in terms of sustainable finance have an impact on the optimal implementation of sustainable finance to protect and manage the environment. The impact is that pollution and also environmental damage are serious problems that can threaten the basic rights of the community in obtaining enjoyment of a clean and healthy environment.

**Keywords**—sustainable finance; environmental protection; environmental law

## I. INTRODUCTION

A good and healthy environment is a human right and constitutional right for every Indonesian citizen. The state, government and all stakeholders have an obligation to carry out environmental protection and management in the implementation of sustainable development with the aim that the environment in Indonesia can remain a source and support for the people of Indonesia and other living beings. Environmental protection and management requires the development of an integrated system in the form of a national policy that deals with the protection and management of the environment which must be carried out in a consistent and consistent manner from the center to the regions.

Environmental protection and management that are integrated in Indonesia are regulated and implemented through the application of Law Number 32 of 2009 concerning Environmental Protection and Management (UUPPLH) [1].

There is a new context that is carried out in the regulation relating to environmental management based on UUPPLH. Previously, environmental management did not include nuances of protection at each stage of environmental management. Until at the time of enactment and implementation of UUPPLH, the nuance of protection in environmental management is a form of unity that cannot be separated in maintaining and creating sustainable development. The stages in managing the environment based on UUPPLH start from planning to monitoring (UUPPLH, 32 of 2009) [1]. One of the stages in the scope of environmental management is environmental control which includes prevention, mitigation and recovery.

In terms of pollution control and/or environmental damage, several instruments relating to prevention of pollution and/or environmental damage can be applied. In addition to the obligations of an environmental impact analysis (AMDAL) which is commonly known and also other licensing instruments such as Environmental Management Efforts (UKL) and Environmental Monitoring Efforts (UPL), instruments for preventing pollution and/or environmental damage such as environmental economic instruments, environment-based legislation and environment-based budgets also began to be accommodated. Encouragement and economic support related to environmental protection and management is a warm discourse in discussing disputes in environmental issues that are not easy to solve.

Problems regarding the environment in the back period are increasingly being raised. Free trade at least also gives influence to developing countries in terms of environmental management especially in the provision of natural resources. Free trade is a result of the unbalance of market demand and supply for the availability of certain resources which ultimately demands the exchange of goods and services across national borders. In the end, the impacts caused are not small, one of which is environmental pollution and/or damage. Therefore, in order to reduce the level of damage and/or pollution of the environment, the government and all stakeholders bear their

respective responsibilities to safeguard the nature of sustainable development, one of which is manifested in the implementation of sustainable finance.

Sustainable finance in Indonesia is defined as overall support from the financial services industry for sustainable growth resulting from alignment between economic, social and environmental interests [2]. The Financial Services Authority (OJK) in this case determines the roadmap in implementing sustainable finance by financial service institutions in Indonesia. Including the financial services industry in the field of management and environmental protection is an interesting study to be discussed more deeply. This is because so far, placing both entities, namely the financial industry such as banking, insurance, guarantor, pension funds and the like with environmental management and protection regimes that are closely related to human rights, are often seen as not touching or stand alone as if do not influence each other. In fact, big businesses related to the management of natural resources such as oil palm and mining, which are controlled by large world-class financiers ultimately leave a big question mark if it is associated with environmental sustainability and the fulfillment of the rights of local residents in relation to the enjoyment of good and healthy environment.

Therefore, as one of the control instruments in environmental protection and management, the Financial Services Authority as an institution that has authority in matters of regulation, supervision and licensing applies the principle of sustainable finance. The main objective is to realize a national economy that is able to grow sustainably and stably. OJK can encourage a pro-environment business financing system in accordance with the extent of the authority of the OJK as an independent institution that is given the attribution of oversight authority to the financial services sector of banks and non-banks.

#### A. Problems

What are the principles and sustainable financial implementation in protection and management the environment in Indonesia?

## II. METHODS

In research in the field of law, there are two types of research methods, namely normative legal research methods and empirical legal research methods [3]. In this paper, normative legal research methods are used, namely research methods that use secondary data by conducting a comprehensive study and analyzing primary legal materials, secondary legal materials and tertiary legal materials. The approach used is the statute approach and the conceptual approach. Furthermore, all data that has been collected is analyzed qualitatively and arranged descriptively analytically.

## III. RESULTS AND DISCUSSION

#### A. Principles of Sustainable Finance in Indonesia

Financial service institutions as one of the main components driving economic growth have a very strategic role in the issues of the life and social sphere of society. OJK as a

regulator of financial service institutions is very aware of the sustainable development issues where the OJK uses the basis of a sustainable development framework issued by BAPPENAS as one of the foundations in carrying out its duties. In December 2014 the OJK launched the 2015-2019 Sustainable Roadmap which contained a presentation on the work plan of a sustainable financial program for the financial services industry under the authority of the OJK, namely banking, capital markets and non-financial industries /banks. This sustainable financial roadmap will be part of the Indonesian Financial Services Sector Master Plan (MPSJKI) and used as a reference for other sustainable financial stakeholders.

Sustainable finance has several objectives as stated in the guidebook "understanding the environmental documents of the clean energy sector for 2015 financial service institutions" issued by the OJK as follows:

"The goal of sustainable finance itself is: (1) to increase the resilience and competitiveness of LJK so that it can grow and develop sustainably. Endurance is associated with better risk management capabilities, while competitiveness is associated with LJK's ability to innovate environmentally friendly products / services; (2) providing funding sources needed by the community referring to the RPJP and RPJM that are characterized by pro-growth, pro-job-pro-poor and pro-environment; (3) contribute to the national commitment on the issue of global warming through business activities that are prevention / mitigation and adaptation to climate change towards a competitive low-carbon economy [4].

Furthermore, in the implementation of sustainable finance as illustrated in the OJK roadmap, there are important principles that are used as references including:

- *The principle of risk management*, which integrates aspects of environmental and social safeguards in LJK risk management in order to avoid, prevent, and minimize the negative impacts that arise and help increase the usefulness of LJK funding and operational activities;
- *Principles for the development of sustainable priority economic sectors* that are inclusive by increasing funding activities, especially in the industrial, energy, agricultural, infrastructure and MSME sectors by balancing economic, environmental and social aspects, as well as providing financial services to communities that generally have limited or no access to financial services in the formal sector;
- *Principles of environmental and social governance and reporting* by carrying out solid and transparent environmental and social governance practices in LJK's operational activities and on environmental and social governance practices held by LJK customers, as well as periodically report on the progress of LJK in applying the principles of sustainable finance to the community;
- *The principle of capacity building and collaborative partnerships* by developing the capacity of human resources, information technology and operational

processes of each LJK related to the application of sustainable financial principles, as well as establishing cooperation between LJK, regulators, governments, utilizing domestic partnerships and institutions and internationally to encourage sustainable financial progress.

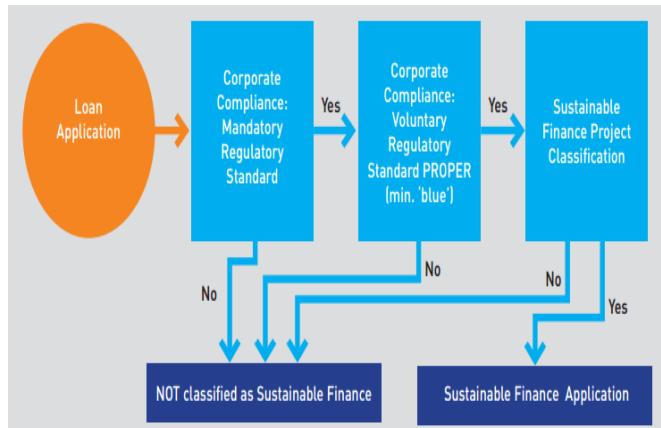
#### *B. Sustainable Financial Implementation in Indonesia*

Sustainable finance implemented by OJK through a roadmap is an integral part of environmental protection that is mobilized in economic instruments as stipulated and stipulated in UUPLH. Synergy between various parties (government, stakeholders, and society) is the main key in realizing sustainable development. The sustainable financial roadmap issued by OJK is a concrete step built to achieve these goals. In the process of implementing the roadmap, OJK has formulated a strategic target, starting with increasing the supply of environmentally friendly funding to shape the competitiveness of the financial services industry in the field of sustainable finance. The target to be achieved in increasing the supply is the provision of incentives to increase the financial services industry portfolio on green products, accompany innovation, increase competence, provide information and access to global public funds. The method used in the development of sustainable finance is through public education on green investment (life styles) which is of course accompanied by an increase in supervision and coordination of sustainable financial implementation. The 2015-2019 roadmap can basically be said to emphasize two main methods, namely screening and socialization/campaigning on the importance of sustainable finance as an integral part of sustainable development. An important aspect in the spotlight is the full support of all stakeholders on the course of this agenda. Furthermore, when this roadmap is running or at least has found its foundation, then the next roadmap, the 2020-2024 sustainable financial roadmap can run well.

In the specific financial industry sector, banking, sustainable financial implementation in a simple way can be described by a systematic approach to qualifying "sustainability" of credit. In order to give an initial simple guide to the financial services industry who to check if a client and project is "sustainable" the following two principles might help:

- The client/borrower itself complies with all requires regulating and environmental standards. The rationale is not disobeying the general company rules. Indicators are e.g. PROPER black rating of red or (which is below the required minimum standard of blue)
- The project/investment/ underlying business will itself be scrutinized if it can be classified as being sustainable.

These two principles are illustrated in the following chart:



Source: Sustainable Finance in Indonesia, GIZ and BAPPENAS, 2014

Fig. 1. The illustrated of sustainable finance.

The emergence of sustainable finance is then welcomed by standard initiates who immediately formulate and launch guidelines for sustainable finance reporting. Some standards are used in assessing the implementation of sustainable finance, one of which is a standard that refers to the International Finance Corporation (IFC) which has published Standard Performance on Social and Environmental Sustainability as a guideline for sustainable performance standards [5]. The guidelines consist of eight performance standards which include environmental and social assessment and management systems; employment and working conditions; prevention and prevention of pollution / pollution; health; community health and safety; land acquisition and resettlement; biodiversity conservation and sustainable management of natural resources; custom Society; and cultural heritage.

OJK in this case encourages a sustainable financial reporting system through short-term reporting policies between 2015-2019. In the roadmap issued by the OJK, it is not clear what standards will be used as financial and banking industry references in Indonesia.

Sustainable financial implementation in several countries can also be used as an example for Indonesia. China for example, based on research conducted by Oyegunle and Weber shows that China has an initiative in sustainable finance in the form of Green Credit Guidelines policies that were implemented in 2007, 2012 and 2014 [6]. Equivalent of money with Turkey which has incorporated sustainability into business strategies and reporting according to the Global Reporting Initiative (GRI). in Romania, banks protect their customers through the use of more environmentally friendly products and services such as green cards, green home equity loans, green commercial loans or green car loans, etc.

Basically, sustainable finance is described as a cube, one of which is a business area, the other side is sustainability. The upper side of the cube consists of regulation, voluntary standards and ethics and governance. However, in the context of Indonesia, the implementation of sustainable finance initiated by the OJK is still looking for "formats" that are in accordance with the legal system and culture in Indonesia. In addition to the new issue and not yet widely known by the

financial industry, the main target that OJK can develop in the phase I roadmap is the emphasis on sustainable financial reporting in the financial services industry. The legal consequences have also not been found if the financial services industry does not implement or does not commit to sustainable financial management. Some technical constraints as outlined above are able to be a limiting factor in implementing sustainable financial policies in Indonesia.

#### IV. CONCLUSION

Financial service institutions as one of the main components driving economic growth have a very strategic role in the issues of the life and social sphere of society. In December 2014 the OJK launched the 2015-2019 Sustainable Roadmap which contained a presentation on the work plan of a sustainable financial program for the financial services industry under the authority of the OJK, namely banking, capital markets and non-financial industries/banks. This sustainable financial roadmap will be part of the Indonesian Financial Services Sector Master Plan (MPSJKI) and used as a reference for other sustainable financial stakeholders. The principle of risk management, the principle of developing a priority economic sector is sustainable, the principle of environmental and social governance and reporting by implementing environmental governance practices, the principle of capacity building and collaborative partnerships are the main principles

in implementing sustainable finance as contained in the OJK roadmap.

Due to the fact that financial finance is a fairly new idea in Indonesia, not many IJKs have implemented sustainable finance in their business practices and there are still no technical rules so that the roadmap issued by the OJK has not clearly seen what standards will be used as a reference for the financial and banking industry in Indonesia.

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