

Financial Policy Framework In Support Of Sustainable Development In Indonesia

Nagara Bhakti Nauli Siregar¹, Rusiadi², Bakhtiar Efendi³

Email: nagarabhaktinauli@gmail.com

Universitas Pembangunan Panca Budi

ABSTRACT

A green financial framework is very important to implement, in supporting sustainable finance and sustainable development. This study examines the concept of a green financial framework at Bank Indonesia. The analysis model is carried out using a descriptive method, taking into account the explanation of the green policy framework at Bank Indonesia. The results of the study stated that the green financial policy framework of banks in Indonesia is said to be relatively new, but this concept is actually a sustainable development development. sustainable development that is environmentally sound which is known for financing that is cheaper and more environmentally friendly and can reduce air pollution in Indonesia.

Keywords: *Green Financial, Sustainable Development*

INTRODUCTION

A green economy is an economic regime that improves human welfare and social equality and at the same time reduces environmental risks significantly. This green economy can also be interpreted as an economy that is low or does not produce carbon dioxide emissions to the environment, saves natural resources, and is socially just. The difference in the green economy compared to other economic ideas is the direct assessment of natural capital and ecological services as economic value and cost accounting, which are realized to society can be traced back and counted as liabilities, the unity of which does not harm or ignore assets.

The government will look for better renewable energy because the government will stop using coal for power plants because the coal has a very high discharge for air pollution, so the government will look for a very large flow of water. Similarly, with land transportation, the government will ban vehicles that use fuel oil because the use of oil-fueled vehicles causes air pollution, the government will treat them with more environmentally friendly electric vehicles.

The government will build cities that are more environmentally friendly and lower carbon because they are to support a better economy so that people protect the environment from experiencing climate change which is very rapidly rising because humans and the environment are interrelated to encourage a better economy in the future.

The benefits of the green financial framework are as follows: Creating jobs, Reducing air pollution, to improve the welfare and social equality of society and at the same time At the global level, both financial authorities and international entities have developed Green Taxonomy or guidelines related to the definition of green activities. Green Taxonomy classifies economic activity to support environmental protection and management efforts as well as mitigation and adaptation to climate change. The strategic objective of Green Taxonomy is to encourage innovation in the creation of green products/projects/initiatives in accordance with threshold standards by the government. The Green Taxonomy is structurally structured based on the Indonesian Standard Classification of Business Fields (KBLI) and not only focuses on

subsectors/groups/business activities that are categorized as green but also includes sectors/groups/business activities that have not been classified into the green category. Green Taxonomy also continues to open space for sectors/groups/business activities that have not been listed in the KBLI according to clarifications from relevant ministries.



Figure 1. Indonesian Central Bank Green Economic Framework

There are 2,733 sectors and subsectors that have been studied, and 919 of them can be mapped to subsectors/groups/business activities (KBLI Level 5) and clarified on the threshold by the relevant technical ministries. Of the 919 subsectors/groups/business activities, there are 904 that cannot be directly categorized as green sectors (there are prerequisites that must be met first), while 15 others can be directly categorized as green categories. The classification of criteria in Green Taxonomy is divided into three categories, namely: green (do no significant harm, apply minimum safeguard, provide positive Impact to the environment and align with the environmental objective of the Taxonomy), yellow (do no significant harm), and red (harmful activities). This document also records the existence of 198 new subsector proposals from several technical ministries and related stakeholders. In the future, Green Taxonomy is expected to improve the quality of SJK's Sustainability Report disclosure and improve environmental performance in economic and investment activities to significantly reduce the risk of environmental damage.

LITERATURE REVIEW

Sustainable Landscape Project

Phase III of the Green Growth Program (GGP3 2021-2025) between the Government of Indonesia and GGGI, is adjusted to the Government of Indonesia's development priorities and targets set out in the Indonesian National Medium-Term Development Plan (RPJMN 2021-2024). GGP3 is specifically designed to support the implementation of the Nationally Determined

Contribution (NDC) submitted to the UNFCCC, as well as the achievement of the Sustainable Development Goals (SDGs).

The following priorities became important areas of support under GGP3:

- Catalyze and accelerate access to climate finance; green investment for Indonesia's economic development
- Support Indonesia in strengthening its policy, planning and regulatory framework and institutional capacity to achieve green growth
- Achieve a sustainable and circular bioeconomy while securing healthy natural ecosystems (forests, peatlands, watersheds, and coastal resilience)

Further strategic direction was taken from the Indonesian Low Carbon Development (LCDI) initiative led by Bappenas, including for pilot programs in six GGP3 focus provinces, namely East Kalimantan, Central Kalimantan, South Kalimantan, North Kalimantan, Papua and West Papua.

Climate Action Enhancement Package (CAEP) Project

The Climate Action Enhancement Package (CAEP) project, funded by the NDC Partnership (NDCP), was designed as an initiative focused on providing rapid support for increased NDC ambition and implementation, through efforts to strengthen ownership for communities and governments. Since February 2020, the Ministry of Environment and Forestry (MOEF) and GGGI have been working with the NDCP to implement the CAEP project in Indonesia.

Indonesia is an NDCP member who was awarded this program with a focus on NDC implementation, including increased ambition, as part of the process of developing the Updated NDC to the Paris Agreement. In Indonesia, the CAEP project supports stakeholder engagement activities during the process of developing updated NDC documents at the national level. Once the Updated NDC document is completed, the project also helps disseminate messages at the national and subnational levels to wider stakeholders.

Biological Compressed Natural Gas (BioCNG) project

The Biological Compressed Natural Gas (BioCNG) project will support member countries and partners to develop a dynamic BioCNG market by providing technical assistance to enable a supportive environment, reduce policy and technology barriers and create sustainable and viable local business models. The program, which will be implemented for 2 years (2021-2022), focuses on increasing the BioCNG market from three waste streams: organic municipal solid waste, wastewater, and agricultural waste.

The proposed multi-country intervention on BioCNG will enable inclusive development with native clean energy development with opportunities to learn from three countries: Indonesia, India and Thailand. In Indonesia, the BioCNG project was built on the basis of GGGI's work in the development of renewable energy in Indonesia, and GGGI's close cooperation with the Government of Indonesia to date. This project focuses on developing waste from the palm oil, manure and organic waste sectors as a pipeline for BioCNG production. The great potential of this type of waste to produce BioCNG can be realized by closing gaps in the regulatory framework, by improving the quality of raw materials and by addressing the high risks faced in

BioCNG ventures.

The adoption of BioCNG is expected to provide several benefits in the country, namely improving the sustainability profile of the agricultural industry, especially in the palm oil sector, reducing environmental pollution, as well as the use of landfills and fuel import expenditures. The main benefit is segregation at the necessary sources, which will help meet some nationally mandated targets for municipal waste management and follow the Bappenas strategy on Circular Economy.

Designing Article 6 Policy Approaches (DAPA) Project

The project consists of two phases: First, a scoping phase to conduct preliminary assessments on national-level policies and sectors to identify potential opportunities in GGGI member and partner countries, including Indonesia. The second phase, which allows further development of this potential policy approach in Indonesia and three other countries. The project is currently in its second phase, which began in December 2020, following the scoping phase that had begun in 2019. The main partner is the Coordinating Ministry for Economic Affairs (through the Assistant Deputy for Agro, Pharmaceuticals, and Tourism under the coordination of Deputy III).

The DAPA project aims to assist the Government of Indonesia in developing appropriate policy approaches regarding Internationally Transferred Mitigation Outcomes (ITMO) and adjustments to related matters. Through this third phase, the Green Growth Program is expected to get closer to its noble vision of improving human welfare and social equality, while significantly reducing environmental risks and ecological scarcity. Serious commitment and active participation from all partners who are members of the Green Growth Program Phase III is urgently needed to continue to encourage engagement and concrete actions from all other stakeholders, including the public, which in turn will help achieve the objectives of this program.

RESULTS AND DISCUSSION

The Negative Impact of a Green Economy and a Green Framework

In the last two decades the impacts of environmental destruction (global warming) and climate change (climate change) have become more serious and frightening. Moreover, this has a negative impact on human life. Such as floods, tidal floods, air pollution, water and soil, extreme climate change extreme changes, etc. where a number of analysis results show an increase in global warming and climate change caused by the extent of environmental damage in various countries including Indonesia.

Economic development activities in Indonesia are more based on natural resources, considering that Indonesia has relatively more natural resources compared to other countries. Call it petroleum, natural gas, coal, tin, gold, and other natural resources. This is what causes aspects of environmental protection and preservation to be often overlooked, causing various environmental problems, such as water and/or air pollution, damage to soil quality, fires and forest damage, agricultural land conversion and so on. Such conditions ultimately make the productivity of natural resources and the environment decrease, thus encouraging the emergence of pockets of poverty in communities whose lives depend on natural resources and the environment.

Various parties point out that the main cause of environmental damage is intended to be

the result of development strategies and policies that are not environmentally friendly. National development strategies and policies prioritize the achievement of economic interests alone compared to the interests of the environment and society. In fact, the environment and all the natural resources attached to it as well as the economic resources of the people are acquired and overexploited by the state and economic actors to realize the interests of economic growth and profit alone.

Although on the one hand, corporate profit growth and state (regional) economic growth continue to increase (EN), at the same time, the escalation of the social crisis and the environmental crisis (EKSL) is also increasing. The social and environmental problems that arise are increasingly complex and dangerous. This phenomenon is often referred to as the "paradox of economic growth" resulting from greedy economic behavior. Meanwhile, the ideal point of economic growth of the country (region) when the increase in the economic level of the state (region) (EN) is followed by a decrease in the social crisis and environmental crisis (ESKL).

Positive impact of the green economy and financial framework

Development aims to improve the welfare of the community so that development must be based on the concept of sustainable development. In a 1987 World Commission on Environment and Development (WCED) report entitled *Our Common Future*, sustainable development is defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. This means that the development carried out is not only for now, but also for the future.

On its development, with the increasingly vigorous sustainable development, the concept of a green economy has developed, as a concept that supports sustainable development and the elimination of poverty. However, given the absence of the same sustainable development model for all countries, the concept of a green economy is understood differently, taking into account various constraints in each country. In simple terms, the definition of a green economy is formulated as an economic activity that does not harm or damage the environment.

Meanwhile, the United Nation Environment Programme (UNEP) links the notion of a green economy to the meaning of an economy capable of improving welfare and social justice, by providing an understanding that: "Greening the economy refers to the process of reconfiguring business and infrastructure to deliver better returns on natural, human and economic capital investments, while at the same time reducing greenhouse gas emissions, extracting and using less natural resources, creating less waste and reducing social disparities."

Thus, the green economy is an economic activity that in addition to improving the welfare of the people as the ultimate goal of economic activity, is also expected to have an impact on achieving justice, both justice for the community and the environment and natural resources themselves. The philosophy of the green economy is a balance between the economic welfare of the people and social justice while reducing the risks of environmental and ecological damage (Wanggai, 2012: 7). In this case, the essence of the green economy as a model of economic development based on sustainable development.

The World Commission on Environment and Development (WCED) in its report entitled *Our Common Future* identifies several critical issues that need to be used as a basis in formulating environmental policies in the concept of sustainable development, namely:

1. Promote growth and improve quality;

2. Obtaining basic needs regarding work, food, energy, water and sanitation;
3. Ensuring a population growth rate that supports sustainability;
4. Conducting conservation and resource capabilities;
5. Technology orientation and risk management;
6. Integrating considerations of the economic environment in the decision-making process.

CONCLUSION

Because of the amount of costs needed to reach 28,223 trillion to drive a green economy, the State of Indonesia requires a lot of investment from developed countries in order to achieve sustainable use and reduce the risk of more severe climate change. and encourage the use of a more environmentally friendly . and encourage people to be more energy efficient to reduce global warming so that people encourage them to switch to more environmentally friendly vehicles to reduce emissions.

REFERENCES

- Ahmad, Mubariq. 2010. GREEN ECONOMY: Global Perspectives and Indonesia Context. Makalah disampaikan pada serial diskusi Penyusunan Indonesia Green Economy Policy Paper. Kementerian PPN/Bappenas, 14 Juli 2010.
- Ayuni, Maryam. 2010. Indonesia Green Economy: Policy Option and Challenge in Energy Sector. "More Green Energy, Less Carbon Emission" (Lebih banyak energi hijau, semakin sedikit emisi karbon). Direktorat Energi Baru Terbarukan dan Konservasi Energi Ditjen Listrik dan Pemanfaatan Energi – KESDM. Disampaikan pada Seril Diskusi Green Economy di Kementerian PPN/Bappenas. Jakarta 5 Agustus 2010.
- [BAPPENAS] Badan Perencanaan dan Pembangunan Nasional. 2011a. Kebijakan Nasional: RAN-Penurunan Emisi GRK(Sektor Kehutanan, Energi, & Limbah). Diklat Green Economy. Kerjasama Kementerian PPN/Bappenas dan Fakultas Ekonomi-Universitas Indonesia. Jakarta, 15 November 2011.
- [BAPPENAS] Badan Perencanaan dan Pembangunan Nasional. 2011b. Kebijakan Nasional. Diklat Green Economy. Kerjasama Kementerian PPN/Bappenas dan Fakultas Ekonomi-Universitas Indonesia, Jakarta, 17 November 2011
- [BAPPENAS] Badan Perencanaan dan Pembangunan Nasional. 2011c. Kebijakan Nasional: RAN-Penurunan Emisi GRK(Sektor Energi, Ketahanan Pangan & Limbah). Diklat Green Economy. Kerjasama Kementerian PPN/Bappenas dan Fakultas Ekonomi-Universitas Indonesia Jakarta, 17 November 2011
- Budiantoro, Setyo. 2013. Pemetaan Kebijakan & Stakeholders Strategis: Tentang Green Economy. Makalah dipresentasikan pada workshop Green Economy dan prospek pelaksanaan di Indonesia. Bali, 21 Februari 2013. Diselenggarakan oleh perkumpulan Prakarsa.
- Faroque, Imran. 2010. UNIDO'S Concept on Green Industry. National Workshop on Green Economy organized by UNEP and MoF. Jakarta, Sep 23, 2010
- Fauzi, A. 2012. Tinjauan aspek lingkungan dalam Pembangunan Berkelanjutan dan implementasi Ekonomi Hijau. Makalah dipresentasikan pada acara workshop ekonomi hijau di Bandung 14 Mei 2012. Kerjasama Kementerian PPN/Bappenas dengan LP3E FEB Universitas Padjadjaran Bandung.

- [Kemenkeu] Kementerian Keuangan. 2012. Fiscal and Financial Incentives for Geothermal Development; Presented at “Seminar on Charting the Way to a Green Economy through Fiscal Policy Reforms: A Role for Ministry of Finance”. Jakarta, 23-24 October 2012.
- Murniningtyas, E. 2012. Refleksi 20 tahun pelaksanaan pembangunan berkelanjutan. Makalah disampaikan pada workshop Ekonomi Hijaudi Bandung, 14 Mei 2012. Kerjasama Kementerian PPN/Bappenas dengan LP3E FEB-UNPAD
- Bank Indonesia.2022.*Diskusi Ilmiah: Kajian Pengaruh Insentif Pemerintah terhadap Produktivitas Industri Hijau.*