

Strengthening National Competitiveness in International Trade through the Legal Implementation of Green Bonds in Indonesia

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Abstract

This article examines the role of green bonds as a financing mechanism that can strengthen Indonesia's national competitiveness in international trade through a legal and good governance approach. By examining domestic regulations, supporting policies, and implementation challenges such as the risk of greenwashing, the article demonstrates that policy synchronization between monetary and capital market authorities, increased investor protection, and transparent reporting of green projects are essential prerequisites for green bonds to provide a comparative advantage for domestic products and services in the global market. Recommendations focus on strengthening legal certainty, establishing fiscal and non-fiscal incentives, and establishing binding oversight mechanisms to ensure that green financing outcomes truly boost Indonesia's export value and sustainable reputation.

keywords: *Green bonds, national competitiveness, international trade, governance; transparency.*

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A. Introduction

The global market currently shows a growing demand for products and services that meet environmental, social, and governance (ESG) sustainability standards. Green bonds are one financing option that allows for the funding of environmentally friendly projects. Environmental protection without compromising the national economic development orientation. For Indonesia, the use of green bonds is not merely a matter of providing green capital, but also a strategy to enhance the bargaining position of national products in international trade through a reputation for sustainability.

In this context, the role of law is fundamental. Without legal certainty, transparency, and a verification mechanism for the use of funds, the potential of green bonds could be hampered by the risk of greenwashing. In Indonesia, the urgency of policy harmonization between Bank Indonesia and the Financial Services Authority has been discussed in academic studies, including by R. Wierma Putri, who emphasized the importance of synergy between monetary authorities and the market in developing a green bond ecosystem.¹

The implementation of green bonds opens up opportunities for Indonesia to access cheaper international financing through a green premium, or a reduced cost of capital, for issuers who demonstrate credibility and adherence to sustainability standards. For example, a study found that green bond issuers in Indonesia and other developing countries can obtain lower costs if they implement robust ESG reporting and obtain independent certification.² On the other hand, without clear verification mechanisms and standards, sustainability claims can raise doubts among global investors and risk creating non-tariff barriers, such as denial of entry into export value chains that require proof of sustainability. This further strengthens the argument that green bonds are not simply financial

¹ R. Wierma Putri, *Green Bonds in Indonesia: Synergy Between Bank Indonesia and the Financial Services Authority* (2023), p. 4.

² L. Huang, *Green bonds and ESG investments: Catalysts for sustainable development in resource-rich economies*, *Energy Policy*, 2024.

instruments but also strategic tools for exporting countries to improve their bargaining position in international trade.

In the domestic capital market, investor understanding and participation in green bonds remains limited. A study shows that risk perception and financial literacy play a significant role in individual investors' intentions to invest in green bonds in Indonesia, finding that environmental awareness alone does not always trigger investment.³

Therefore, strengthening market literacy, enhancing project transparency and reporting, and developing reliable verification standards are integral to developing an effective green bond ecosystem. Therefore, implementing green bonds in Indonesia requires collaboration between law, the market, and investor education to realize their benefits in strengthening national competitiveness in global trade.

B. Discussion

1. National Legal Framework for Green Bonds in Indonesia

The legal framework for green bonds in Indonesia is based on OJK Regulation No. 60/POJK.04/2017 concerning the Issuance and Requirements for Environmentally Friendly Debt Securities. This regulation requires that bond proceeds be allocated to green projects that meet certain criteria, such as renewable energy, sustainable transportation, and waste management.⁴ In addition, OJK strengthens the policy foundation through the Indonesian Green Taxonomy which serves as a reference for classifying green economic activities.⁵ However, despite the existence of a formal legal framework, enforcement and verification standards are not yet

³ I. Adhiyogo, Z. Dalimunthe & R. A. Triono, "The Intention of Individual Investors to Invest in Green Bond in Indonesia," *Global Business and Management Research: An International Journal*, Vol.14 No.3s (2022).

⁴ POJK No. 60/POJK.04/2017 concerning the Issuance and Requirements for Environmentally Aware Debt Securities.

⁵ Paris Agreement, 2015.

fully effective. From an environmental law perspective, the implementation of green bonds aligns with the objectives of Law No. 32 of 2009 concerning Environmental Protection and Management, which requires the state to integrate sustainable development principles into all economic policies.⁶ Internationally, Indonesia also has normative obligations under the Paris Agreement to reduce carbon emissions, which can be implemented through green financing mechanisms.

Although POJK No. 60/POJK.04/2017 (“Green Bond Regulation”) stipulates a minimum allocation of 70% of funds for green projects, research shows that post-issuance monitoring and reporting are still inconsistent.⁷ For example, a study by I. Adhiyogo et al. found that many publishers in Indonesia have not provided independently verified sustainability reports, so transparency on the use of funds remains weak.⁸ As a legal implication, this indicates the potential for legal uncertainty which could reduce investor confidence, increase the cost of capital, and weaken the potential of green bonds as a competitiveness instrument.

From a governance and legal policy perspective, the implementation of the green bond legal framework in Indonesia requires harmonization between institutions, namely the Financial Services Authority (OJK) as the capital market regulator and Bank Indonesia (BI) as the monetary authority, to avoid regulatory overlap or even conflict of duties. Research by R. S. A. Nursahla and colleagues confirms that although BI and OJK have regulatory instruments related to green finance, their coordination role is still not optimal and there is room for BI to adopt additional regulatory instruments

⁶ E. F. Pakpahan, “Legal Analysis of Investor Protection in Corporate Green Bond,” *Indonesian Law Review*, hlm. 7.

⁷ I. Adhiyogo, Z. Dalimunthe & R. A. Triono, “The Intention of Individual Investors to Invest in Green Bond in Indonesia,” *Global Business and Management Research: An International Journal*, Vol. 14 No. 3s (2022), hlm. 514.

⁸ S. Saa, “Policy Analysis of Green Bonds in Indonesia: Strategies for Achieving Sustainable Development,” *Journal of Infrastructure, Policy and Development*, 8(10): 6535 (2024).

such as liquidity incentives or shifting financing sources to low-carbon projects.⁹ Without strong institutional collaboration, existing norms will only become formal regulations without effective implementation, so their effect on national reputation and competitiveness will be limited.

From the perspective of cross-border regulations and strengthening international comparability, Indonesia also needs to consider adopting global standards such as the International Capital Market Association (ICMA) Green Bond Principles and the sustainable finance taxonomy developed by the European Union, so that its green bond instruments are globally accepted and have bargaining power in international trade. A study by Benny Hutahayan et al. shows that regulatory coherence, legislative legitimacy, and government authority are the main determinants of legal certainty in green bonds, which in turn influence international investor entry and cross-border green capital flows.¹⁰ Thus, strengthening the national framework is not only about establishing regulations, but also about ensuring that these regulations meet international standards and are recognized by the global market.

2. Greenwashing Risks and Legal Responsibilities of Green Bond Issuers

The biggest challenge in implementing green bonds is the risk of greenwashing, which involves presenting green claims that do not align with project implementation. E. F. Pakpahan's research shows that investor protection in green bonds still lacks norms regarding issuer accountability when projects deviate from their original

⁹ R. S. A. Nursahla, N. Paramayoga, M. Anas Fadli & M. Pravest Hamidi, "Legal Aspects of the Central Bank's Green Finance Instruments in Indonesia: An Overview," *Journal of Central Banking Law and Institutions*, 2(1) (2023), hlm. 127

¹⁰ B. Hutahayan, Moh. Fadli, S. Amiputra Amimakmur, R. Dewantara, M. G. Djajadikerta, "Legal Certainty in Green Bonds: The Role of Coherence, Legitimacy, Economic Benefits, and Government Authority," *Jurnal Hukum*, Vol. 40 No. 2 (2024).

objectives. In capital market law, the principles of disclosure and prudence should be the basis for preventing greenwashing. Failure to comply with these principles can result in civil, administrative, and even criminal liability if it results in investor losses.

In addition to causing financial losses for investors, greenwashing practices also create market distortion by providing misleading information signals to capital market participants. A study by Salsadilla shows that weak verification standards and unclear sanctions lead issuers to focus solely on environmental branding without ensuring measurable ecological benefits.¹¹ This situation results in asymmetric information, preventing investors from objectively assessing the sustainability value of the projects they finance. Consequently, the effectiveness of green bonds as a green development instrument is degraded and has the potential to undermine international market confidence in the credibility of Indonesian green bonds.

To prevent greenwashing, upholding the principles of transparency, traceability, and accountability in reporting green projects is essential. Saa's research confirms that use of proceeds reports and environmental impact reports must be overseen by an independent verification agency to ensure that sustainability claims can be scientifically and legally justified.¹² From a capital market law perspective, liability instruments can be implemented through misrepresentation lawsuits, investment contract cancellations, or administrative sanctions by the Financial Services Authority (OJK) if material information is concealed. Therefore, upholding the principle of transparency is not only an ethical obligation but also a legal obligation inherent in every green bond issuer.

Legal accountability for greenwashing in green bonds is inseparable

¹¹ T. Salsadilla, "Legal Review of the Commercialization of Green Bonds in Indonesia," *Indonesian Journal of Environmental Law*, 2023.

¹² S. Saa, "Policy Analysis of Green Bonds in Indonesia: Strategies for Achieving Sustainable Development," *Journal of Infrastructure, Policy and Development*, Vol. 8 No. 10 (2024).

from the doctrine of issuer liability. Research by Hutahayan et al. shows that legal certainty will increase if the green bond regime incorporates ex-ante control (verification before issuance) and ex-post liability (responsibility after losses occur) mechanisms within a single, coherent regulatory framework. With this mechanism, the issuer is responsible not only for the planning stage but also for the entire project cycle. This scheme aligns with the polluter pays principle developed in international environmental law, thus encouraging issuers to not only finance green projects but also ensure the sustainability of the financing outcomes.

3. Synergy between Bank Indonesia and the OJK in Strengthening Governance

Institutional synergy is vital to creating a stable green bond market. Bank Indonesia has authority over financial system stability, while the Financial Services Authority (OJK) oversees transparency and capital market investor protection. R. Wierma Putri emphasized that regulatory coordination, data integration, and independent verification are three important pillars in ensuring the credibility of national green bonds.

Strong national institutions are key to ensuring that green bond instruments produce tangible results, not just claims. According to R. Wierma Putri's analysis, the collaboration between Bank Indonesia and the OJK includes the integration of green financial data systems, the development of a green liquidity incentive framework, and the establishment of a joint verification unit to evaluate project implementation.¹³ This step reflects the need for supervision to be more than just a sectoral focus, such as on capital markets or banks, but rather to require a cross-institutional framework that encompasses the entire sustainable finance ecosystem. If regulation is confined to a single domain, it opens up room for regulatory arbitrariness and fragmentation, ultimately

¹³ R. Wierma Putri, "Green Bonds in Indonesia: Synergy Between Bank Indonesia and Otoritas Jasa Keuangan's Commitment", *Journal of Central Banking Law & Institutions* 2, no. 2 (2023): 199-220.

impacting the credibility and competitiveness of national green bond instruments.

On the operational side, institutional synergy is also required to address regulatory misalignments that hinder implementation. A study by the Faculty of Law at Unila (Unila) shows that although a sustainable finance roadmap has been developed, regulations in the banking sector, capital markets, and non-bank institutions are not yet fully harmonized. Differences in the definition of green activities, reporting standards, and verification requirements between banks and capital markets remain.¹⁴ This situation poses the risk of duplication of supervision or even conflict of duties between authorities, which could lead to inconsistent regulations and complicate matters for both foreign and domestic investors. Therefore, the existence of an official coordination forum, jointly led by BI and the OJK, is crucial to ensure a systematic and integrated legal framework and governance for green bonds.

Furthermore, synergy between BI and the OJK must strengthen clear incentive and disincentive mechanisms to support the sustainability of green bond instruments. Scientific research highlights that when liquidity incentives, green risk guarantee schemes, or issuance cost subsidies are jointly implemented by monetary and capital market authorities, market access and the cost of capital for green projects will decrease, thereby strengthening the national comparative advantage. Similarly, if the OJK is given the authority to impose stricter administrative sanctions on issuers who fail to meet their green commitments, institutional synergy will result in a strong combination of preventive and repressive policies. This will not only create an adequate legal framework but also ensure the continuity of supervision that maintains the integrity of the Indonesian green bond market.

4. ESG, International Trade, and National Competitiveness

¹⁴ ND Kartiko, "The Urgency of Green Banking Regulations in Indonesia," *Asian Environmental & Law Review*, 2024.

Globally, countries and corporations that comply with ESG standards gain market preference and access to international financing at a lower cost of capital. Green bonds are becoming a strategic instrument for increasing export value through a reputation for sustainability. International research shows that global investors are increasingly selective about green financial instruments that offer traceability and accountability.¹⁵

Beyond simply access to cheaper financing, compliance with ESG (Environmental, Social, and Governance) standards has become a crucial signal of global legitimacy for exporting countries. Countries that can demonstrate that their supply chains meet sustainability standards will gain preference from international buyers, mitigating non-tariff risks related to environmental and ethical production. A study from Unila (Unila) found that a country's "green reputation" can improve its bargaining position in free trade negotiations and international procurement agreements, as institutional buyers and multinational corporations increasingly demand verified evidence of sustainability.¹⁶ In this context, instruments such as green bonds become tools not only for mobilizing green capital but also for building a national brand as a supplier of sustainable products.

For Indonesia in particular, integrating ESG into its export strategy requires synchronization between sustainable finance regulations and international trade. Empirical studies show that green bond issuers with impact reporting and external audits achieve better ESG ratings and lower costs of capital, which in the long run can translate into more competitive export products.¹⁷ However, the challenge

¹⁵ Pushpa Negi, Anand Jaiswal & Ihor Rekunen, "Green Bonds and Corporate Value Creation: A Review of Financial, Market, and Environmental Performance," *Discover Sustainability* 6 (2025).

¹⁶ I. G. A. Wiranata, "Legal Opinion on the Implementation of Green Bonds in Efforts to Increase National Competitiveness in the Field of International Trade," *Journal of the University of Lampung*, Vol. (2025) (in process).

¹⁷ F. Hadi, "Legal Aspects of Green Bonds as Sustainable Financing in the Indonesian Capital Market," *Rechtsvinding*, 2022.

lies in traceability (the ability to trace the origin and use of funds) and accountability (transparent accountability). Without these two elements, sustainability claims become fragile and the potential for competitiveness through green bonds decreases. In export markets, this means Indonesian products may be viewed as less credible, or even made more difficult for buyers with stringent ESG criteria.

Within the framework of international trade, exporting countries that effectively use green financial instruments can create positive externalities for national competitiveness: production efficiency with lower emissions, meeting green import standards, and gaining access to high-value global value chains. A study by the Faculty of Law, University of Lampung, emphasized that when instruments such as green bonds are positioned as part of a national export strategy, an opportunity arises for a "green premium" for Indonesian products, namely the added value given by the market due to their sustainable nature.¹⁸ However, its realization requires a legal framework that is not only national but also compatible with international standards such as the International Capital Market Association (ICMA) Green Bond Principles, as well as a cross-country verification mechanism so that Indonesia's sustainability reputation can be measured and recognized globally.

C. Conclusion

Green bonds are a strategic funding mechanism for Indonesia to strengthen national competitiveness in international trade, amid growing global demand for Environmental, Social, and Governance (ESG) standards. Utilizing green bonds not only provides green capital but also enhances the national product offering in the global market through candidates that potentially provide a "green premium" position or lower cost of capital for credible issuers. The legal framework in Indonesia is based on POJK No.

¹⁸ N. D. Kartiko, "The Urgency of Green Banking Regulations in Indonesia in Facing Global ESG Demand," *Asian Environmental & Law Review*, 2024.

60/POJK.04/2017 concerning the Issuance and Requirements for Environmentally Sound Debt Securities, but its implementation still faces challenges such as inconsistent post-issuance supervision and reporting. To maximize its benefits, essential prerequisites are required in the form of policy synchronization between the monetary authority (Bank Indonesia/BI) and the capital market (OJK), enhanced investor protection, and transparent project reporting. This synchronization must also include the implementation of international standards such as the ICMA Green Bond Principles for Indonesian instruments to be recognized globally.

key challenge in implementing green bonds is the risk of greenwashing, where green claims do not align with project implementation, potentially undermining international market confidence and creating information distortions. Preventing greenwashing requires upholding the principles of transparency, traceability, and accountability through oversight by independent verification bodies, as well as the implementation of clear legal accountability instruments for concealing material information. Furthermore, institutional synergy between Bank Indonesia (BI) and the Financial Services Authority (OJK) is crucial, encompassing data integration, developing liquidity incentives, and establishing a joint verification unit to address regulatory overlap and ensure a systematic legal framework. By strengthening legal certainty, establishing fiscal/non-fiscal incentives, and integrating ex-ante and ex-post oversight, Indonesia can ensure that green financing truly enhances export value and enhances its reputation for sustainability on the global stage.

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