

When Transparency Becomes a Barrier: Sustainability Reporting and the Access Divide in Indonesia's Financial Sector

Raiehan Andhika Pradana

Summary

Indonesia's push for sustainable finance has made the Environmental, Social, and Governance (ESG) transparency a regulatory obligation under the Regulation of the Financial Services Authority (*Peraturan Otoritas Jasa Keuangan/POJK*) No. 51 of 2017. Large banks such as Mandiri, BRI, and BCA, have the resources to meet global reporting standards, turning sustainability disclosure into a competitive advantage that attracts investors and lowers capital costs. Smaller institutions, such as BPRs, cooperatives, and microfinance lenders face the opposite reality. Limited budgets, weak data systems, and lack of expertise make ESG reporting expensive and difficult. As a result, transparency creates a compliance divide: big players gain visibility and capital access, while small players risk exclusion from the sustainable finance ecosystem despite their important role in financial inclusion. The article argues that transparency has become a form of privilege. To prevent sustainability from becoming elitist, Indonesia needs proportional policies, such as simplified reporting requirements, shared digital reporting platforms, and evaluation based on real outcomes rather than lengthy reports. The goal is to make sustainability reporting inclusive, ensuring that all financial institutions can participate meaningfully.

Keywords: *sustainable finance, ESG transparency, ESG reporting, sustainability disclosure*

Introduction

In contemporary finance, transparency has emerged as a form of capital. The more transparent an institution appears in demonstrating its Environmental, Social, and Governance (ESG) credentials, the more attractive it becomes to investors, regulators, and international partners. In Indonesia, the acceleration of sustainability reporting marks a significant milestone in aligning the domestic financial system with global sustainable finance trends. Yet this very transparency, while symbolising accountability and progress, has begun to reveal structural inequalities within the sector.

For Indonesia's largest financial institutions, including Mandiri, BRI, and BCA, transparency serves as a competitive asset. For smaller players like rural banks (*Bank Perkreditan Rakyat/BPR*), cooperatives, and emerging

fintech lenders, it is increasingly burdensome. The growing complexity of sustainability reporting requires not only financial resources but also specialised expertise, data systems, and international-standard frameworks such as the Global Reporting Initiative (GRI). Consequently, as compliance becomes more institutionalised, transparency itself risks becoming a barrier to entry, limiting who can meaningfully participate in the sustainable finance landscape.

This article explores the paradox of transparency in Indonesia's financial sector: how regulatory efforts to institutionalise sustainability reporting have, perhaps unintentionally, reinforced hierarchies of capacity and access. The analysis situates the Indonesian case within broader debates on ESG disclosure, financial inclusion, and the political economy of transparency.

Banking and Office Group	Number of Bank and Bank Office (Unit)	
	Bank	Bank Office
	2023	2023
Bank Umum Konvensional - Bank Persero	4	12392
Bank Umum Konvensional - Bank Pembangunan Daerah	24	3672
Bank Umum Konvensional - Bank Swasta Nasional	57	6239
Bank Umum Konvensional - Kantor Cabang Bank Asing	7	19
Bank Umum Syariah - Bank Pembangunan Daerah	3	363
Bank Umum Syariah - Bank Swasta Nasional	10	1591
Total of Conventional Bank	105	24276
Bank Perkreditan/ Pembiayaan Rakyat - BPR Konvensional	1402	4645
Bank Perkreditan/ Pembiayaan Rakyat - BPR Syariah	173	520
Total of Conventional Bank	1575	5165

Figure 1. Count of Bank & Bank Office (Unit), 2023.
 Source: Otoritas Jasa Keuangan

Institutionalising Sustainability: Indonesia’s Regulatory and Market Landscape

The Regulatory Context

Indonesia’s formal journey towards sustainable finance began in 2014, when the Financial

Services Authority (*Otoritas Jasa Keuangan/OJK*) launched its Roadmap for Sustainable Finance. This culminated in POJK 51/POJK.03/2017, which mandates sustainability reporting for all financial institutions, issuers, and public companies. The regulation requires each entity to (1) prepare a Sustainable Finance Action Plan (*Rencana Aksi Keuangan Berkelanjutan*), and (2) publish an annual sustainability report as part of their regular disclosure obligations (OJK, 2017).

In practice, this regulation is among the most ambitious sustainability disclosure regimes in Southeast Asia. It positions Indonesia ahead of many regional peers in formalising ESG integration. However, the degree of compliance and quality of reporting varies dramatically. Larger banks categorised as *Buku IV* or *Buku III* possess the capacity to produce detailed, 200-page reports aligned with international standards such as GRI or the Task Force on Climate-related Financial Disclosures (TCFD). Meanwhile, smaller banks, microfinance institutions, and fintech lenders often lack both the human capital and data systems to meet these requirements.

Market Dynamics and Investor Pressure

Beyond regulation, the market has become a powerful driver of ESG disclosure. The IDX ESG Leaders Index, introduced by the Indonesia Stock Exchange (IDX), highlights listed companies with strong ESG performance and transparency. However, as of 2024, the index remains dominated by major financial and energy corporations, such as Bank Mandiri, BRI, BCA, and Telkom Indonesia, reflecting structural concentration within Indonesia’s capital market (IDX, 2024).

Simultaneously, global investors are increasingly channelling capital towards ESG-oriented instruments, such as green

bonds, sustainability-linked loans, and Indonesia's sovereign green sukuk. According to McKinsey (2023), global ESG assets are projected to surpass USD 50 trillion by 2025, with financial institutions under mounting pressure to demonstrate "green credibility." This dynamic intensifies competition among Indonesian banks to present themselves as "ESG-ready," reinforcing compliance as a strategic necessity rather than a moral obligation.

The Compliance Divide: Unequal Capacities in the Financial Sector

The institutionalisation of sustainability reporting has generated a compliance divide between large and small financial players. While the intention of POJK No. 51 of 2017 is universal coverage, the practical burden of compliance is far from equal.

Large Banks: Masters of Compliance

Indonesia's largest state-owned and private banks, such as Bank Mandiri, BRI, BCA, and BNI, have swiftly adapted to the sustainability reporting regime. Their reports often exceed 200 pages, detailing ESG strategies, stakeholder engagement, and performance indicators. They employ dedicated sustainability departments, consult external auditors, and use internationally recognised frameworks. For instance, Mandiri's 2023 Sustainability Report aligns with GRI and TCFD standards and explicitly connects green lending portfolios to Indonesia's Sustainable Development Goals (SDGs).

Yet beneath the surface, questions arise regarding substance versus signalling. Critics argue that many large banks continue to finance carbon-intensive industries, including coal and extractive sectors, while maintaining green branding in their reports. This suggests that ESG compliance often functions as

reputational armour, securing access to global capital markets rather than driving transformative lending behaviour.

Small and Medium Financial Institutions: Burdened by Compliance

In contrast, smaller institutions, particularly BPRs, credit unions, and local cooperatives, face steep barriers to compliance. These entities are socially vital: they serve rural communities, micro-entrepreneurs, and unbanked populations, embodying inclusive finance at the grassroots level. However, their organisational structures are not designed for complex reporting requirements.

A 2022 study on regional banks in Sumatra (Oka & Hermawan, 2025) revealed that smaller institutions struggle with data collection, lack of technical expertise, and insufficient funding for sustainability initiatives. Many rely on manual accounting systems, making ESG data compilation impractical. For them, the cost of compliance can exceed potential reputational benefits or investor interest.

The consequence is a growing two-tiered financial ecosystem: large, compliant institutions that can leverage ESG disclosure to attract capital and gain regulatory advantage, and smaller institutions that risk increasing marginalisation due to limited capacity to meet compliance requirements.

Transparency or Exclusion? The Political Economy of ESG Disclosure

Transparency as Power

Transparency, often equated with accountability, is also a form of power. It privileges those with the capacity to disclose and to shape narratives of compliance. In Indonesia's financial sector, this power imbalance manifests in who controls data,

reporting standards, and interprets “sustainability.” Large financial institutions not only comply but also help define the very criteria of what constitutes sustainability, which are often in ways aligned with their own operational models.

This echoes broader critiques of the “transparency paradox” (Gupta, 2008), where the demand for ever-greater disclosure generates complexity that only large actors can navigate. The result is not democratisation but the reinforcement of technocratic hierarchies, where access to information becomes both a resource and a barrier.

The Rebranding of CSR to ESG

Another dimension of exclusion arises from the rebranding of Corporate Social Responsibility (CSR) into Environmental, Social, and Governance (ESG) frameworks. While CSR in Indonesia historically emphasised community development and philanthropy, ESG demands quantifiable, reportable metrics, such as carbon intensity, gender ratios, and governance structures that require advanced data infrastructure. Consequently, small financial institutions that once engaged meaningfully in community-based initiatives now find themselves sidelined because they lacked formalised metrics. In this sense, ESG is less a continuation of CSR than a paradigm shift towards data-driven accountability, favouring financial institutions integrated with global reporting ecosystems.

Empirical Evidence: Reporting Intensity and Capital Access

ESG Disclosure and Cost of Capital

A growing body of Indonesian empirical research investigates the relationship between ESG disclosure and financial performance. For example, Arditiyan and Purwanto (2025) found that environmental disclosure significantly

reduces the cost of capital for listed firms on the SRI-KEHATI Index, while social and governance disclosures show no statistically significant effect. Similarly, Oktavia (2023) demonstrated that firms with higher ESG scores experience improved investor perception and lower equity risk premiums.

However, these benefits are concentrated among publicly listed companies and large financial institutions with strong reporting capabilities. The absence of similar studies for smaller financial entities indicates both a data gap and an exclusionary effect: if only large players are visible to investors through ESG disclosure, then smaller institutions remain effectively invisible in the sustainable finance landscape.

Uneven Green Lending Practices

While many large banks highlight “green lending” portfolios in their sustainability reports, the composition of these loans often includes projects with ambiguous sustainability credentials, such as financing “clean coal” or transitional fossil-fuel infrastructure. This selective transparency underscores the performative nature of ESG compliance: sustainability is narrated, rather than necessarily enacted.

The Inclusive Sustainability Dilemma

The emergence of a reporting-based divide raises a fundamental question: can sustainability truly be inclusive? If reporting becomes the gateway to capital access, yet only large institutions can afford compliance, then transparency risks institutionalising exclusion under the guise of progress.

To achieve inclusive sustainability, regulatory design must account for heterogeneity within the financial system. Indonesia’s financial architecture is unique, comprising not only

major banks but also more than 1,500 BPRs and thousands of cooperatives and fintech entities that collectively serve millions of lower-income households (BPS, 2023). Neglecting their participation in sustainability frameworks undermines the developmental purpose of sustainable finance itself.

Rethinking the Reporting Burden: Policy Pathways

Addressing the access divide requires reimagining sustainability reporting as a scalable, capacity-sensitive process rather than a uniform obligation. Several policy pathways emerge from this analysis:

Tiered Reporting Frameworks

OJK could introduce tiered disclosure requirements that differentiate systemic banks, regional institutions, and microfinance entities. This approach would mirror the proportionality principle in Basel regulations, allowing smaller entities to comply through simplified templates focused on qualitative narratives rather than exhaustive quantitative metrics.

Such differentiation is already evident in other jurisdictions: the European Banking Authority's Pillar 3 ESG disclosure framework, for instance, allows smaller banks to adopt a simplified version of mandatory templates.

Capacity Building and Shared Platforms

Regulatory and industry bodies could jointly develop shared digital platforms for ESG data reporting. This would reduce transaction costs by standardising indicators and automating basic reporting functions. Capacity-building programmes, such as training workshops, technical assistance, and grants, could also empower smaller institutions to gradually improve reporting quality without imposing disproportionate costs.

Outcome-Based Evaluation

Finally, regulators should shift from report-based to outcome-based evaluation that assesses whether financial institutions genuinely contribute to sustainable development objectives, regardless of the length or sophistication of their reports. This would encourage substance over form, preventing greenwashing and fostering genuine behavioural change.

Conclusion: Beyond Compliance, Towards Equity

Indonesia stands at a critical juncture in its pursuit of sustainable finance. The institutionalisation of sustainability reporting under POJK No. 51 of 2017 has undoubtedly advanced transparency and accountability within the financial sector. Yet, this progress carries unintended consequences. By equating sustainability with the capacity to report, the system risks excluding smaller institutions that play indispensable roles in financial inclusion and local economic resilience.

Transparency, once envisioned as an equalising force, has become a currency of privilege—accessible primarily to those who can afford its costs. To ensure that sustainable finance fulfils its developmental promise, Indonesia must reimagine transparency as a shared capability rather than an exclusive benchmark. An inclusive model of sustainability reporting—rooted in proportionality, capacity-building, and genuine impact measurement—would allow all financial actors, large and small, to meaningfully participate in shaping a greener, more equitable financial future.

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Author

Raiehan Andhika Pradana

University Gadjah Mada

Supervisor

Almira Hanifa

Research Officer

Resilience Development Initiative