P R A K A R S A *Policy Brief*

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Banking Transformation as a Key Catalyst for Achieving National Climate Targets

Key Points:

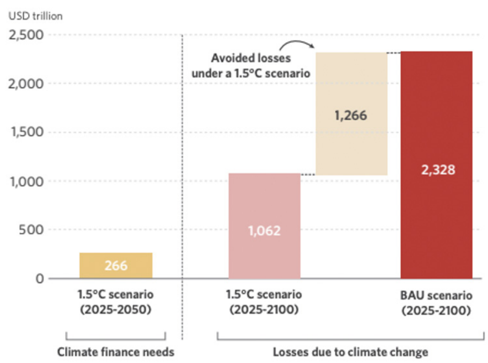
- Addressing the climate crisis in Indonesia requires an estimated IDR 200–300 trillion annually, while the state budget (APBN) allocates only around IDR 80 trillion per year. This financing gap underscores the need for collective action from all stakeholders to tackle the climate crisis effectively.
- The banking sector holds significant potential to support green economic financing. However, Indonesian banks' commitments to addressing the climate crisis remain limited.
- Assessments conducted by PRAKARSA and ResponsiBank reveal that the average score of Indonesian banks in the Climate Change theme is only 1.9 out of a maximum score of 10, indicating a persistently low level of commitment to climate action within the banking sector.
- The Financial Services Authority (Otoritas Jasa Keuangan/OJK) should revise Regulation No. 51/ POJK.03/2017 to adopt a stronger compliance-oriented approach. This may include introducing mandatory minimum allocations for sustainable projects in bank and non-bank financial institution portfolios, as well as establishing more impactful incentive and penalty mechanisms.

The Climate Crisis and Financing Challenges

The climate crisis is exacerbating Indonesia's vulnerability to natural disasters. The World Risk Report (2024) ranks Indonesia as the second most disaster-prone country in the world, with a risk index score of 41.13. The high frequency and severity of such disasters pose significant threats to economic stability. According to the National Development Planning Agency (Bappenas), the potential economic losses resulting from the climate crisis between 2020 and 2024 are projected to reach IDR 544 trillion.

At the same time, addressing the climate crisis requires substantial financial resources. The United Nations (UN) estimates that, by 2030, the annual cost of climate adaptation in developing countries will range between USD 140 billion and USD 300 billion, rising further to USD 280 billion to 500 billion annually by 2050 (DPR RI, 2022). However, current global investment levels remain far from sufficient to prevent the projected economic damages from the climate crisis.

Figure 1. Cumulative Climate Financing Needs vs. Losses under the 1.5°C and Business-as-Usual (BAU) Scenarios, in USD trillions.



Source: Climate Policy Initiative, 2023

National Climate Financing Needs and the Role of the Banking Sector

The National Economic Council (2025) estimates that financing requirements for climate action will reach USD 280 billion (approximately IDR 4,591 trillion) by 2030. This translates into an annual budgetary need of IDR 200–300 trillion. In contrast, allocations from the state budget (APBN) for climate action over the past three years have averaged only IDR 80.3 trillion per year, representing roughly 30% of the APBN. This shortfall reflects a significant financing gap. The scale of this need is expected to grow as Indonesia increases its climate commitments, as outlined in its Nationally Determined Contribution (NDC) (DPR RI, 2022). In this context, the role of other sectors, particularly banking, in financing climate action programs is crucial to ensuring that mitigation and adaptation measures are implemented rapidly and systematically.

Global Commitments to Address the Climate Crisis

At the end of 2024, the 29th United Nations Climate Change Conference (COP29) brought together Parties to reaffirm their collective commitment to addressing the climate crisis. COP29 resulted in several notable achievements, most prominently the adoption of the Baku Climate Unity Pact, which includes the New Collective Quantified Goal (NCQG). Under the NCQG, developed countries committed to provide USD 300 billion annually by 2035 to support climate action in developing nations, including Indonesia. While this remains significantly below the estimated global climate finance need of USD 1.3 trillion per year, it marks a substantial increase from the previous USD 100 billion annual pledge.

The agreement also strengthens national climate plans (NDCs), with all countries expected to account for all greenhouse gases and sectors in order to limit global warming to below 1.5°C. In this context, Indonesia has pledged to reduce emissions by 31.89% by 2030 under a business-as-usual, and by 43.2% with international support. Furthermore, Indonesia has committed to achieving net-zero emissions by 2060 through a 100% reduction in greenhouse gas emissions (UNCC, 2024).

In addition, COP29 reached an agreement on Article 6 of the Paris Agreement concerning cooperative approaches for achieving NDC targets. Indonesia plans to capitalize on carbon trading opportunities while strengthening domestic regulatory mechanisms to avoid the issuance of low-quality (junk) credits. The carbon market framework agreed at COP29 enables developing countries to sell credits to wealthier nations for emission mitigation projects, under United Nations oversight.

Limited Climate Target Commitments Among Banks

The climate crisis has driven countries to take concrete measures to reduce carbon emissions and expand renewable energy deployment. For Indonesia, given its high vulnerability to climate risks, there is a moral and strategic imperative to contribute to these global efforts. The banking sector plays a pivotal role in supporting national and international climate commitments by mobilizing sustainable finance that integrates financial, environmental, social, and governance (ESG) considerations.

Climate change poses both transitional and physical risks to banking performance and stability. Transitional risks stem from the shift toward a low-carbon economy, encompassing policy, litigation, technological, market, and reputational risks. Physical risks are linked to climate-induced damage, divided into acute risks (e.g., extreme weather events) and chronic risks (e.g., long-term changes such as sea level rise) (Mori & Chiba, 2017).

PRAKARSA (2025), in collaboration with the ResponsiBank Indonesia coalition, conducts biennial assessments of bank financing and investment policies. These evaluations aim to monitor the integration of ESG principles, with a particular focus on climate action, internal operational policies, and the management of corporate lending portfolios. In 2024, PRAKARSA and ResponsiBank assessed 12 major banks in Indonesia, including Bank Mandiri, BRI, BNI, and BCA.

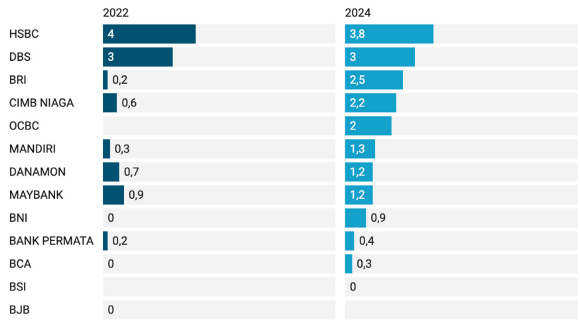
Table 1. Climate Change Theme Scores in Bank Policy Assessments in Indonesia, the Philippines, and Thailand.

Country	Average 'Climate Change' Theme Score	Catatan Kunci
Indonesia	1,9/10 (2024)	Only two banks (CIMB Niaga and BRI) have developed roadmaps for Scope 1, 2, and 3 emissions.
Philippines	0,7/10 (2022)	No banks have set emission reduction targets or disclosed greenhouse gas (GHG) emissions data.
Thailand	2,8/10 (2024)	TThere is an increase in the number of banks producing reports based on the TCFD framework; however, emission targets remain weak.

Source: Fair Finance

The Responsibank assessment shows that the average score of banks in the Climate Change theme is only 1.9 out of a maximum score of 10, shown in Table 1, indicating that climate commitment in the banking sector remains low and requires comprehensive improvement. By comparison, the average score of banks in Thailand is 2.8 (2024), while banks in the Philippines scored 0.7 (2022) due to the absence of measurable emission reduction targets. Although all three countries are still far from satisfactory, Indonesia's score suggests stagnation, particularly in adopting international standards.

Figure 2. Assessment Results for the Climate Change Theme



Source: PRAKARSA, 2025

Furthermore, the assessment of 12 banks indicates that climate-related policies remain inadequate, with scores ranging from 0 to 3.8, except for Bank Syariah Indonesia (BSI), which did not receive a score, as shown in Figure 2. Although overall scores in this theme remain low, several banks, such as BRI, CIMB Niaga, Bank Mandiri, Danamon, and Maybank, have improved their scores compared to the previous assessment. This improvement is largely attributable to stronger portfolio financing policies, including the disclosure of Scope 1, 2, and 3 emissions.

Some banks now require debtors to conduct environmental impact assessments for large-scale projects, set measurable emission reduction targets, and publish climate impact reports aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). These advancements are consistent with the Financial Services Authority's (Otoritas Jasa Keuangan / OJK) Climate Risk Management and Scenario Analysis (CRMS) guidance, which provides banks with a framework for assessing climate impacts on performance and business sustainability, as well as integrating climate risk into risk management processes.

HSBC's score declined due to changes in the assessment indicators requiring the use of renewable energy in internal operations. Meanwhile, although DBS's score did not increase, it has adopted a policy prohibiting coal financing. The most significant improvement was recorded by BRI, which increased its score from 0.2 in 2022 to 2.5 in 2024, reflecting enhanced data collection on emissions, measurable targets, TCFD reporting, and an anti-deforestation policy.

In contrast, BSI, the largest Islamic bank in Indonesia, has yet to demonstrate a clear commitment to climate issues, despite the alignment of Islamic finance principles with sustainability values. A Greenpeace (2025) study indicates that the global Islamic finance industry is expanding rapidly, with Islamic banks' assets projected to reach USD 6.7 trillion by 2027. Allocating just 5% of these assets could mobilize USD 400 billion for climate-related programs.

Renewable Energy Financing Still Not a Priority for Banks

Indonesia's banking sector plays a critical role in reducing carbon emissions and supporting the transition to renewable energy through sustainable financing. In 2024, green financing flows increased, driven by the development of sustainable financial instruments and the launch of the Indonesia Carbon Exchange. By November 2024, total recorded financing exceeded IDR 40 trillion. This growth has been propelled by global climate mitigation commitments and stricter enforcement of the Sustainable Finance Taxonomy by OJK.

In 2024, the realization of green financing increased by more than 20% compared to two years earlier, reflecting stronger prioritization of low-carbon and renewable energy projects. This trend reinforces Indonesia's strategic pathway toward achieving net-zero emissions by 2060 (Indonesia.go.id, 2024).

Some banks have taken proactive measures. For example, CIMB Niaga scored 3.2 in the 2024 bank assessment (PRAKARSA, 2025), up from 1.7 the previous year. This improvement stems from CIMB Niaga's active policies supporting energy efficiency and renewable energy projects, as well as the disclosure of its 2030 Emission Reduction Target, which identifies power generation as a priority sector. The bank aims to reduce portfolio emission intensity by 38%, focusing on low-carbon and renewable alternatives to accelerate client decarbonization plans (PRAKARSA, 2025).

However, across the banking sector, policies related to power generation have changed little, with the average score increasing only from 1.4 in 2022 to 1.5 in 2024. This slow progress is due to the absence of measurable targets for reducing financing and investment in coal-fired power generation. Furthermore, there is inadequate compliance with the 12 principles of the Roundtable on Sustainable Biomaterials (RSB), and insufficient commitments to include ESG compliance clauses in contracts with subcontractors and suppliers, measures that are critical to ensuring sustainability is applied consistently across project lifecycles (PRAKARSA, 2025).

Beyond Guidance: The Need to Curb High-Carbon Financing

Indonesia has demonstrated strong climate action commitments through strategic sustainable finance policies since 2014, including the launch of a sustainable finance roadmap, the Indonesian Green Taxonomy, and the Taxonomy for Sustainable Finance in Indonesia. These policies aim to promote environmentally and socially responsible practices.

The issuance of the Sustainable Finance Taxonomy provides essential guidance for financial institutions in identifying and classifying sustainable economic activities. In addition to supporting carbon emission reduction targets, these policies encourage investment in sectors contributing to sustainable development.

To strengthen climate risk management, OJK has mandated the integration of climate risk in the banking sector through Regulation No. 17/2023 on Commercial Bank Governance, which requires the incorporation of climate risk into governance, strategy, and risk management processes. In 2024, OJK initiated the signing of a Net Zero Emissions (NZE) support commitment by seven banks and launched the CRMS guidelines (OJK, 2024). CRMS serves as a unified framework for risk management and disclosure, enabling banks to assess the resilience of their business models against climate change impacts.

While CRMS is an important step, it currently functions primarily as a self-assessment tool, focusing on transparency in disclosing climate risk profiles, without imposing direct consequences on banks with high-carbon credit portfolios. OJK also encourages bank participation in the Carbon Exchange (POJK No. 14/2023) to reduce carbon emission risks in financed assets, provides technical guidance on climate risk management implementation (POJK No. 17/2023), and promotes the issuance of Sustainable Debt Securities/Sukuk (EBUS) under POJK No. 18/2023.

Nonetheless, despite these regulatory advances, the national banking system still faces significant challenges in supporting the green transition. There is currently no regulation explicitly restricting bank investments in high-emission sectors. Moreover, recent changes in the Sustainable Finance Taxonomy, such as reclassifying "red" (non-aligned) activities to "transition" status, risk creating ambiguity that may enable less responsible business practices. Existing regulations remain largely voluntary and declarative, lacking strong incentive or disincentive mechanisms. This regulatory gap underscores the need for stronger, mandatory rules with transparent, independent audits. Without such measures, the banking system risks undermining Indonesia's climate commitments.

Funding Proportions for Sustainable Initiatives: Progress and Challenges

Another challenge lies in the proportion of funding allocated to sustainable initiatives, which remains small relative to the green transition needs. OJK (2024) data show that total sustainable credit reached IDR 1,959 trillion in 2023, up from IDR 927 trillion in 2019, a positive trend in green sector financing. However, this still represents only 27.6% of total banking credit in 2023 (IDR 7,090 trillion), indicating that existing regulations, including taxonomy use, have not yet fully steered investments toward sustainability.

Additionally, innovative incentive and disincentive mechanisms for promoting green finance remain insufficient. As a result, banks tend to prioritize conventional sectors perceived as more profitable and stable. Moreover, banking capacity for managing sustainable projects still needs strengthening, including in planning, implementation, risk and opportunity mapping, and project evaluation and monitoring.

Policy Recommendations

To accelerate climate-aligned financing, policymakers should consider the following measures:

1. **OJK should implement a capacity-building program for banking sector personnel, including training and certification in sustainable finance.**
2. **OJK should revise Regulation No. 51/POJK.03/2017 to require banks and other financial institutions**

to allocate a minimum proportion of financing to sustainable projects.

3. OJK should strengthen incentive and penalty provisions under Regulation No. 51/POJK.03/2017, including impactful measures such as relaxing Risk-Weighted Asset (RWA) calculations and imposing penalties beyond administrative sanctions.
4. OJK should establish guidelines for independent audits to ensure strict ESG compliance for financed products and projects.
5. OJK should encourage banks to adopt measurable emission reduction and renewable energy financing targets, including community-scale initiatives, and facilitate public-private collaboration to achieve lower emissions.

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