

Adapting EU CSRD to Indonesia: A Regulatory Sandbox Approach

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Abstract

Mandatory sustainability reporting is an important method for evaluating and monitoring sustainable development. Therefore, this study aimed to explore the feasibility of adapting the principles underlying the EU's Corporate Sustainability Reporting Directive to enhance the sustainability reporting framework in Indonesia. A normative legal study method was used with a comparative approach to provide relevant analysis. The results showed that the direct modelling of the EU's legal framework for mandatory sustainability disclosure was unrealistic for Indonesia due to the substantial disparity in legal development between the jurisdictions. This study contributed to the literature by proposing a novel regulatory sandbox framework as a transitional legal mechanism for Indonesia to adapt EU CSRD principles into the sustainability disclosure policy. Unlike direct transplantation approaches, this phased experimental model enabled evidence-based policy development while accounting for institutional capacity gaps and a fragmented regulatory landscape. The proposed framework offered a practical pathway for developing economies to bridge the developmental gap in sustainability disclosure requirements without imposing premature financial burdens on enterprises.

Keywords: disclosure requirements; legal challenges; regulatory development; sustainability reporting; sustainable development.

Abstrak

Kewajiban pelaporan keberlanjutan dapat menjadi salah satu cara untuk mengevaluasi dan memantau pembangunan berkelanjutan. Penelitian ini mengeksplorasi kelayakan adaptasi prinsip-prinsip yang mendasari *Corporate Sustainability Reporting Directive* (CSRD) Uni Eropa untuk meningkatkan kerangka pelaporan keberlanjutan di Indonesia. Penelitian ini menggunakan metode penelitian hukum normatif dengan pendekatan komparatif untuk memberikan analisis yang relevan. Hasil penelitian menunjukkan bahwa tidak realistis bagi Indonesia untuk langsung mengadopsi model kerangka hukum Uni Eropa terkait kewajiban pengungkapan keberlanjutan, mengingat adanya kesenjangan besar dalam perkembangan hukum antara kedua negara tersebut. Sebagai alternatif model konstruksi normatif, penelitian ini menawarkan strategi pengembangan hukum secara bertahap, dengan pendekatan eksperimental melalui *regulatory sandbox* sebagai alat utama untuk mengumpulkan data yang relevan mengenai potensi dampak kebijakan tersebut, sehingga dapat membantu pengembangan hukum di masa depan menuju kerangka hukum tunggal untuk kewajiban pengungkapan keberlanjutan.

Kata Kunci: kewajiban pengungkapan; pelaporan keberlanjutan; pembangunan berkelanjutan; pengembangan regulasi; tantangan hukum;

Introduction

In sustainability and legal compliance, the European Union (EU) has been reported as a pioneer, implementing laws and regulations to ensure the compliance of stakeholders within society with the sustainability agenda. This initiative is a response to the global call for climate action, in line with the objectives of the Paris Agreement.¹ The approach shows the necessity of large-scale evaluation and monitoring in many sectors of the economy to ensure that economic development does not come at the cost of many aspects of sustainability. The most common implementation is within the financial sector, where this strategic shift becomes a reflection of environmental goals in line with the growing recognition of the financial materiality of climate risks.² However, since sustainability as a concept covers many aspects of society beyond the financial sector, there is an urgency to fully comprehend the interplays with many legal aspects, particularly in the corporate world.³

Indonesia's journey towards effective sustainability disclosure is marked by unique challenges and varied levels of compliance among corporations.⁴ Even though Indonesian companies are acknowledging the importance of sustainability reporting, the overall level of disclosure remains inconsistent, potentially implying a gap in legal certainty and enforcement consistency. The disparity shows the need for an approach that considers the distinct economic, regulatory, and cultural contexts of developing economies such as Indonesia. This raises an urgency to inspect the potential legal gaps, particularly around the aspect of regulatory delivery and inspection, which are structured around a complex regulatory landscape. Considering the inherent challenges that Indonesia faces due to geographical challenges and the subsequent uneven infrastructure development,⁵ sustainability remains a significant and distinct conceptualisation that needs to be closely monitored. In this context, the government can quickly identify gaps and promptly devise the appropriate solutions, as the country continues to push to achieve more Sustainable Development Goals.

¹ Constantin Jung, "Sustainable Corporate Governance in the United Kingdom: Environmental Sustainability in Directors' Decision-Making," Working Paper Reihe Des Fachbereichs 3: Wirtschaft Und Recht - 25, 2022, <https://doi.org/10.48718/1k89-pj62>.

² Sarah Bracking, "Financialisation, Climate Finance, and the Calculative Challenges of Managing Environmental Change," *Antipode* 51, no. 3 (2019): 709–29, <https://doi.org/10.1111/anti.12510>.

³ Beate Sjøfjell, "Conceptualising Corporate Sustainability Law," *Transnational Legal Theory* 16, no. 3 (July 3, 2025): 281–326, <https://doi.org/10.1080/20414005.2025.2559542>.

⁴ Deden Dinar, Iskandar, Anik Bhaduri, and Tobias Wünscher, "The Determinants of Compliance with Environmental Tax: Behavioural Study Motivated by the Case of Indonesia," *African Journal of Agricultural and Resource Economics* 11, no. 1 (2016): 33–46, <https://www.cabidigitallibrary.org/doi/full/10.5555/20163119522>.

⁵ Yoga Wienda Pratama et al., "Multi-Objective Optimization of a Multiregional Electricity System in an Archipelagic State: The Role of Renewable Energy in Energy System Sustainability," *Renewable and Sustainable Energy Reviews* 77 (2017): 423–39, <https://doi.org/10.1016/j.rser.2017.04.021>.

The comparative analysis of the EU and Indonesia's sustainability disclosure practices offers valuable insights into the complexities of implementing the policies in diverse economic landscapes. Even though the EU's model provides a robust framework, the application in the Indonesian context requires careful consideration of the local corporate and regulatory environment. This adaptation process is about meeting international standards and leveraging practices to drive sustainable growth and resilience in the face of global environmental challenges. Even though Indonesia has a regulatory framework, the varying level of disclosure regarding sustainability aspects in the corporate scene⁶ suggests legal gaps within the overall normative architecture. In this context, modelling the EU's regulatory framework can be an important method to continue Indonesia's legal development towards extensive application of SDGs and better enforcement of the relevant regulatory framework. The leadership serves as a benchmark, reflecting a deep integration of sustainability-related concerns within and outside the financial sector. Conversely, Indonesia's approach is in the developmental stages, similar to the case of developing economies. This landscape is complicated by the rapid evolution of sustainability metrics and the increasing demand for transparency and accountability from stakeholders.

The literature on sustainability disclosure reports a marked emphasis on the integration of environmental, social, and governance (ESG) factors into corporate reporting, specifically in developed economies such as the UK, as explained by Almaqtari et al. (2022).⁷ Chenet, Ryan-Collins, and van Lerven (2021) suggested the need for a serious recognition of the correlation between climate risk disclosure and management, particularly with financial sector operations, to be in line with the current more progressive support for decarbonization.⁸ This approach is consistent with global efforts under the Paris Agreement and is supported by various studies conducted by the IPCC and the EU High-Level Expert Group on Sustainable Finance, emphasising the necessity of diverting financial flows towards low-carbon and climate-resilient development, as echoed by Greenwood & Warren.⁹ The literature also reports the challenges faced in balancing investment with decarbonization targets.

⁶ Ridoni Fardeni Harahap and Makaryanawati Makaryanawati, "Compliance in Sustainability Reporting: Progression or Regression?," *International Journal of Multicultural and Multireligious Understanding* 10, no. 4 (2023): 598–612, <https://ijmmu.com/index.php/ijmmu/article/view/4584>.

⁷ Faozi A. Almaqtari et al., "Exploring the Impact of Sustainability, Board Characteristics, and Firm-Specifics on Firm Value: A Comparative Study of the United Kingdom and Turkey," *Sustainability (Switzerland)* 14, no. 24 (2022): 1–27, <https://doi.org/10.3390/su142416395>.

⁸ Hugues Chenet, Josh Ryan-Collins, and Frank van Lerven, "Finance, Climate-Change and Radical Uncertainty: Towards a Precautionary Approach to Financial Policy," *Ecological Economics* 183 (2021): 1–14, <https://doi.org/10.1016/j.ecolecon.2021.106957>.

⁹ Noelle Greenwood and Peter Warren, "Climate Risk Disclosure and Climate Risk Management in UK Asset Managers," *International Journal of Climate Change Strategies and Management* 14, no. 3 (January 2022): 272–92, <https://doi.org/10.1108/IJCCSM-09-2020-0104>.

Indonesian sustainability disclosure practices, as explored by Harymawan et al (2020), present a different scenario.¹⁰ The study on Indonesian companies' sustainability reporting from 2013 to 2017 reflects a nascent stage in the adoption of global sustainability standards. Even though there is a growing awareness among Indonesian companies about sustainability disclosure, the overall level of compliance and quality of reporting varies significantly. This variability can be attributed to several factors, including the diverse economic and regulatory landscapes of developing economies, as well as cultural differences in corporate governance and stakeholder engagement.¹¹ The Indonesian context offers a rich ground for examining the implementation of sustainability disclosure in a setting that differs from developed economies.

A gap exists in analysing the development of a regulatory framework for disclosure using the European Union's Non-Financial Sustainability Disclosure Requirements as the model. This study is conducted to fill the gap, contributing to the literature on legal developments for SDGs. The novelty lies in the main goal of proposing a regulatory sandbox model, defined as a framework used to authorise and oversee regulated entities in testing a new legal product. The limited nature of the mechanism enables a transitional legal framework, instead of the more direct regulatory transplantation, making the concept suitable to mitigate risks for adapting EU CSRD principles to Indonesia's context. This novelty is based on a phased experimental approach that acknowledges the significant developmental gap between the EU and Indonesia in sustainability disclosure regulation. The contribution is particularly relevant for developing economies facing similar challenges in harmonising with global sustainability standards. This study is also performed to spread awareness regarding the urgency to take a holistic approach to sustainable development, without leaning towards a sector. The following questions are formulated to systematically address the gap: (1) What are the existing normative gaps in Indonesia's sustainability disclosure framework when benchmarked against the European Union's Corporate Sustainability Reporting Directive (CSRD)? and (2) How can a regulatory sandbox be conceptualised as a transitional legal framework to adapt EU sustainability disclosure principles to the Indonesian context?

Methods

This study used the normative legal method to analyse the existing relevant positive laws,¹² which enables the evaluation of existing regulations or applicable

¹⁰ Iman Harymawan et al., "Sustainability Report Practices in Indonesia: Context, Policy, and Readability," *International Journal of Energy Economics and Policy* 10, no. 3 (March 2020): 438–43, <https://www.econjournals.com/index.php/ijecp/article/view/8979>.

¹¹ Harymawan et al.

¹² Hari Sutra Disemadi, "Lenses of Legal Research: A Descriptive Essay on Legal Research Methodologies," *Journal of Judicial Review* 24, no. 2 (2022): 289–304, <https://doi.org/10.37253/jjr.v24i2.7280>.

norms.¹³ The approach allows the examination of the normative adequacy of Indonesian sustainability disclosure law by directly benchmarking the concept against the more developed EU CSRD framework. Analysis of the method is operationalised by the doctrinal comparative approach, which systematically compares legal provisions, normative structures, and regulatory frameworks across jurisdictions to identify similarities, gaps, and areas for potential legal harmonisation. The subsequent comparative analysis is used to justify the proposal of a regulatory sandbox, positioning the mechanism as a theoretical normative construction to facilitate transition into EU CSRD standards while accommodating the constraints of the legal system.

Secondary data are used in the form of primary law sources, obtained through literature review and by accessing the relevant government portals for laws and regulations. These data are processed descriptively to extract key legal norms and the underlying implications on the topic. The primary law sources included Law No. 17 of 2007 on National Long-Term Development Plan 2005-2025, Law No. 32 of 2009 on Environmental Protection and Management, Law No. 22 of 2019 on Sustainable Agriculture, Presidential Regulation No. 111 of 2022 on Implementation of the Achievement of Sustainable Development Goals, Decree of the Minister of National Development Planning/Head of Bappenas No. KEP.136/M.PPN/HK/12/2021 on the Determination of the National Action Plan for Sustainable Development Goals for 2021-2024, POJK No. 51/POJK.03/2017 on the Implementation of Sustainable Finance for Financial Services Institutions, Issuers and Public Companies, and Directive (EU) 2022/2464 of The European Parliament and of The Council.

Results and Discussion

State of the Current Legal Politics of SDGs in Indonesia

Sustainability has affected many areas of life and communities around the world.¹⁴ The influence is multiplied with the spread of social awareness regarding climate change and the impacts on the environment.¹⁵ In Indonesia, sustainability is particularly important due to the dangers brought by climate change and its impacts, threatening the livelihoods of many Indonesians following extreme weather and the lives of individuals living on small islands under serious dangers of submersion. As an archipelagic country, Indonesia has the highest levels of

¹³ David Tan, "Metode Penelitian Hukum: Mengupas Dan Mengulas Metodologi Dalam Menyelenggarakan Penelitian Hukum," *NUSANTARA: Jurnal Ilmu Pengetahuan Sosial* 8, no. 5 (2021): 2463–78, <https://jurnal.um-tapsel.ac.id/index.php/nusantara/article/view/5601>.

¹⁴ Ben Purvis, Yong Mao, and Darren Robinson, "Three Pillars of Sustainability: In Search of Conceptual Origins," *Sustainability Science* 14, no. 3 (May 3, 2019): 681–95, <https://doi.org/10.1007/s11625-018-0627-5>.

¹⁵ Shuihua Han et al., "The Impact of Public Climate Change Concern on Sustainable Product Consumption: A Case Study of New Energy Vehicles in China," *Annals of Operations Research* 342, no. 1 (November 22, 2024): 323–53, <https://doi.org/10.1007/s10479-023-05774-9>.

urgency in tackling climate change, with thousands of the outer islands being in danger.¹⁶

Issues such as uneven infrastructure development, particularly outside Java, have often been identified as among the challenges that Indonesia continues to face, increased by geographical constraints.¹⁷ Data from BPS show that Indonesia's economy remains spatially concentrated, with Java Island contributing 57.05% of the national economy in 2023, while the island groups such as Maluku and Papua, despite recording higher growth, remained outside the main concentration of national economic activity.¹⁸ This is also reflected in BPS' Land Transportation Statistics 2024, which records road length at 539,524 km in 2024. In this context, 43.62%, 8.96%, and 28.92% were in good condition, damaged, and seriously damaged, respectively.¹⁹ Even though the data do not directly correlate with issues within the legal system, an inadequate legal system, with the existing legal norms, contributes to the reported issues. Uneven infrastructure and development suggest an increased focus on issues within Java Island or only the biggest cities in the archipelagic country, followed by lower levels of legal enforcement.²⁰

Sustainability includes the promotion of socio-economic justice by making sure that everyone has the same chance to grow and contribute back to society.²¹ Socio-economic aspects of sustainability include food security, equality of opportunity, clean water, economic growth, and eradication of poverty.²² This

¹⁶ Iin Karita Sakharina et al., "Sinking or Not? An Indonesian Approach to Prevent the Rise of Sea Levels Due to Global Warming" in *ASEAN International Law*, ed. Eric Yong Joong Lee (Singapore: Springer Nature Singapore, 2022), 649–65, https://doi.org/10.1007/978-981-16-3195-5_36.

¹⁷ Anindya Puteri Eka Susilowati, Rini Rachmawati, and R. Rijanta, "Does the Digital Divide Matter? Comparison between Java and the Rest of Indonesia in Developing Smart Villages," *Human Geographies – Journal of Studies and Research in Human Geography* 18, no. 2 (November 30, 2024): 1–14, <https://doi.org/10.5719/hgeo.2024.182.6>.

¹⁸ Java Island contributed 57.05% to Indonesia's national economy in 2023, while Sumatera contributed 22.01%, Kalimantan 8.49%, Sulawesi 7.10%, Bali and Nusa Tenggara 2.77%, and Maluku and Papua only 2.58%. See Badan Pusat Statistik, "Indonesia Economic Growth Quarter IV-2023" (Jakarta, February 5, 2024), <https://www.bps.go.id/en/pressrelease/2024/02/05/2379/indonesia-s-gdp-growth-rate-in-q4-2023-was-5-04-percent-y-on-y-.html>

¹⁹ Badan Pusat Statistik, "Statistik Transportasi Darat 2024" (Jakarta, November 2025), <https://www.bps.go.id/en/publication/2025/12/01/ed7ff73d58fc0719ee3df145/land-transportation-statistics-2024.html>.

²⁰ Stefan Brehm and Jesper Svensson, "A Fragmented Environmental State? Analysing Spatial Compliance Patterns for the Case of Transparency Legislation in China," *Asia-Pacific Journal of Regional Science* 1, no. 2 (October 6, 2017): 471–93, <https://doi.org/10.1007/s41685-017-0058-9>.

²¹ Vanesa Castán Broto and Linda Westman, "Just Sustainabilities and Local Action: Evidence from 400 Flagship Initiatives," *Local Environment* 22, no. 5 (May 4, 2017): 635–50, <https://doi.org/10.1080/13549839.2016.1248379>.

²² Sayel Basel, K U Gopakumar, and R Prabhakara Rao, "Broad-Based Index for Measurement of Development," *Journal of Social and Economic Development* 22, no. 1 (2020): 182–206, <https://doi.org/10.1007/s40847-020-00093-2>.

makes sustainability a part of the global concern, with particularly greater relevance in developing countries due to gaps in the realisation of sustainability goals beyond environmental concerns.²³ The status as a middle-income country has not helped propel Indonesia to become a developed country, making some of the socio-economic sustainability issues particularly relevant.²⁴ The environmental aspects put sustainability as an important part of the national agenda.

Adequate legal support to make sure that legal compliance is fulfilled, particularly by the relevant stakeholders in many different sectors, is needed to support the application of SDGs.²⁵ Legal norms must be able to cover all the implications of sustainability issues, along with solutions in the form of policies and technologies. The support must be designed in line with the SDGs agenda as an integral part of legal development. Therefore, legal development is inseparable from “development” as conceptualised within the SDGs and accepted by the international community.²⁶ Legal politics also cannot be separated from SDGs because the concept decides the direction of development.

The legal framework for the application of the SDGs must be designed in a gradual and careful manner since sustainability covers many aspects, from environmental to socio-economic. The allocation of resources for the process of regulatory planning must be considered. Sustainability remains a continuous focus within Indonesia's legal politics, ensuring that the framework evolves in line with national and global sustainability goals and standards. Conceptually, this is covered by Law No. 17 of 2007 on the National Long-Term Development Plan 2005-2025. The biggest problem with this law is that the concept is not in line with the SDGs, which are set to be applied until 2030 as the successor to the MDGs.²⁷ Furthermore, the law does not mention sustainability in the provisions rendered ineffective due to the inability to provide basic norms or principles regarding the long-term development plan.

²³ Luisa Marti and Roberto Cervelló-Royo, “Disparities in Sustainable Development Goals Compliance and Their Association with Country Risk,” *Sustainable Development* 31, no. 4 (August 10, 2023): 3038–51, <https://doi.org/10.1002/sd.2568>.

²⁴ Aviliani, Hermanto Siregar, and Heni Hasanah, “Addressing the Middle-Income Trap: Experience of Indonesia,” *Asian Social Science* 10, no. 7 (2014): 163–72, <https://doi.org/10.5539/ass.v10n7p163>.

²⁵ Mohamed Ali Mekouar, “Food and Agriculture Organization of the United Nations (FAO),” *Yearbook of International Environmental Law* 29 (January 2018): 448–68, <https://doi.org/10.1093/yiel/yvz057>.

²⁶ Ilias Bantekas and Katerina Akestoridi, “Sustainable Development Goals, Between Politics and Soft Law: The Emergence of ‘Political Normativity’ in International Law,” *Emory International Law Review* 37, no. 4 (August 2023): 501–60, <https://scholarlycommons.law.emory.edu/eilr/vol37/iss4/1/>.

²⁷ Isyana Kurniasari Konoras, Tria Anggraini Wagiran, and Syaifullah Mukhlis, “Problematisasi Pemerintah Dalam Menyongsong Bonus Demografi Di Indonesia,” *Potret Pemikiran* 22, no. 2 (2018): 41–54, <https://doi.org/10.30984/pp.v22i2.784>.

Legal politics is defined by Mahfud MD as a line of policies towards certain issues and the overall direction of development.²⁸ This theory serves as the foundational bedrock of the analysis. As reported previously, issues that plague Indonesia's development while the country actively works towards achieving the objectives of the SDGs can be considered crucial elements dictating the need for certain legal norms. Legal vacuums and normative or regulatory disharmony are common problems within the legal system when analysed critically through a theoretical lens.²⁹ This theoretical framework provides a clearer insight into the regulatory landscape by systematically identifying and dissecting the relevant legal frameworks, while remaining anchored on the issues contributing to the need for certain legal norms.

For the environment, Indonesia uses Law No. 32 of 2009 on Environmental Protection and Management, which governs all types of protection provided by the State for environmental pollution.³⁰ However, this law was passed in the MDGs era, without providing actual efforts of problem solving for environmental issues. Another relevant law regarding the environment is Law No. 22 of 2019 on Sustainable Agriculture. This law is the first legal product governing and explicitly mentioning sustainability for a specific sector. However, the sustainability concept as the main focus is limited to only environmental aspects. The law also does not govern or provide any stipulation on any kind of solution in the form of technology and policy to promote sustainable practices within the agriculture sector. The law is leaning more towards promoting ethical agricultural practices.

The most recent legal product by the Indonesian government to support the application of SDGs is Presidential Regulation No. 111 of 2022 on Implementation of the Achievement of Sustainable Development Goals (Presidential Regulation on SDGs). According to Article 2 paragraph (1), this presidential regulation sets the national SDG targets for 2024, prepared with reference to the global goals as well as the 2030 SDGs and the national targets of the 2020-2024 national medium-term development plan. This medium-term development plan consists of 124 SDG targets of SDGs to promote the development of a green economy.³¹ Despite the recognition of the 2030 deadline, there is no further

²⁸ Priscila Yunita Erwanto, "Teori Politik Hukum Dalam Pemerintahan Indonesia," *COURT REVIEW: Jurnal Penelitian Hukum* 2, no. 06 (November 1, 2022): 15–19, <https://doi.org/10.69957/cr.v2i06.673>.

²⁹ Widodo Ekatjahjana, Kai Hauerstein, and Daniel Heilmann, eds., *Regulatory Reform in Indonesia: A Legal Perspective* (Jakarta: Hanns Seidel Foundation, 2019), pp. 196–200.

³⁰ Stefani Margareta and Widyawati Boediningsih, "Tanggung Gugat Korporasi Akibat Pencemaran Lingkungan Ditinjau Berdasarkan Undang-Undang Perlindungan Dan Pengelolaan Lingkungan Hidup," *Jurnal Hukum Indonesia* 2, no. 1 (2023): 1–13, <https://doi.org/10.58344/jhi.v2i1.10>.

³¹ Imam Kamaluddin, Bagus Setiawan, and Ahmad Havid Jakiyudin, "Eksplorasi Kebijakan Dan Hukum Tentang Green Economy Ditinjau Dengan Islamic Legal Maxims Di Indonesia," *Ajudikasi: Jurnal Ilmu Hukum: Jurnal Ilmu Hukum* 7, no. 1 (July 2023): 139–62, <https://doi.org/10.30656/ajudikasi.v7i1.6465>.

elaboration concerning the regulation. This is questionable because the norms stipulated are made on the assumption that sustainability is a well-known concept within Indonesian society, based on the provision of Article 2 paragraph (2). There is no basis for supporting the assumption within the norm. Indonesia is only ranked 75th in the world sustainability ranking, with the index increasing by less than 1 point throughout 2020-2022.³² In this context, Indonesia is in a position to develop sustainable solutions, rather than maintaining the status quo in sustainability as stipulated by Article 2 paragraph (2).

A concrete manifestation of the law is the Decree of the Minister of National Development Planning/Head of Bappenas No. KEP.136/M.PPN/HK/12/2021 on the Determination of the National Action Plan for Sustainable Development Goals (SDGs) for 2021-2024. This framework of the national action plan for SDGs provides a more complex analysis of the current state of SDGs progress. Evaluation and monitoring of SDGs progress was also reported but did not provide provisions regarding sustainability disclosure. Even though the regulation does not govern sustainability disclosure, the concept refers to Financial Services Authority Regulation (POJK) No. 51/POJK.03/2017 on the Implementation of Sustainable Finance for Financial Services Institutions, Issuers and Public Companies.

The POJK No. 51/POJK.03/2017 provides provisions regarding sustainability disclosure under the term “sustainable report”. This report is made mandatory through Article 10 of the POJK, where Financial Services Institutions, Issuers, and Public Companies must prepare a Sustainability Report. The sustainability report must be submitted annually and published according to Article 12 on the company’s website. Sustainable development goals are properly applied within the financial sector, promoting structured digitalisation. Despite increased efforts by financial entities to prepare sustainability reports, significant gaps remain in the disclosure of essential components specified under POJK 51/2017, including management’s commitment to sustainability policies, implementation strategies, contributions to the SDGs, and detailed disclosures on economic, environmental, and social aspects.³³

Indonesia does not have any legal basis for mandatory sustainability disclosure for non-financial sectors. Despite having a more developed legal framework, there is no real mechanism supporting the evaluation and monitoring. In other sectors, this is less clear since the legal frameworks may not cover many aspects of the SDGs. Facilitation is important to fully integrate the SDGs into the national agenda, as extensively provided for by Decree of the Minister of National

³² Jeffrey D. Sachs et al, “Sustainable Development Report 2023: Implementing the SDG Stimulus” (Dublin, June 2023), <https://sdgtransformationcenter.org/reports/sustainable-development-report-2023>.

³³ Arthaingan H Mutiha, “The Quality of Sustainability Report Disclosure and Firm Value: Further Evidence from Indonesia,” *Proceedings* 83, no. 1 (2022): 1–7, <https://doi.org/10.3390/proceedings2022083026>.

Development Planning/Head of Bappenas No. KEP.136/M.PPN/HK/12/2021 on the Determination of the National Action Plan for Sustainable Development Goals (SDGs) for 2021-2024.

The legal politics of Indonesia regarding SDGs suggests a fragmented development with a legal vacuum for non-financial sectors. The unbalanced legal development manifests as regulatory disharmony and a conflict of norms between POJK No. 51/2017 and Presidential Regulation No. 111/2022. Article 10 of POJK No. 51/2017 mandates financial institutions, issuers, and public companies to prepare annual Sustainability Reports submitted to OJK. Meanwhile, Article 2 of Presidential Regulation No. 111/2022 establishes national SDG targets for 2024 referencing the 2030 global framework, coordinated through National and Regional Action Plans reported to Bappenas as specified in Article 15. The incoherence is reported from three different dimensions. First, jurisdictional confusion reports a weakness in institutional design. Financial entities under OJK jurisdiction must report sustainability performance to OJK under POJK No. 51/2017, but Presidential Regulation No. 111/2022 requires ministries and agencies to report SDG achievement to Bappenas without clarifying whether OJK-regulated entities must report through the National Action Plan mechanism. Second, the objectives overlap with no normative and practical coordination. The regulations pursue sustainable development, with POJK No. 51/2017's preamble explicitly referencing the objective, without cross-referencing others. Third, temporal misalignment consideration, where POJK No. 51/2017 implements phased obligations from 2019-2025 as detailed in Article 3. Meanwhile, Presidential Regulation No. 111/2022 sets 2024 targets referencing 2030 goals. This regulatory fragmentation prevents systematic aggregation of sustainability progress since financial sector data flows to OJK while other sectors report to Bappenas under an SDG framework that provides no disclosure obligations. To set a proper mechanism for better evaluation and monitoring, Indonesia must design a mandatory non-financial sustainability disclosure for companies. This can be followed by harmonising the fragmented reporting systems through a unified legal framework that integrates OJK and Bappenas coordination mechanisms.

EU's Approach to Sustainability Disclosure

The EU has been at the forefront of integrating SDGs into many facets of life within society, particularly within corporate reporting. In stark contrast to the legal vacuums and regulatory disharmony experienced in Indonesia, the EU has developed cohesive legal norms to ensure that companies across multiple sectors are conducting business in line with the sustainability agenda. These legal norms are conceptualised within the CSRD. Previously, the EU used the Non-Financial Reporting Directive (NFRD) to integrate mandatory sustainability disclosure for companies outside of the financial sector. The objective is to enhance the transparency of large companies within the EU regarding non-financial activities.

The initiative empowers stakeholders to more effectively assess the non-financial conduct of companies and to motivate the entities to pursue more sustainable and responsible business practices.³⁴ This was replaced to significantly expand the scope and depth of non-financial disclosures.

The CSRD, formed on 5 January 2023, is a landmark directive that modernises and strengthens the rules around social and environmental information reporting by companies to guarantee the comparability of data. The final objective is to assist stakeholders in evaluating the sustainability performance of companies.³⁵ The reporting requirements are extended to a broader set of large companies and listed SMEs, ensuring investors and other stakeholders have access to critical information for assessing the impact of companies on society and the environment. This is anticipated to streamline reporting costs for companies over time through harmonisation of the required information.

Under the CSRD, companies are mandated to include comprehensive sustainability-related information in the reporting. This includes a company's business model, strategy, sustainability risks, and opportunities, as well as the progress on set ESG targets and transition plans. Sustainability risk is the key change from the predecessor since the concept provides for compliance with sustainability policies. The CSRD's structure has three functional differences from the Indonesian regulatory frameworks. Regarding objectives, Directive 2013/34/EU is amended through Article 19a, which requires undertakings to disclose "how the undertaking's business model and strategy relate to...the transition to a sustainable economy," including "plans...compatible with...limiting global warming to 1.5°C". Presidential Regulation No. 111/2022 references "global goals and targets of the 2030 SDGs" without transition pathways, while POJK No. 51/2017 defines sustainable finance as "harmonising economic, social, and environmental interests" without climate metrics.

In the context of enforcement, Article 34 mandates that "sustainability reporting...shall be subject to assurance" by independent practitioners with "effective, proportionate and dissuasive penalties," plus digital tagging "in accordance with a machine-readable format". POJK No. 51/2017 requires offline submission to OJK per Article 11 with no assurance mandate. Meanwhile, Presidential Regulation No. 111/2022 provides no enforcement mechanism. The CSRD applies to "all large undertakings" and third-country entities with EU turnover above EUR 150 million. POJK No. 51/2017 applies to "Financial Services Institutions, Issuers, and Public Companies," excluding non-financial corporations. Despite covering about 30% of the economic activity in sectors

³⁴ Francesca Cuomo et al., "The Effects of the EU Non-Financial Reporting Directive on Corporate Social Responsibility," *The European Journal of Finance*, 2022, 1–27, <https://doi.org/10.1080/1351847X.2022.2113812>.

³⁵ Laurențiu Paul Barangă and Elena-Ioana Ifrim, "The Impact of Corporate Sustainability Reporting Directive on Financial Reporting," *Journal of Financial Studies* VIII, no. 15 (November 2023): 215–22, <https://doi.org/10.55654/JFS.2023.8.15.14>.

such as land transportation and agriculture, CSRD positions the EU ahead of Indonesia concerning sustainability compliance. This is because Indonesia does not have mandatory sustainability disclosure outside of the financial sector. The CSRD introduces staggered effective dates starting from financial year 2024 for large public interest entities subject to NFRD, extending to various other entities by 2028.³⁶ This phased approach aims to ensure a smooth transition for companies adjusting to the new reporting standards. Table 1 is the comparative matrix showing the outlook between the relevant systems.

Table 1. Comparison Matrix of Sustainability Disclosure Frameworks: EU vs. Indonesia

Comparative Parameter	European Union (CSRD)	Indonesia (POJK No. 51/2017 & Presidential Reg. No. 111/2022)
Objectives & Metrics	Requires disclosing how business models relate to the transition to a sustainable economy, including plans compatible with limiting global warming to 1.5°C.	Merely references global 2030 SDG targets without transition pathways (Perpres 111/2022) and focuses on harmonising economic, social, and environmental interests without specific climate metrics (POJK 51/2017).
Enforcement, Assurance & Format	Subject to independent third-party assurance, effective and dissuasive penalties, and requires digital tagging in a machine-readable format.	Requires offline submission to OJK with no assurance mandate (POJK 51/2017) and provides no clear enforcement mechanism (Perpres 111/2022).
Scope of Application (Sectors)	Applies to all large undertakings, listed SMEs, and third-country entities with an EU turnover above EUR 150 million.	Applies exclusively to Financial Services Institutions, Issuers, and Public Companies, leaving non-financial corporations unregulated.

Source: *Researchers' analysis*

The European Financial Reporting Advisory Group (EFRAG) has been tasked with developing the European Sustainability Reporting Standards (ESRS) needed to guide companies in meeting CSRD obligations. Companies are also required to obtain third-party assurance for sustainability disclosures, enhancing the reliability of the information provided. This differs significantly from Indonesia's sustainability reporting provisions under POJK No. 51/POJK.03/2017, which primarily impose sustainability disclosure requirements on financial entities. The alternative framework extends sustainability reporting requirements to companies outside the financial sector and requires the inclusion of information as part of sustainability disclosures.

The CSRD is supported by a multitude of regulations, unlike Indonesia's POJK, which governs sustainability reporting. The EU also amends relevant

³⁶ Rajko Odobaša and Katarina Marošević, "Expected Contributions of the European Corporate Sustainability Reporting Directive (CSRD) to the Sustainable Development of the European Union," *EU and Comparative Law Issues and Challenges Series (ECLIC)* 7 (August 2023): 593–612, <https://doi.org/10.25234/eclic/27463>.

regulations to ensure harmony within the legal framework for sustainability. A typical example is the Amendments to Directive 2013/34/EU, which are included within the CSRD. In the context of sustainability reporting, CSRD amends Directive 2013/34/EU, particularly Article 19a paragraph 5, to cover the issues of workers' rights with regard to sustainability reporting. The provision stipulates that the company's management must inform and consult with workers' representatives on obtaining and verifying sustainability information, ensuring the opinions are transferred to the company's governing bodies when applicable.

The CSRD presents significant opportunities for enhancing corporate transparency and accountability but poses challenges, particularly for U.S. entities with operations in the EU. These companies must navigate the directive's complex requirements, including different disclosure standards and effective dates. Foreign companies comply with the EU standard in the context of sustainability. This legal framework puts the EU above many countries in evaluating and monitoring the application of SDGs. However, the CSRD does not apply to listed micro enterprises³⁷ and non-listed SMEs.³⁸ The mandate eases the burden of businesses in the development stage. The EU noticed financial burden under Article 61 because auditing and verification are an important part of the sustainability disclosure provision. This increases the difficulty for the EU to track the accuracy of sustainability progress.

Proposed Strategy of Legal Development in Indonesia

Based on the previous analysis, the gap between Indonesia's legal development to EU is quite significant. The prospect of Indonesia modelling the entirety of CSRD, which succeeded NFRD, remains highly challenging. NFRD was ahead of the legal framework by covering the practice of mandatory sustainability disclosure outside of the financial sector. Furthermore, NFRD consisted of registered entities, allowing the EU to accurately measure sustainability reports. Indonesia has no list of registered entities mandated to follow the legal compliance of sustainability disclosure, which makes the accuracy and the specification of policy unreliable. The list of entities increased to 50,000 for CSRD to make sure that more entities can follow the sustainable goals of the EU.³⁹

³⁷ Aurelia Bielawska, "Socially Responsible Activity of Micro-, Small-, and Medium-Sized Enterprises—Benefits for the Enterprise," *Sustainability* 14, no. 15 (2022): 1–22, <https://doi.org/10.3390/su14159603>.

³⁸ Sina Allgeier and Robert Feldmann, "CSRD Sustainability Reporting For Non-Listed SMEs: European Regulators Remain Challenged," *European Company and Financial Law Review* 20, no. 3 (October 2023): 438–46, <https://doi.org/10.1515/ecfr-2023-0019>.

³⁹ Authors Mathilde Bossut et al., "Why It Would Be Important to Expand the Scope of the Corporate Sustainability Reporting Directive and Make It Work for SMEs," *Wpsf.De* 11, no. 34 (2021): 1–16, <https://wpsf.de/en/publikation/pb-8-2021-why-it-would-be-important-to-expand-the-scope-of-the-corporate-sustainability-reporting-directive-and-make-it-work-for-smes/>.

CSRD is the result of years of legal development reported through a normative structure. This represents a substantially more comprehensive regulatory framework than Indonesia's POJK, which governs sustainability reporting within the financial sector. CSRD is related to the introduction of many new legal norms and the harmonisation of previous norms through critical amendments. This is intended to address the weaknesses of the predecessor and to ensure that the development of sustainability policies and the implementation are streamlined within the broader legal framework.⁴⁰ The CSRD considers the financial burden of mandatory sustainability disclosure for the relevant entities, as well as workers' rights and disclosure of companies' sustainable practices. Therefore, Indonesia is behind the EU, particularly in making sure that sustainable practices are the common norm for enterprises.

The position does not prevent Indonesia from drawing on the insights provided by the EU's CSRD to guide the development of a legal framework capable of addressing existing normative gaps and regulatory fragmentation without imposing premature financial burdens on domestic enterprises. Indonesia can reorient the regulatory strategy towards advancing sustainable development across all sectors of the economy rather than pursuing a regulatory framework modelled on the EU's CSRD. This study adopts a strategy anchored in the theory of responsive regulation, as developed and popularised by Ian Ayres and John Braithwaite.⁴¹ The theory shows that regulations should provide the essential legal norms for the government to maintain order around a certain issue. This addresses the fallacy of systems, such as voluntary reporting and pilot projects, where effective compliance requires a dynamic regime but is backed by a credible threat of severe punishment.⁴²

The legal development can be started by admitting that Indonesia is not in a position to maintain the status quo of stagnant sustainable development, but rather to continue developing sustainable practices. The government can create more incentives for SMEs that conduct businesses in sustainable ways. Therefore, the problematic norms provisioned by the Presidential Regulation on SDGs must be amended. In this process, Bappenas should lead the cross-sectoral design of the regulatory sandbox and balance the disclosure indicators with the national SDG targets and action-plan mechanism established under Presidential Regulation No. 111 of 2022. Indonesia can try to expand the scope of mandatory sustainability disclosure to reach the financial sectors through a regulatory

⁴⁰ Andreja Primec and Jernej Belak, "Sustainable CSR: Legal and Managerial Demands of the New EU Legislation (CSRD) for the Future Corporate Governance Practices," *Sustainability* 14, no. 24 (2022): 1–28, <https://doi.org/10.3390/su142416648>.

⁴¹ Martin Lodge, "Ian Ayres and John Braithwaite, Responsive Regulation: Transcending the Deregulation Debate," ed. Martin Lodge, Edward C Page, and Steven J Balla, *The Oxford Handbook of Classics in Public Policy and Administration* (Oxford University Press, March 26, 2015), <https://doi.org/10.1093/oxfordhb/9780199646135.013.40>.

⁴² Lodge.

sandbox. From the perspective of adaptive regulation, traditional "command and control" regulation is burdensome and can be ineffective.⁴³ Therefore, a regulatory sandbox serves as a mechanism of enforced self-regulation, framing the context as a deliberate legal environment designed to allow firms to develop self-regulatory disclosure protocols under state oversight. OJK should consider the reporting standards, supervisory procedures, and assurance experience developed through POJK No. 51/2017 to administer and evaluate the disclosure obligations tested within the sandbox, while gathering key empirical evidence on the compliance levels. This is important in the context of sustainability-related governance since voluntary systems often fail to obtain the desired result of sustainability compliance.⁴⁴ Figure 1 shows the overview of the proposed strategy of legal development.

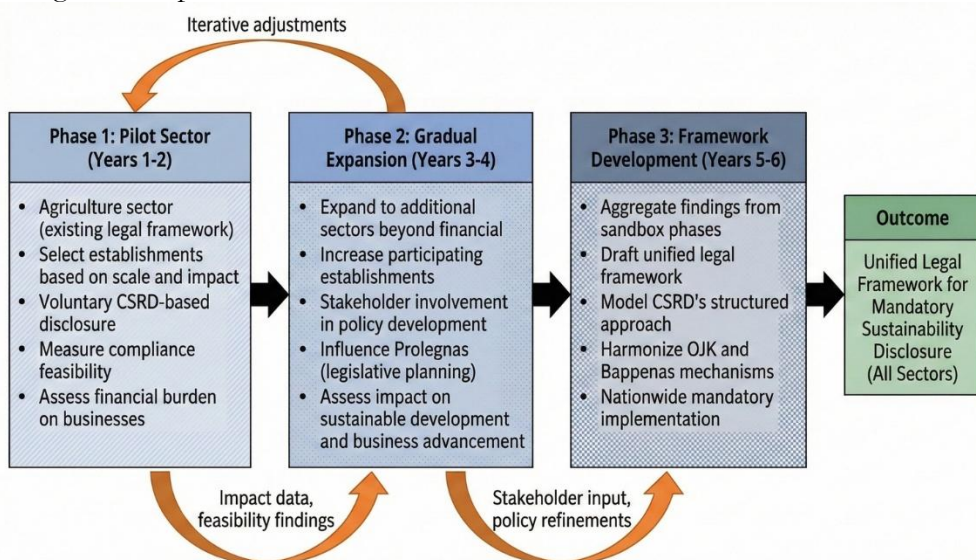


Figure 1. Proposed Phased Implementation through a Regulatory Sandbox
Source: Researchers' illustration

The gradual approach shows that Indonesia can expand the policy of legal compliance starting with a few sectors, with consideration of impacts on the overall SDGs. Indonesia can consider the agriculture sector, which has a concrete legal framework in the form of law. However, the law does not provide enough direction for sustainable practices. This pilot phase focuses on limiting the regulatory sandbox to a few select establishments based on the overall scale and impacts. The policy does not create financial burdens for the related establish-

⁴³ Lodge.

⁴⁴ Charline Depoorter and Axel Marx, "Fostering Compliance with Voluntary Sustainability Standards through Institutional Design: An Analytic Framework and Empirical Application," *Regulation & Governance* 18, no. 4 (October 21, 2024): 1132–52, <https://doi.org/10.1111/rego.12573>.

ments, specifically when using the CSRD, since the base model includes the necessity for auditing to verify the accuracy of a sustainability disclosure.

Indonesia can obtain measurements of possible compliance, as well as the inclusion of the policy, to provide a huge influence on future legal development, particularly in the *Prolegnas* phase as shown in Phase 2's stakeholder engagement component. The House of Representatives (DPR) should use the evidence generated through the sandbox as the legislative basis for incorporating cross-sector mandatory sustainability disclosure into the *Prolegnas* and enacting a unified statutory framework. However, the goal of the regulatory sandbox is not compliance, but rather to assess how the application of mandatory sustainability disclosure can affect development in Indonesia and the advancement of businesses. The iterative feedback loops enable continuous refinement based on impact data from earlier phases. Furthermore, Phase 3 shows how the results can guide Indonesia to develop a structured and unified legal framework such as the EU's CSRD. This propels Indonesia's economy through the application of sustainable aspects in many sectors.

Conclusion

In conclusion, benchmarking analysis has shown that the primary normative gap in Indonesia's sustainability disclosure framework is in the limited applicability to entities outside the financial sector, while mandatory sustainability disclosure requirements for financial-sector entities remain deficient in several respects. The EU's legal development shows a stark difference, with NFRD being more comprehensive in many aspects, followed by the vastly more comprehensive CSRD. To address the gaps, a regulatory sandbox can serve as a phased transitional mechanism for testing CSRD-derived disclosure obligations in selected sectors, generating empirical evidence on implementation in coordination with OJK, and refining regulatory requirements through stakeholder feedback. This process can integrate Bappenas' conceptualisation of mandatory sustainability disclosure with DPR's legislative drafting process to develop a unified framework as the EU's CSRD. The recommendation is in contrast with the classical conceptualisation of legal transplant to prevent potential normative disharmony and reduce legal pressure for actors in various sectors. The core limitation of this study is the lack of empirical evidence surrounding the effectiveness of the current sustainability disclosure standards in the financial sector. Additionally, future studies can also directly gather empirical evidence on the potential reactions of many stakeholders in various sectors concerning the potential of a unified sustainability disclosure framework.

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