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# Indonesia's Sustainability Reporting Standard: What Needs to be Improved?

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***Abstract***

*Responsible economic growth is an integral part of the goal of sustainable development. The transition to sustainable development needs to be based on a change in the mindset of business actors that business activities will be better and more sustainable if they pay attention to social, environmental and governance aspects (ESG). To accelerate the transition to a sustainable economy, OJK has recently issued the Sustainable Finance Roadmap Phase II (2021-2025), which focuses on ESG-based business development. This paper seeks to examine the comparison between the sustainability reporting obligation under the OJK Roadmaps with global ESG instruments, including United Nations Principles for Responsible Investment (UNPRI), Global Reporting Initiative (GRI), the European Union Directive on Non-Financial Reporting 2014, EU Regulation 2019, French Energy Transition Law and to analyse whether OJK Roadmap II has accommodated the interest of global investors in light of ESG Investment, particularly reliable ESG reporting obligation by companies listed in the Indonesia Stock Exchange. It will conclude with a comprehensive evaluation of aspects needed to be improved by the existing Roadmap II to increase ESG investment in Indonesia.*

**Keywords:** *Environment, Indonesia, Investment, Social and Governance, Sustainable Finance.*

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## A. INTRODUCTION

The Covid-19 pandemic and the current state of economic downfall that is taking place in all parts of the world has triggered an extraordinary crisis. At the same time it has become a momentum for all parties to re-evaluate the importance of implementing sustainable development goals, predominantly environmental, social, and governance aspects in all aspects of living. This includes investment activities which is one of the driving factors of national economy. Responsible investment is an integral part of sustainable development goals, which serves as a roadmap for businesses and investors to align their goals "to serve the long-term goals of the society".[3] Transitioning to sustainable investment stems from a change in the mindset of business actors that business activities are best conducted when environmental, social and governance ("**ESG**") aspects are taken into consideration.[4]

Based on GSI data, ESG investment has experienced a rapid increase in recent years. ESG investment as of 2018 has reached USD$30 trillion, up 68% since 2014 and tenfold since 2004. This acceleration is driven by increasing awareness on ESG aspects to corporate impacts, as well as increasing demand from investors having the mindset that ESG mindset can guarantee the company's long-term success.[5] In a commercial perspective, sustainable development goals create many opportunities for both investors and corporations. The value of sustainable development rests in their ability to offer an effective way to look at opportunities and risks, to translate the impact of investment activities into real economy outcomes and provide a useful means of engaging with stakeholders.[6]

The SDGs also provide a framework and common language for companies to integrate sustainability information, mainly implementation of ESG standards into their reporting cycles, providing more information to both investors and shareholders. A survey conducted by KPMG in 2020 showed that 80% of the Top 100 companies in 52 countries have adopted sustainable reporting standards.[7] Meanwhile, a survey conducted by GlobeScan and GRI on 27,000 respondents in 27 countries shows that 51% of respondents believe that sustainability reports will increase public trust.[8] Although there are no standardized ESG reporting systems internationally, many external organizations have proposed different reporting models which corporations can easily incorporate into their existing corporate social responsibility reporting systems. Some notable ESG reporting initiative include (i) the United Nations Principles for Responsible Investment (UNPRI) Reporting Standards, (ii) the Global Reporting Initiative (GRI) Reporting Standards for investors, and (iii) the European Union Non-Financial Reporting Directive, which is by far the most comprehensive ESG reporting standard at national level, and (iv) mandatory instruments such as EU Regulation 2019 and the French Energy Law Transition.

Various empirical studies on the application of sustainable financial statements to firm value generally give positive results. Loh, Thomas and Wang report the positive impact of publishing a sustainability report on corporate value in Singapore.[9] Kuzey and Uyar

[3] Betty Moy Huber, et al. "UN Sustainable Development Goals—The Leading ESG Framework for Large Companies." *Harvard Law School Forum on Corporate Governance*, 4 Oct. 2018. https://corpgov.law.harvard.edu/2018/10/04/un-sustainable-development-goals-the-leading-esg-framework-for-large-companies/. Accessed 20 July 2022.

[4] Tim Sustainable Finance Departemen Internasional and Tim Lintas Sektor Sustainable Finance OJK. *Roadmap Keuangan Berkelanjutan Tahap II (2021-2025)*. Indonesian Financial Services Authority (OJK), 2021.

[5] *GSI Report 2018*, GSI Alliance, 2018. http://www.gsi-alliance.org/wp-content/uploads/2019/06/GSIR_Review2018F.pdf. Accessed 20 May 2022.

[6] Betty Moy Huber, et al., *supra* note 1.

[7] "The beginning of the ESG regulatory journey." *KPMG*, https://kpmg.com/se/sv/home/nyheter-rapporter/2020/06/the-beginning-of-the-esg-regulatory-journey.html. Accessed on 26 June 2022.

[8] "Rising Trust in Sustainability Reporting Around the World." *Global Reporting Initative*, 14 Oct. 2020. https://www.sustainability-reports.com/rising-trust-in-sustainability-reporting-around-the-world/. Accessed 30 July 2022.

[9] Lawrence Loh, Thomas Thomas, and Yu Wang "Sustainability Reporting and Firm Value: Evidence from

show a positive response from various stakeholders on reporting environmental aspects for manufacturing companies in Turkey.[10] One of the reasons for this is the regulations issued by the governments of each of these countries which have begun to impose an obligation for business actors to conduct sustainability reporting.[11]

Incorporating SDGs in a corporation's reporting establishes a direct line of communication to investors, local governments, clients, and employees to demonstrate the corporation's commitment to the advancement of the SDGs and to adapting for the new global sustainability agenda. Disclosing this information is particularly important for institutional investors, like pension and sovereign wealth funds and foundations, who are increasingly interested in aligning their investment portfolios with their sustainability and ethical goals. In addition, third party ESG performance analysts rely on the quality and quantity of ESG corporate disclosure; thus, having a standardized ESG reporting guide could easily have a positive impact on a corporation's third-party ESG ratings, and could also help lead to inclusion in low carbon and other ESG index funds based on these ratings.[12]

In line with global initiatives on sustainable development and ESG investing, OJK released the Sustainable Finance Roadmap Phase I (2015 - 2019) which aimed to increase the understanding and capacity of the financial services sector to shift from traditional investment to an ESG-minded investing. The Roadmap Phase I focused on enhancing awareness, capacity building as well as laying out the regulatory foundation for financial institutions and has achieved several milestones such as introduction of sustainable finance principles, identification of numerous sustainable business criteria, developing an incentive scheme, and conducting series of training programs for the financial industry.[13]

However, some gaps remain to be filled, such as the industry's low awareness of sustainable finance, the absence of commonly agreed green standards in a national scale and untapped business opportunities in the sustainable sector. Some of these gaps must be resolved immediately so that the financial industry can maximize the opportunities as the demand of the market and society for sustainable financial products and services increases. These opportunities must be followed by the management of climate-related risks to prevent unwanted negative impacts. Climate change risks include risk of climate change phenomena that cause property damage and directly affect business processes (physical risk), risk arising from changes in policy and technology development while shifting to a low-carbon economy (transition risk), and risk of legal loss or claims due to business activities that disregard the impact of climate change (liability risk). To hasten the transition of the financial sector to sustainability, OJK has created the Sustainable Finance Roadmap Phase II (2021-2025) (the "**Roadmap II OJK**") to accelerate the implementation of environmental, social, and governance aspects in Indonesia.

The Roadmap II OJK focuses on creating a comprehensive sustainable finance ecosystem that involves all related parties and promoting cooperation at various levels. In the Roadmap II OJK, OJK aims to strengthen sustainable finance on 7 components, namely policy, product, market infrastructure, coordination among ministries/institutions, non-government support, human resources, and awareness. OJK is also committed to

Singapore-Listed Companies." Sustainability, vol. 9, issue 11, 2017.

[10] Cemil Kuzey and Ali Uyar, "Determinants of sustainability reporting and its impact on firm value: Evidence from the emerging market of Turkey", Journal of Cleaner Production, vol. 143 issue 2, 2017, pp. 27-39.

[11] Moch. Dody Ariefianto. "Tantangan Laporan Keuangan Berkelanjutan." *Kontan*, 23 Apr. 2021. https://analisis.kontan.co.id/news/tantangan-laporan-keuangan-berkelanjutan. Accessed 26 July 2021.

[12] Sophie Baker. "Asset owners push to satisfy U.N. goals." *Pensions & Investments*, 16 Oct. 2017. https://www.pionline.com/article/20171016/PRINT/171019887/asset-owners-push-to-satisfy-u-n-goals. Accessed 29 July 2021.

[13] Roadmap II OJK, *supra* note 2.

creating transparent regulations, building synergies with other ministries/institutions, and improving the financial industry's capability to attract more ESG investments into the country.

Despite the positive expectation that OJK has in mind in enacting the Roadmaps of Sustainable Finance, it is worth comparing the Roadmaps and the regulations enacted under the Roadmaps, specifically on sustainable reporting, with ESG and sustainable finance initiatives and standards that are well-established internationally. This comparison is drawn in order to have a realistic picture on the significance of the OJK Roadmaps, and whether there are any points of improvements needed on Roadmap II OJK.

## B. SUSTAINABILITY REPORTING OBLIGATION UNDER GLOBAL ESG INSTRUMENTS

A research conducted by OECD denotes that the existence of sustainable reporting obligation backed with enforcing regulations from the government, as well as increasing global investor demand are the two main driving factors for global ESG investment.[14] Based on an empirical research by Suhita *et. al.*, which examines the performance of 34 public companies in Indonesia during the 2012-2018 period, it is concluded that companies with higher ESG performance reflects a better management quality, having the ability to maintain business sustainability, and is deemed more satisfactory by shareholders. Corporate sustainability is an important aspect in creating long-term value for shareholders. Investors are willing to pay a premium price for shares in companies that have good ESG performance compared to those with lower ESG performance.[15]

Based on recent research conducted by *Macquarie*, there are several basic obstacles in ESG Investment, as follows:[16]

a. Lack of understanding and awareness regarding ESG, by 36%;
b. Lack of data on ESG Investments, at 32%;
c. Misleading and inconsistent ESG information, at 31%;
d. Lack of clarity regarding ESG standards, at 30%;
e. ESG data and implementation are inconsistent, at 26%;
f. Lack of transparency of ESG data, at 24%;
g. Lack of urgency in terms of client requests, at 20%.

The findings above portray that the main problems in ESG Investment is the lack of data and transparency, as well as inconsistent data and implementation, which leads to poor and misleading sustainability reporting. The concrete form of sustainable business practices is assessed through sustainability reporting. The sustainability report provides a balanced and fair description of the sustainability performance of the reporting company, including the positive contributions that have been made during a certain period. The report is a form of company transparency with stakeholders to communicate performance in the ESG sector. Reflecting on the findings above, this research will specifically discuss the policies and regulations in relation with sustainability reporting mechanisms based on international ESG reporting regulation/standards as well as Roadmap I and Roadmap II OJK.

ESG data is paramount in influencing the decision-making of potential investors and other stakeholders as it essentially records the sustainability performance of a particular company.[17] Through such data, investors are able to assess whether the company

[14] Boffo, R. and R. Patalano. *ESG Investing: Practices, Progress and Challenges*. OECD Paris. 2020, https://www.oecd.org/finance/ESG-Investing-Practices-Progress-Challenges.pdf . Accessed 24 May 2022.

[15] Suhita Whini and Rr. Sri Handayani. "On the Value Relevance of Information on Environmental, Social, and Governance (ESG): An Evidence from Indonesia." *Journal of Critical Review*, vol. 7, issue 12, 2020, pp. 50-58.

[16] Charles Yonts. "Shining a light on ESG investing in Asia." *Macquarie Market Commentary*, 25 Mar. 2021. https://www.macquarie.com/de/en/perspectives/shining-a-light-on-esg-investing-in-asia.html. Accessed 24 May 2022.

[17] Bjorg Jonsdottir, Throstur Olaf Sigurjonsson, Lara Johannsdottir, and Stefan Wendt. "Barriers to Using ESG Data for Investment Decisions." *Sustainability*, vol. 14, 2022, p. 2.

concerned has followed the expected standards which define whether they can be held environmentally and socially accountable.[18] The ESG data provided by companies is further used by investors and other stakeholders to assess information regarding climate risks and liabilities as well as its carbon risks and opportunities, efforts in reducing emissions, and resultant carbon performance.[19] Not only does it provide investors with the aforementioned information, the data can also build trust and develop a green image and reputation, both constituting important aspects in influencing revenues and costs in the present market. However, most ESG reports are still lacking in terms of quality. This is due to the fact that ESG reports are still done voluntarily in several countries and no set thresholds that are to be conformly followed have been decided internationally as well. As a result, there are still many inconsistencies in terms of the standards and guidelines used between firms, which leads to questions regarding the quality and accuracy of the data disclosed in the ESG report.[20]

The continuous lack of conformed international standards governing ESG data causes companies to provide inaccurate or unreliable reports which may then lead to the greenwashing phenomena. Greenwashing refers to acts or claims that are over exaggerated and distorted 'green' credentials in order to paint a favourable impression to stakeholders. Consequently, investors and other relevant stakeholders are misled and given information that has been carefully selected to create as if the company is performing positively, albeit its negative performance.[21] Companies also tend to "cherry pick" standards reflected within international frameworks and guidelines that would most befitting for them.

As a form of commitment to achieve sustainable development in investment, and to ensure that investment activities are carried out with ESG considerations, international organizations and governments have established regulations, standards and initiatives that emphasizes on sustainable investment and reporting obligation, some widely renowned and notable ones include:

1. The Rio Declaration on environment and development is a set of principles approved by the United Nations during the Conference on Environment and Development held in Rio de Janeiro in June 1992, which define the right of people to development, and their responsibilities to safeguard the common environment. The Rio Declaration emphasizes that the only way to have long term economic progress is to link it with environmental protection. This will only happen if nations establish a new and equitable global partnership involving governments, their people, and key sectors of societies. They must build international agreements that protect the integrity of the global environment and the developmental system.[22]

2. The Equator Principles (EP) is a global association for financial institutions that are willing to disclose their sustainable reporting in line with the principles set out by the EP Association. To date, there are 138 financial institutions from 38 countries that have adopted the EP. One key principle is that these institutions are

[18] Karthik Ramanna and Robert S Kaplan. *How to fix ESG Reporting*. BSG Working Papers BSG-WP-2021/043. 2021, p. 2.

[19] Le Luo and Qingliang Tang. "The real effects of ESG reporting and GRI standards on carbon mitigation: International Evidence." *Wiley Business Strategy and the Environment*, 2022, p. 3.

[20] Nicole Darnall, Hyunjung Ji, Kazuyuki Iwata, and Toshi H. Arimura. "Do ESG reporting guidelines and verifications enhance firms' information disclosure?" *Wiley: Corporate Social Respnsibility and Environmental Mangement*, 2022, p. 1215.

[21] Chitra S De Silva Lokuwaduge and Keshara M De Silva, "ESG Risk Disclosure and the Risk of Greenwashing." *AABFJ*, vol. 16, no. 1, 2022, p. 148.

[22] *Report of the United Nations Conference on the Human Environment*. United Nations publication, Sales No. E.73.II.A.14 and corrigendum, Stockholm, 5-16 June 1972, Chapter I.

committed not to provide funding for projects worth USD 10 million or more if the prospective lender does not comply with applicable social and environmental regulations based on the standard established by the EP Association.[23]

3. United Nations Principles for Responsible Investment (UNPRI), a semi-autonomous body under the United Nations that focuses on understanding the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. The UNPRI establishes six Principles for Responsible Investment, which are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. These principles include:[24]
    a. **Principle 1**: Incorporating ESG issues into investment analysis and decision-making processes.
    b. **Principle 2:** Become active owners and incorporate ESG issues into our ownership policies and practices.
    c. **Principle 3:** Seeking appropriate disclosure on ESG issues by the entities in which we invest.
    d. **Principle 4:** Promoting acceptance and implementation of the Principles within the investment industry.
    e. **Principle 5:** Work together to enhance our effectiveness in implementing the Principles.
    f. **Principle 6:** Report on our activities and progress towards implementing the Principles.

4. The Global Reporting Initiative (GRI), a guideline adopted from the United Nations Environment Program (funding the United Nations Development Fund), is one of the guidelines for preparing sustainability reports. A sustainability report is a form of report made by a company in order to disclose or communicate to all stakeholders about the economic, environmental and social performance of the community in an accountable manner. The GRI Standards aims to enhance global comparability and enables organizations to be transparent and accountable. The Standards help organizations understand and disclose their impacts in a way that meets the needs of multiple stakeholders. In addition, the Standards are highly relevant to many other groups, including investors, policymakers, capital markets, and civil society. GRI also provides Standards for each topic based on the organization's material topics – economic, environmental or social. This process ensures that the sustainability report provides an inclusive picture of material topics, their related impacts, and how ESG risks are managed.[25]

    The GRI Standards is often referred to by corporations and generally provides content and quality principles that are to be followed to ensure a "high quality sustainability reporting." These principles include stakeholder inclusiveness, sustainability, context, materiality and completeness which fall within the scope of content principles. Subsequently, the GRI Standards also promotes six quality principles encompassing, accuracy, balance, clarity, comparability, reliability and timeliness.

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[23] Equator Principles Association. "EP Association Members & Reporting." *Equator Principles*. https://equator-principles.com/members-reporting/. Accessed 5 March 2023.

[24] "About the PRI." *United Nations Principles for Responsible Investment* (hereinafter referred to as 'UNPRI'). https://www.unpri.org/pri/about-the-pri. Accessed 26 July 2022.

[25] "The global standards for sustainability reporting." *Global Reporting Initiative* (hereinafter referred to as 'GRI'). https://www.globalreporting.org/standards/. Accessed 27 July 2022.

A recent study conducted by GRI in 2016 has identified 4 quality principles, particularly materiality, accuracy, reliability, and comparability, that are often lacking in ESG data.[26] In terms of materiality, it has been pointed out that many companies often provide data that are commonly over-generalized, making it irrelevant and immaterial in shaping the decisions of investors.[27] A similar issue is met in establishing the accuracy of ESG data. Pursuant to the GRI Standards, accuracy is reflected if the data provided by the companies are "sufficiently accurate and detailed for stakeholders to assess the reporting organization's performance". Kotsantorious et al. highlights that such an issue arises due to the "lack of alignment in reporting frameworks", hence burdening companies with a reporting process that is too complex and resource heavy and causing them to avoid ESG data disclosure.[28] On the other hand, companies that choose to disclose its ESG data might provide inferior or poor quality data.[29] Ultimately, the root cause of the lack of accuracy often stems from the difficulty in understanding the overwhelming GRI Standards which correlates to the resource-heavy process in formulating an ESG data. Subsequently, the GRI reliability principle requires companies to "gather, record, compile, analyze, and report information and processes used in the preparation of the report in a way that they can be subject to examination, and that establishes the quality and materiality of the information. However, companies often levy such a principle by only promoting positive aspects of their activities or using imprecise terms in their description to make it seem optimistic. Lastly, the study underlined that companies are still lacking in the comparability aspect as there are yet harmonized and common standards regulating ESG reporting.

5. The European Union Non-Financial Reporting Directive 2014/95/EU, NFRD), requires entities with more than 500 employees (and those with a balance sheet total of more than EUR 20 million or a net turnover of more than EUR 40 million) to make non-financial reports. All European-based asset managers who meet these criteria must comply with the provisions of the NFRD. The non-financial report includes information needed to understand the development, performance, position and impact of its activities, which at least relates to environmental, social and employee issues, respect for human rights, anti-corruption and bribery. The report should outline a description of (i) the entity's business model, (ii) related policies and due diligence processes, (iii) policy outcomes, (iv) key risks arising from non-financial problems of the entity's operations and (v) key performance indicators. non-financial.[30]

6. The European Union Sustainable Finance Disclosure Regulation No. 2019/2088/EU, SFDR, which was published in 2019 and entered into force in March 2021, is a comprehensive regulation for sustainable financial reporting, which is currently used as a reference for regulators across Asia, as they improve reporting requirements. The SFDR contains mandatory ESG disclosure requirements to potential investors through various channels, including through the website, prospectus, and newsletters. The transparency requirements contain disclosure obligations at the entity and product level and apply to entities that produce financial products (Financial

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[26] Bjorg Jonsdottir, Throstur Olaf Sigurjonsson, Lara Johannsdottir, and Stefan Wendt, *supra* note 15.

[27] *Ibid*., p. 4.

[28] Kotsantonis and Serafeim. "Four Things No One Will Tell You About ESG Data." *J. Appl. Corp. Financ.*, vol. 31, 2019, pp. 50-58.

[29] Bjorg Jonsdottir, Throstur Olaf Sigurjonsson, Lara Johannsdottir, and Stefan Wendt, *supra* note 15, pp. 4-5.

[30] European Parliament and Council of the European Union, *Directive 2014/95/EU*, L 330/I (15 November 2014), accessed on https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095, (hereinafter referred to as 'EU Directive').

Market Participants) or provide investment or insurance advice (Financial Advisors). Financial Market Participants include investment managers, providers of insurance-based investment products, providers of pension products, and institutions that provide portfolio management (discretionary mandates) so that, in general, all types of asset managers.[31]

7. The European Union Regulation No. 2020/852 concerning the establishment of a framework to facilitate sustainable investment (European Union Regulation (Taxonomy) on the establishment of a framework to facilitate sustainable investment) which was established on 22 June 2020 and is effective as of 12 July 2020 ("EU Taxonomy Regulation"). The EU Taxonomy Regulation stipulates six environmental standards, namely: (1) Mitigation of climate change, (2) Adaptation to climate change, (3) Sustainable use and protection of water and marine resources, (4) Transition to a circular economy, (5) Prevention and pollution control, and (6) Protection and restoration of biodiversity and ecosystems. The EU Taxonomy Regulation will be the legal umbrella for regulations and guidelines related to investment and sustainable business activities to be established.[32]

## C. INDONESIA SUSTAINABILITY REPORTING AND ESG STANDARDS

In terms of sustainability reporting policy in Indonesia, under the Roadmap I OJK, OJK on July 18, 2017, have issued the OJK Regulation No. 51/POJK.03/2017 on the Implementation of Sustainable Finance for Financial Service Institutions, Issuers, and Public Companies ("**OJK Regulation on Sustainable Finance**"). The Regulation basically outlines the obligations for financial services institutions, issuers, and public companies to implement sustainable finance in the business activities of financial services institutions, issuers and public companies.

There are 3 parties who are the target subjects of the OJK Regulation on Sustainable Finance, which are as follows:

1. Financial services institution, which includes mortgage and guarantee institutions, Indonesian Export Financing Institutions, Social Security Administering Bodies.
2. Issuer, the party conducting the public offering.
3. Public company is a company whose shares are owned by at least 300 (three hundred) shareholders and has a paid-up capital of at least Rp3,000,000,000.00 (three billion rupiah) or a number of shareholders and paid-up capital determined by government regulations.

This Regulation aims to enhance the awareness and commitment of financial services institutions, issuers, and public companies to implement sustainable finance principles, contributing to the development of products in the form of goods and services that consider economic, social and environmental aspects, by way of a sustainability reporting mechanism. The description of the contents of the sustainability report contains details as described in the table below.[33]

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[31] European Parliament and Council of the European Union, *Regulation (EU) 2019/2088*, L 317/I (9 December 2019), accessed on https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32019R2088, (hereinafter referred to as 'EU Regulation').

[32] "EU Taxonomy for Sustainable Activities." *European Commission*. https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en#:~:text=The%20Taxonomy%20Regulation%20was%20published,to%20qualify%20as%20environmentally%20sustainable. Accessed 21 June 2021.

[33] OJK Regulation No. 51/POJK.03/2017 on the Implementation of Sustainable Finance for Financial Service Institutions, Issuers, and Public Companies, Attachment, (hereinafter referred to as 'OJK Regulation on Sustainable Finance').

**Description of the Sustainability Report based on OJK Regulation on Sustainable Finance**

| No. | Points of Reporting | Description |
|---|---|---|
| 1. | **Sustainability Strategy Explanation** | This section contains an explanation of the sustainability strategies of financial services institution, issuers, and public companies. |
| 2. | **Sustainability Aspect Performance Overview** | This section is filled with a comparison of the performance of the last 3 (three) years (for financial services institution, issuers, and public companies that have been operating for more than 3 (three) years), as follows:<br>a. **Economic aspects**, at least include:<br>1) quantity of production or service sold;<br>2) income or sales;<br>3) net profit or loss;<br>4) eco-friendly products; dan<br>5) involvement of local parties related to sustainable finance business processes.<br>b. **Environment aspect**, at least include:<br>1) Energy consumption (including electricity and water);<br>2) emission reductions produced (for financial service providers, issuers, and public companies whose business processes are directly related to the environment);<br>3) reduction of waste and effluent (waste that has entered the environment) produced (for financial service providers, issuers, and public companies whose business processes are directly related to the Environment); or<br>4) biodiversity conservation (for financial service providers, issuers, and public companies whose business processes are directly related to the Environment).<br>c. **Social aspects,** which is a description of the positive and negative impacts of implementing Sustainable Finance for the community and the environment (including people, regions, and funds). |
| 3. | **Short profile** | A brief profile presents an overall picture of the characteristics of the financial service providers, issuers, and public companies, at least containing:<br>a. vision, mission, and sustainability values of financial service providers, issuers, and public companies;<br>b. name, address, telephone number, facsimile number, e-mail address, and website of financial services institution, issuer, and public company, as well as branch office and/or representative office of financial services institution, issuer, and public company;<br>c. the business scale of financial services institution, issuers, and public companies in a nutshell, includes: |

| No. | Points of Reporting | Description |
|---|---|---|
| | | 1) total assets or asset capitalization, and total liabilities (in millions of rupiah);<br>2) number of employees divided by gender, position, age, education, and employment status;<br>3) percentage of share ownership (public and government); and<br>4) operational area.<br>d. a brief description of the products, services, and business activities carried out;<br>e. membership in association;<br>f. significant changes in financial services institution, issuers, and public companies, including those related to closing or opening branches, and ownership structure. |
| 4. | **Director’s Foreword** | a. Policies to respond to challenges in meeting sustainability strategies, at least include:<br>1) explanation of the value of sustainability for financial services institution, issuers, and public companies;<br>2) explanation of the response of financial services institution, issuers, and public companies to issues related to the implementation of sustainable finance;<br>3) explanation of the commitment of financial services institution, issuers, and public companies’ management in achieving the implementation of sustainable finance;<br>4) achievement of the implementation of sustainable finance performance; and<br>5) the challenges of achieving the performance of the implementation of sustainable finance.<br>b. b. Implementation of Sustainable Finance, at least includes:<br>1) the achievement of the implementation of Sustainable Finance (economic, social, and environmental) performance compared to the target; and<br>2) explanation of achievements and challenges including important events during the reporting period (for FSIs who are required to make a Sustainable Finance Action Plan).<br>c. The strategy for achieving the target, at least includes:<br>1) risk management on the implementation of Sustainable Finance related to economic, social and environmental aspects;<br>2) utilization of business opportunities and prospects; and<br>3) explanation of external economic, social, and environmental situations that have the potential to affect the sustainability of financial services institution, issuers, and public companies. |
| 5. | **Sustainable Governance** | a. A description of the duties of the Board of Directors and the Board of Commissioners, employees, officials and/or work |

| No. | Points of Reporting | Description |
|---|---|---|
| | | units responsible for the implementation of Sustainable Finance.<br>b. An explanation of the competency development carried out for members of the Board of Directors, members of the Board of Commissioners, employees, officials and/or work units who oversee implementing Sustainable Finance.<br>c. Explanation of the procedures for financial services institution, issuers, and public companies in identifying, measuring, monitoring, and controlling risks on the implementation of Sustainable Finance related to economic, social, and environmental aspects, including the roles of the Board of Directors and Board of Commissioners in managing, conducting periodic reviews, and reviewing effectiveness risk management processes for FSIs, issuers, and public companies.<br>d. Explanation of stakeholders which includes:<br>1) stakeholder involvement based on the results of management assessment, GMS, decision letter or others; and<br>2) the approach used by financial services institution, issuers, and public companies in involving stakeholders in the implementation of Sustainable Finance, among others in the form of dialogues, surveys, and seminars.<br>e. Problems faced, developments, and impacts on the implementation of Sustainable Finance. |
| 6. | **Sustainability Performance** | Sustainability performance contains at least:<br>a. Explanation of activities to build a culture of sustainability in internal financial services institution, issuers, and public companies.<br>b. A description of the economic performance in the last 3 (three) years which includes:<br>1) comparison of production targets and performance, portfolio, financing targets, or investment, income and profit and loss in the event that the sustainability report is prepared separately from the Annual Report; and<br>2) comparison of portfolio targets and performance, financing targets, or investments in financial instruments or projects that are in line with the implementation of Sustainable Finance.<br>c. Social performance in the last 3 (three) years:<br>1) The commitment of financial services institution, issuers, or public companies to provide services for equivalent products and/or services to consumers.<br>2) Employment, at least contains:<br>a) statement of equality of opportunity to work and the presence or absence of forced labor and child labor; |

| No. | Points of Reporting | Description |
|---|---|---|
| | | b) percentage of remuneration for permanent employees at the lowest level to the regional minimum wage;<br>c) a decent and safe working environment; and<br>d) training and capacity building of employees.<br>3) Social aspects, at least contain:<br>a) information on activities or operational areas that generate positive and negative impacts on the surrounding community, including financial literacy and inclusion;<br>b) the mechanism for public complaints and the number of public complaints received and followed up; and<br>c) CSR that can be linked to support for sustainable development goals includes the types and achievements of community empowerment program activities.<br>d. Environmental performance for financial services institution, issuers, and public companies, at least contains:<br>1) Environmental costs incurred;<br>2) a description of the use of environmentally friendly materials, for example the use of recycled materials; and<br>3) a description of energy use, at least containing:<br>a) the amount and intensity of energy used; and<br>b) energy efficiency efforts and achievements, including the use of renewable energy sources;<br>e. Environmental performance for financial services institution, issuers, and public companies whose business processes are directly related to the Environment contains at least:<br>1) performance (as referred to in letter d);<br>2) information on activities or operational areas that produce positive and negative impacts on the surrounding environment, especially efforts to increase the carrying capacity of the ecosystem;<br>3) biodiversity, at least containing: impacts from operational areas that are close to or located in conservation areas or have biodiversity; and efforts to conserve biodiversity, including protection of flora or fauna species;<br>4) emissions, at least containing: a) the amount and intensity of emissions produced by type; and b) efforts and achievements of emission reductions undertaken;<br>5) waste and effluent, at least containing: a) the amount of waste and effluent produced by type; b) waste and effluent management mechanisms; and c) spillage (if any); and<br>6) the number and material of environmental complaints received and resolved.<br>f. Responsibility for the development of Sustainable Financial Products and/or Services, at least contains: |

| No. | Points of Reporting | Description |
|---|---|---|
| | | 1) innovation and development of Sustainable Financial Products and/or Services;<br>2) the number and percentage of products and services that have been evaluated for safety for customers;<br>3) the positive and negative impacts arising from the Sustainable Financial Products and/or Services and the distribution process, as well as the mitigations carried out to overcome the negative impacts;<br>4) the number of recalled products and the reasons; or<br>5) customer satisfaction survey on Sustainable Financial Products and/or Services. |
| 7. | **Written verification from an independent party** | If any. |
| 8. | **Feedback sheet for readers** | If any. |
| 9. | **Response of the financial services institution, issuer, or public company to the previous year's report feedback.** | - |

Based on the description of the mechanism, content and provisions of sustainable reporting in accordance with the International ESG Regulation and Indonesia's ESG Investment Policy, a comparison can be drawn between the two, especially in terms of (1) sustainability reporting targets, (2) sustainability report standards and substance, as discussed below.

1. <u>Sustainability Reporting Targets</u>

Reporting targets or targets from international ESG regulations or standards when compared with ESG investment policies in Indonesia can be compared as follows:

| International ESG Investment Standards/Regulation | Indonesia's ESG Investment Policy |
|---|---|
| 1. **UNPRI** is addressed to investors who voluntarily adopt or implement UNPRI standards.[34]<br><br>2. **GRI** is addressed to any party who voluntarily adopts or implements GRI standards, both business actors and institutions.[35] | The OJK Regulation on Sustainable Finance is aimed at companies in the financial services sector, which is limited to financial services institution, issuers, and public-listed companies.<br><br>To date, there has yet any regulation or draft policy under Roadmap II OJK which leads to the amendment of the OJK Regulation on |

[34] UNPRI, *supra* note 15.
[35] GRI, *supra* note 16.

| International ESG Investment Standards/Regulation | Indonesia's ESG Investment Policy |
|---|---|
| 3. **EU Directive 2014** is specifically addressed to large companies that have more than 500 employees and are not classified as MSMEs, namely companies that have a total balance sheet of more than EUR 20 million or a net turnover of more than EUR 40 million.[36]<br><br>4. **EU Regulation 2019** is intended for financial services companies.[37]<br><br>5. **French Energy Transition Law** has a fairly broad scope, which is intended for public companies, banks, credit providers, institutional investors, and even small and medium-sized companies with balance sheets under €500 million.[38] | Sustainable Finance, specifically on sustainability reporting obligation. The Roadmap II OJK only emphasizes on the government's plan to provide an online platform that sustainable reports and information on ESG implementation may be accessible to all stakeholders online. |

[36] EU Directive, *supra* note 17.

[37] EU Regulation, *Loc.Cit*.

[38] Amy Mason, Will Martindale, Alyssa Heath and Sagarika Chatterjee, *French Energy Transition Law: Global Investor Briefing*, UNPRI Publication, 2016.

This shows that the scope of international ESG instruments, namely the UNPRI, GRI, EU Directive 2014, EU Regulation 2019, and French Energy Transition Law, is fairly broad – not limited to public companies, issuers or financial services institutions, such as that in the OJK Regulation on Sustainable Finance, but also include large companies whose business activities have the potential to cause significant impact on ESG risks. This further denotes that the abovementioned international ESG instruments do not limit the target of sustainability reporting only in terms of indirect investment, rather utilizes ESG risk approach to determine ESG reporting obligation.

The EU Regulation 2019, the French Energy Transition Law and the OJK Regulation on Sustainable Finance are regulations that are mandatory or coercive by nature. Meanwhile, the UNPRI, GRI, and the EU Directive 2014 are voluntary standards.

<u>2. Sustainability Reporting Standard and Substance</u>

In terms of the content of the sustainability report, it can be understood that UNPRI, GRI and EU Directive 2014 describe standard reporting points that are more technical and applicable than POJK on the Implementation of Sustainable Finance.

UNPRI describes the responsible investment module indicators that have not been accommodated in the POJK on the Implementation of Sustainable Finance, including:[39]

1. Development of policies and governance related to the allocation of strategic assets into activities that promote ESG;
2. To determine the stewardship policy along with its objectives, priorities, mechanisms, strategies, as well as an assessment of its implementation according to the level of effectiveness;
3. Development of public support in relation to solving climate change issues and impacts;
4. Setting standards/benchmarks (measures) to measure investor confidence.

GRI also outlines ESG standards in business activities that have not been accommodated in the POJK on the Implementation of Sustainable Finance, including:[40]

1. Practice of procurement of goods and services;
2. Non-competition policy;
3. Tax obligations;
4. Use of energy and resources;
5. Training and education for human resources (HR);
6. Employment and remuneration;
7. Health and safety of consumers/clients;
8. Privacy policy;
9. Marketing and labelling of products/services; and
10. Diversity in the composition of management and workforce.

The 2014 EU Directive provides guidelines for each standard, both from an environmental, social and governance perspective. Meanwhile, the POJK on the Implementation of Sustainable Finance only outlines obligations without any concrete examples of reporting standards that need to be disclosed. This has the potential to be an obstacle for the company because it does not have a standard description, boundaries, and points that need to be disclosed.[41]

Furthermore, the 2014 EU Directive also emphasizes the submission of KPIs for each point disclosed, so that the target audience (in this case more directed to investors) can easily assess the development of a company's sustainability performance. In addition, the

[39] UNPRI," What are the Principles for Responsible Investment?", https://www.unpri.org/pri/what-are-the-principles-for-responsible-investment , accessed on 30 July 2022.

[40] GRI, Consolidated set of GRI Standards, accessible at: https://www.globalreporting.org/how-to-use-the-gri-standards/gri-standards-english-language/ , accessed on 30 July 2022.

[41] EU Directive, *Loc.Cit*.

2014 EU Directive also describes more components of material information that should be disclosed in a sustainability report that has not been accommodated in the POJK on the Implementation of Sustainable Finance, including the following standards:[42]

1. Policy and Human Rights Due Diligence
2. Disclosure of anti-corruption and bribery policies
3. Policy implementation to the Supply Chain
4. Implementation of other global standards, such as UN Guidelines and ISO.
5. Determination of KPIs for each referenced standard

For ease of reference, the major points of comparison that is evident in international ESG regulations, both mandatory and voluntary, but not regulated in the OJK Regulation on Sustainable Finance is as outlined in the Table hereunder.

[42] EU Directive, *Loc.Cit*.

| Binding nature | Standard/ Regulation | Substance |
|---|---|---|
| **International ESG Regulations/Standards** | | |
| Voluntary | **UNPRI** | 1. Governance related to the allocation of strategic assets into activities that prioritize ESG;<br>2. Establish stewardship policies;<br>3. Development of public support;<br>4. Setting standards/benchmarks/measures to measure investor confidence. |
| | **GRI** | 1. Procurement of goods and services;<br>2. Non-competition policy;<br>3. Taxation requirements;<br>4. Energy and mineral resources utilization;<br>5. Training and education for human resources (HR);<br>6. Employment and remuneration;<br>7. Consumer/client health and safety;<br>8. Privacy policy;<br>9. Marketing and labelling of products/services; and<br>10. Diversity in the composition of management and employees. |
| | **EU Directive 2014** | 1. Human rights policy and due diligence<br>2. Disclosure of anti-corruption and bribery policies<br>3. Implement policy/standards to Supply Chain<br>4. Implementation of other global standards<br>5. Determination of KPIs for each aspect/standard. |
| Mandatory | **EU Regulation 2019** | 1. Transparency of sustainability risk policy;<br>2. Transparency of remuneration policies related to the integration of sustainability risks;<br>3. Transparency of the integration of sustainability risks;<br>4. Transparency of sustainable policies on sustainable investment products/instruments;<br>5. Transparency of environmental and social aspects through the official website and periodic reports. |
| | **French Energy Transition Law** | 1. ESG Criteria<br>2. Climate Change Risk<br>3. Monitoring and compliance mechanisms |
| **ESG Regulation in Indonesia** | | |
| Mandatory | **OJK Regulation** | 1. Sustainability Strategy Explanation<br>2. Performance Overview of the Sustainability Aspect |

| Binding nature | Standard/ Regulation | Substance |
|---|---|---|
| | **on Sustainable Finance** | 3. Brief profile<br>4. Directors' foreword<br>5. Sustainable Governance<br>6. Sustainability Performance<br>7. Written verification from an independent party<br>8. Feedback sheet for readers<br>9. The response of financial services institutions, issuers, or public companies to the previous year's report feedback. |

From the elaboration above, it is notable that the international standards are more extensive and concrete, compared to the points under the OJK Regulation on Sustainable Finance, which still lacks in major ESG sectors, including determination of key performance indicators (KPIs) for each business aspect, human right due diligence, and supply chain policy.

Based on the discussion on the 2 key aspects of difference between the International ESG Standards and Indonesian OJK Roadmaps above, it can be concluded that the Indonesian ESG framework, specifically on sustainability reporting under the OJK Regulation on Sustainable Finance, still lacks behind if compared with international ESG regulations/standards as described above.

First, in terms of reporting targets/targets, the OJK Regulation on Sustainable Finance is only limited to financial services institution, issuers, and public companies, while most international ESG regulations have a broader scope, which includes direct investors (not only portfolio investors), and include micro, small and medium enterprises. medium. Meanwhile, to date, there are no legal obligation in the field of direct investment that obliges companies to submit sustainability report.

Second, in terms of sustainability reporting content/substance, there are quite a number of internationally recognized and implemented ESG standards that have not been included in the OJK Regulation on Sustainable Finance. Furthermore, the regulation of ESG aspects in this matter has an impact on the standards of ESG implementation by companies in Indonesia; setting standards that are not as comprehensive as international ESG regulations may potentially cause the implementation of ESG in Indonesia not to achieve international ESG standards, as expected by foreign investors.

The OJK Regulation on Sustainable Finance also does not provide a clear picture or limit regarding ESG indicators and how to implement them properly. Based on the OJK Regulation, green projects/products are defined as projects that meet the principles of sustainable finance and cover 12 categories of green projects, including renewable energy, energy efficiency, climate adaptation, waste management. Most representatives of financial institutions view that the definition of a green project is too broad and has a high degree of variation in the way banks interpret the term in their respective sustainable finance portfolios. For example, one local bank representative views toll road infrastructure development as part of a sustainable finance portfolio. One may argue that investment in toll road infrastructure development is not considered a green project because toll road construction often requires developers to cut down trees or displace local people. Meanwhile, others may argue that the construction of toll roads can also reduce traffic and make cars faster to reach their destination, thereby reducing carbon emissions and as such may be considered as a ‘green’ investment project entitled for ‘green’ financing.

Based on the description above, most financial institutions are still confused in interpreting the unclear provisions of the Roadmap of Sustainable Finance, especially regarding what constitutes a 'green' investment. There are various reasons underlying this, including the terms under OJK Regulation on Sustainable Finance that is not specific, and not being accompanied with KPIs or modules that describe how to implement the ESG standard into business activities of financial services institution, issuers, and public companies.

Based on OJK Roadmap II, it is known that one of the things that will be promoted is a digital sustainability reporting mechanism, where investors are expected to benefit from ease of access to ESG information that will be used in making investment decisions. However, the plan to develop digital reporting in accordance with OJK Roadmap II does not solve the two main issues regarding the OJK Regulation on Sustainable Finance, as discussed above. OJK Roadmap II only emphasizes how to ease companies in fulfilling their reporting obligations, and to ease investors in accessing information about ESG, but it does not solve the problem of (i) ESG standards in the OJK Regulation on Sustainable Finance which are still far behind when compared to international ESG regulations, (ii) no key performance indicators (KPIs) in implementing ESG. This may cause financial services institutions, issuers and public companies to interpret ESG aspects for themselves, which results in providing misleading information regarding the implementation of ESG standards, and ultimately reduces the trust of global investors towards companies in Indonesia.

The notes on the Roadmap II OJK above denote potential risks to the value of ESG investment in Indonesia, both in terms of direct investment and indirect investment. In terms of direct investment, foreign investors may be reluctant to invest in Indonesia; several scenarios that may occur include:

1. Global investors who desire to work together to establish a business in Indonesia through a joint venture scheme may face difficulties because their business partners in Indonesia do not implement ESG in their business activities or have implemented ESG but the standards are not in line with or does not reach the international ESG standards.

2. Foreign investors have the potential to diminish their investment interest under the view that similar business actors in Indonesia do not implement ESG, while foreign investors are bound by international ESG commitments (especially investors from the European Union who are bound by obligations under EU regulations and guidelines). Potential investors may perceive that, with the current state of ESG implementation in Indonesia, they will not be able to compete with local business actors in the relevant market in Indonesia. As a result, foreign investors prefer to look for other investment destination countries that have better national ESG legal framework and performance, in order to have an equal level playing field.

3. Considering that the ESG standard in Indonesia can be said to be lower than the global ESG standard, foreign investors who wish to invest in Indonesia have the potential to find it difficult to obtain funding from international banks that implements strict ESG standards.

In terms of indirect investment, the absence of clear standards/indicators related to the implementation of ESG may cause financial services institutions, issuers and public companies to interpret ESG aspects on their own, which may lead to (i) no standardization in sustainability reporting and (ii) give rise to disclosing misleading information. This will ultimately reduce the trust of global investors towards public companies from Indonesia. Without clear frameworks/indicators, the obligation of sustainability reporting, although at first glance may be seen as positive, will eventually not become effective in increasing ESG investment value in Indonesia.

## D. CONCLUSION

ESG investment policy in Indonesia, which specifically regulates sustainability reports, namely the OJK Regulation on Sustainable Finance, still lacks behind when compared to international ESG regulations/standards. In terms of reporting targets, the OJK Regulation is only limited to financial services institution, issuers, and public companies, while most international ESG regulations have a wider scope, including their applicability to direct investment and small and medium enterprises. In terms of substance or content, there are several international ESG standards that have not been covered in the OJK Regulation, namely the human rights due diligence obligations, supply chain policy standards, and the determination of KPIs for each ESG indicators. Furthermore, the Roadmap II OJK only emphasizes on how companies can be eased in fulfilling their reporting obligations, and investors can be eased in accessing information about ESG, but it does not solve the main issue on the lack of ESG standardization/indicators based on the OJK Regulation on Sustainable Finance, which in the end may reduce the trust of global ESG investors towards companies in Indonesia.

In light of this, the writer proposes a constructive recommendation for the OJK to re-evaluate the Roadmap II OJK by accommodating international ESG standards that have not been included in the OJK Regulation on Sustainable Finance, by way of amending the OJK Regulation on Sustainable Finance. Furthermore, reflecting on international ESG regulations/standards, policy makers may consider expanding the scope of continuous reporting obligations to all business actors, including but not limited to direct investment and small and medium enterprises, based on the level of and exposure to ESG risks. Through better standardization of ESG, information provided in the sustainability report will be more accurate to describe the actual ESG performance, and minimize the disclosure of misleading information, with the ultimate aim of gaining the trust of global ESG investors and attract more ESG investment to Indonesia.

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