Sustainable Financing Mechanisms for Indonesia's Gas Transition Projects

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ABSTRACT

Indonesia's energy transition requires large-scale investment, yet domestic cost of capital remains high, and long-tenor funding is limited. Natural gas can act as a bridge fuel to replace coal and diesel while renewables scale up, but gas projects must be financed as credible transition finance and must manage methane leakage and social-environmental risks. This study asks questions as follows: which sustainable financing mechanisms and enabling conditions can improve the bankability of gas transition infrastructure in an archipelagic context, and how can policy and financial instruments close the funding gap while aligning with ESG and national taxonomy requirements?, The paper applies a qualitative literature and policy review of Indonesia's sustainable finance regulations and market practices, complemented by global transition-finance guidance. We map potential funding sources across banking, capital markets, non-bank financial institutions, and Payment for Ecosystem Services (PES) as well as carbon markets. Each option is assessed on tenor, pricing, risk allocation, and transition credibility. A scenario-based analysis is also used to explore how geopolitical and ESG regulatory shifts could affect WACC, tenor, and investor appetite for gas transition projects.

JEL Codes:

Keywords: *transition finance, blended finance, bankability, sustainable project finance, cost of capital*