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ANALYSIS OF THE RELATIONSHIP OF GREEN FINANCE TO THE INDONESIAN ECONOMY

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Abstract

Green financecurrently very influential on any activity related to financial or economic activities throughout the world. One of the big challenges faced is global warming which can hamper supply chains or company assets due to climate change. Climate change and environmental damage are closely related to the economy. Moreover, as the environment worsens, green financebe good environmental protection at this time to make investment and financing decisions as well as potential profits. This research concludes that there is a link between green finance and the economy, creating positive dynamics that promote sustainable growth, economic diversification and environmental risk mitigation. Green finance not only opens the door to new investment and innovation, but also helps shape a more environmentally friendly and resilient economy.

Keywords*: Green Finance, Economy, Environment, Investment*

INTRODUCTION

As the industrial world in Indonesia develops, it cannot be denied that pollution in Indonesia is also increasing. Air pollution is currently a major pressing environmental problem. Based on the latest IQAir World Air Quality 2021 report which was released in March 2022, Indonesia ranks 17th as the country with the highest level of air pollution in the world (Suryani, 2022). As for the causes of air pollution, there are those that come from nature, for example forest fires, the activities of microorganisms and others. Meanwhile, those that do not come from nature are industries that produce dust, smoke or gas, and also vehicles. Of course, air pollution has a serious impact on human health. Long-term exposure to air pollution can certainly cause various health problems (Winanti, 2019). Air pollution is not only an environmental problem, but air pollution also has a significant impact on the economy and this creates confusion between the desired economic growth and also environmental preservation which is currently increasingly urgent. The Intergovernmental Panel on Climate Change's latest report notes the importance of mobilizing green finance to limit global warming to 1.5°C and prevent threatening climate change. Full implementation of the Paris Agreement to achieve these climate targets will require US$1.5 trillion in green finance annually until 2030, according to the United Nations Framework Convention on Climate Change. At the same time, leveraging green finance is critical to meeting Asia's surging energy demand, driven by economic growth, population growth and improved energy access. Two-thirds of the growth in global energy demand will occur in Developing Asia by 2040. Therefore, increasing green finance in Asia is necessary (Azhgaliyeva and Liddle 2020).

According to the Minister of Finance (MenKeu), Sri Mulyani Indrawati, on the Ministry of Finance's website for economic growth, she believes that the economy in Indonesia in 2023, which will grow at around 5%, is supported by its realization by various indicators so that it will be better than previously estimated. However, environmental sustainability issues are also one of the pillars of economic growth (Ghifary et al., 2022). The problems faced in economic growth are a trade off between economic growth itself and efforts to preserve the environment (Drews et al., 2018). Reducing pollution can be done by preserving the environment. The government is urged to preserve the environment with the solution provided, namely Green Financing. Green finance is a series of innovative solutions in the field of economic financing which is increasingly developing with the adoption of the Sustainable Development Goals in 2015 by the United Nations (UN) (Trukhachev and Dzhikiya, 2023).

Green financecurrently very influential on any activity related to financial or economic activities throughout the world. One of the big challenges faced is global warming which can hamper supply chains or company assets caused by climate change (Fahim and Mahadi 2022). When this becomes increasingly visible environmental degradation in the world, sustainable development becomes increasingly important (Soejachmoen 2017). The latest report from the Company Performance Rating Program in Environmental Management (PROPER) revealed that in 2023 they will carry out an evaluation and increase participants by 10%, but this will result in a decline in the company's level. Because new companies still require adjustments in fulfilling monitoring and data reporting obligations, as well as fulfilling technical B3 waste management and licensing (Ministry of Environment and Forestry 2023). Climate change and environmental damage are closely related to the economy. Moreover, as the environment worsens, green financebe good environmental protection at this time for making investment and financing decisions as well as potential profits. Green finance is a new financial pattern that integrates environmental protection with economic profits. Green finance emphasizes environmental protection, which is a controversial issue for society today (Wang et al. 2019). Green finance has the aim of carrying out environmentally friendly activities, such as building environmentally friendly infrastructure and goods and services that will provide economic and environmental benefits for everyone (Wahyudi, Triansyah, and Acheampong 2023). Therefore, several strategies are needed to prevent environmental degradation and implement sustainable development through coordinated green finance investments in accordance with global norms that have been implemented (Zheng et al. 2021).

Compared to sustainability financing, green finance is a narrower concept but broader than climate and low-carbon financing. Green finance can be used to finance projects that only have environmental benefits, namely climate change mitigation, climate change adaptation and other environmental benefits. Sustainable finance is broader because it can be used to finance projects that have environmental, social, economic and other benefits (Azhgaliyeva and Liddle 2020).
The green economy concept is in accordance with the rules and policies for Natural Resources (SDA) management stated in MPR Decree No. IX/MPR/2001 which discusses Agrarian Reform and Natural Resources Management. In applying this concept, a balanced synergy can be achieved between economic, social and sociological aspects, which are currently recognized as the three main pillars that support economic development and growth. Strong political will is needed from the government to formulate effective policies regarding natural resource management. This political will is a real manifestation of legal provisions regarding green economic policies, which must be implemented consistently (Nabila and Arinta 2020).

Based on the description above, it can be understood that Green finance is the procurement and use of funds for activities which aim to protect the environment and also provide fair returns to lenders. Green finance also includes all investments in environmental services and goods and also investments in activities to reduce environmental and natural damage. The aim of green finance itself is to increase financial flows from financial institutions to economic agents who are involved in activities and projects to protect the environment to achieve sustainable development goals. Green Financing on economic growth is considered to be mutually influential. This is examined in this research entitled "Analysis of the Relationship between Green Finance and the Indonesian Economy."

METHOD

This research uses a descriptive method with a qualitative approach. The data used in this research is secondary data. Data was collected using library research techniques. The data sources were obtained from various previous studies that have been published in scientific journals. After the data was collected, the researcher analyzed the data qualitatively.

RESULTS AND DISCUSSION

Basically, in developing countries, the challenge of achieving social welfare is a serious threat. Factors such as resource scarcity, rising prices, abnormal climate change, the demographic dividend, and the social impact of pollution and waste all require society to return focus to natural resources in order to maintain prosperity. The development of the Green Economy model is an effort to strengthen the Indonesian economy. Within the Green Economy framework, there are efforts to achieve sustainable economic growth through a balance between environmental sustainability and social inclusion (Nabila and Arinta 2020). Green economyincludes various initiatives aimed at developing sustainable and environmentally friendly economic growth (Hayati, Yulianto, and . 2020). One concrete form of green economy is the implementation of green finance. Green finance involves allocating financial resources to support projects that have a positive impact on the environment, such as investments in the renewable energy sector, energy efficiency, sustainable transportation, and green infrastructure (Sachs et al. 2019). Through green finance, the economy can utilize finance as a tool to encourage change towards a more sustainable economic model, by paying attention to aspects of environmental sustainability and social responsibility. The implementation of green finance not only provides short-term economic benefits, but also creates a positive impact in the long term by supporting sustainable development and reducing negative impacts on the environment.

Green financehas a significant connection with the Indonesian economy, especially in sustainable development and environmental protection. The green finance concept includes a number of elements, such as paperless banking, energy awareness, mass transportation systems, and green buildings. These principles not only produce a positive impact on the environment, but also have the potential to support sustainable economic growth (Aldama, Herwiyanti, and Srirejeki 2021). Green financeor green finance, which involves investing in projects and businesses that have a positive impact on the environment, has the potential to create positive synergies between the financial and economic sectors. Green finance can make a significant contribution to economic growth by mobilizing financial resources for investment in sustainable projects (et al. 2019). These investments cover sectors such as renewable energy, energy efficiency, sustainable transportation and environmentally friendly infrastructure. By supporting these projects, green finance creates new opportunities for sustainable economic growth, generates jobs and stimulates economic activity in various sectors. Indonesia has shown enthusiastic support for green finance. In 2014, the Financial Services Authority (OJK) issued a Sustainable Finance Action Plan, which includes strategies to improve sustainable development over the next five years (Guild 2020). Four years later, the government issued green sukuk worth US$1.25 billion in 2018, considered the first of its kind. These funds are allocated to projects that are environmentally sustainable and comply with Islamic financing laws. However, investors were not provided with a list of specific projects that would be funded by the bonds, and government spokespeople only indicated that the proceeds would be used for renewable energy and green tourism without providing further explanation (Gokkon 2018). OCBC NISP, a subsidiary of Singaporean bank OCBC, also issued green bonds worth US$150 million in late 2018 with IFC guidance. The proceeds are allocated for green building development and waste water management projects, possibly in Jakarta (Tang in Guild 2020).

In May 2018, a consortium of eight domestic banks partnered with the World Wildlife Fund to launch the Indonesia Sustainable Finance Initiative, with the aim of increasing organizational capacity, especially environmental, social and governance risk management (WWF 2018). Although the need for capacity building is clear, the MoU signed by the parties does not contain firm financial commitments or even attempt to address practical challenges such as project selection or public-private partnership structures. Therefore, although Indonesia shows enthusiasm for the idea of green finance, much of the work being done in this sector is more aspirational than feasible (Guild 2020). This highlights the challenges and risks of green finance. As a broad and poorly defined concept, green finance is attractive to investors who are aware of the long-term risks of climate change and environmental damage and want to align their investments with sustainability goals. This concept is increasingly used to raise capital with the aim of attracting such investors.

However, this sector is still in its infancy, quite niche, and not yet fully developed. The ASEAN Green Bond Standard has established a set of guiding principles that determine the types of projects that are eligible for green financing, as well as establishing basic disclosure requirements (Lóránt and Szabadkai 2022). However, these standards are voluntary and, as seen from the case of Indonesian sukuk, compliance can be weak or incomplete. Given the broad definition of green financial instruments, as well as the flexibility given to issuers in defining eligible projects, it is likely that there will be many green bonds and other green financial instruments issued in the next few years. As capital flows in the green finance sector accelerate, the challenge of finding high-quality, scalable projects in emerging markets with weak institutions and underdeveloped financial intermediaries will become sharper. This highlights the need for a better understanding of the institutional and political constraints that can hinder project viability in recipient countries. The link between green finance and economic growth can also be seen from the perspective of economic diversification. By allocating investment to projects that focus on renewable resources and green technology, the economy can reduce dependence on sectors that have a negative impact on the environment, such as heavy industry or fossil energy (Udeagha and Ngepah 2023). This diversification can increase economic resilience to fluctuations in conventional resource prices and environmental risks, while creating new opportunities for innovation and technological development.

Additionally, green finance can act as a catalyst for the adoption of sustainable business practices. Companies that receive green finance support are often faced with demands to comply with higher environmental and social standards. This encourages companies to improve operational efficiency, reduce their carbon footprint, and consider the social impact of their activities. These sustainable business practices can improve a company's reputation, meet the demands of consumers who are increasingly concerned about environmental issues, and create a more sustainable business ecosystem. Apart from the direct impact on economic growth, green finance can also provide long-term benefits in mitigating environmental risks that can threaten economic stability. By allocating investments to projects that reduce greenhouse gas emissions, maintain ecosystem sustainability, and reduce dependence on limited natural resources, green finance helps create a more stable and resilient economic foundation in the face of the challenges of climate change and environmental degradation. However, the implementation of green finance is not always without challenges. One of the main obstacles is the need for a supportive regulatory framework and incentives. The government and regulators need to create a conducive environment for green financial growth by providing tax incentives, developing clear regulations, and building financial market infrastructure that supports sustainable investment.

An example is the implementation of green finance by several banks in ASEAN, including Bank Negara Indonesia 46 (BNI), Kasikornbank (Kbank), and The Development Bank of Singapore (DBS), providing concrete examples of how the banking sector can contribute to supporting these principles. BNI, for example, has involved itself in environmentally based banking services, such as reducing the use of paper (paperless), e-billing, e-banking, and green finance. This action reflects its commitment to reducing negative impacts on the environment while adopting modern technology in its banking services. Banks such as Kbank and DBS have also demonstrated their commitment to green finance. Kbank implements this through various initiatives, including green finance, project funding selection with ESG (Environmental, Social, and Governance) assessments, and green building construction. Meanwhile, DBS has launched a green bond product which is used to support the financing of green projects. These steps show that green finance is not only an aspect of corporate social responsibility, but also a strategic tool to finance and encourage sustainable investment (Aldama, Herwiyanti, and Srirejeki 2021).

The implementation of green finance in Indonesia can have a positive impact on various economic sectors. By adopting paperless banking, for example, bank operational efficiency can increase, while the use of energy and paper materials can be reduced. Increased energy awareness and investment in environmentally friendly mass transportation can help reduce greenhouse gas emissions and improve urban air quality. In addition, green buildings can also create new jobs in the construction industry, apart from providing long-term benefits in energy savings. By considering the green finance practices that have been implemented by banks in ASEAN, Indonesia has the potential to lead in the development of a green economy in this region. With support from the banking sector and supportive government policies, the implementation of green finance can be a driver of sustainable economic growth and make Indonesia a main actor in realizing environmentally based development in the future.

CLOSING

The linkage of green finance with the economy creates positive dynamics that promote sustainable growth, economic diversification and environmental risk mitigation. Green finance not only opens the door to new investment and innovation, but also helps shape a more environmentally friendly and resilient economy. Therefore, governments, the financial sector and businesses need to work together to create an enabling environment for the development of green finance, ensuring that sustainable finance investments and initiatives can play a central role in guiding the economy towards a sustainable future.

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