INDUSTRY FOR TOMORROW: TOWARDS ESG IMPLEMENTATION IN INDONESIA

MANDIRI INSTITUTE – ESG REPORT 2022

Contents

Acknowledgements

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Disclaimer

Preface

Environmental, Social, and Governance (ESG) are now becoming an important aspect to reckon with in the global corporate and investment landscape.

This report provides an update on how private sectors in Indonesia implement ESG practices to date. It explores the history and the evolution of ESG. This report also discusses ESG trends in financial sectors and sustainable investing as well.

This report also collects information and data from key stakeholders, namely fund managers, retail investors, and corporates both listed and non-listed companies. This report also elaborates on policy directions of ESG in which we discuss multiple factors, existing benchmarks, and the latest development.

ESG has transformed from impact investment to business practices. The ESG term was first coined in 2006 by United Nations for the Principle of Responsible Investment Report. It now becomes mainstream.

ESG investing continues to grow. Data from Principles for Responsible Investment (PRI) suggests that total signatories and assets under management (AUM) have climbed significantly. Global ESG bond issuance reached USD930 billion in 2021. Furthermore, the positive trend of green bond issuance was recorded by almost 14 times compared to 2014.

Financial services support on sustainable development has been significant. This is reflected in The Equator Principles, which were already adopted by 134 financial institutions in 38 countries.

However, ESG investing in Indonesia, particularly in the financial market, still faces some challenges. ESG Products Offered Suffer from Lack of Product Differentiation with Sectoral and Fund Style Concentration. According to our survey, 94% of fund managers express that lack of quantitative data on ESG becomes the main hurdle. As a result, the company report serves as their primary data reference for ESG

For individual investors, the term Environmental (E) is perceived as the most important factor in ESG investing. Because individual investors are familiar with Environmental issues such as climate change and pollution. An interesting fact is that 54% of respondents look for ESG information, meanwhile, the majority of them are not aware of the availability of ESG-related funds. This highlights the importance of sharing information on ESG products with retail investors.

The majority of listed companies (53%) believe that ESG business practices will be a priority in the future. However, 60 percent of them find critical ESG-related indicators as a challenge The good news is that almost all of them would consider ESG in business practices. For listed companies, the Governance (G) aspect is the most important factor.

Three-fourths of non-listed companies are considering ESG in their business practices. Yet only 23 percent of them published sustainability reports. This is mainly due to cost as one of their main challenges. Particularly, 45 percent are unwilling to pay any costs in verifying the sustainability report.

Reporting standards are increasingly necessary as a reference for ESG implementation. Identifying factors can materially affect the business sustainability, besides risk management and mitigation as well as the capability to optimize each opportunity. ESG reports are important Not only for the companies but also for the investors.

In the policy space, consultations among the government, regulators, and business sectors are important. The Indonesian Financial Services Authority (OJK) has issued sustainable-related regulations such as POJK No 51/POJK.03/2017 on sustainable finance. Yet it remains important to develop a matrix of sustainability disclosure that is relevant to any industry. It allows comparison of sustainability performance across companies in different industries.

#01

Understanding ESG: What has been achieved so far

a. ESG: From Impact Investment to Business Practices

Global Risk Report 2022 published by World Economic Forum highlights the Societal and Environmental issues as the major potential threat to the world's economy and civilization[1]. It extends the reality of escalating risk from severe climate downgrading, social cohesion in term of widening disparity and business practice violation and malpractices. These ESG (Environmental, Social and Governance) factors contribute to the overall risk landscape beyond economical and geopolitical factor. The current analysis seems to push the paradigm changing on how business practices should be conducted where impact of non-economical factor should be perceived, treated and weighted differently in the context of business performance evaluation.

1. Short History of ESG

The issue of ESG was first reported in 2006 by United Nation for Principle of Responsible Investment Report[2] in developing guidelines and recommendations on how to integrate environmental, social and corporate governance issues in asset management, securities brokerage services, investment banking and associated research functions.

Nevertheless, the roots can be traced back to the 1800s through series of thought and world's events. Started when ethical and normative approach taken by philanthropist considered inseparable to value business performance and to business sustainability become significantly important. Terminology to explain ethical and normative could be vary (Impact Investment, Responsible investing, SRI, corporate engagement, shareholder activism and many more) but the principle is still in-line with the request for responsibility from stakeholders to create value beyond business and also non-economic factors including of- among other- business practices, equity, community involvement, customer protection, employee engagement, financial inclusion and Environment.

Business community initially recognizes "profit and loss" as single bottom line in calculating performance. Philanthropists exclude "sinful investment" that should be avoided as it can harm society and surrounding. However, they struggle to find solution to advocate broader value of business with full societal cost benefit analysis.

1) Environmental and Societal issues top eight (8) most severe risk perception facing by the world over the next three (3) years.
2) Under report published by United Nations titled "Who cares win: Connecting Financial markets to a Changing World".

"*Community Development"* came as a respond in early 1900s, emerged in African colonies on the rise of poverty and inequality to tackle problem of society, followed by *Corporate Social Responsibility (CSR)* which first contracted in 1970s between company and community and in 1990s the first framework for CSR assessment drafted by Donna J. Wood. In 2007, American management guru, Michael Porter introduced *Creating Shared Value (CSV)* to include social role in company strategy in stages of value chain from production, packaging to marketing. These concepts brought "Single Bottom Line" to "Triple Bottom Line" approach where business valued from the perspective of profit, people and planet cohesively: integrated, reported and ratified by United Nation.

Few events in world's history such as Apartheid and Vietnam War showed ethical approach utilized to exclude negative investment from Investment portfolio. In addition to that Triple Bottom Line was pushed to follow Quadruple Bottom Line (the inclusion of Governance) driven by the global financial crisis of 2008, brought a renewed awareness of corporate governance improvement. The emerge of various company scandal escalate requirement for a better corporate governance practice around the world.

Later, *The Paris Agreement,* from ecological perspective, for the first time, brought a binding agreement that brings all nations into a common cause to undertake ambitious efforts to combat climate change and adapt its effects to address global risk exposure produced by climate action failure, extreme weather, biodiversity lost, human environmental damage and natural resource crisis.

2. ESG Evolution

According to AVPN-Oliver Wayman analysis, ESG face evolutionary process when it comes to implementation. There are 3 (three) stages defining the journey, Early stage (Embark on the ESG Investing Journey), intermediate-stage (Become an ESG Expert) and advanced stage (Advocate ESG Investing). Countries will have their unique different journey and path comparatively.

Roadmap of the ESG Investing Journey
Different regions are at different stages of the journey

Call to action	**Early stage** "Embark on the ESG investing journey"	**Intermediate stage** "Become an ESG expert"	**Advanced stage** "Advocate ESG Investing"
ESG adoption	Low		High
Return expectation F = Financial E = Environmental S = Social G = Governance	F VS. G S E	F + G S E	F G S E
	Trade-off between financial returns and ESG impact	No trade-off, financial returns and ESG impact are achievable	ESG lens echances financial performance
Investment approach Based on GSIA investment strategies	Negative screening (i.e. exclusions)	In addition to early-stages: positive screening, ESG integration and thematic investing	In addition to Intermediate-stage: corporate engagement (direct or through investment manager)
Guiding principles	Limited, some consideration of external resources	Internal frameworks combined with external information as overlay	Sophisticated analytical models and frameworks built in-house
Challenges	Mindset, knowledge, awareness	Performance track record, education	Supply, e.g. investment managers and products

Source: AVPN-Oliver Wyman Analysis

Unlike developed countries, Indonesia is still considered in early-stage on ESG investing journey. ESGs is still treated as cost as opposed to investment, creating trade-off between financial return and ESG impact. However, driven by new regulation on sustainable finance (POJK No 51/2017, Roadmap Sustainable Finance phase 1 and 2) and recent G20 presidency and its commitment to climate change, Indonesia experience acceleration in ESG awareness during the past three years signed by significant number of ESG based funds released and ESG leader index launched to cater investor's appetite. Not to mention projects and initiatives that has been put into pipeline in order to respond to the new "norm"/business model. However, we still witness a question mark whether the awareness leads to a potential full ESGs adoption.

3. A Paradigm Shifting, Beyond Trend

ESG current development is combination of *ethical-normative* and *risk-pragmatic* reason. The ethical reason bundled with increasing risk exposure in one hand but also increase demand to have it mitigated on the other hand driving business opportunity creation. The reason behind the rise of ESG in corporate management lies that investors and rating agencies (MSCI Global ESG Index or Dow Jones Sustainability Index) begin to use ESG as a basis to evaluate corporate value and therefore bring significant implication afterward in how company will have access to capital to build and manage corporate reputation.

In theory and practice, we've entered the era of stakeholder capitalism where corporate 'purpose' is about maximizing long-term value to serve the interest of all stakeholders not merely shareholder and perceived well by investor. As a result, ESG believed stand out as the new paradigm beyond trend as it will affect business in structural way and create certain trajectory amid dynamic impact of geopolitical factors from Russia-Ukraine tension, rise of commodity prices and energy affordability. The shift in paradigm comes from an awareness that businesses are embedded in much larger social, cultural, political, and ecological systems, where the role of firms is not only profit maximization but also contributing to create a flourishing world.

World Economic Forum define three paradigm shifts from ESG, firstly is "Message to Meaning" (ESG incorporates transparent and specific metrics that bring a new layer of meaning to impact storytelling). Secondly is "Silos to System" (ESG issues are intersectional by nature and requires a system-based approach to management) and thirdly is "Cost Saving to Value Creation" (ESG acts as a strategic lever on a company's purpose and business practice, thereby driving sustainable growth and performance). It echoes by Harvard Business Review through its special publication on "Leading with purpose", also Pavez, Kendall and Laszlo (2020) who put positive-impact companies become a new paradigm of value creation in business.

ESGs is at the center focus and attention, endorsed by global movement conducted by many organizations from government (G20), international (United Nation through MDGs, SDGs and Global Compact initiative) to private organizations (Knight Global 100 most sustainable business in the world, where the aim is to reinforce, raise awareness and showcase, annually, world leaders in corporate sustainability, including those that have been able to balance environmental performance, social performance and economic performance while delivering superior returns to investors).

From pragmatic point of view, ESGs is benefited by the current dramatic increase of ESG-related regulation (more than 500 regulations applied around the world)[3]. In term of performance, the business case for ESG investing is empirically well- founded where 90% of studies examined showed a nonnegative ESG–CFP (*Corporate Financial Performance)* relation[4]. ESG's performance represented by Dow Jones Sustainability Index (DJSI) or ESG leaders index relatively outperform market index. The Global 100 made a net investment return of 127.35%, compared to 118.27% from the MSCI All Country World Index (ACWI).

The challenge is whether ESGs will be misunderstood and viewed only for its pragmatic reason without constructed by a proper integration of ethical elements in the way corporate should operate its business. Ideally, ESGs should be treated as a building block from overall stakeholder's value creation not merely a scorecard. A building block consists of solid foundation of Corporate Governance practice and complemented by bold commitment to societal and ecological factors. The role of corporation in the fast-changing paradigm would be a key factor to the success of the transition, from Impact Investment to "new" Business practice, where the option available is *"If you can't beat them (ESGs bandwagon), then join them".*

3) PRI (principle for Responsible Investment) statistics, 2020.
4) G. Friede, T. Busch, A. Bassen, "*ESG and financial performance: Aggregated evidence from more than 2000 empirical studies*," Journal of sustainable finance & investment, 5, no. 4 (2015): 210–233.

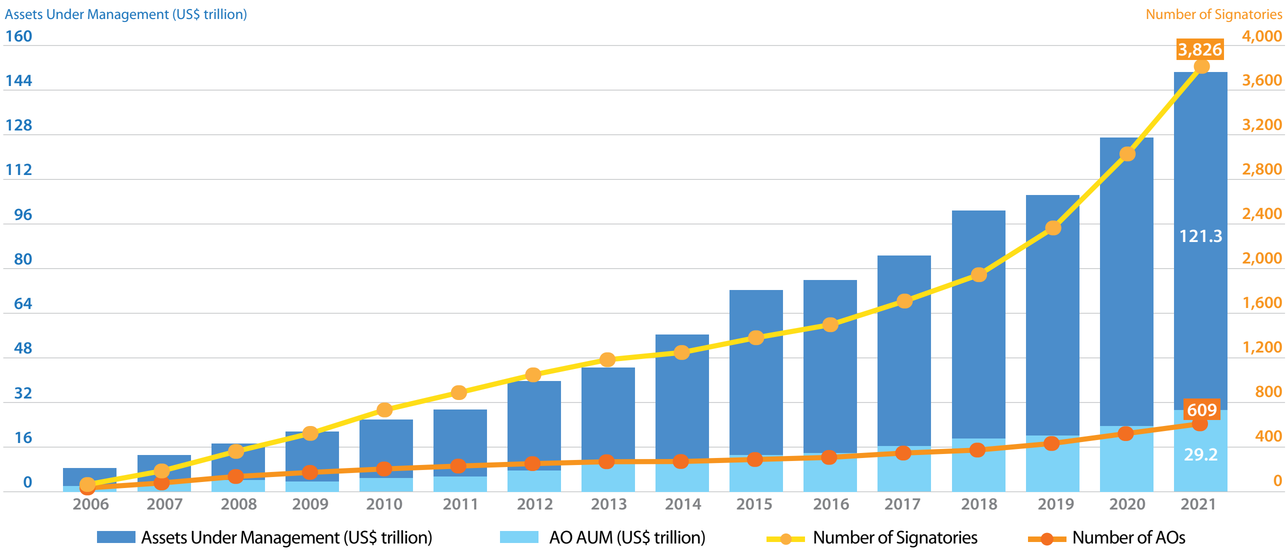
b. ESG Investing and Trend in Financial Sectors

1. ESG Investing: Global Trend

Investment trend using ESG approach continues to grow, particularly referring to the data of Principles for Responsible Investment (PRI) saying that total signatories and asset under management (AUM) have climbed significantly.

PRI signatory growth in 2020–2021

AUM, total number of signatories and number of asset owner signatories all increase

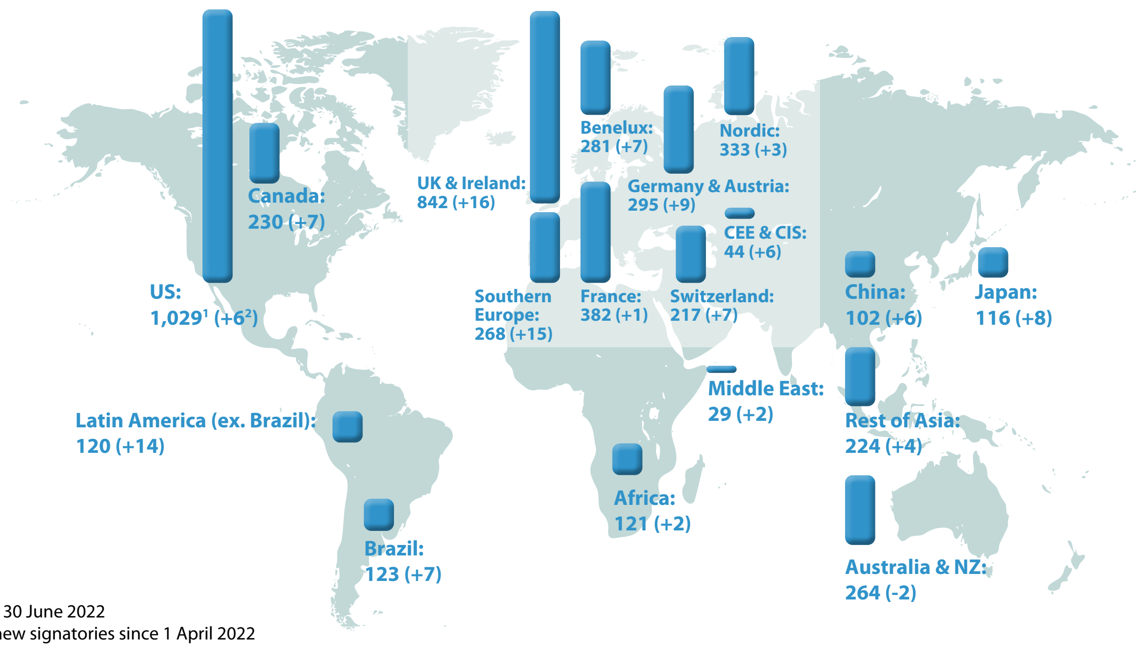


*) Total AUM include reported AUM and AUM of new signatories provided in sign-up sheet that signed up by the end of March of that Year

Source: Principles for Responsible Investment

More than 5,020 investors worldwide

Have signed the Principles for Responsible Investment



1) As of 30 June 2022
2) Net new signatories since 1 April 2022
3) Principles for Respondisble Investment

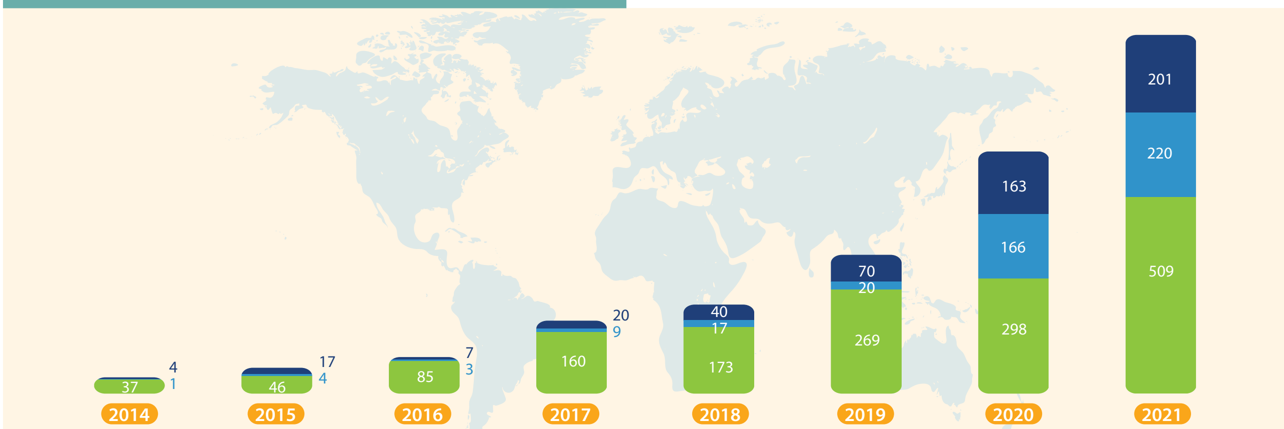
Likewise, data of bonds issued showed a significant increase and higher interest in ESG-based bonds worldwide.

As the traditional bonds issued by a government or a business entity to fulfil their financial needs, the ESG-backed bonds issued with aim at realizing a sustainable development continues to increase significantly.

ESG-backed bonds are categorized based on purpose or levels to achieve, whether it is green, social or sustainability bond. Green bond is a financing instrument to deliver environmental benefits, including climate change mitigation, use of renewable energy, conservation of land and sea ecosystems, waste management and the others. Other benefits the bond deliver include social projects, such as pandemic (other health issues), gender equality, human rights respectfulness, access to affordable housing, education, and other social impacts. Meanwhile, those categorized as sustainability bonds are the bonds that mix social and environmental impacts. Activities include building awareness of the importance of sustainability, and other SDG and ESG related projects.

According to Climate Bonds Initiative, green bonds have taken up bigger portion compared to the others. Environmental issues have drawn huge attention from investors. The rising awareness of environmental issues with the long-term effects on life has driven global communities to take a real action on them. They have taken seriously about the importance of renewable energy and the climate change impacts both social and economic aspects.

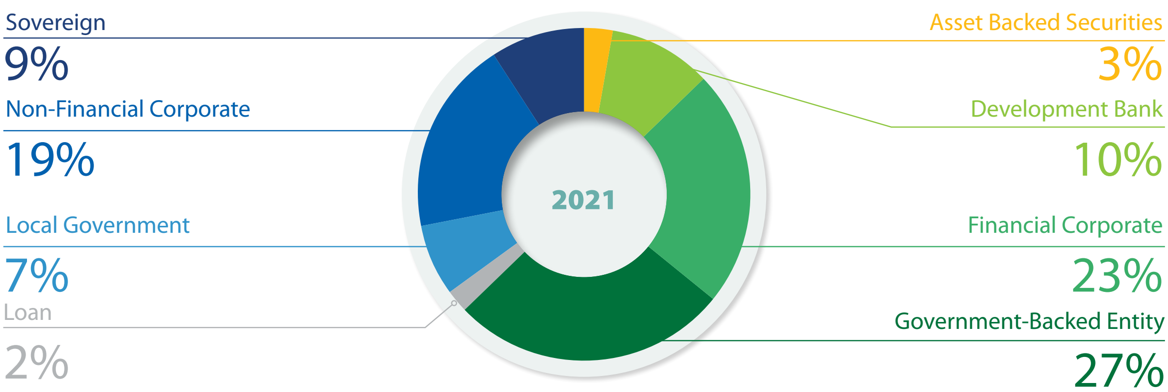
Issuance based on type of bonds ($ billion)



Source: Climate Bonds Initiative

Government-Backed Entities are dominating

The data said that the Climate Bonds Initiative are dominating in green bond issuance. This indicates government's huge responsibility to actively promoting the sustainable development through the state-owned entities. Then sectors like Financial Corporate, Non-Financial Corporate, Development Bank will follow them in.



Source: Climate Bonds Initiative

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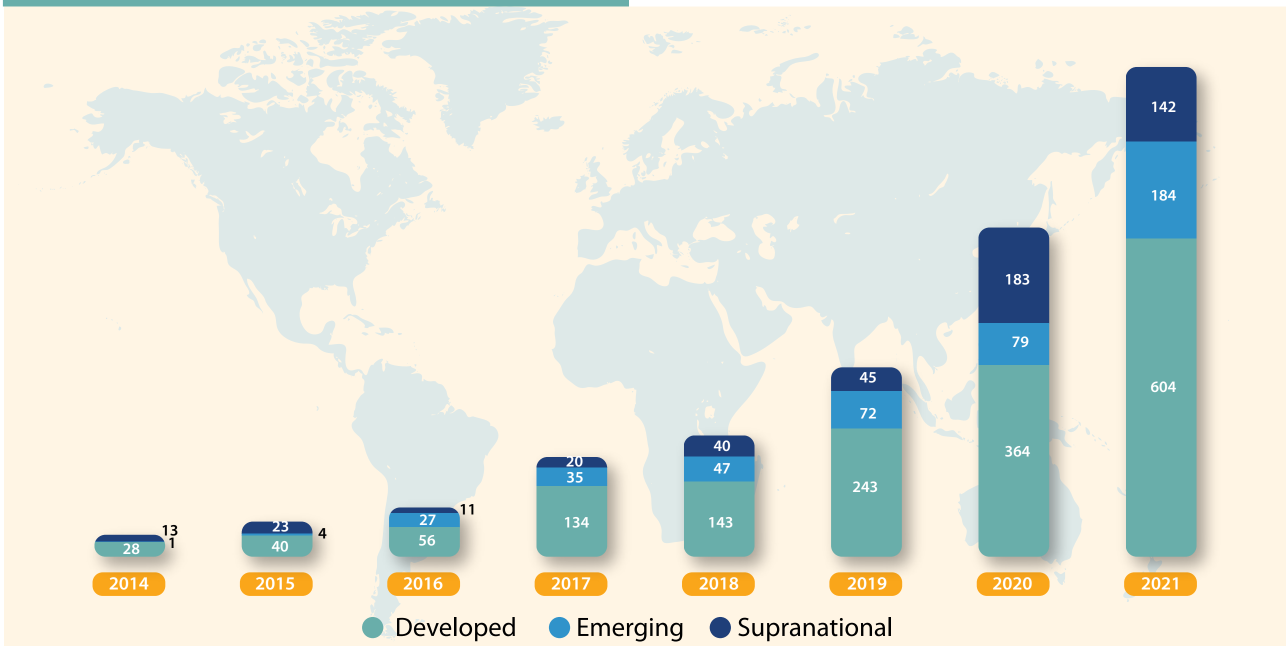
What has been achieved so far

Positive trend in global ESG bonds issuance

Developed countries still lead the green bond issuance globally. It is understandable since the developed nations have better awareness, financial capabilities, and have supportive regulations and policies on ESG. However, the green bond issuance in developing countries is considerably growing.

Issuance by market ($ billion)



Source: Climate Bonds Initiative

ESG Investing: In needs of better understanding

Survey conducted by Mandiri Institute on asset managers in Indonesia exposed one interesting finding. The survey suggested the discrepancy between expectations at the time of launching ESG products and the challenges in offering ESG products thereafter. Cause for the discrepancy might be a result of time lag where survey is made during period of rising commodity prices (Bloomberg Commodity Index +23.3% 06/29/21-06/27/22), where ESG Funds due to indices constructions was underperforming, dampening demand for the products as indicated in Fig 2 by declining AUM of KEHATI Mutual Funds.

In the write up, we will discuss the journey of Indonesia's ESG Funds (especially in equity, where the majority of the ESG funds are), challenges it faces, and lessons learnt.

Strong Performance, Rising Attention

SRI KEHATI Fund returns has outperformed its ESG Indonesia Indices Peers and Indonesia 45 large cap most liquid companies (Table 1). The outperformance of the earliest SRI KEHATI product (PREMIER ETF SRI-KEHATI) posted in the last 5 years versus its conventional peers has attracted launches of similar ESG funds not only using KEHATI but also from other index providers. Table 2 listed the arrival of new ESG index funds in the last 5 years and the offering of new indices.

Table 1. Performance of SRI KEHATI – Based Index Funds

	YTD	1 YR	3 YRS	5 YRS
KEHATI ETF Funds	IDR Return (%)			
Premier ETF SRI KEHATI	8.6	24.3	-0.4	14.5
Allianz (dh RHB) SRI KEHATI	7.6	21.8	-4.3	NA
Insight SRI KEHATI Liquid	8.0	22.7	-4.2	NA
Simas SRI KEHATI	7.6	16.3	-7.2	NA
BNP Paribas SRI KEHATI	6.9	21.6	NA	NA
Batavia SRI KEHATI ETF	8.4	23.9	1.0	
Panin SRI KEHATI	Fund Fact Sheet not found			
SAM ETF SRI KEHATI	7.0	21.1	NA	NA
Indonesia ESG Indices vs LQ45				
SKEHATI	5.9	21.6	-4.4	8.8
MSCI IND ESG Leaders	-0.5	14.0	NA	NA
FTSE IND ESG	2.4	16.1	NA	NA
MSCI IND ESG Screened	-0.3	13.4	NA	NA
LQ45 (NON ESG) Index	6.5	17.4	-2.2	1.5

Source : Fund Fact Sheets

Table 2. List of Indonesia ESG Funds on offering as of June 30, 2022

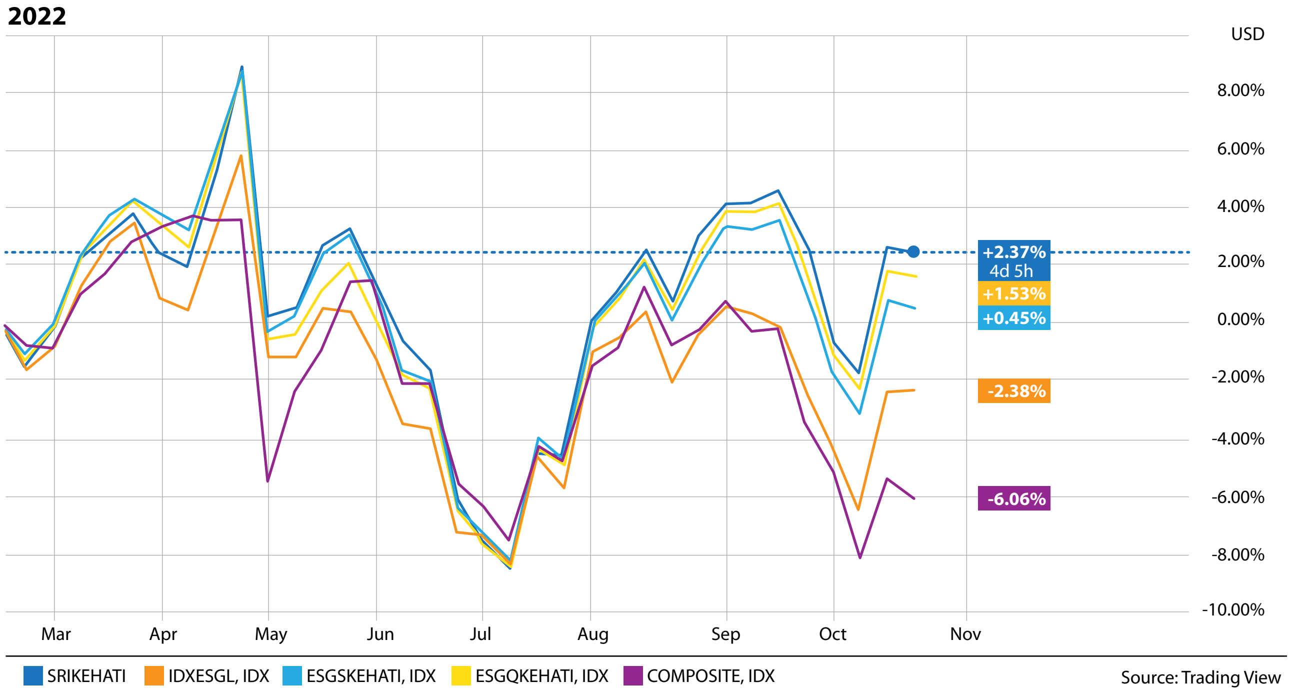
			Launch Date	AUM IDR billion (as of June 30, 2022)
Index Fund (SRI KEHATI)				
1	PT Inda Premier Investment Management	Premier ETF SRI-KEHATI	26/09/2014	484.1
2	PT AGI Asset Management Indonesia	Allianz (dh RHB) SRI-KEHATI Index Fund	8/11/2017	114.4
3	PT Insight Investments Management	InsightSRI-KEHATI Likuid	29/03/2018	105.0
4	PT Sinarmas Asset Management	Simas SRI-KEHATI	14/05/2018	20.3
5	PT BNP Paribas Asset Management	BNP Paribas SRI-KEHATI	29/11/2018	697.2
6	PT Batavia Prosperindo Aset Manajemen	Batavia SRI-KEHATI ETF	21/03/2019	36.9
7	PT Panin Asset Management	Panin SRI-KEHATI	13/11/2019	10.0
8	PT Samuel Asset Manajemen	SAM ETF SRI-KEHATI	13/05/2020	10.0
Index Fund (Non SRI KEHATI)				
1	PT Pinnacle Persada Investama	Pinnacle Indonesia ESG ETF	2/2/2018	6.5
2	PT BNI Asset Management	BNI-AM ETF MSCI ESG leaders Indonesia	9/1/2020	583.1
3	PT Syailendra Capital	Syailendra ETF MSCI Indonesia ESG Universal Screened	5/5/2020	14.7
4	PT Danareksa Investment Management	Danareksa ETF MSCI Indonesia ESG	23/12/2020	18.2
5	PT Inda Premier Investment Management	Premier ETF FTSE Indonesia ESG	25/03/2021	9.4
6	PT FWD Asset Management	FWD Asset IDX ESG leaders ETF	15/12/2021	4.0
7	PT Cap ital Asset Management	Capital ETF IDX ESG leaders	28/04/2022	-
8	PT Mandiri Manajemen Investasi	Mandiri Indeks FTSE Indonesia ESG	17/05/2022	NA
Active Fund				
1	PT Sucorinvest Asse t Management	Sucorinvest Sustainability Equity Fund	27/10/2021	10.4
2	PT Eastspring Investment Indonesia	Eastspring IDX ESG leaders Plus	12/1/2022	3.3

Source : KEHATI website, IDX website, fund fact sheet.
Notes : Funds listed are funds that still open for public to subscribe and benchmarked against ESG Indices Data for Syailendra ETF MSCI Indonesia ESG Universal was as of 30 May 2022.

IDX ESG Index

Sri Kehati	ESG Leaders (ESGL)
Issuer with ESG score above reference point, passed controversy & negative list screening, acceptable financial & liquidity screening (June 2009) Top 25 of approved companies	Constituent of IDX80 with Sustainalytics ESG risk score below 30 and controversy score of 1 to 3 (December 2020) 15 – 30 companies with lowest scores
ESG Sector Leaders Kehati (ESGS) Based on Sri Kehati methodology, companies with ESG score above sectoral average (December 2021)	**ESG Quality 45 Kehati (ESGQ)** Based on Sri Kehati methodology, Top 45 companies with the best Composite Score of ESG and Financial Quality score (December 2021)

ESG Index Performance (year-to-date)



Source: Trading View

"However, hype wasn't met with reality"

The excitement of products launches, however was not met with the reality of AUM collected.

AUM as Total of AUM Mutual Fund is Small and Concentrated

The data we obtained from a number of ESG index mutual fund products that are currently offered, show assets are concentrated in ***three products from three asset managers, which in total covered 83% of the total ESG index-based mutual fund products (Table 1)***. However, these ESG funds are still smaller than the conventional funds offered by the same fund manager. ***As percentage of equity mutual fund (exclude index fund as the category is mixed with other asset class index fund), ESG indexed fund was only 1.7% of total AUM per June 30, 2022. During discussions with the asset managers, the difference in AUM can't be confidently attributed to fund performance superiority or capability to attract clients. However, from asset management industry player perspective***, these three funds belonged to asset managers who has track record in dealing with institutional clients, which are the driver for ESG fund AUM.

The majority of ESG mutual fund products offered are in the form of index mutual funds, which allow ownership of more than 10% for one share (maximum ownership of one type of share for actively managed mutual funds is 10%). In addition, index mutual funds also provide convenience in management because there is no need for active management which requires an ESG-based investment process.

Challenges in Understanding ESG

Survey conducted by Mandiri Institute on asset managers in Indonesia exposed one interesting finding. ***The survey suggested the discrepancy between expectations at the time of launching ESG products and the challenges in offering ESG products thereafter.*** When issuing ESG products, 64% of asset managers stated that they expect ESG products will expand their client base, and at the request of clients. But at the same time, when asked what are the challenges faced in offering the products, 44% stated the lack of demand from investors/clients and 61% stated the lack of understanding of ESG issues.

The "Lost in Translation" phenomena which also indicated in the survey might due to: (1) limited knowledge on impact of ESG in improving investment decisions, with the survey mentioned lack of understanding and difficulty of ESG data sourcing, (2) lack of understanding on factors affecting the performance of ESG mutual funds. Inability to answer these aspects will create, in our opinion, difficulties in 'positioning' ESG products in the investment product offering, especially in equities as an asset class in Indonesia. Emphasis is placed on equities since other asset classes, such as fixed income, are mostly invested in government bonds or protected mutual funds in the form of one type of corporate bond locked till maturity.

ESG Products Offered Suffer from Lack of Product Differentiation with Sectoral and Fund Style Concentration

Sectoral Concentration

Of the 5 Indonesian ESG equity indices, the number of companies in the 10 largest constituents consists of only 22 names, with ***Financial and Communication Services sector combined, ranging from 63% to 79%.*** Thus, the performance of portfolio based on the Indonesian ESG indices will strongly correlated with the performance of the two sectors (Table 3). ***The heavy concentration resulted in funds underperformance during the period of rising commodity prices which explained the losing client interest in the products.***

Funds Style Dominated by Size and Volatility Factor

By referring to the Fact Sheet data of June 30, 2022, MSCI Indonesia ESG Leaders (Figure 1), and by looking at the similarity of sectors and the composition of the majority of the indices, it can be concluded that the ***performance of Indonesia ESG Indices is significantly influenced by the performance of equities with large capitalization and low volatility.*** This phenomenon is no different from the phenomenon that occurs in other parts of the world where companies with high ESG values are large-cap companies that do have a good monitoring infrastructure.

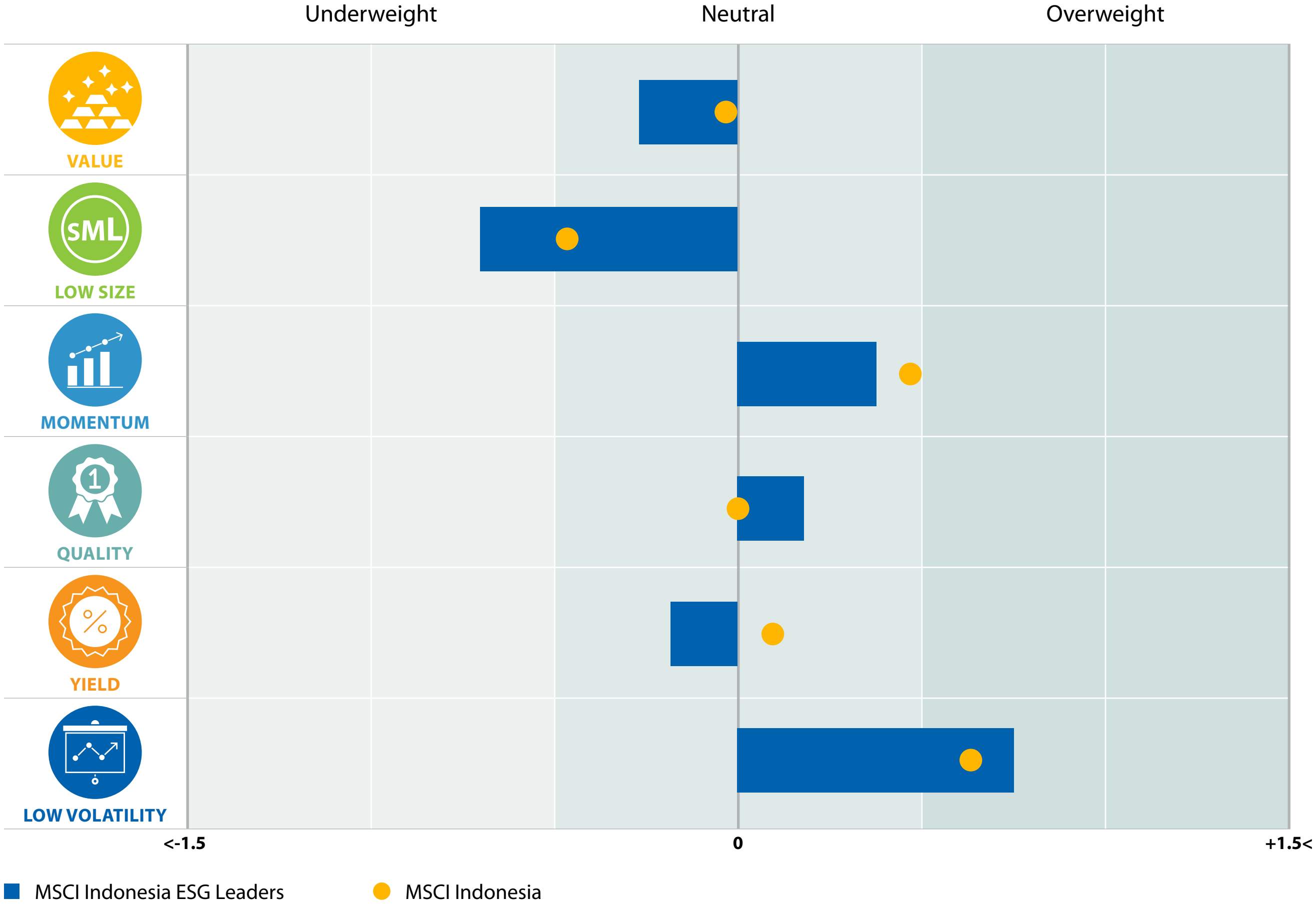
Table 3. Sectoral Composition of Indonesia ESG Indices

% (As of June 30, 2022}

	SRI KEHATI	MSCI IND ESGL	MSCI ESG SCR	FTSE IND ESG	IDX E SGL
Sectors					
Communication Services	13.6	25.8	16.1	17.7	23.3
Consumer Staples	6.9	4.2	11.0	9.9	11.2
Consumer Discretionary	12.4	-	-	8.2	4.7
Energy	5.2	-	-	-	0.7
Financials	49.4	53.7	60.7	49.4	46.4
Health Care	3.4	4.1	2.3	1.9	1.3
Industrials	1.7	-	-	6.6	3.9
Information Technology	-	-	-	-	2.0
Materials	4.9	12.3	10.0	5.0	1.6
Real Estate	0.7	-	-	0.5	3.8
Utilities	1.9	-	-	1.0	1.2
	100.0	**100.0**	**100.0**	**100.0**	**100.0**
TOP10 (Alphabetical Order)					
1	ASII	ANTM	ARTO	ASII	BBCA
2	BBCA	BBCA	BBCA	BBCA	BBNI
3	BBNI	BBNI	BBNI	BBNI	BBRI
4	BBRI	BRPT	BBRI	BBRI	BMRI
5	BMRI	INKP	BMRI	BMRI	BSDE
6	INDF	KLBF	CPIN	EMTK	JSMR
7	KLBF	MDKA	KLBF	INDF	MNCN
8	TLKM	TBIG	MDKA	TLKM	TLKM
9	UNTR	TLKM	TLKM	UNTR	TOWR
10	UNVR	UNVR	UNVR	UNVR	UNVR

Source : Fund Fact Sheets, Bloomberg.
Notes : Top 10 stocks are tickers used in Indonesia Stock Exchange.

Figure 1. Key Exposures That Drive Risk and Return MSCI Factor Box



Source : MSCI Indonesia ESG Leaders Fund Fact Sheet as of June 30, 2022.

ESG: Tools to Create Sustainable Performance

Paper authored by Mario La Torre, Fabiomassimo Mango, Arturo Cafaro and Sabrina Leo ("Does the ESG Index Affect Stock Return?" Evidence from the Eurostoxx50, 7 August 2020) found that the ESG factors affect returns; the selected "ESG Overall" index contributes only to a very small extent when modelling returns. The result corroborates other findings which suggest that current ESG indices and ESG scoring has low predictions in assessing corporate ESG quality.

(Sanjai Bhagat, *An Inconvenient Truth About ESG Investing*, Harvard Business Review, March 31, 2022)

Indonesia's asset managers quick-easy approach to offer ESG product credentials has proven to be effective for early entry player Indopremier and selected players, while the remaining, languished as lack of differentials, did not add value to clients. However, there is a chance to differentiate if asset manager is willing to walk a further mile by embedding ESG factors into their investment process as has been indicated by the paper above.

We believe return and the choice of ESG-fund for investors portfolio is not a two set with intersection, where if it does not fall in the intersection, the funds is not investible. Embedding ESG in portfolio investment decision making process improved portfolio's earnings sustainability assessment. ESG impact will take time to materialize, and the decision to invest will depend on their investment horizon.

Integrating ESG as investment philosophy can equipped: (1) asset managers with better corporate and product positioning, (2) and helping client to better understand where best to put ESG products in their portfolio.

Journey of SRI-KEHATI Indices

Yayasan Keanekaragaman Hayati (KEHATI) was formed on January 12, 1994 and is intended to collect and manage resources which are then channeled in the form of grants, facilitation, consultation and various other facilities to support various programs to preserve Indonesia's biodiversity and use them in a fair and sustainable manner.

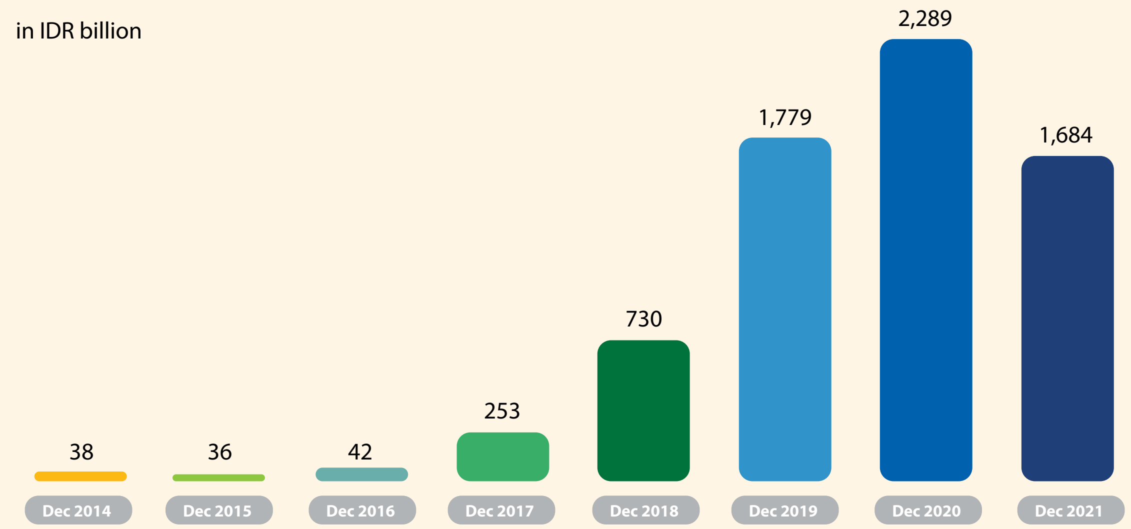
On June 8, 2009, Kehati published a green index named the 'Sustainable and Responsible Investment' (SRI)-KEHATI Stock Index.

With reference to the United Nations' Principles for Responsible Investment (PRI) as well as environmental, social, and governance (Environmental, Social and Good Governance) principles, SRI-KEHATI has become the choice of asset managers in Indonesia and is currently the benchmark measure for 8 products with IDR 1,478 billion of funds under management (as of 30 June 2020) from 8 asset managers.

Until now the KEHATI Foundation has issued stock index products based on ESG (Environmental, Social, and Governance), namely: (1) SRI-KEHATI stock index, (2) ESG Quality 45 IDX KEHATI, and (3) ESG Sector Leaders IDX KEHATI. These three stock indexes were launched by KEHATI in collaboration with the Indonesia Stock Exchange (IDX/IDX); where the SRI-KEHATI stock index has been launched since 2009, while the other 2 indices were launched on December 20, 2021.

SRI-KEHATI stock index, which is the oldest SRI/ESG index in Indonesia, implements a process of screening which exclude of companies involved in negative sectors, to then filter the company's financial and ESG criteria. The selected companies are companies listed on the Indonesia Stock Exchange.

Figure 2. SRI-KEHATI Mutual Funds AUM



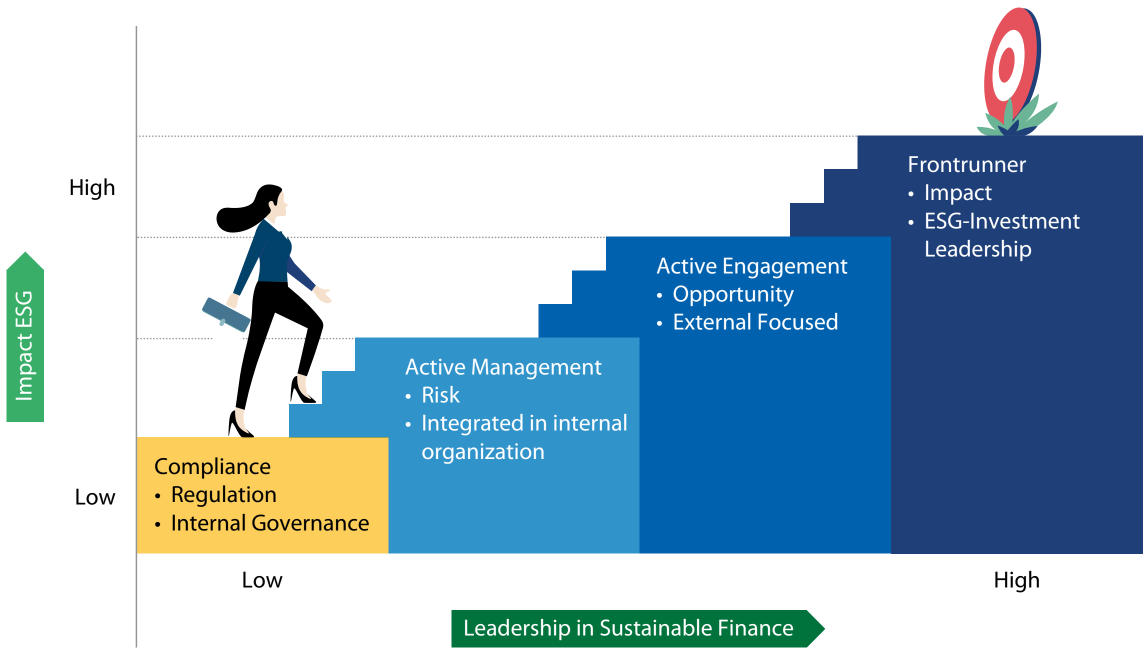
Source : KEHATI

2. ESG Implementation in Financial Services

The financial services industry's support for economic growth and sustainable development is very important. The industry directly and indirectly contributes to addressing environmental issues, such as climate change through low carbon manufacturing, renewable energy and energy efficiency. Likewise, relating to social issues, the financial services industry can play a role in alleviating poverty and hunger, reducing all social inequalities and respecting human rights.

Global initiatives to encourage financial institutions to support sustainable development are reflected on The Equator Principles, which were already adopted by 134 financial institutions in 38 countries. They are committed to continuoulsly encouraging and promoting environmental and social sustainability.

One of the applied policies is not to provide loans that do not meet social and environmental requirements. The United Nations Environment Program Finance Initiative (UNEP FI) is a global partnership established between the United Nations Environment Program (UNEP) and the financial sector to advance sustainable market practices. More than 400 financial institutions holding assets of more than US $ 80 trillion and spread in more than 85 countries have joined in the initiative and voluntarily adopted the principles contained in the Principles for Responsible Investment (PRI), Principles for Sustainable Insurance (PSI), and Principles for Responsible Banking (PRB).



EU's Plan for ESG Investment

The Technical expert group on sustainable finance (TEG)'s tasks are to assist the Commission, notably in the development of a EU taxonomy, an EU green bond standard, methodologies for low-carbon indices, and metrics for climate-related disclosure.

Regulations/Framework

In 2019, the Commission presented the European green deal, a growth strategy aiming to make Europe the first climate-neutral continent by 2050.

Sustainable Finance regulation in the EU focusses on incentivizing flow of capital to green as defined by the EU's net-carbon neutrality by 2050 goal using Sustainable Finance Disclosure Regulation (SFDR), EU Taxonomy, and EU Green Bond Standard.

Incentives/Initiatives

The Commission presented on January 2020 the European green deal investment plan, which will mobilize at least €1 trillion of sustainable investments over the next decade.

The EU needs to invest approximately 350 billion Euro more every year during the 2021-30 decade than it did during the previous decade, in order to meet these 2030 climate and energy targets.

Education/Advocacy

The High-level expert group on sustainable finance (HLEG) comprised 20 senior experts from civil society, the finance sector, academia and observers from European and international institutions. Its role was to provide advice to the Commission.

The EU Taxonomy Regulation sets mandatory requirements on disclosure, with the aim of providing transparency on environmental performance.

Singapore's Plan for ESG Investment

>80% of top asset managers in Singapore are already United Nations Principles for Responsible Investments ("UN PRI") signatories.

Regulations/Framework

Since 2016, mandatory sustainability report (comply-or-explain basis) for listed companies. Phasing towards fully mandatory starting 2023.

Sustainability report component framework and core metrics from SGX (the Guidelines and Rule on Sustainability Reporting) and SGX Listing Rules.

Internal audit and review of sustainability reporting processes, starting January 2022.

Incentives/Initiatives

Board diversity policy, target and timeline for gender & other relevant aspects in listed companies' annual report, starting January 2022.

Consultation space with SGX regarding sustainability reporting.

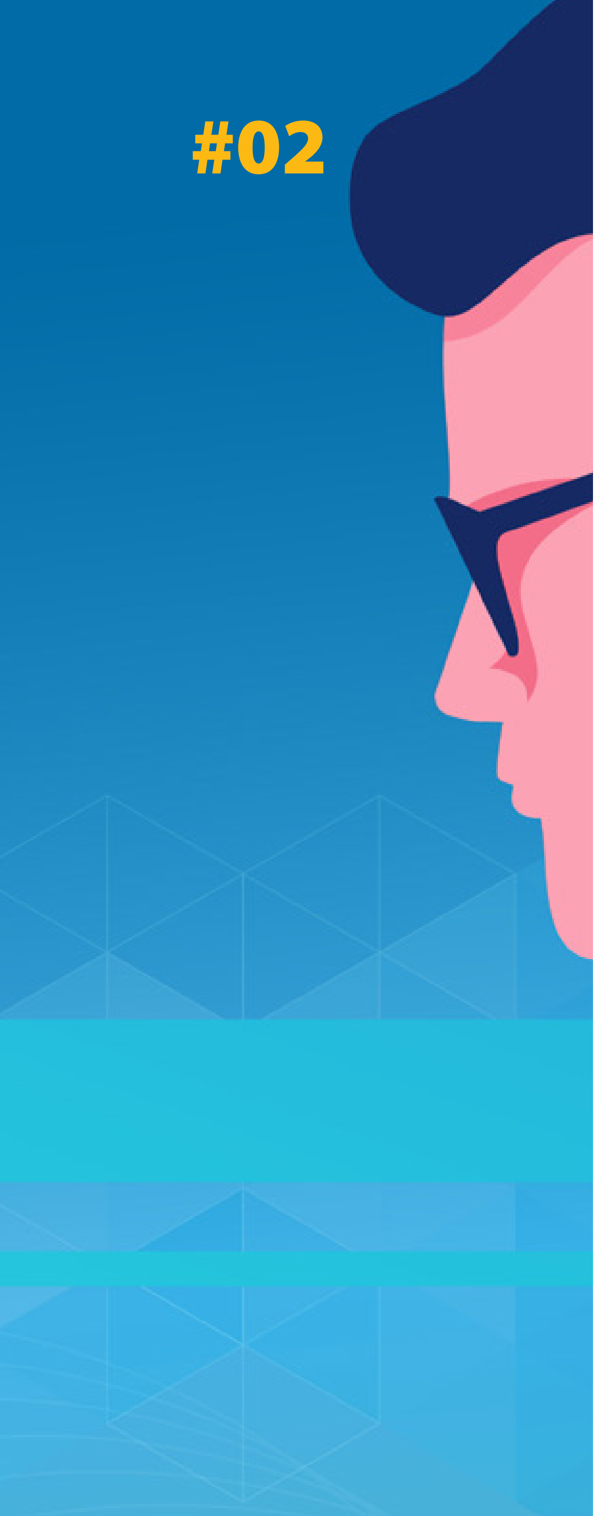
Green and Sustainability-Linked Loan Grant Scheme, Green Bond Framework Singapore Stewardship Principle for Responsible Investors.

Education/Advocacy

Sustainability training for all directors, at least once starting January 2022.

Sustainable Investing & MAS Guidelines on Environment Risk Management from Investment Management Association of Singapore .


Environment
Social
Governance



#02

How we perceive ESG?

Surveys from Private Sector

We would like to use this opportunity to gather information about the importance of ESG from the perspective of investors that have various characteristics. We will portray the investor profile in Indonesia's capital market and seek information about their perception as well as the progress of ESG development in Indonesia. We will also figure out the challenges and policies that are necessary to help advance the ESG development today and in the future.

a. ESG Investing: A Survey from Fund Managers

Mandiri Institute's ESG Fund Manager Survey ™ were conducted in May 2022. In the survey, we conducted interviews with 18 Indonesian based fund managers, 3 of which are based in Singapore. These respondents came from both local and foreign subsidiaries asset management and cover IDR 649 trillion or more than 85% of total AUM (Asset Under Management) in Indonesia.

14 fund managers claimed to manage ESG fund within their portfolio, which averagely comprise 10% of their total AUM. 50% of the total respondents are part of PRI (Principles for Responsible Investment) signatories, which reflects adequate understanding and demonstrating asset management's commitment to build a more sustainable investment environment.

ABOUT THE SURVEY

18	Indonesian Fund Managers	14	Fund Managers has ESG Fund
649T	AUM IDR		**With**
		10%	of total AUM
50%	of respondents are PRI signatories	3	Overseas FM interviewed

#02 How we perceive ESG?

Surveys from Private Sector

KEY FINDINGS

7.2 average score of ESG importance

56% believe ESG investment will be a priority

However...

61% find understanding ESG as a challenge, as reflected by how each fund managers implement ESG to investing strategy

To enhance ESG adoption

64% of fund managers have conducted active ownership through multiple channels as they belief it will benefit all stakeholders

78% Offered ESG Fund

32% CAGR for ESG Mutual Fund

94% Express that lack of quantitative data on ESG become the main hurdle. As a result, company report serves as their primary data reference for ESG

6 Fund Managers Developed proprietary tools or frameworks to establish their own ESG scoring

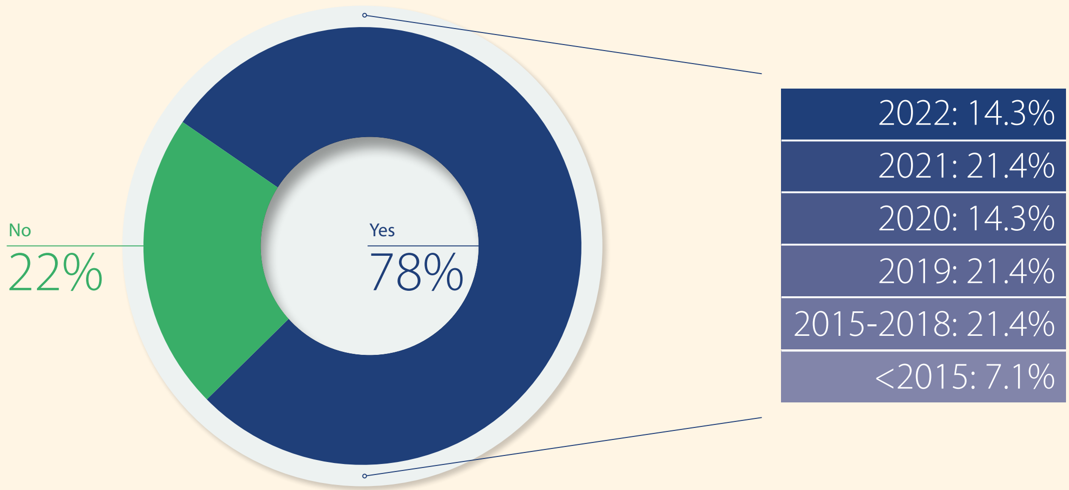
&

4 of them Subscribe 3rd party ESG data providers

Most of our respondents have offered ESG Products

The majority of them offered ESG products after 2015.

First Offering of ESG Products

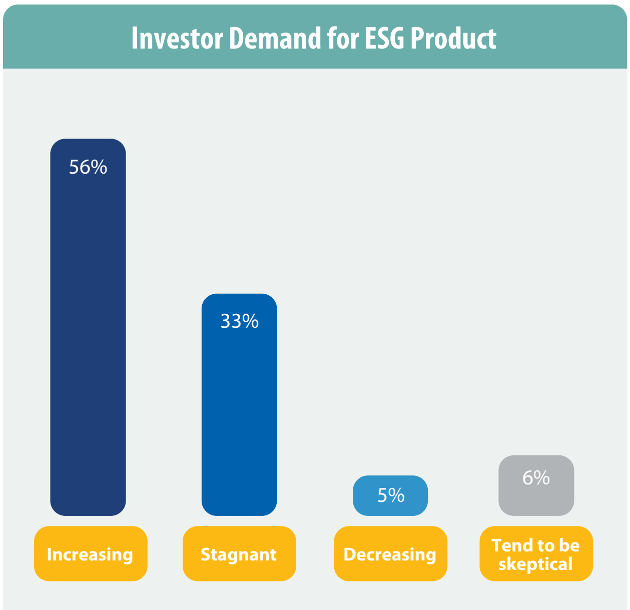


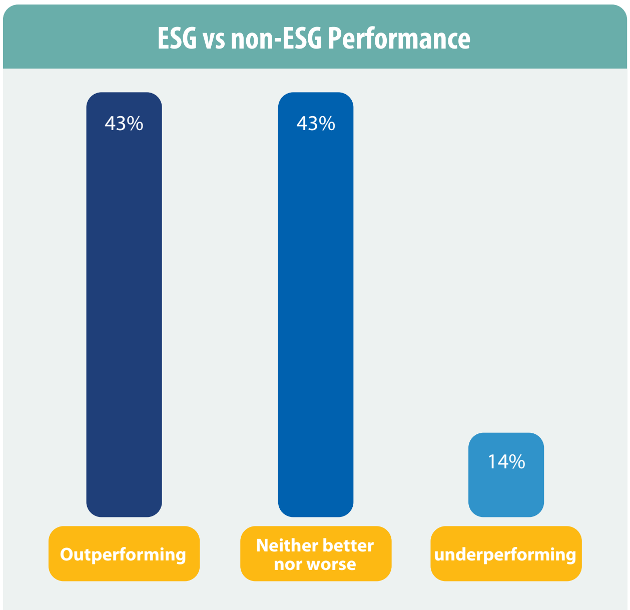
Growing trend in ESG product offering

78% of respondents have issued ESG product and 22% will start to issue ESG products.

The surge in ESG-related fund offering inline with its demand hike

56% of respondents acknowledge an increase in demand for ESG product.





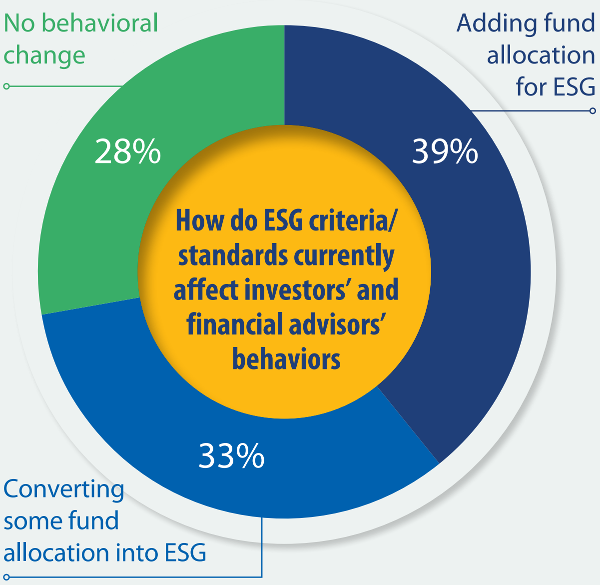
… even under commodity & energy price "super cycle"

In situation where post-pandemic recovery efforts are still ongoing and demand for commodities jump yet overshadowed with supply disruption, we have seen commodities reach their record prices. Meanwhile, the war of Russia-Ukraine, which are both the world's exporting countries for commodities like crude oil, coal and wheat, has weighed in the situation. With inflationary pressures climb which push central banks around the world to take tight monetary measures, World Bank and other prominent global institutions have all warned of the possibility of the world plunge into recession by 2023. Some ESG-related funds give a better or equal return.

Those result to increase ESG portfolio allocation

We see there's a trend in increasing ESG portfolio allocation, however it is not a priority yet in the future for investors. The increases is seemingly more driven from additional new funding allocation (39%) or converting conventional portfolio to ESG-related products (33%). We also see that although general awareness on ESG concern is rising, it is more driven by the institutional investors side, compared to retail. 56 % of fund managers believe that ESG investment will be a priority but not for retail investors, despite there is an increase in their portfolio allocation. We noticed that fund managers are anticipating a stricter ESG requirements, especially from the foreign investors side, compared to the need to comply towards local regulation.

How do ESG criteria/standards currently affect investors' and financial advisors' behaviors



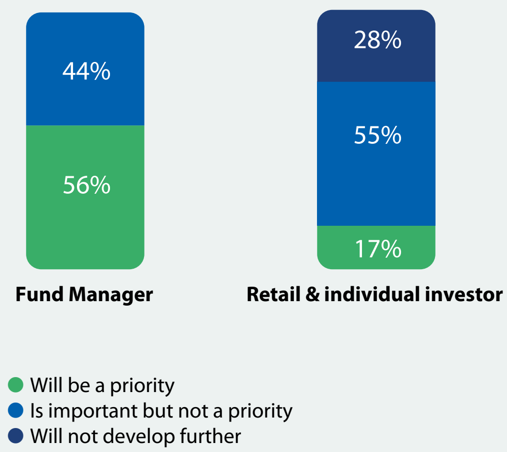
"We see ESG not as a trend but as the future of investing. Even though it's still at the early stage in Indonesia, we see an increasing awreness from all stakeholders (regulators, businesses, and investors). We're moving in the right direction."

Batavia Prosperindo Asset Management

However, ESG investing is not a priority in the future for investors

56 % of fund managers believe ESG investment will be a priority but not for retail investors, despite there is an increase in their portfolio allocation.

Future Confidence in ESG Investment

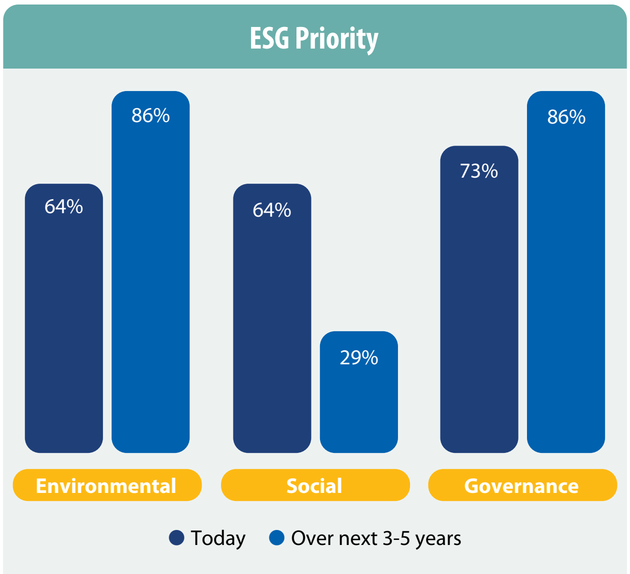


"Indonesian investors, especially retail, the majority haven't made ESG a concern, they're still looking for performance. If for example, the Sri Kehati equity index is performing, they will ask for the products but once commodity (stocks) are performing, they don't ask about ESG again. Fact is, investors tend to be pragmatic, seeing from performance (aspect)."

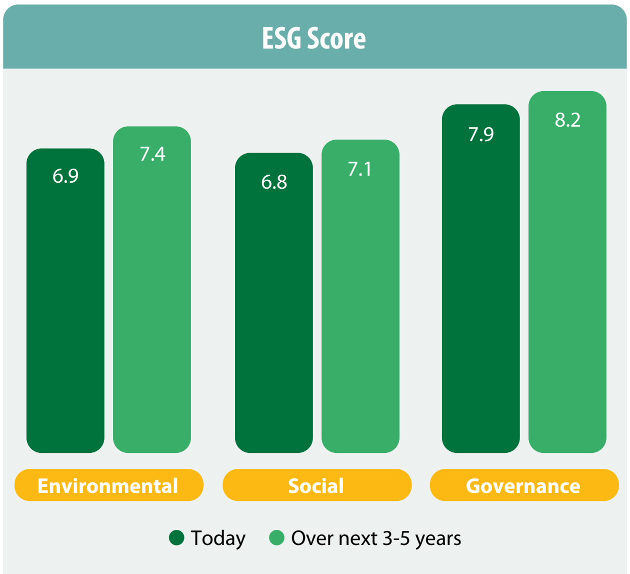
Bahana TCW Investment Management

Governance is and will still be the most important in ESG

Average score of ESG importance is 7.2. About 73% of respondents ranked Governance as the priority most in focus today. Over the next 3-5 years, we see a significant growth on Environment. But still, Governance has the highest score. We see there's a trend in increasing ESG portfolio allocation, however it is not a priority yet in the future for investors. The increases is seemingly more driven from additional new funding allocation (39%) or converting conventional portfolio to ESG-related products (33%). We also see that although general awareness on ESG concern is rising, it is more driven by the institutional investors side, compared to retail. 56% of fund managers believe that ESG investment will be a priority but not for retail investors, despite there is an increase in their portfolio allocation. We noticed that fund managers are anticipating a stricter ESG requirements, especially from the foreign investors side, compared to the need to comply towards local regulation.



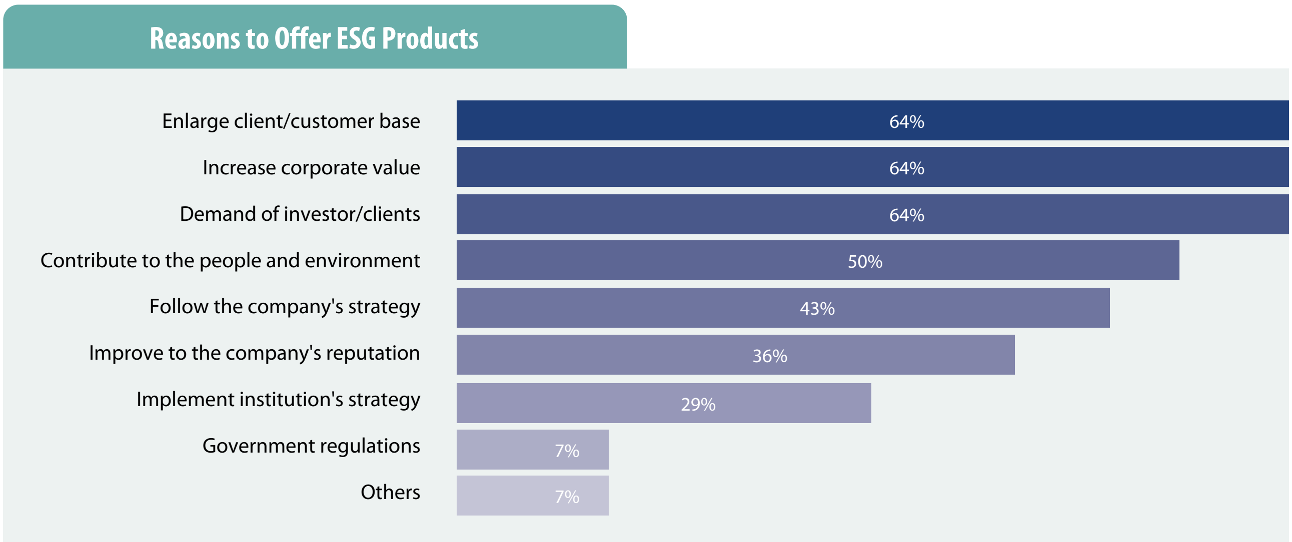
Respondents were asked to rank each option (1-3).
Represents the top two priorities among those that currently or plan to focus on E, S, or G priorities.



Respondents were asked to rate each option (1-10).
Represents the average of rate for each components.

Fund Managers offer ESG products to attract new clients

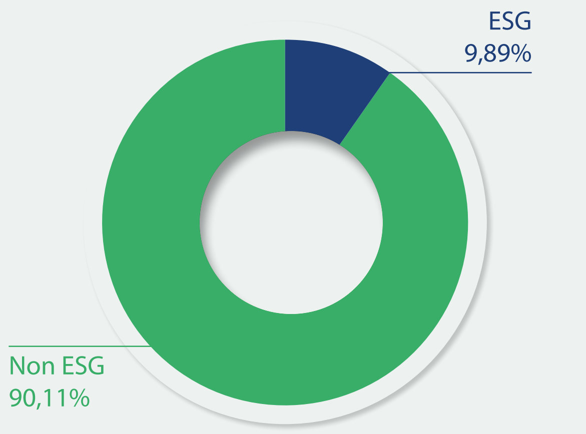
Main reasons to offer ESG products are enlarging customer/client base, increase corporate value, and demand from investors.



Most Fund Managers offered ESG products through mutual fund

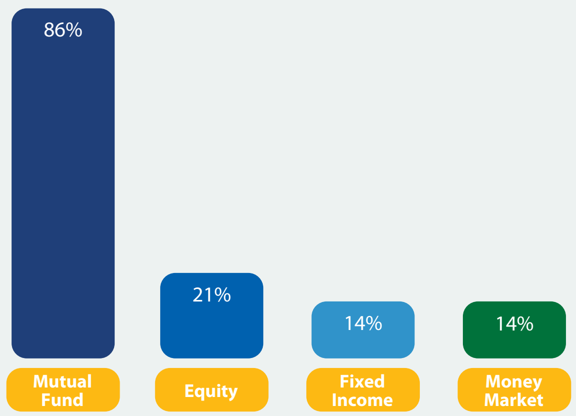
Less than 10% of total managed funds are allocated for ESG-based products, mainly in the form of mutual fund (86%).

Average ESG Product Allocation



Average of ESG product allocation.

Type of ESG Products Offered



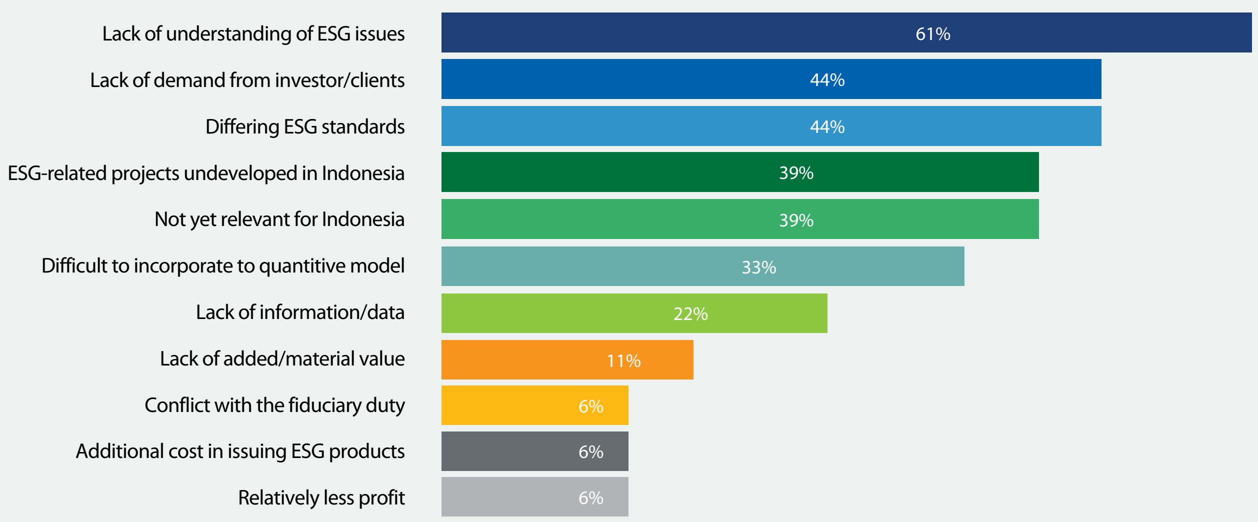
Respondents were asked to rate each option.

> "Yes, we don't have one fund that's truly ESG but all of our funds are ESG driven. We don't want to limit ourselves by saying one fund is ESG and its only concentrated in certain stocks. We think our market is not deep enough for an ESG fund, . . . its better to be agile in a way that ESG is a part of our process than limiting ourselves with one truly ESG fund."
> **Schroder Investment Management Indonesia**

The biggest challenge for Fund Managers is understanding ESG

The lack of understanding ESG issues is the top challenge (61%) to offer ESG products, followed by lack of demand and differing ESG standards (44%).

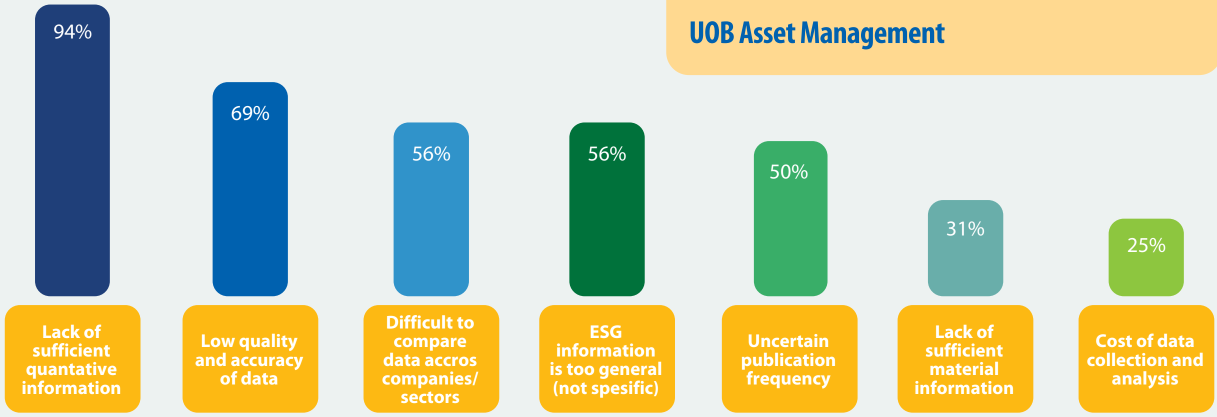
Challenges in Offering ESG Products



There are not enough quantitative information for ESG

All the respondents are facing hurdle in obtaining ESG data especially the lack of sufficient quantitative information.

Obstacles in obtaining ESG data



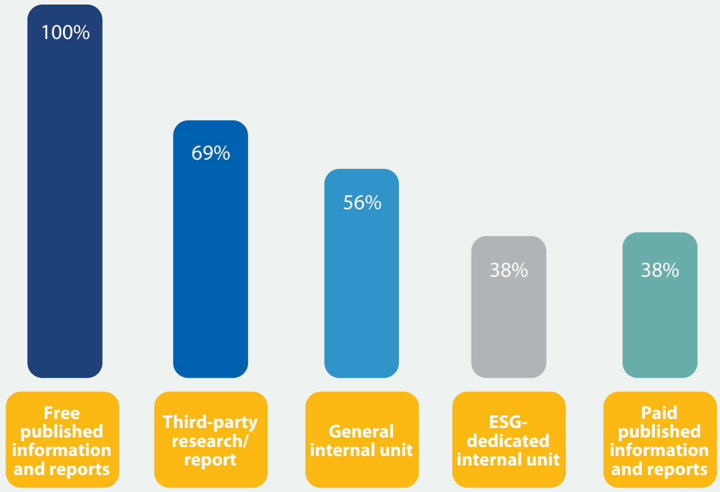
"The main obstacle that We have found is similar (across countries). There is a low disclosure. This (ESG concept) is relatively new (in Asia). If we're talking in Europe, in US, they're more strict and there are standards."

UOB Asset Management

Fund Managers collect data from company reports

ESG data mostly obtained from a free-published sources, such as financial report and news/media

Source of ESG Data & Information



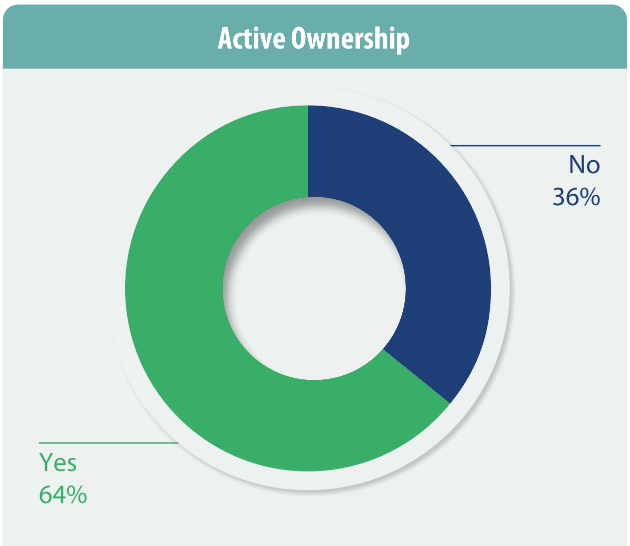
"We read the sustainability report first. If, for example, from press reports there's a negative report about child labor, we'll verify that with the management."

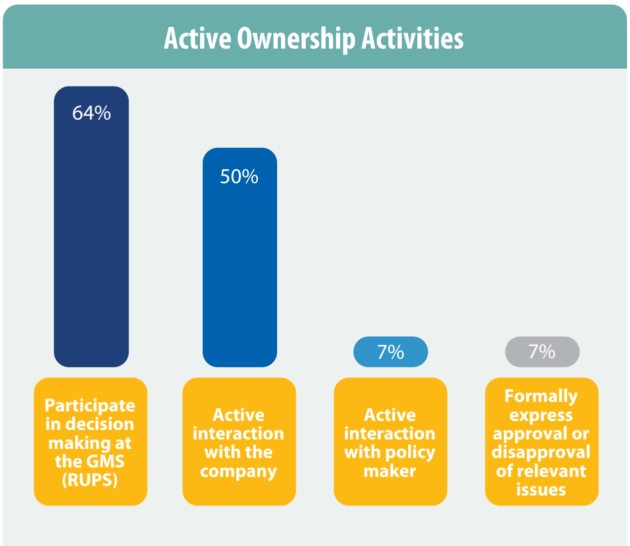
Schroder Investment Management Indonesia

Active Ownership is important

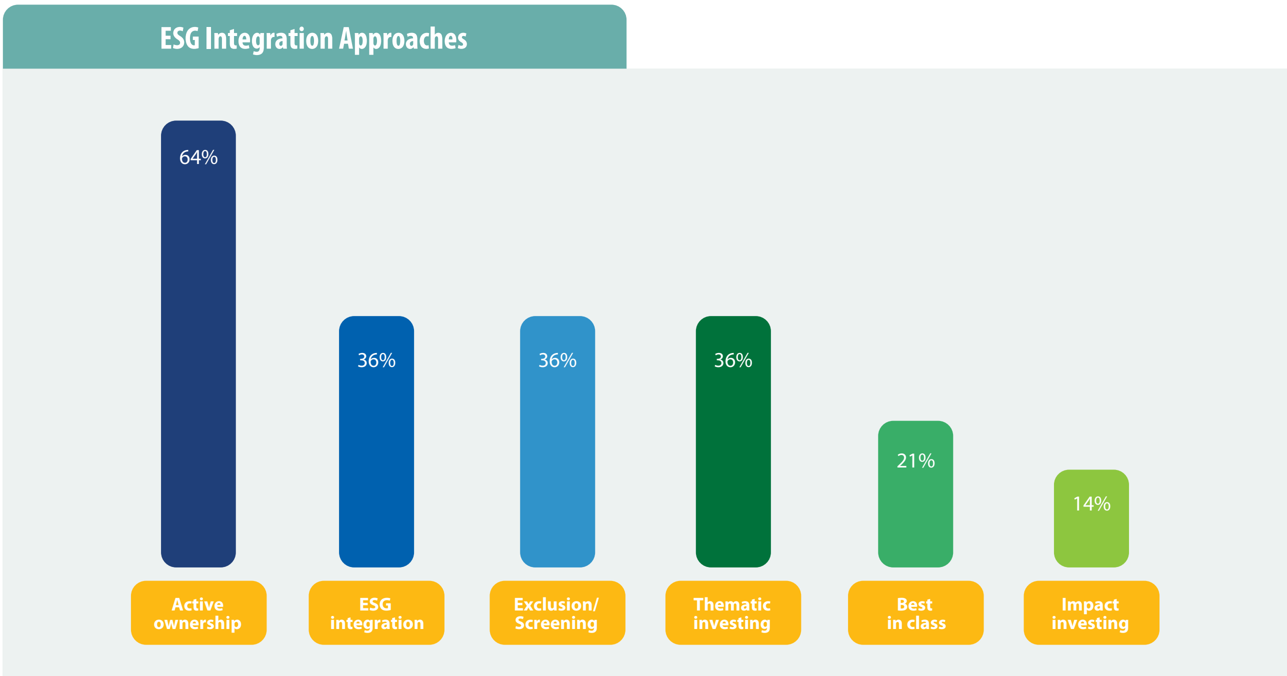
64% of fund managers in Indonesia are active owners and incorporate ESG issues into their ownership policies and practices. The level of active ownership is increasingly important, as they participate in decision making at the AGM (RUPS) is the most common activity done by respondents. Other than that, fund managers also actively interact with company management (50%) in raising ESG issues, which shows increase in companies' good governance. These respondents also more in favor of the active ownership as an approach in sustainable investing, compared to ESG integration, companies/sector screening or thematic investing (36%). Other approach that are being used are best in class (21%) and impact investing (14%).

More than half of fund managers have provided education/training regarding ESG in investment analysis/decisions. These trainings are mostly taken by investment team members, but not limited to the whole asset management employees. For more general audience, the training includes ESG awareness, sustainability and sustainable investment. However, sustainability reporting for financial institution still need to be pushed because only 22% of respondents have published sustainability report and none have verified the report.





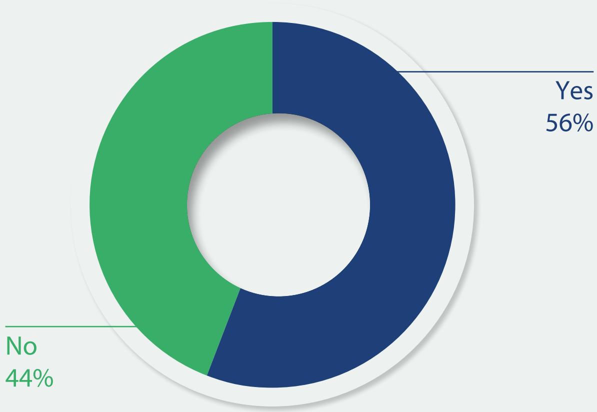
64% of respondents favor the use of active ownership as an approach in sustainable investing.



Most of Fund Managers have provided ESG training

56% of our respondents have provided education/training regarding ESG in investment analysis/decisions.

Providing Education on ESG



> "There are (ESG) trainings, especially for investment team. We have ESG training to all our employees, although its more about ESG awareness (such as) what is sustainability and what are sustainable investment."
>
> **UOB Asset Management**

Conclusion & Recommendation

- A survey involving fund managers in Indonesia said that investment using ESG analysis approach has been showing an increasing trend (with 78% offering ESG based products), the fund managers (56%) in Indonesia put ESG as one priority factor in determining their investment targets. In fact, most of fund managers have been actively monitoring ESG performance of the target companies by participating in decision making at the General Meeting of Shareholders (GMS).

- Currently fund managers put governance as the most key aspect (73%) in their investment decision, above both environmental aspect (64%) and social aspect (64%).

- Also, the fund managers conduct ESG analysis through the sustainability reports published by the companies, or research by third parties that measure the ESG performances of their target companies. However though, some obstacles remain, such as lacking quantitative data used in analysis/ measurements in the published reports, inaccurate and ineffectual data, the difficulty in finding comparative data in each industry as well as the imprecise information disclosures.

- Companies need to be encouraged to publish sustainability reports and engage third parties as external assurance to improve the report quality.

b. ESG Investing: A Survey from Retail Investors

Understanding the interesting factors of investing in ESG for individual investors in Indonesia, their reasons for making investments. The investors' view of yields and risks of ESG-based investment and their future interests in investing in ESG.

This section will unveil the profiles of individual investors who make ESG-based investments in Indonesia with reference to a survey which involved 309 investors.

ABOUT THE SURVEY

309 individual investors

93% Have higher level education

±40% have investment at least IDR2B

34% of respondents are woman

7% of them are high net worth individuals

KEY FINDINGS

7.5 score of importance from overall ESG factors in investing

26% have invested in **ESG products**

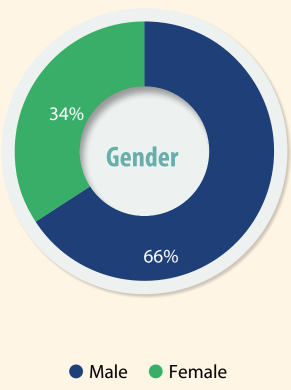
41% believe ESG investment will be a priority

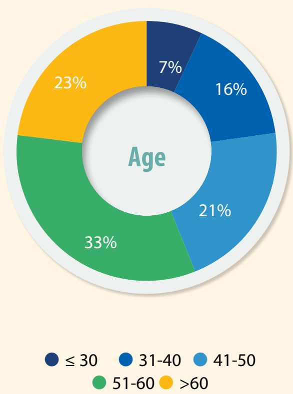
High net worth individuals posted ESG score of importance higher & value company reputation & ESG rating

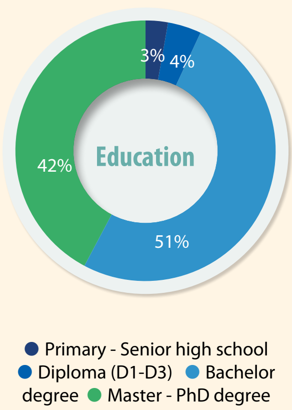
70% find lack of information/data as a challenge

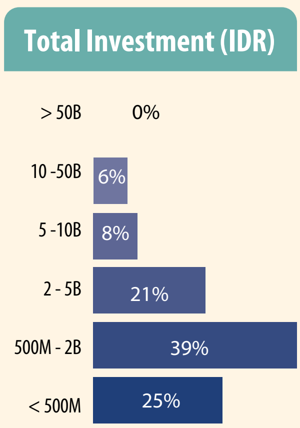
47% Will invest in ESG-related instrument if the return is 3% - 5% higher than risk-free instrument

Characteristic of Our Respondent





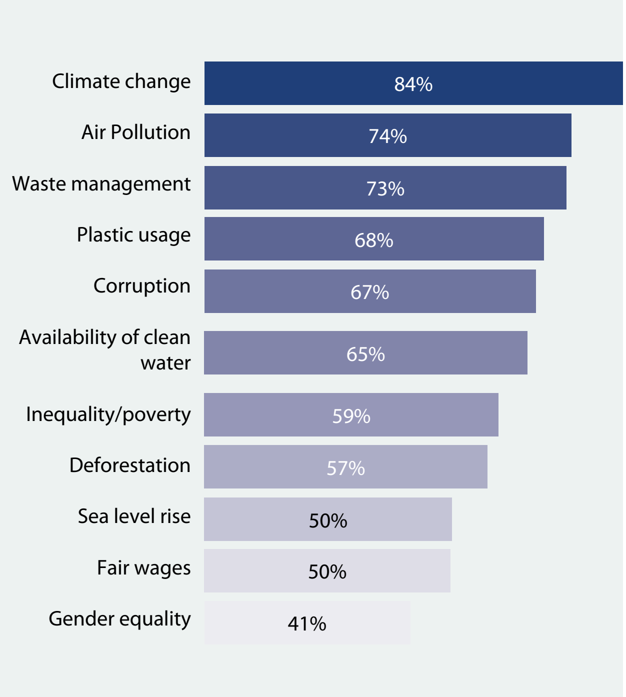




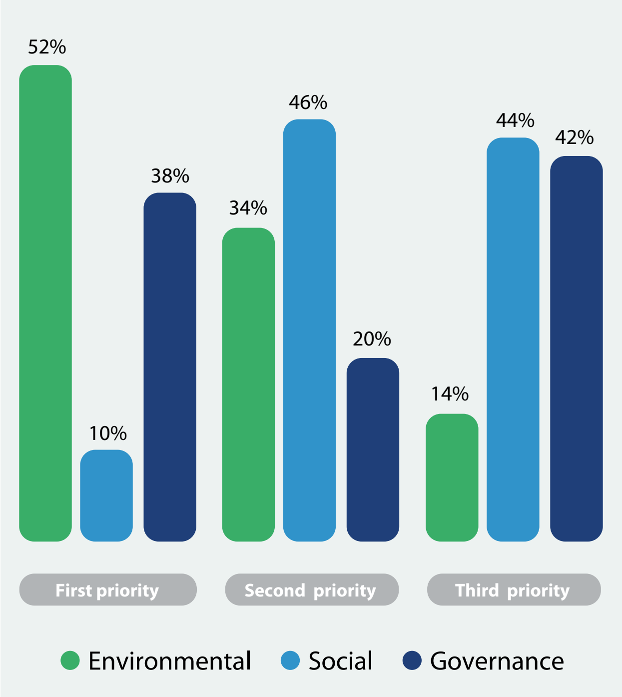
"E" is perceived the most important factor in ESG investing

While individual investors are familiar with climate change and air pollution.

Awareness of ESG Issues



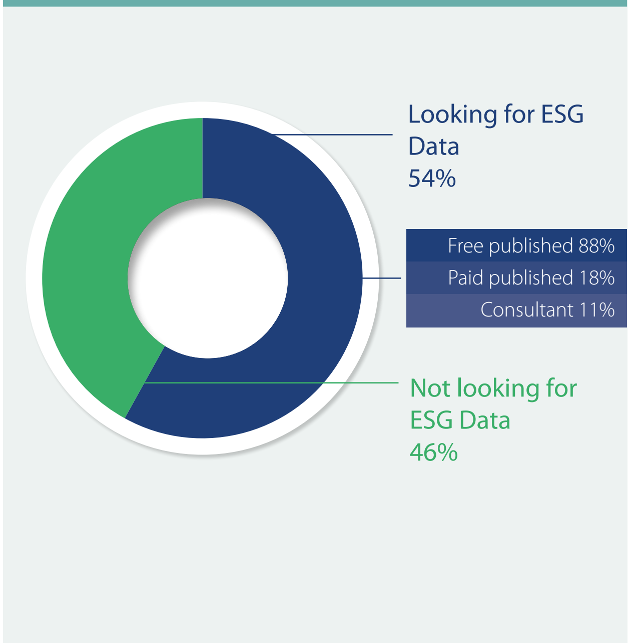
ESG Component Prioritization



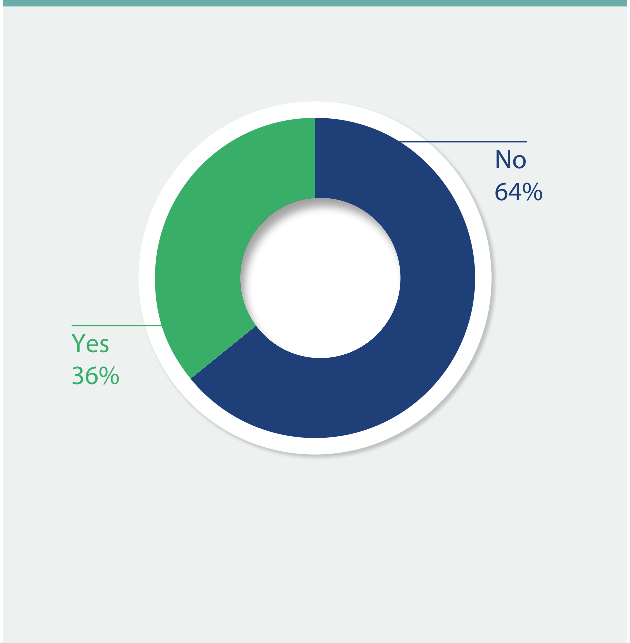
54% of respondents look for ESG information

Yet, most of them are not aware on the availability of ESG-related fund.

ESG Data



Awareness of ESG Investment Product

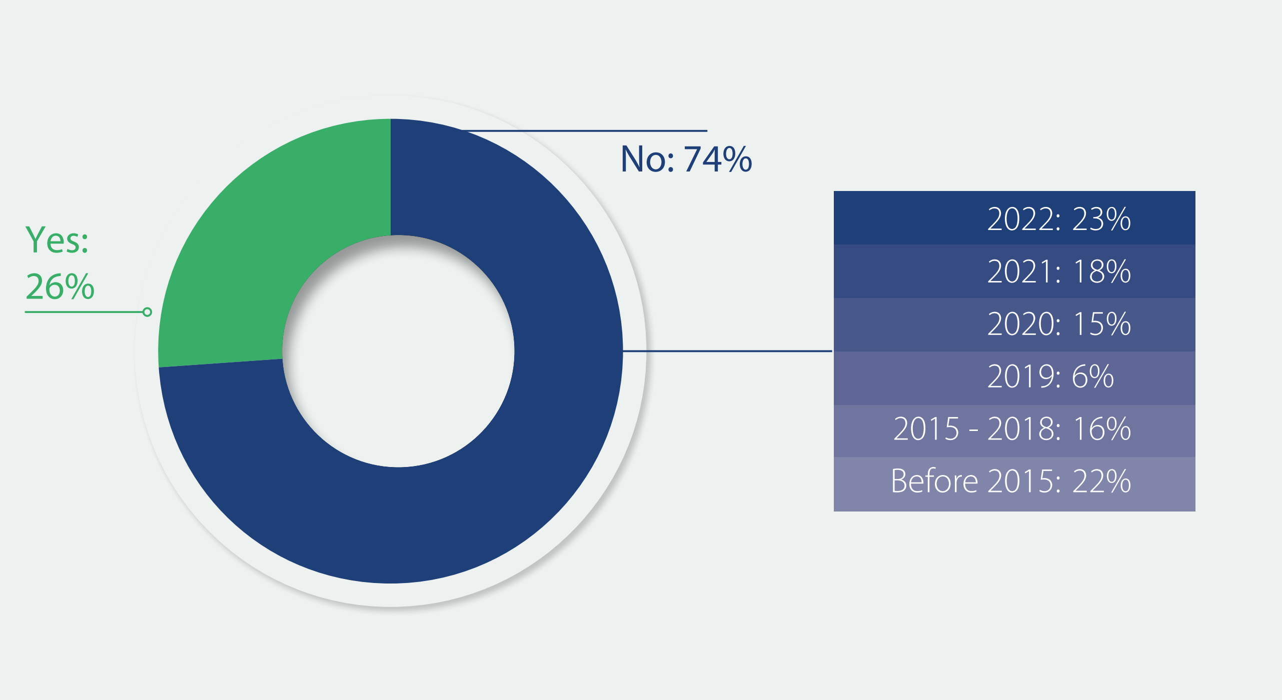


#02 How we perceive ESG?
Surveys from Private Sector

1 in 4 individual investors have investment in ESG investment instrument

Majority have started invest in ESG fund since 2020 (55.7%) & Fixed income become the most invested product.

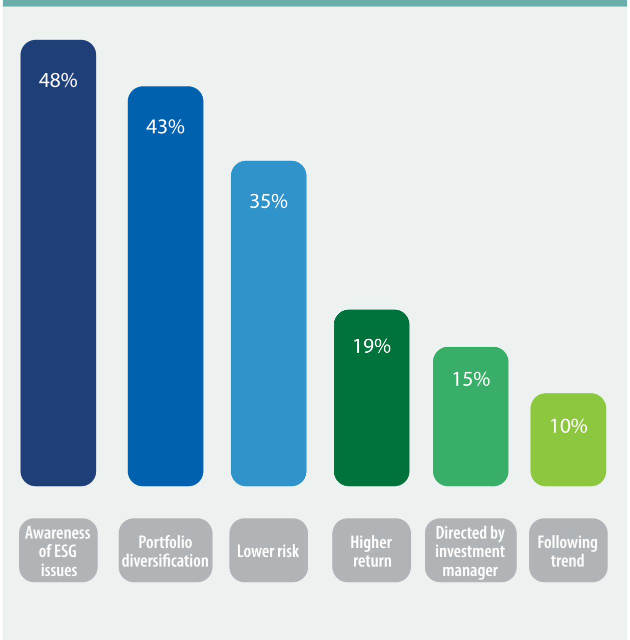
ESG Investment



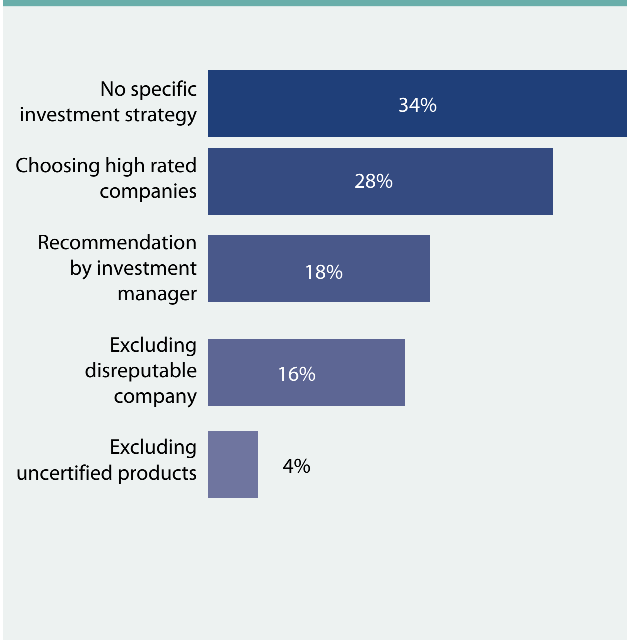
Investing in ESG-related fund is driven by investors' awareness

However, investors generally have no specific ESG investing strategy.

Reasons to Invest in ESG

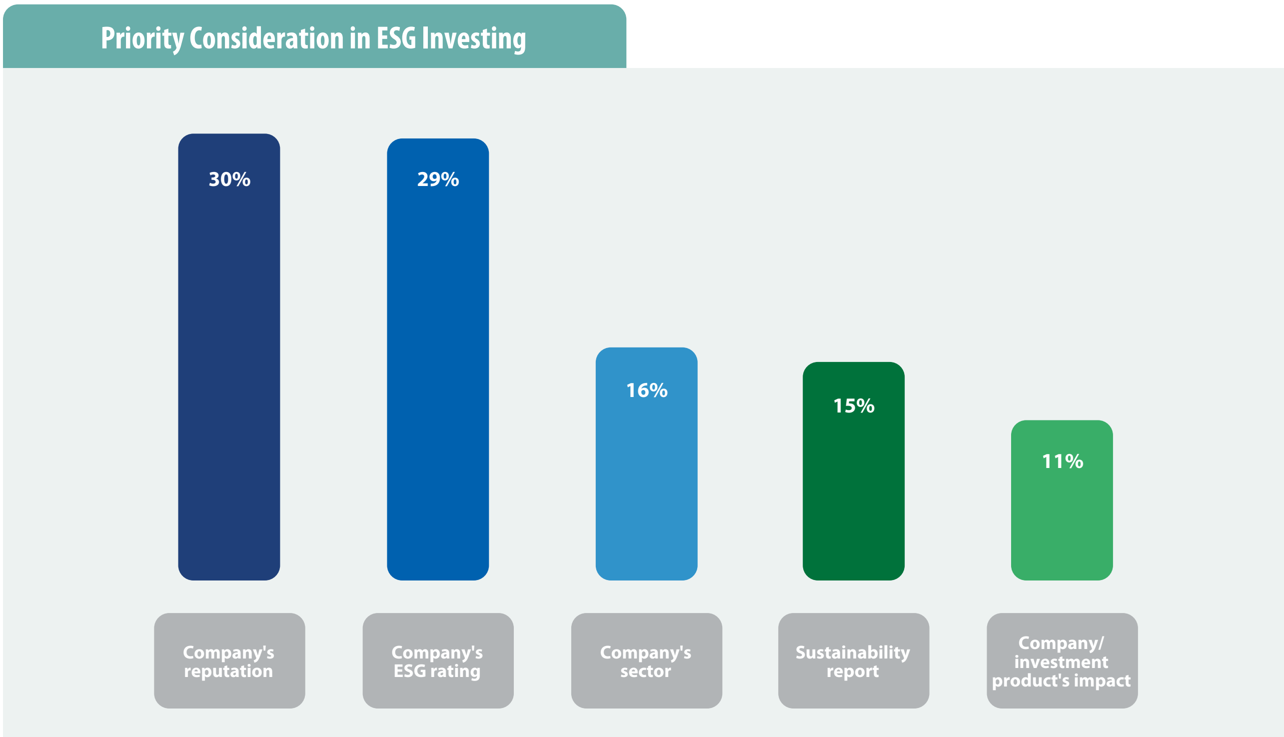


ESG Investment Strategies



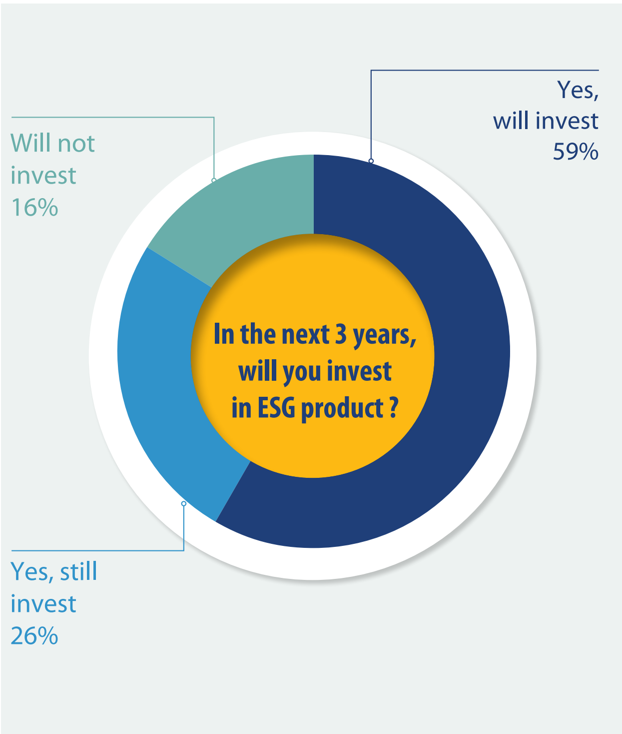
Company's reputation is crucial for individual investors

Meanwhile, company or investment impact are least important according to our respondents.



Over 85% of investors will invest in ESG in the next 3-5 years

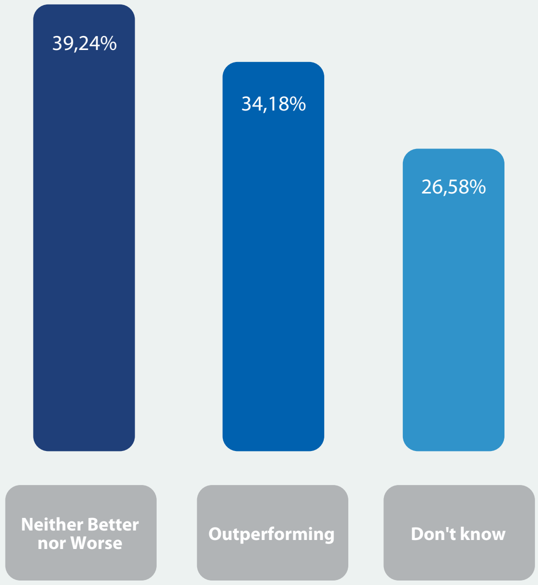
They agree that ESG will be important, but still unsure whether ESG is a priority.



ESG funds give similar return (if not better) compared to conventional funds

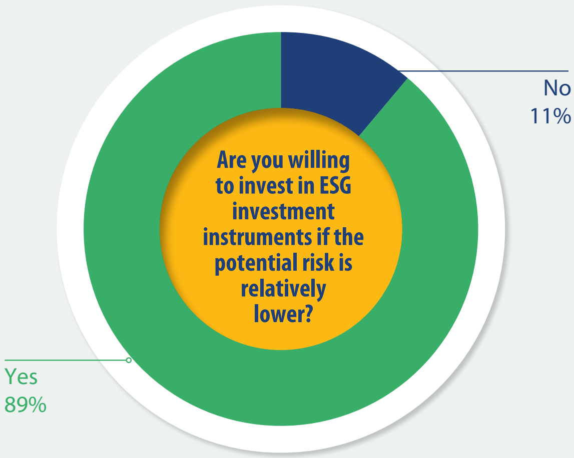
Most of respondents are risk-averse (61%).

ESG vs non-ESG Performance



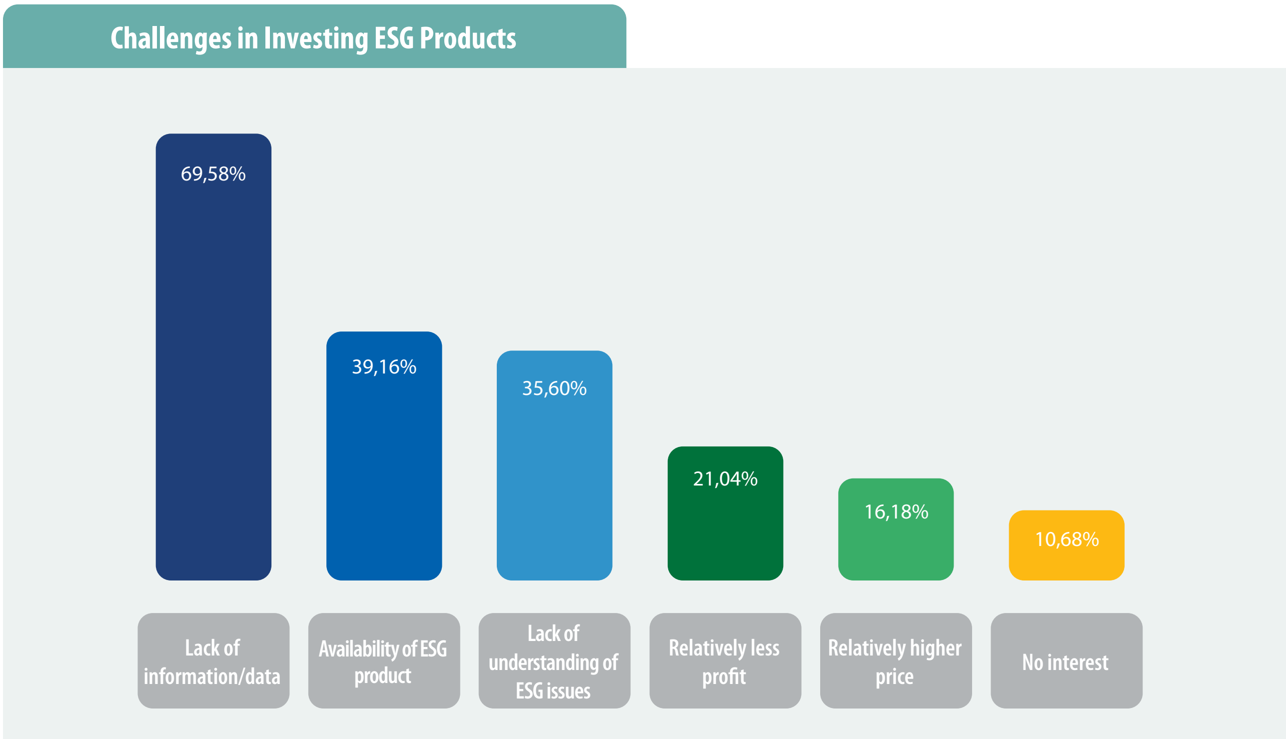
89% of investors will invest in ESG funds if the risk is lower

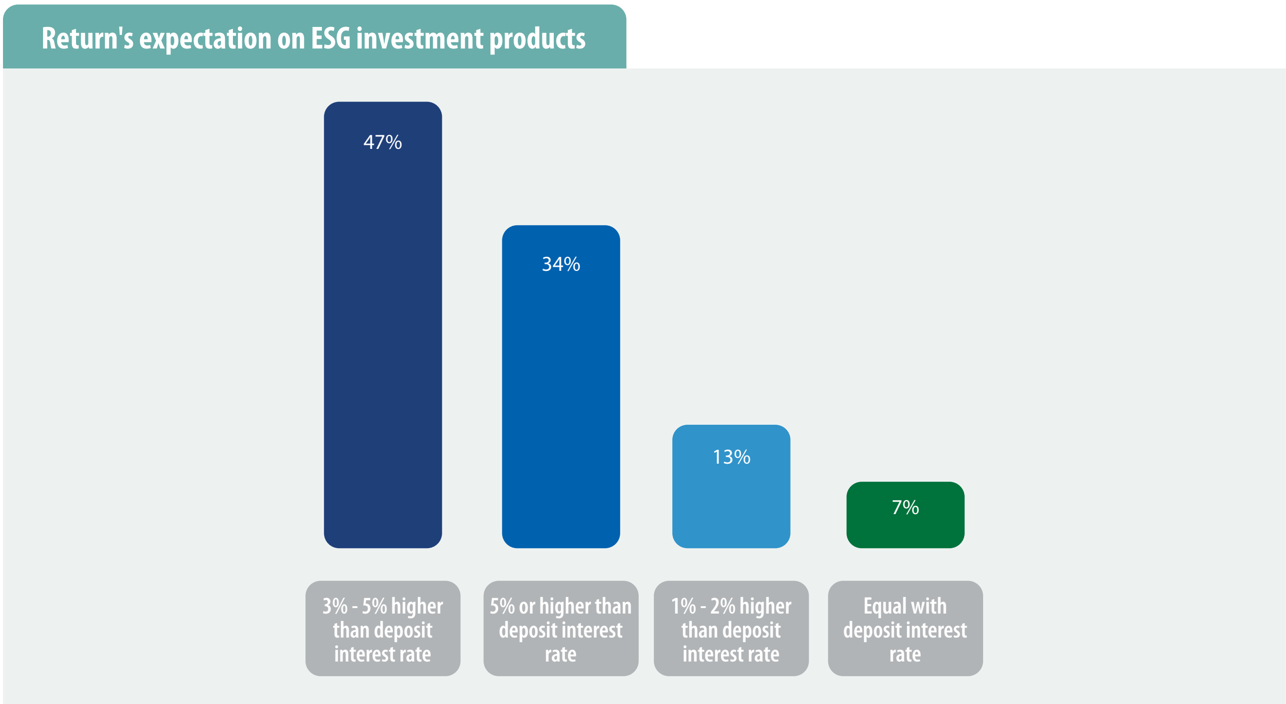
And they will accept lower return for investing in ESG instrument.



The lack of ESG information and data remains as an obstacle

Investors would like ESG return to be 3% - 5% higher than deposits.





c. ESG Business Survey: Listed Companies

How the listed companies in Indonesia perceive the recent ESG development.
How important the ESG is for these companies and which factors that influence them most and approaches they take in implementing ESG. Therefore we have done a survey involving 190 listed companies in Indonesia to gather basic information about ESG implementation.

ABOUT THE SURVEY

190 listed companies

17% have foreign investment (PMA) as majority

22% are from financial sector

33% of surveyed listed companies have no credit rating

The survey results indicated that ESG is important for business entities (7.7) and 92% of the companies sees ESG as one important aspect to consider in running their businesses to ensure the long-term sustainability.
Currently governance becomes one priority aspect for a company to implement ESG. About 91% of the corporate policies on ESG refer to the importance of the implementation of the good corporate governance. Below is the other results of the survey relating to ESG implementation by the listed companies.

KEY FINDINGS

7.7 average score of ESG importance

7.8 score of importance of ESG rating in communicating with stakeholders

53% believe ESG business practices will be a priority

92% consider ESG in business practices

60% find determining ESG-related indicators as a challenge

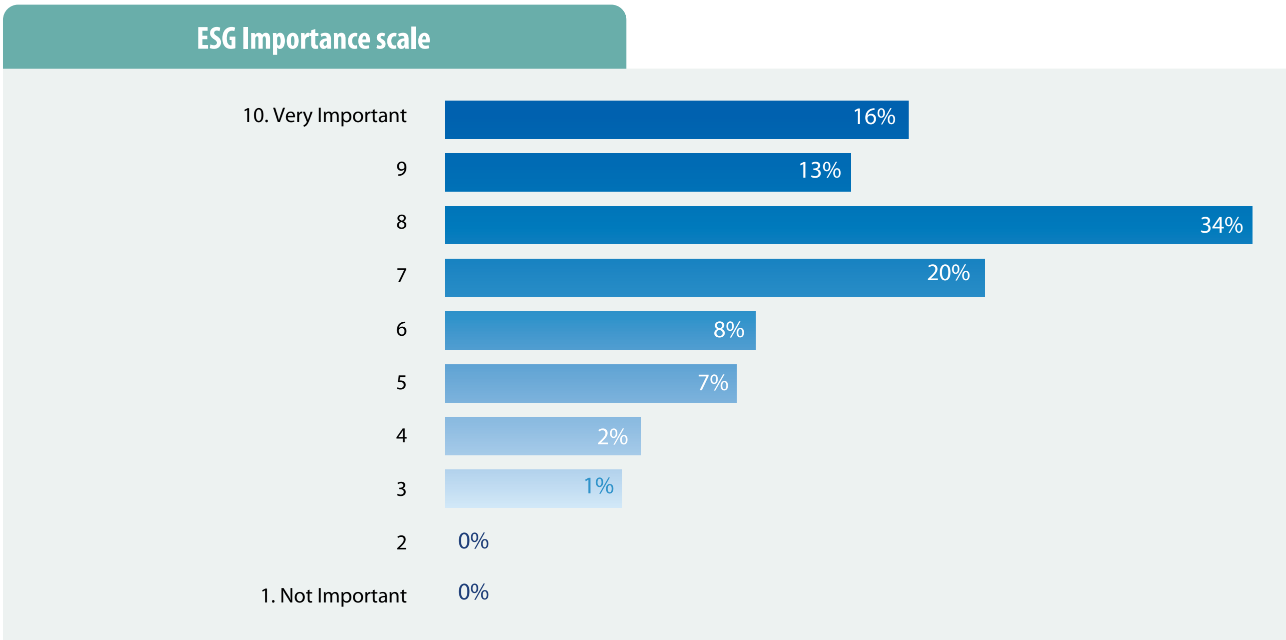
52% vote the fee to verify sustainability report should be 5-20% of financial audit cost

Most companies are considering ESG in their business practices

And they said it will improve corporate value.

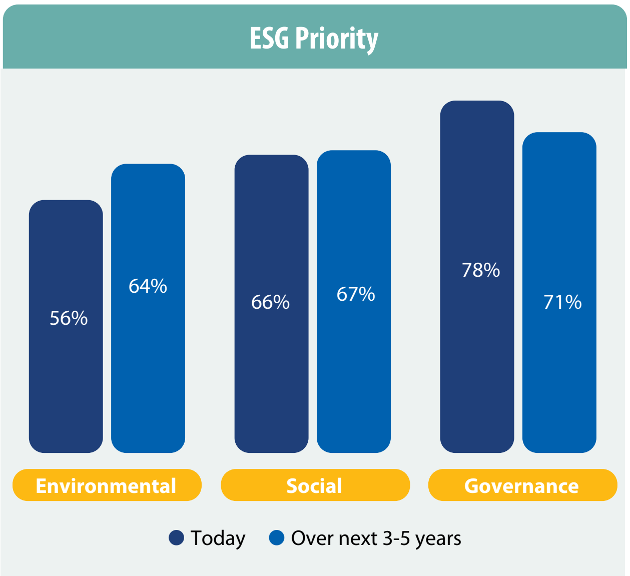
Is ESG important for your stakeholder?

63% of companies gave scores above 7 on the importance of ESG to communicate with their stakeholders

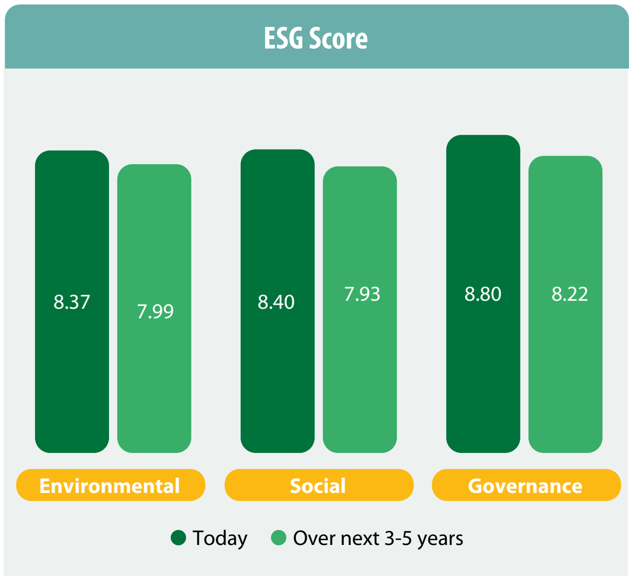


Governance is the most important factor

Average score of ESG importance is 7.7. About 78% of respondents ranked Governance as the priority and it also has the highest ESG Score.



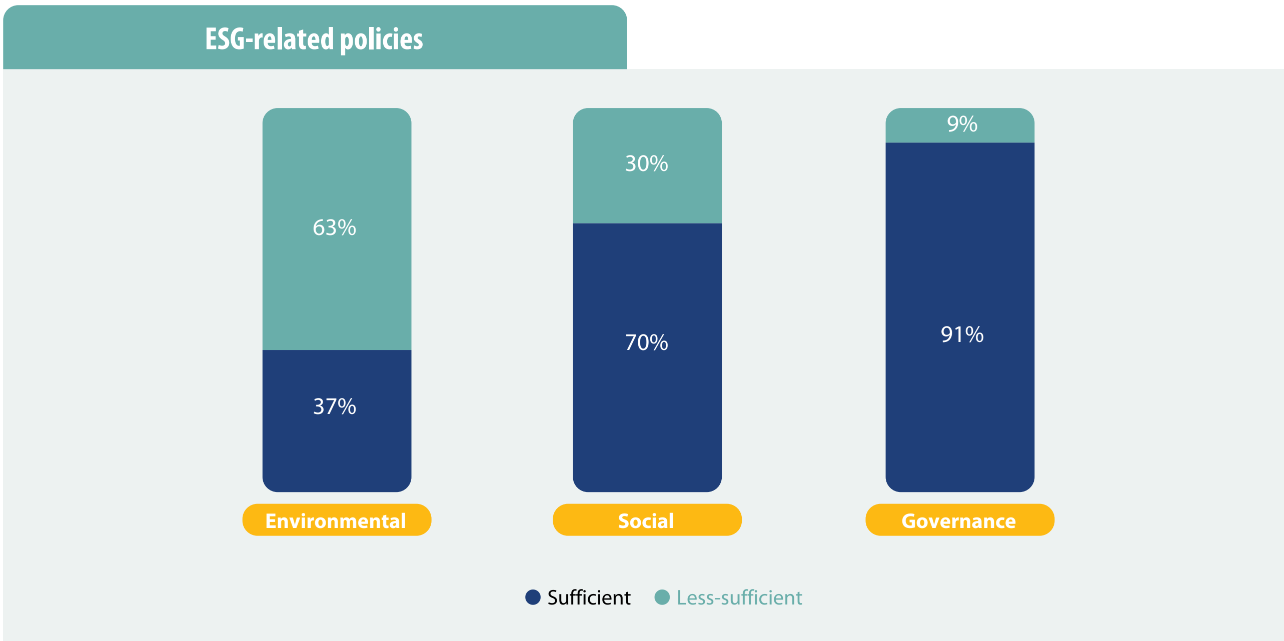
Respondents were asked to rank each option (1-3). Represents the top two priorities among those that currently or plan to focus on E, S, or G priorities



Respondents were asked to rate each option (1-10). Represents the average of rate for each components

The results are also reflected in Mandiri Institute ESG Factors checklist

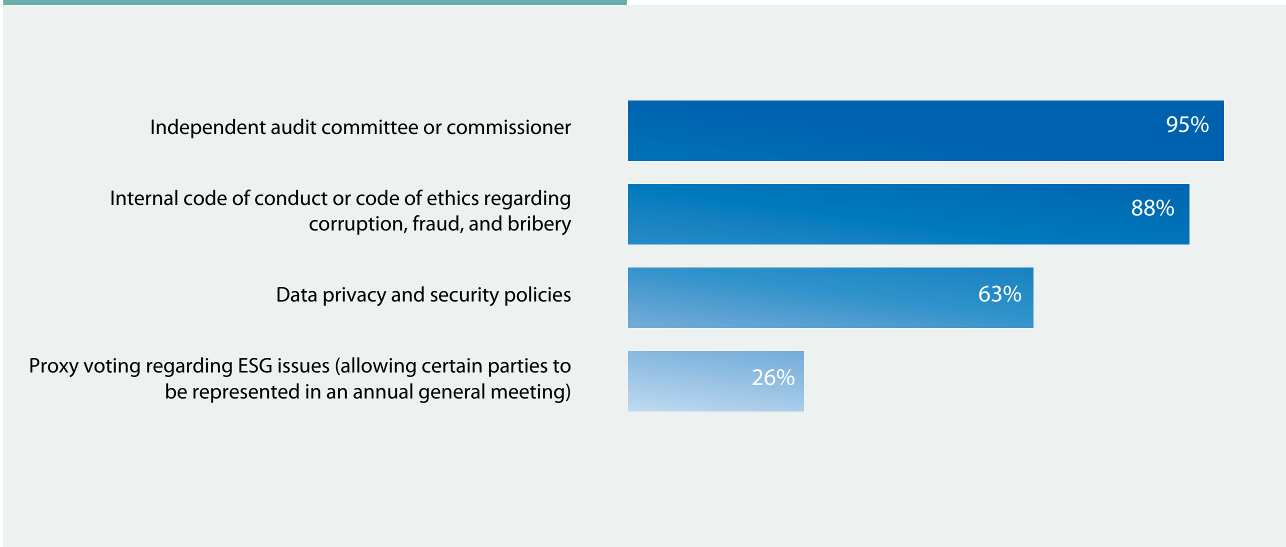
It comprises of factors or list of materiality that indicate how ESG issues adopted in company's business practices and operation. There are 10 checklists for Environmental, 10 for Social, and 4 for Governance. Overall, 91% of companies at least have done half of our governance-related policies. Yet, only 37% of surveyed-companies have done sufficiently for our Environmental-related policies.



They mainly focused on supervising factors on governance-related policy indicators

On the governance side, most companies mainly focus on independent auditing and anti-corruption measures.

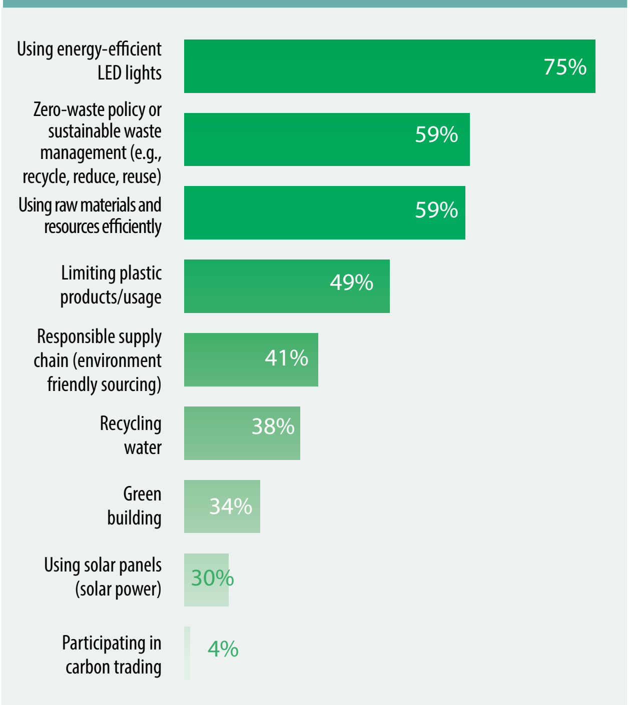
Governance-related policy indicators



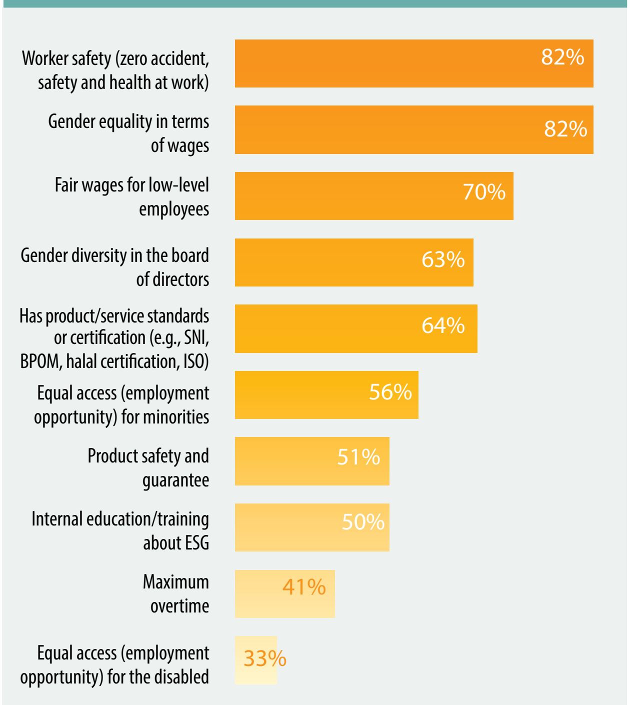
For other ESG sides, this is what companies have done

Mainly focused on input usage efficiency, safety, and equality.

Environmental-related policy indicators

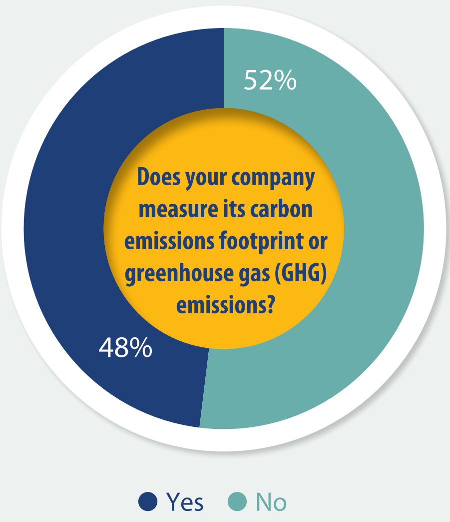


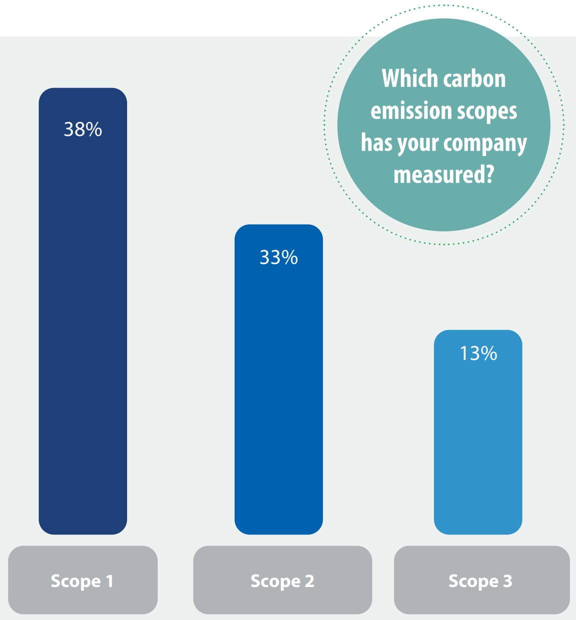
Social-related policy indicators



Most of them don't measure Greenhouse Gas emissions, however…

52% of companies don't measure Greenhouse Gas emissions.

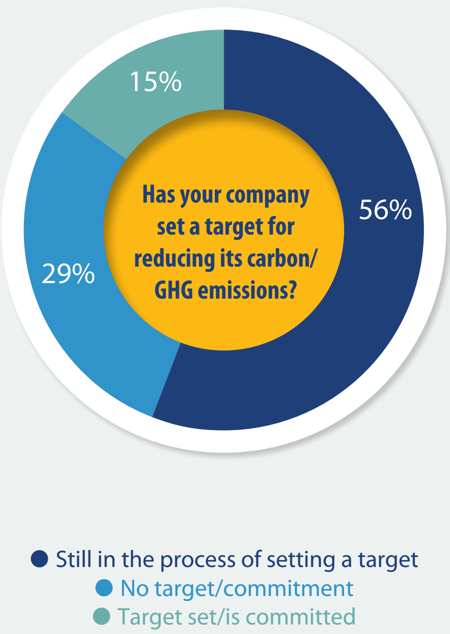




Scope 1: Carbon or GHG emissions that are directly generated.
Scope 2: Emissions generated indirectly through energy purchase from a third party, such as in power usage.
Scope 3: Carbon emissions generated indirectly through other means, such as in the company's supply chain.

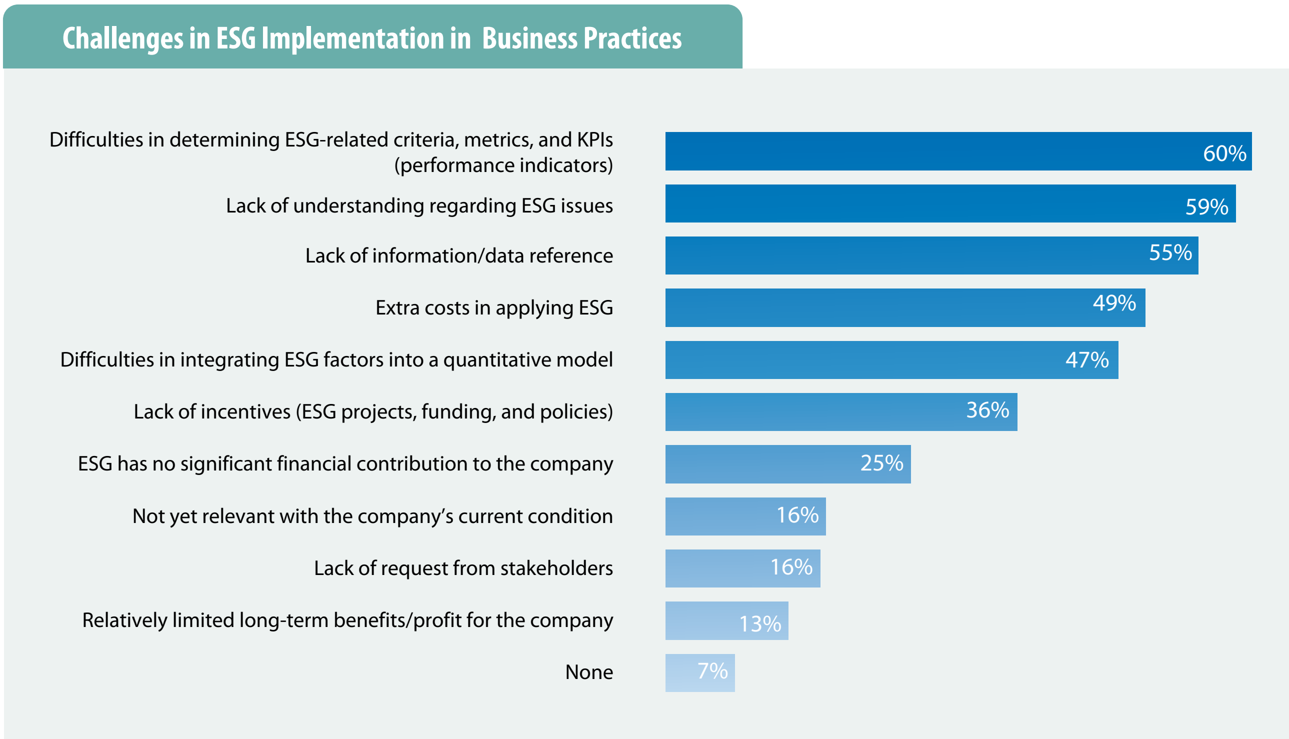
…most companies are considering setting targets

56% of companies stated that they're still in the process of setting target.



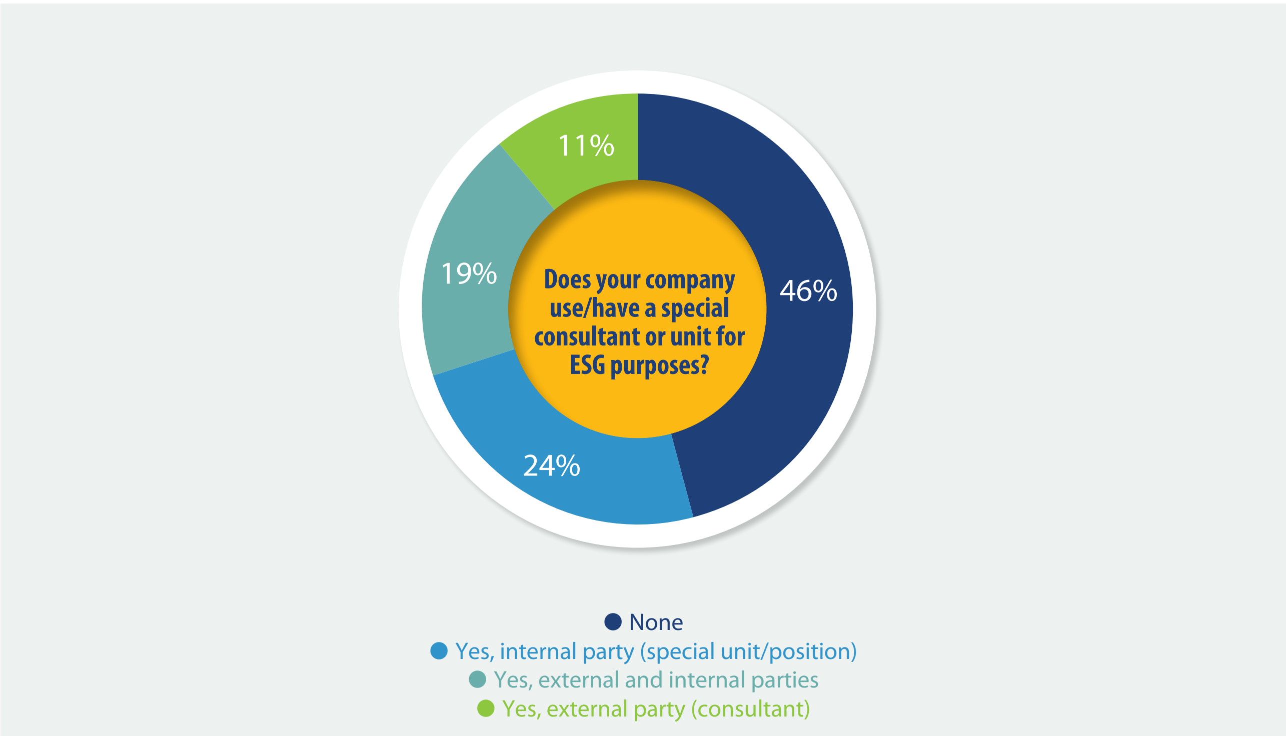
What are the challenges of implementing ESG?

Mainly they're struggling with Indicators and ESG's understanding.



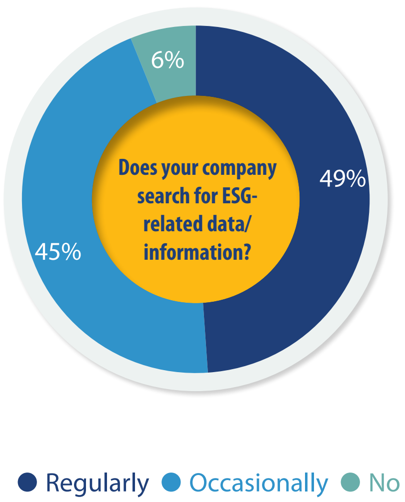
Most companies are taking one step further by using special unit

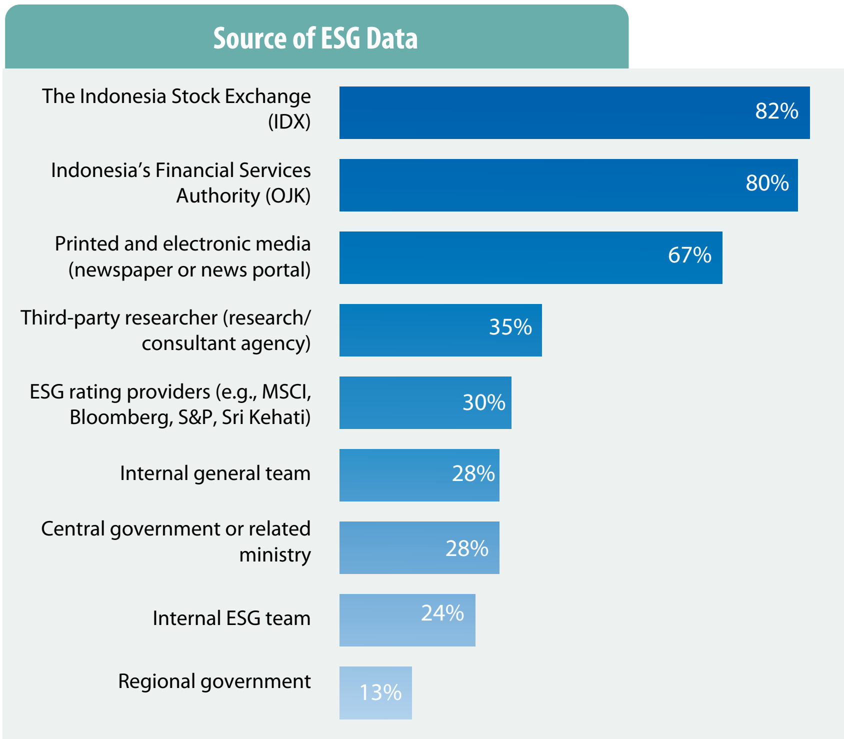
54% of respondents have consultant or special unit for ESG issues.



94% of companies claimed that they're looking for ESG data

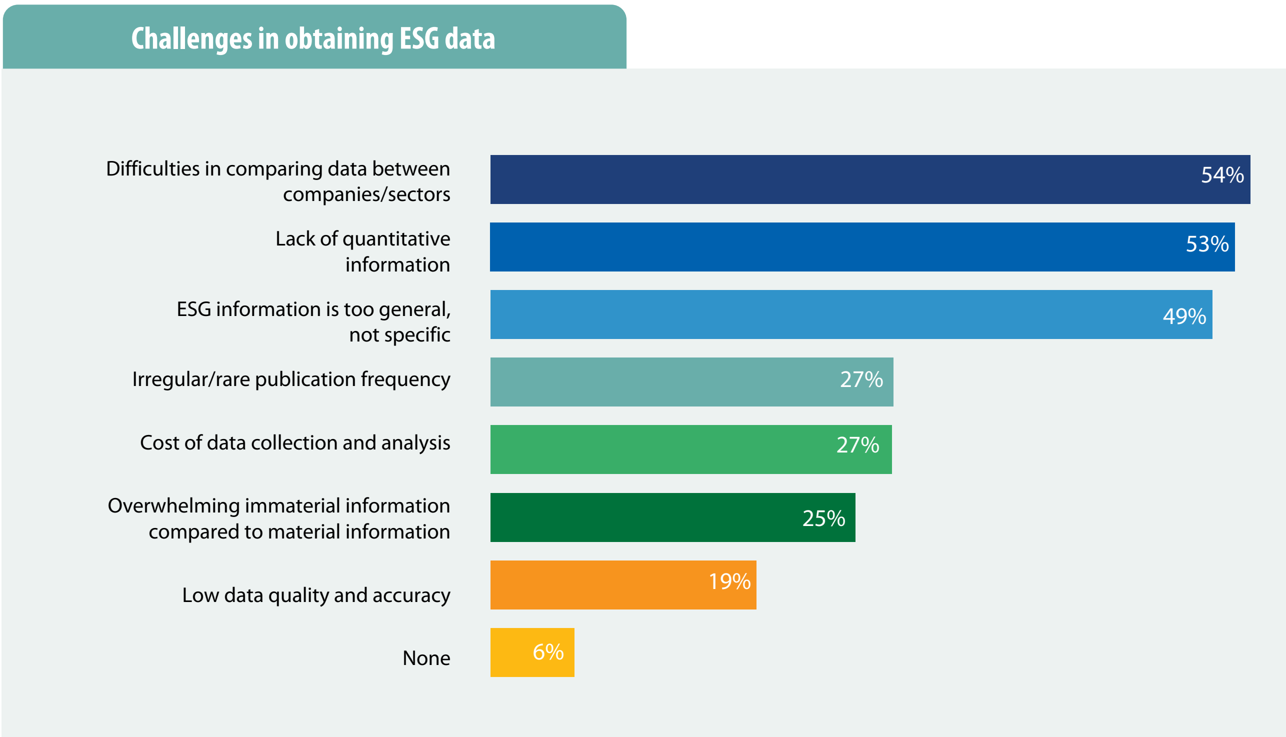
IDX, OJK, and printed or electronic media are the primary source of ESG Data.





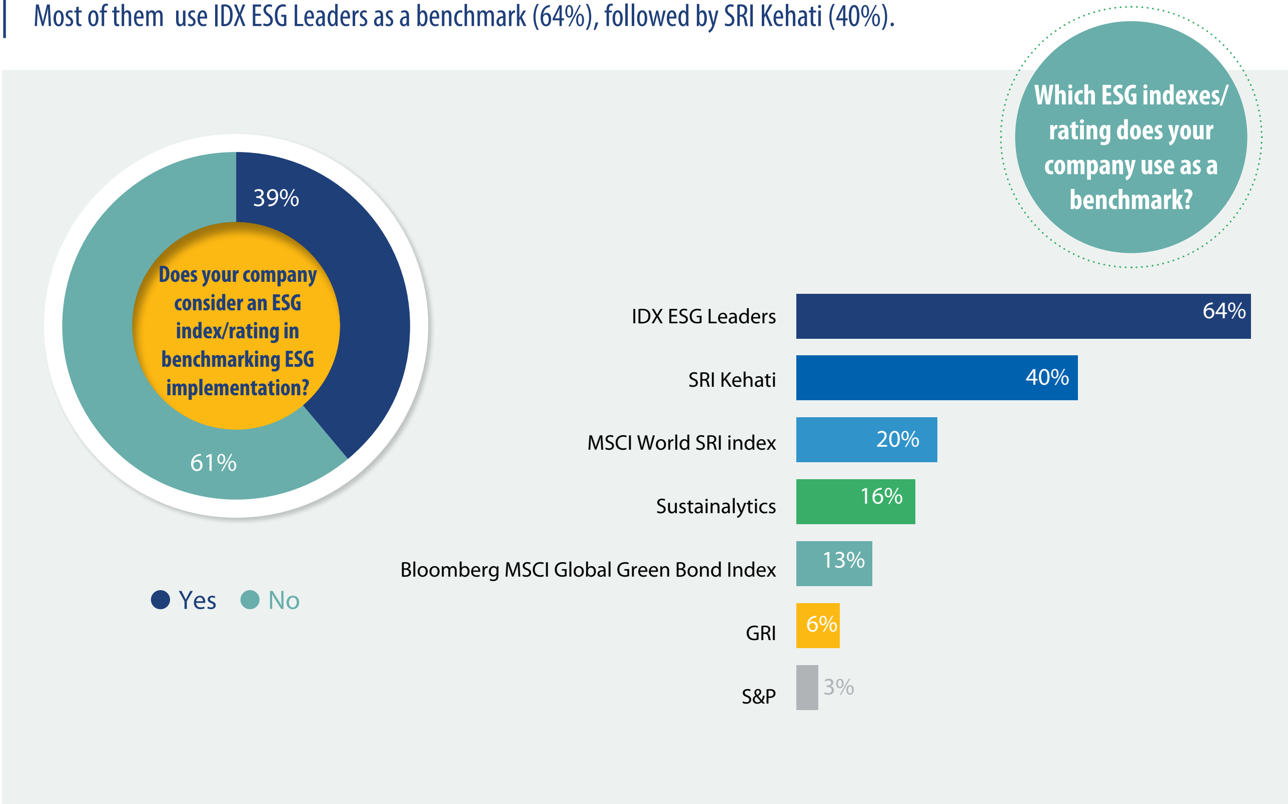
And their challenges are mostly about data comparison

54% of companies face difficulties in comparing data between companies/sectors.



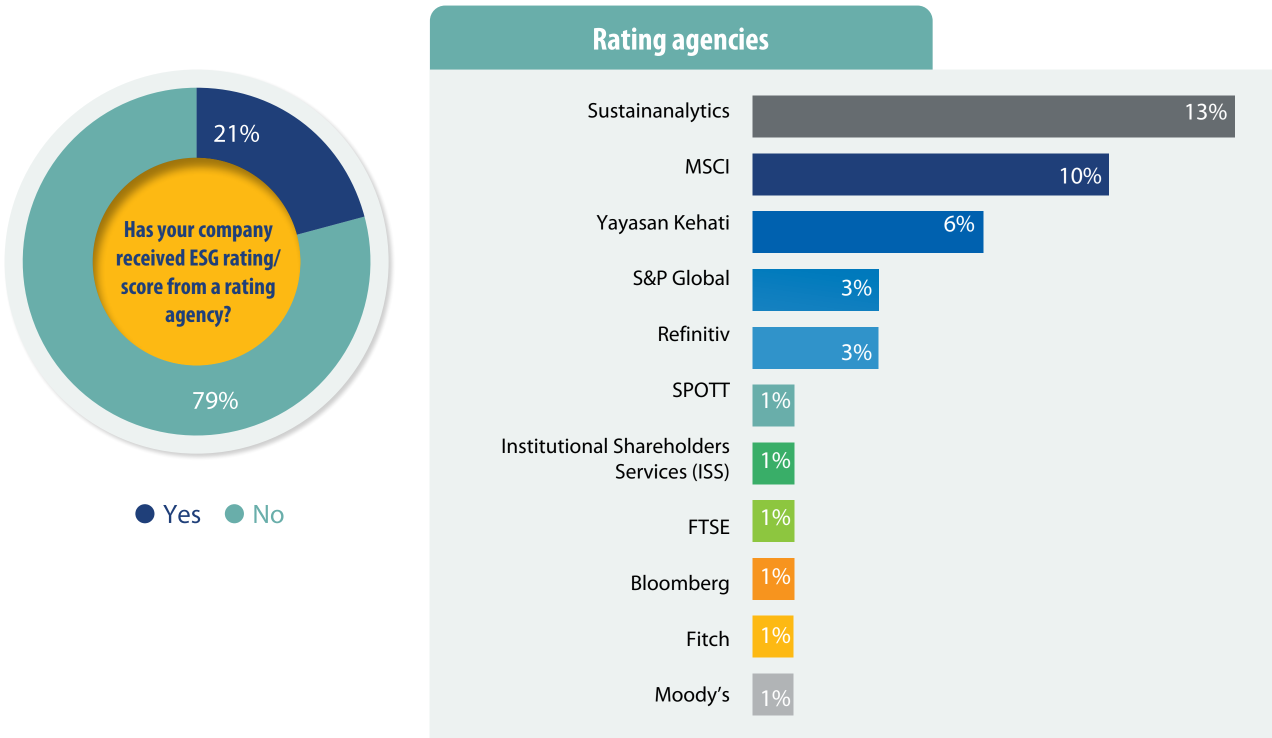
Only 39% respondents consider index/rating as a benchmark

Most of them use IDX ESG Leaders as a benchmark (64%), followed by SRI Kehati (40%).



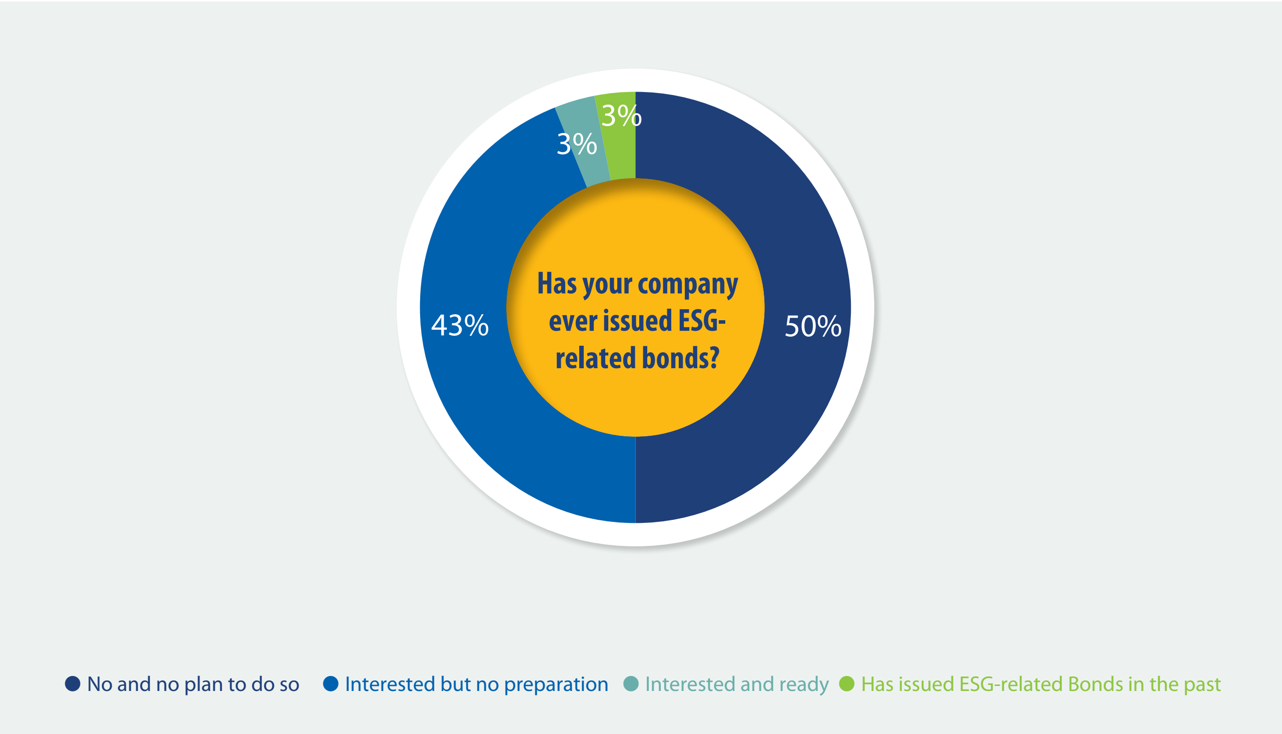
Even fewer companies that already got ESG ratings

Only 21% of companies have got ESG ratings, most of them got it from Sustainalytics and MSCI.



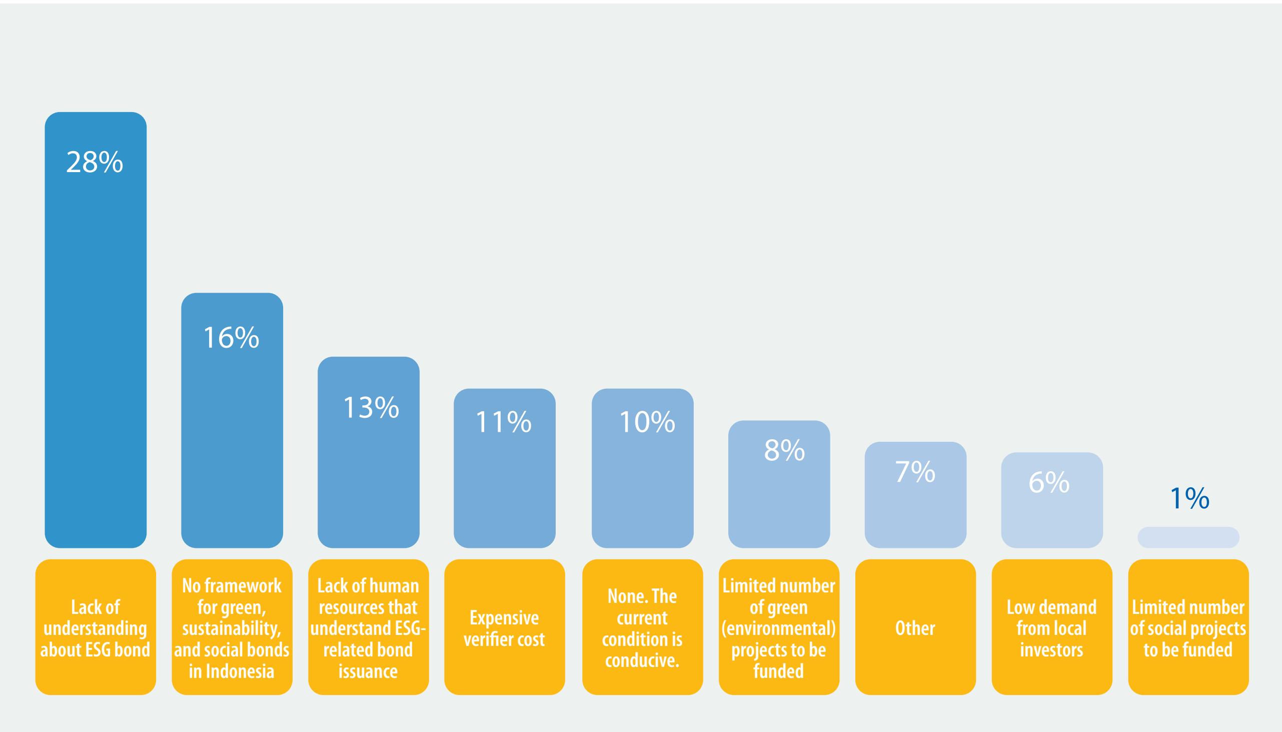
Most of companies have not offered ESG-related bonds...

50% of companies aren't interested in issuing ESG-related bonds.



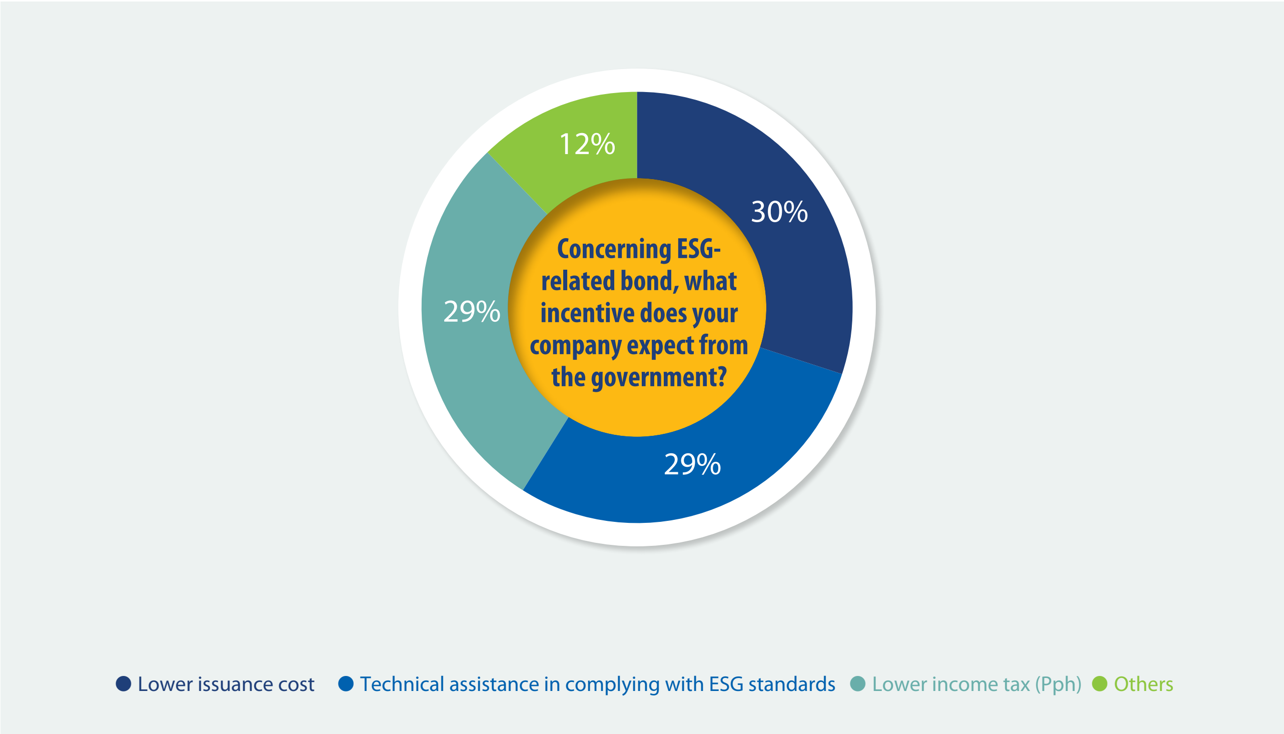
Companies said that they faced "challenges" in issuing ESG-related bonds

28% of companies are lacking an understanding about ESG bond.



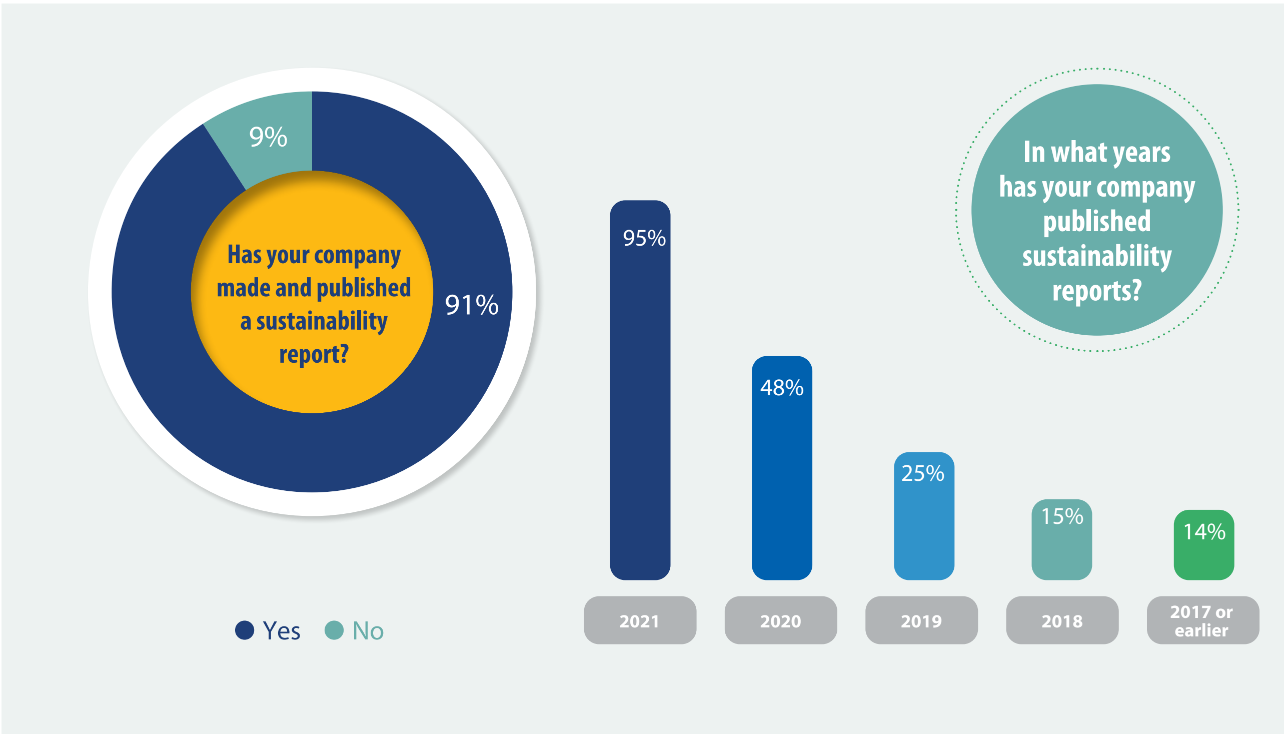
Lower issuance cost and technical assistance are top expected incentives

30% of companies prefer lower-cost incentive for ESG-related Instruments issuance.



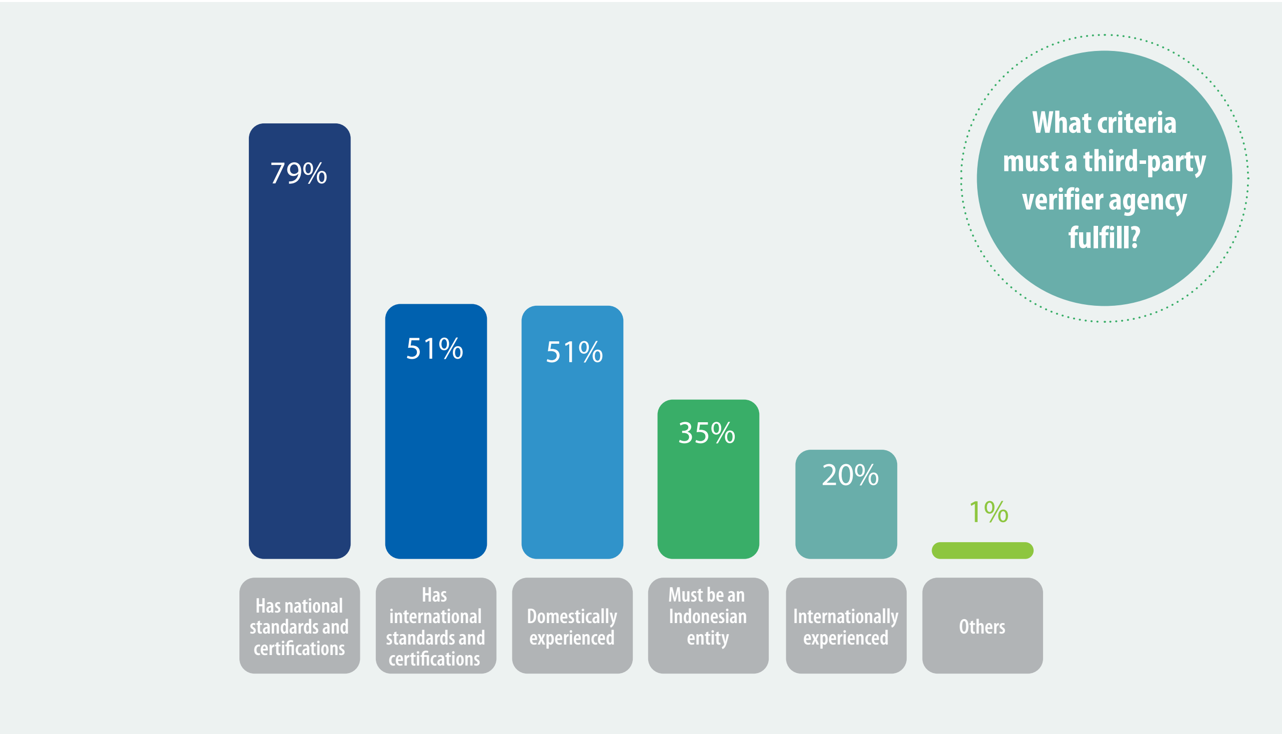
Most of companies have released Sustainability Reports

91% of companies have released their SR, and many of them started in 2021.



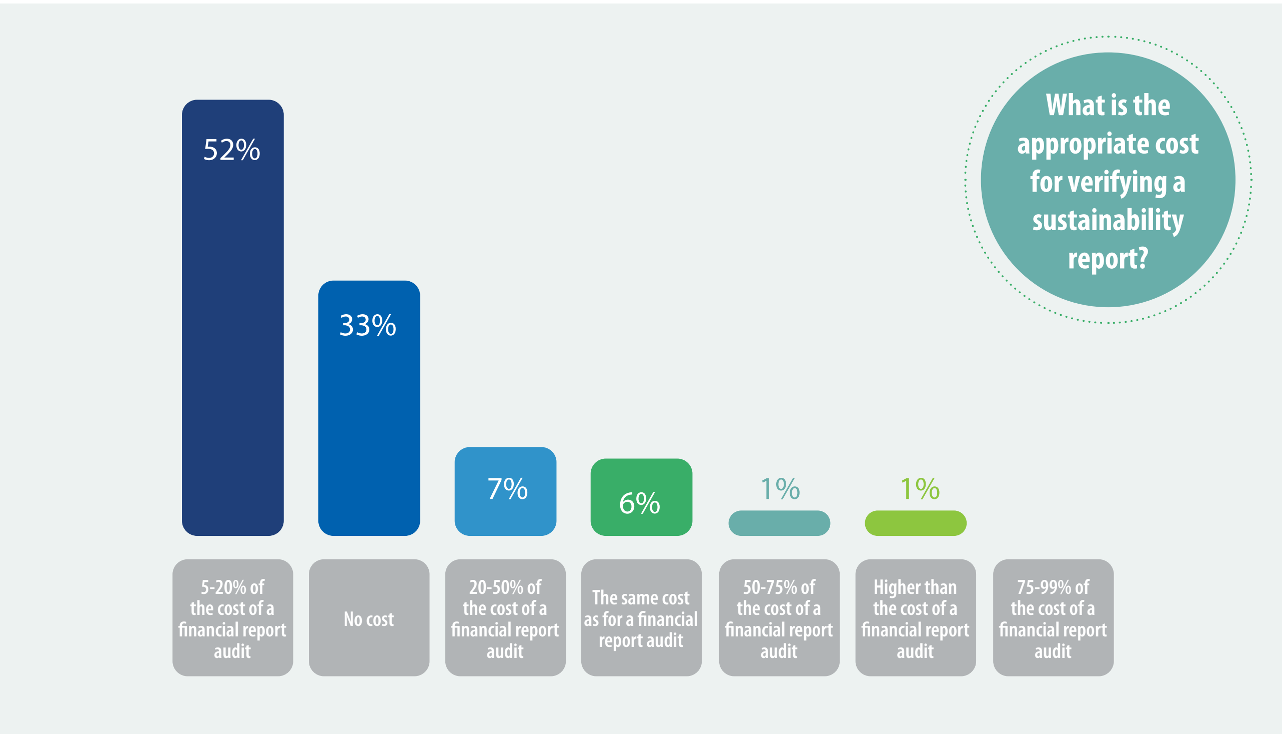
The sustainability report should be verified according to national standards and certification

79% of companies think that third-party verifiers must have national standards and certifications.



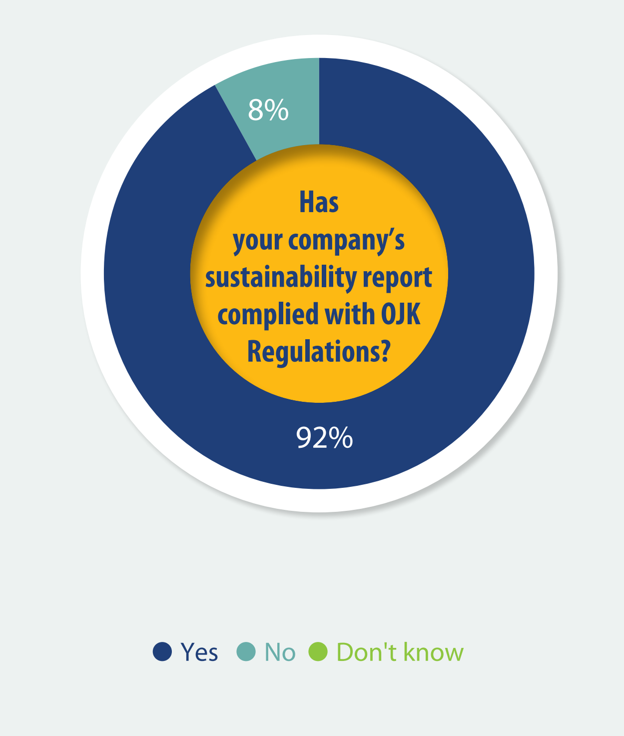
Verifying sustainability report should cost less than audit cost

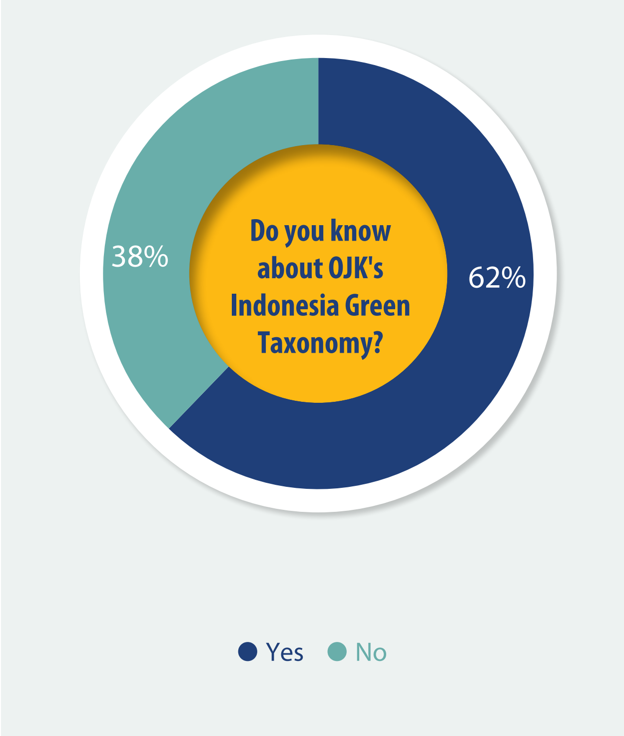
52% of companies think that the appropriate cost of auditing SR is 5-20% of the cost of a financial report audit.



92% of companies (that issued SR) claimed that their SR is complied with OJK's regulations

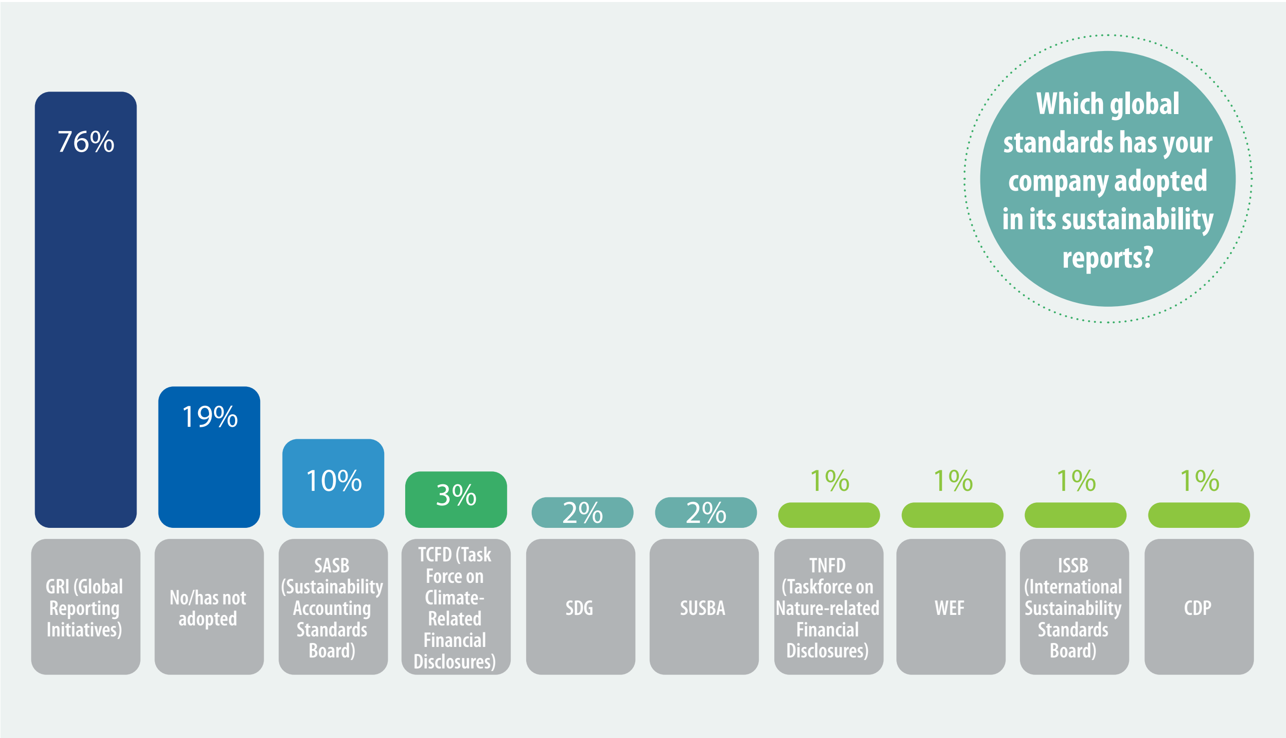
However, only 62% of them know about OJK's Green Taxonomy.





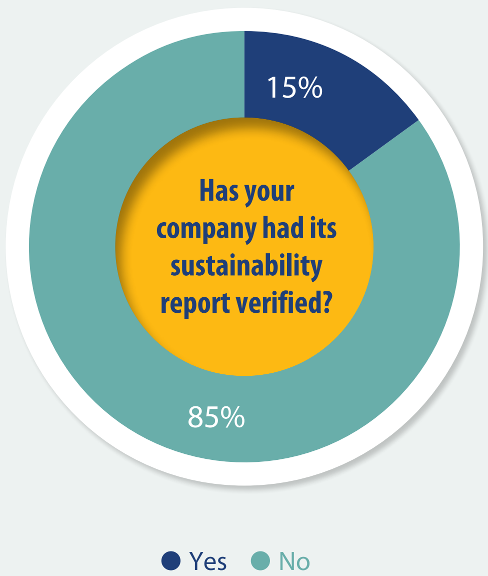
Most of them also complied with global standards

76% of companies have adopted GRI as their SR's standard, others follow SASB & TCFD.



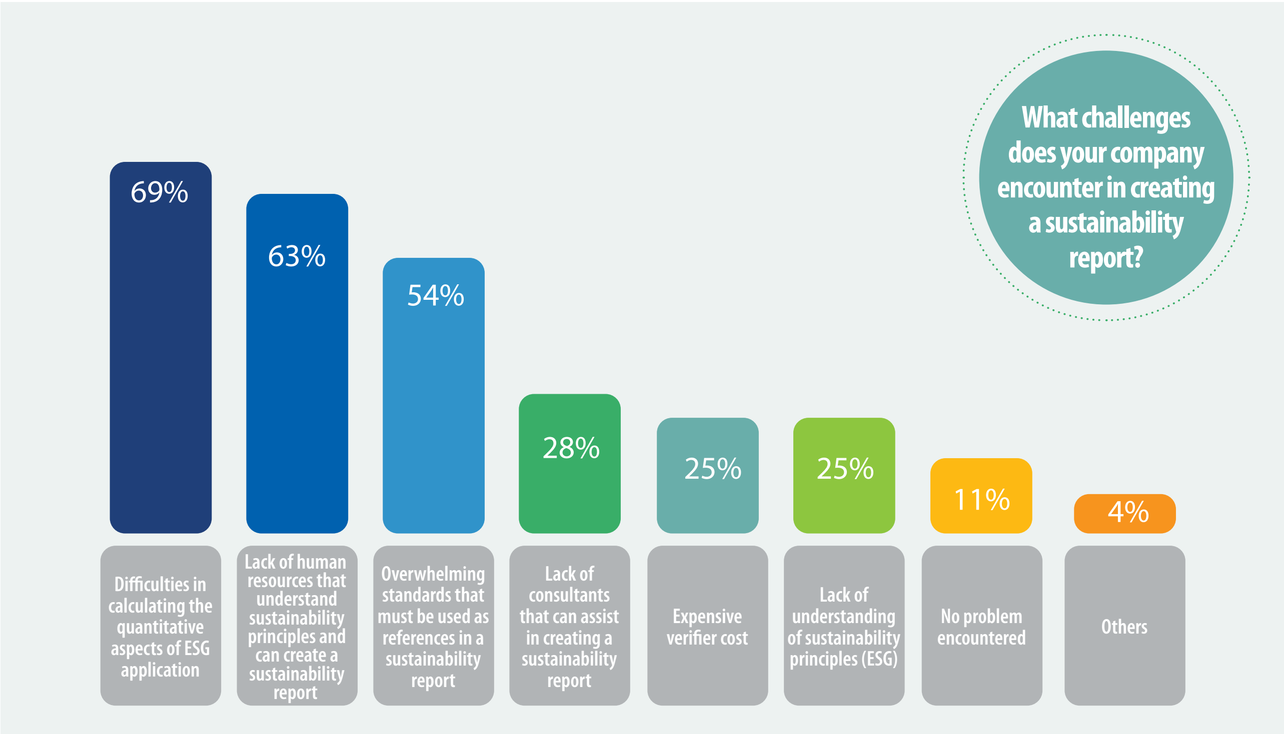
they didn't verify their SR through a third-party verifier

85% of companies have not verified their SR (by using 3rd party verifier).



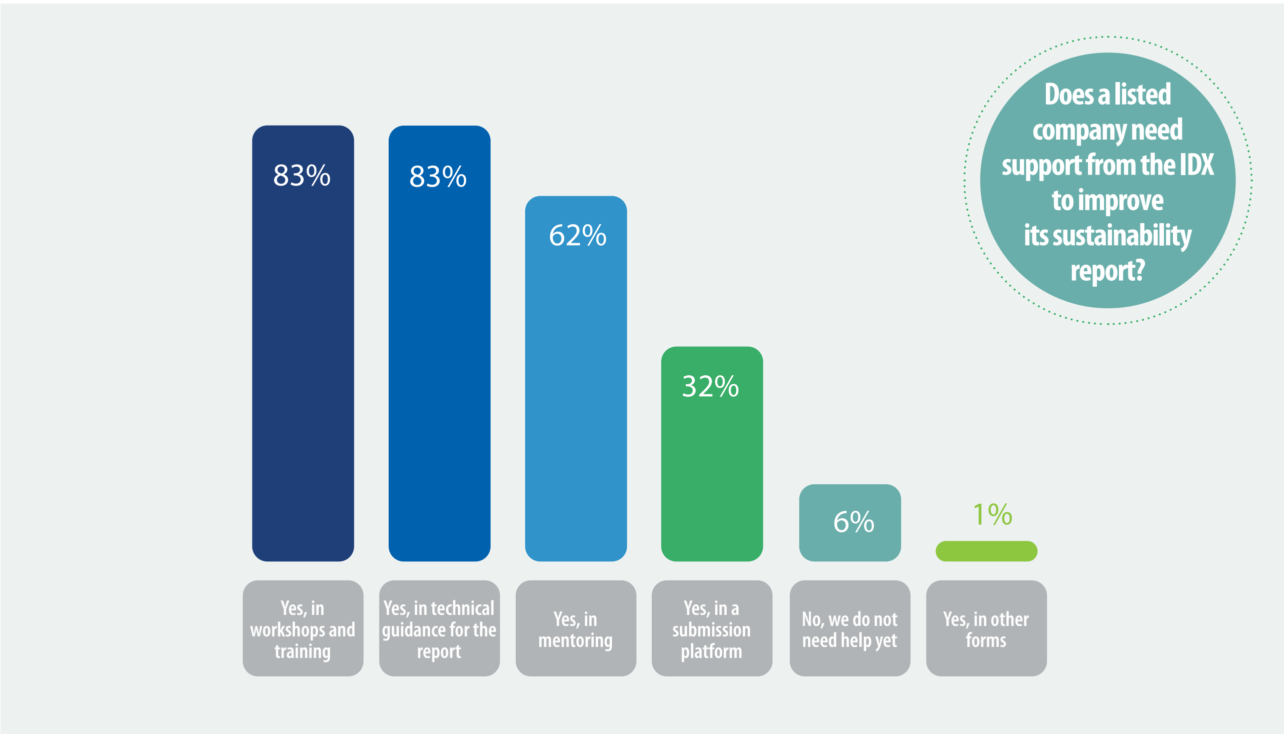
Companies said that they still struggling with certain aspects on creating SR

69% of companies still struggling to count the quantitative aspect of ESG.



Workshop and technical guidance are the most needed support from IDX & regulators

83% of companies need support in form of workshop and training for creating the SR.



d. ESG Business Survey: Non-Listed Companies

Meanwhile, we also have done an ESG survey to Non-Listed Companies which indirectly gave us a comparable perspective on ESG implementation against that of the listed companies.

The survey took participation of 100 companies of various sectors. The results showed about 57% of the participating non-listed companies that have no absolute obligation to adhere to capital market regulations do not have bank loans. Below is the further information about the participating companies.

ABOUT THE SURVEY

- **100** Non-listed Companies (big & medium size)
- **60%** started operation in 2000 or later
- **4 Sectors** In Agriculture, Energy, FMCG, and Transport & Logistic
- **13%** have intention to go public (IPO)
- **57%** Companies have more than 500 employees

The survey also told us that 75% of the participating companies would take ESG aspect in running their businesses.

Economic and social aspects are on top of their priority factors for ESG implementation. Still, while taking it seriously, 61% of them still agrees with perspective that ESG is not their future priority.

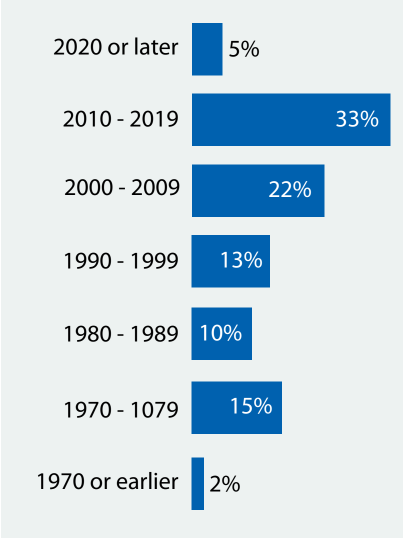
KEY FINDINGS

- **7.0** average score of ESG importance
- **23%** have published sustainability report despite the high awareness – naming cost as one of the main challenges. 45% are unwilling to pay any cost in verifying sustainability report
- **24%** believe ESG business practices will be a priority in the future
- **75%** consider ESG in business practices
- **45%** find lack of understanding ESG issues as a challenge
- **66%** Companies are looking for ESG Data
- **51%** Count GHG emission, and majority of them calculating Scope 2 emission
- **"E" & "S"** most prioritized ESG components by companies in Agriculture and FMCG

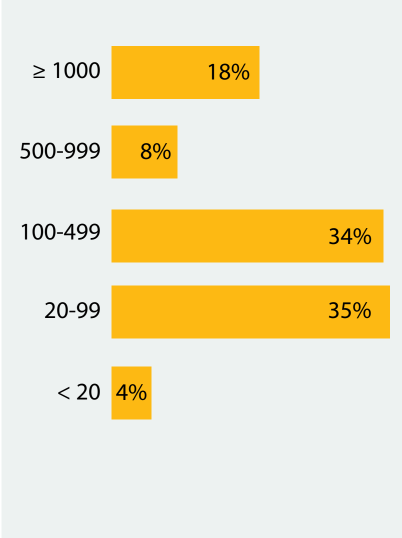
Majority of companies started operation in 2.000 or later

with almost 30% have more than 500 employees and 13% have intention to be listed companies

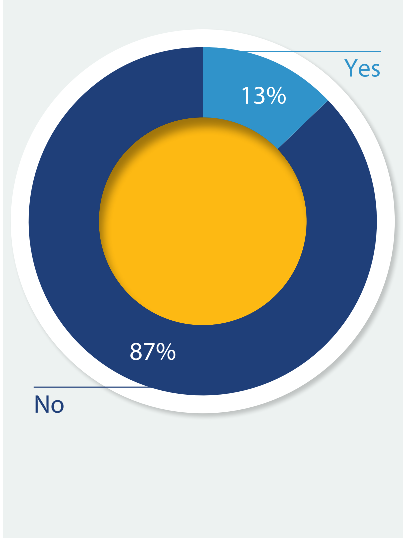
Years of Starting Companies Operation



Number of employees



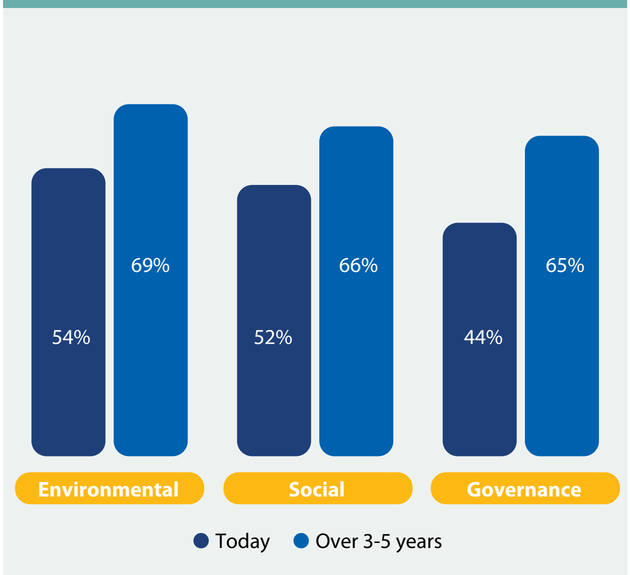
Intention to go public or listed in IDX in the next 5 years



The companies have not determined which components are the priority

Average score of ESG importance is 7.0 for overall component. About 54% of companies ranked Environmental as the priority and but its score of importance is less than social and governance. Presumption on the needs to fulfill environmental regulation and related requirements could drive this result. The survey also show same results for the next 3-5 years.

ESG Priority



Respondents were asked to rank each option (1-3). Represents the top two priorities among those that currently or plan to focus on E, S, or G priorities.

ESG Score of Importance

Respondents were asked to rate each option (1-10). Represents the average of rate for each components.

75% of companies claimed to consider ESG in the business practices

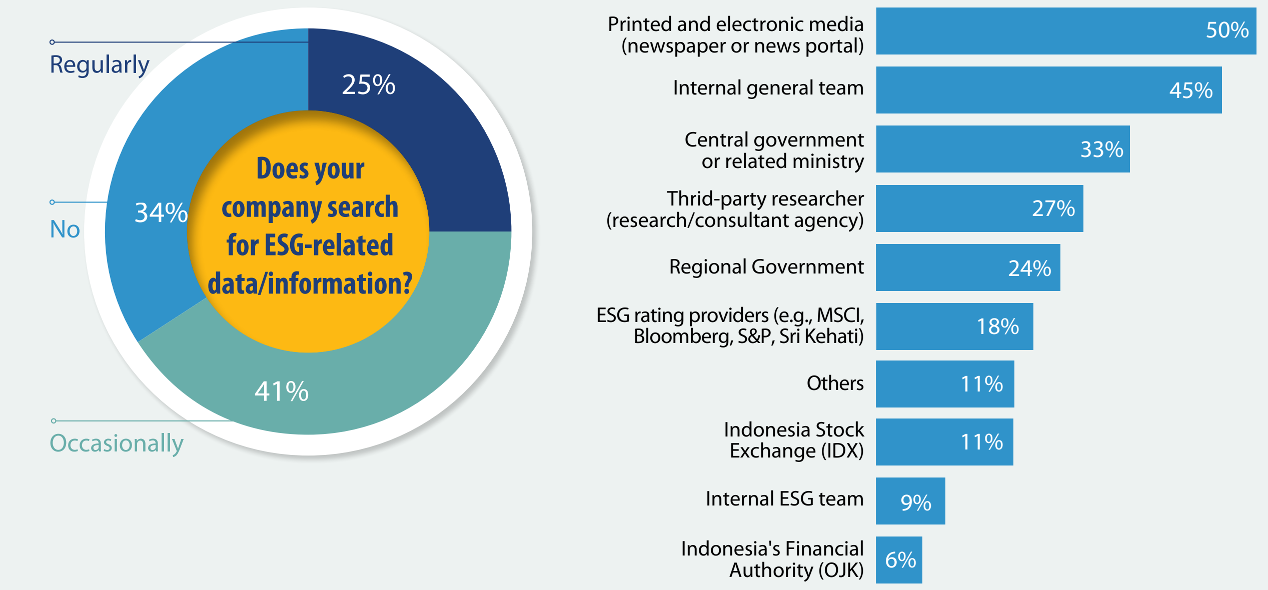
On more details, we find that the motivation in implementing ESG is to support company achieving the target. However, the surveyed companies also mentioned about benefiting people and environment as well as complying government regulation on the reason implementing ESG.

Besides fulfilling employee benefits, companies also have fulfilled major regulations on good governance

Registering firms tax identification number and having audited financial report are the most top answer. However, only 10% of companies published their financial report

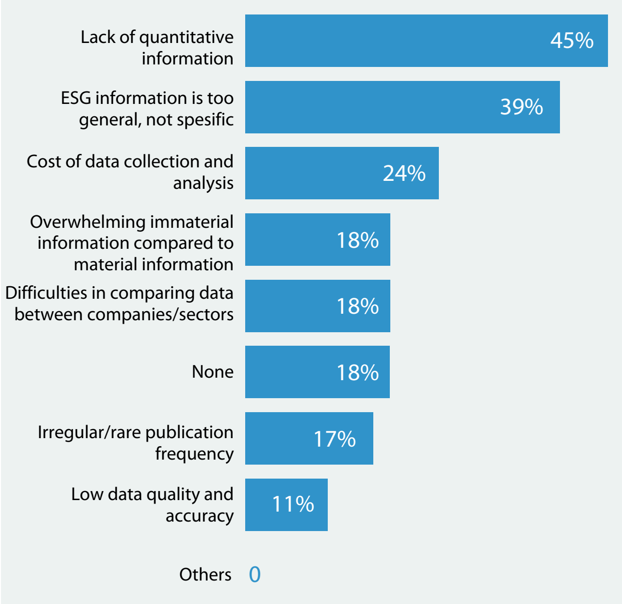
66% of companies claimed that they're looking for ESG data

Media, Internal, and government or related ministry-sourced information are the primary source of ESG Data.

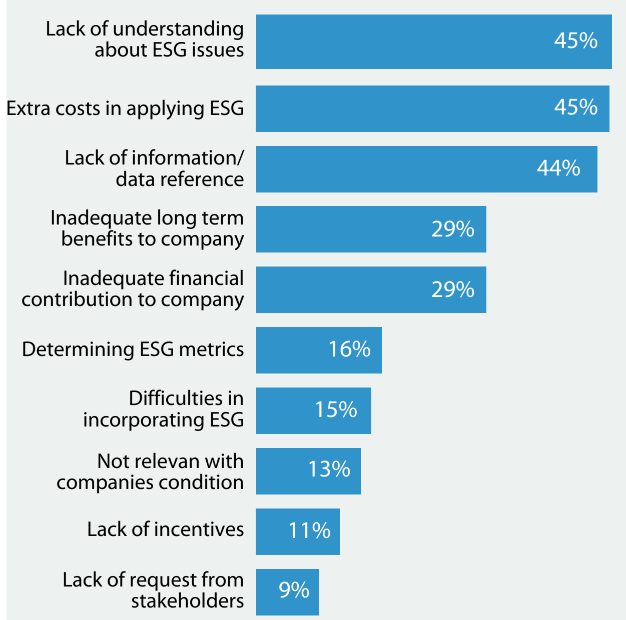


However, various challenges in terms of access to information and implementation relating to ESG persist

What challenges does your company face in collecting ESG information?

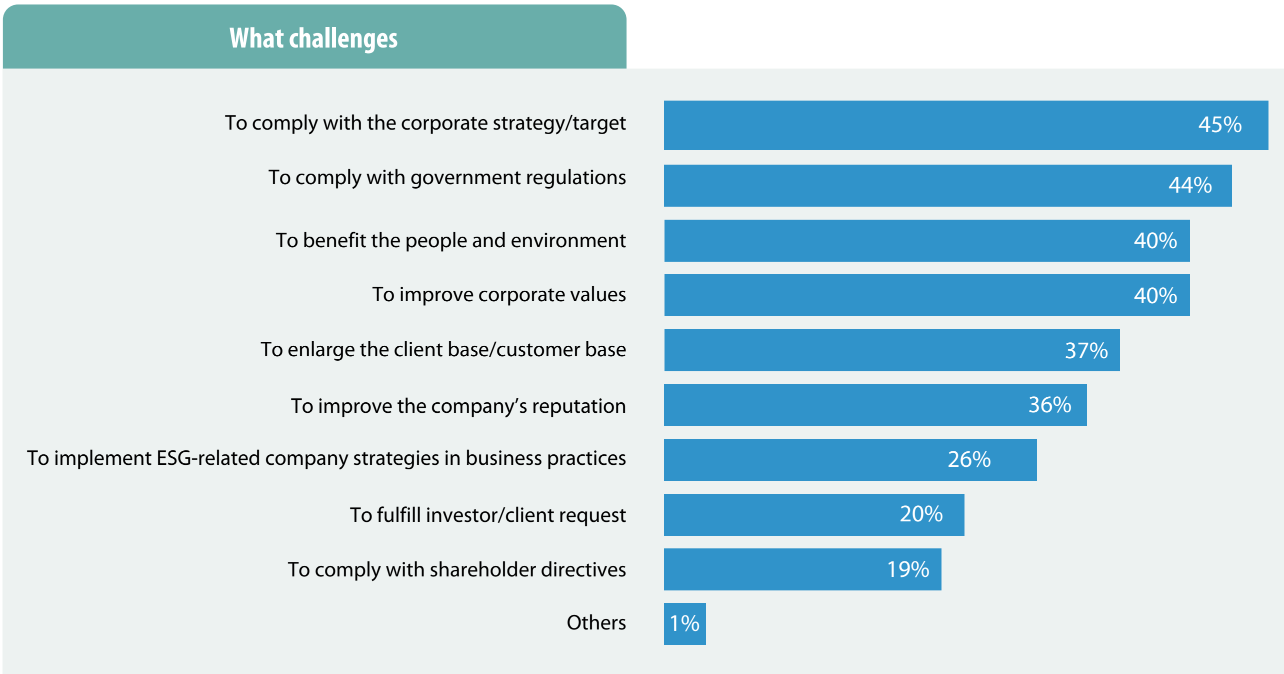


What challenges does your company face in implementing ESG?



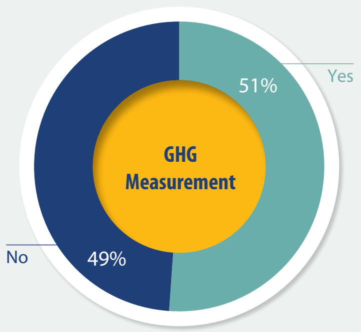
And their challenges are mostly a lack of information

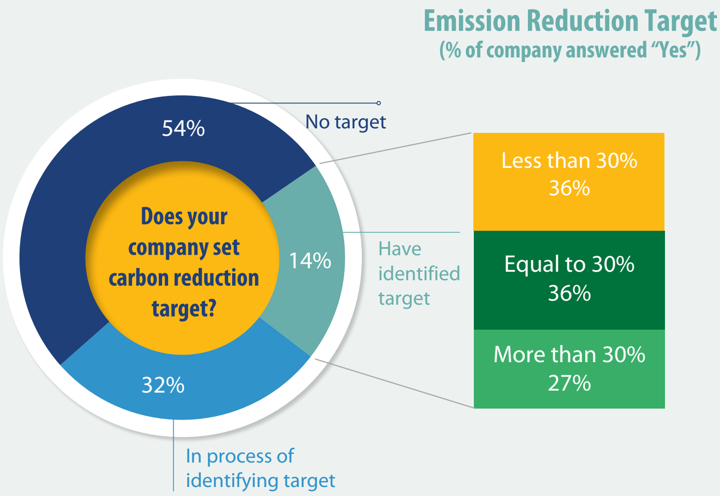
45% of companies face difficulties due to lack of quantitative information.

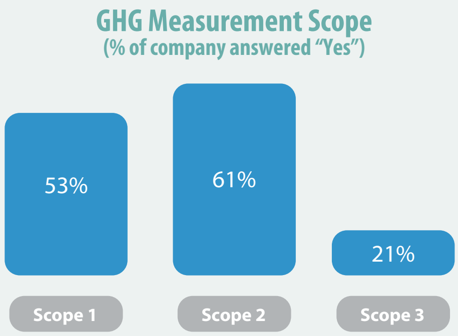


More than half of companies are measuring Greenhouse Gases (GHG), contributed mostly by those in energy sector

For non-listed companies, measuring scope 2 emission is the common thing to do compare to others. However, only 14% of companies have an emission reduction target with a majority target a reduction of equal or less than 30%.



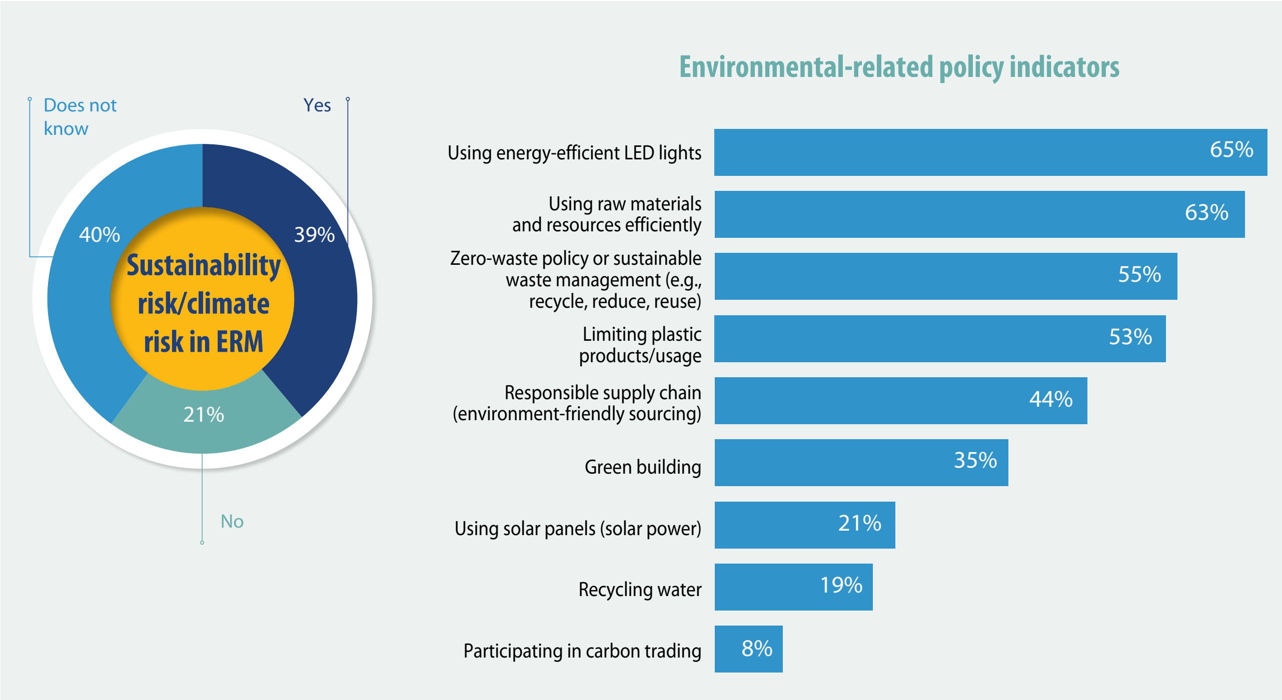




Scope 1: Carbon or GHG emissions that are directly generated.
Scope 2: Emissions generated indirectly through energy purchase from a third party, such as in power usage.
Scope 3: Carbon emissions generated indirectly through other means, such as in the company's supply chain.

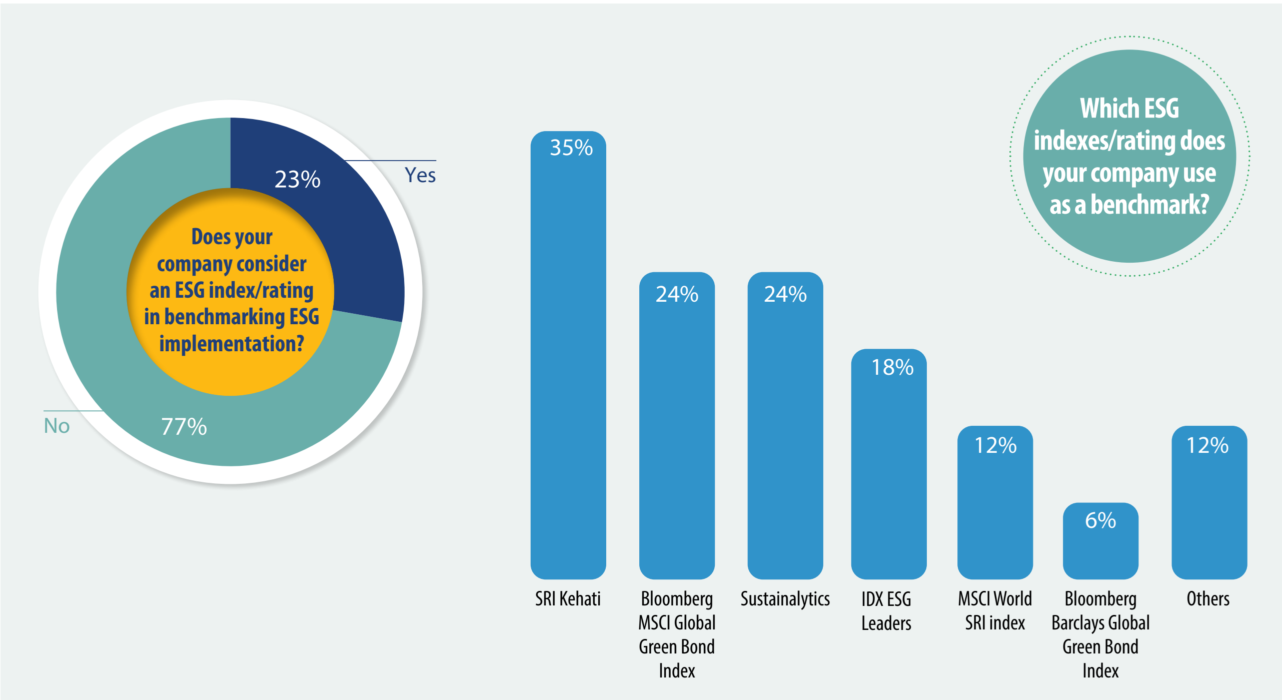
On the bright side, companies still carry out various environmental actions, and incorporate sustainability or climate aspects in the Enterprise Risk Management (ERM)

Almost half of companies use LED lights and save resources when they can.



Still, ESG rating is not fully used as benchmark for ESG implementation

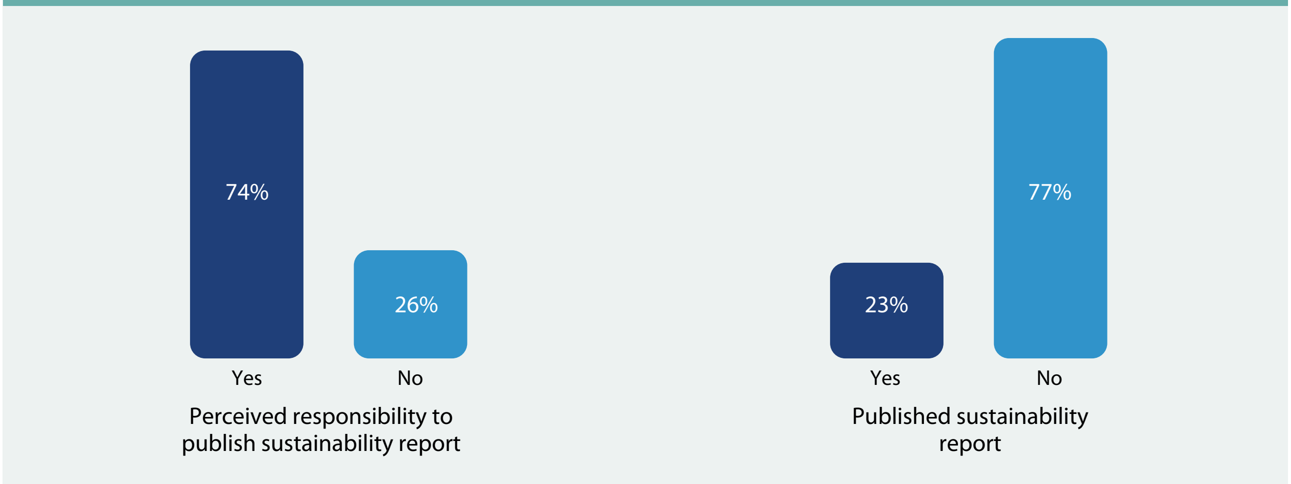
Only 23% respondents utilize ESG rating information – majority refer to domestic ESG rating such as SRI KEHATI (35%), followed by Bloomberg MSCI Global Green Bond Index (24%) .



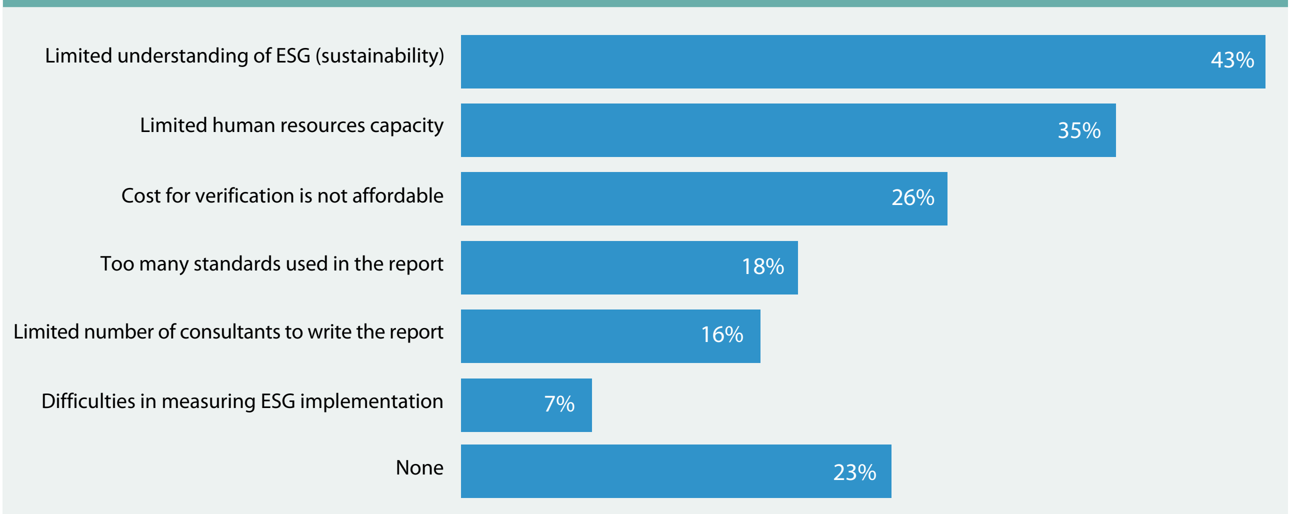
On ESG disclosure, companies agree that they hold responsibility to publish sustainability report

but only 23% did so, mainly because of limited understanding and capacity

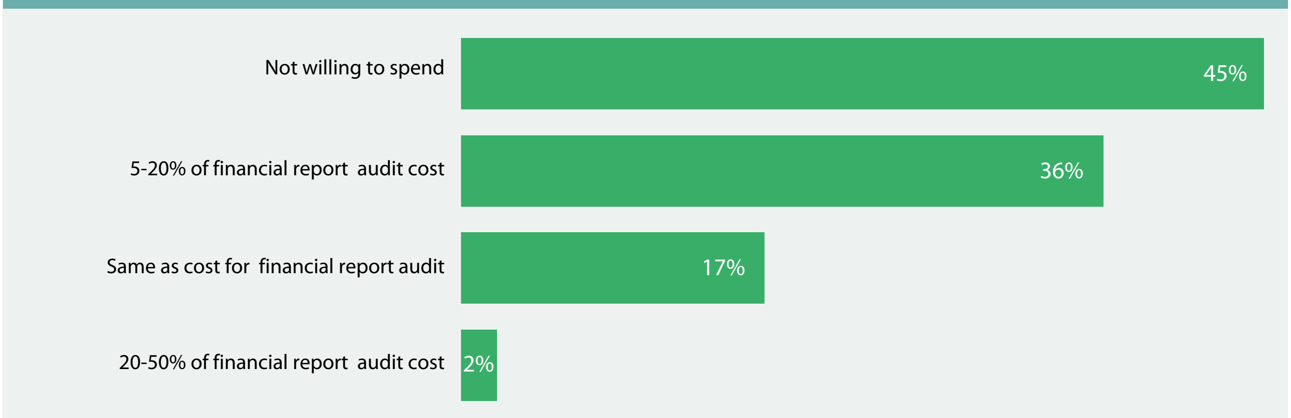
Perceived responsibility vs. Actual implementation



Your company's challenges in publishing sustainability reports?

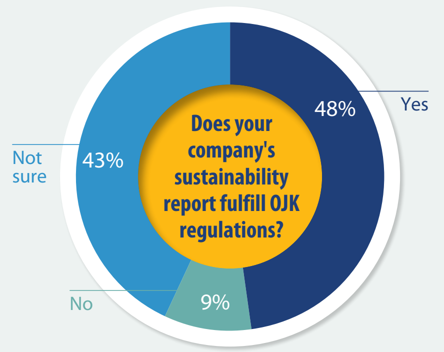


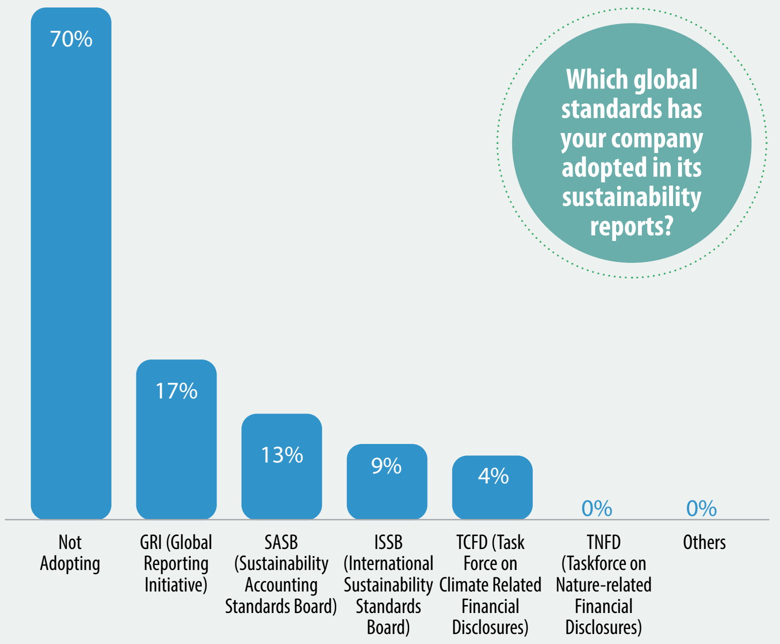
How much would your company spend on sustainability report verification?



Furthermore, 70% of companies that published sustainability report didn't refer to any global standards

And only 48% of Companies have their SR complied with POJK No. 51/POJK.03/ 2017 and SE OJK No. 16 /SEOJK.04/2021.

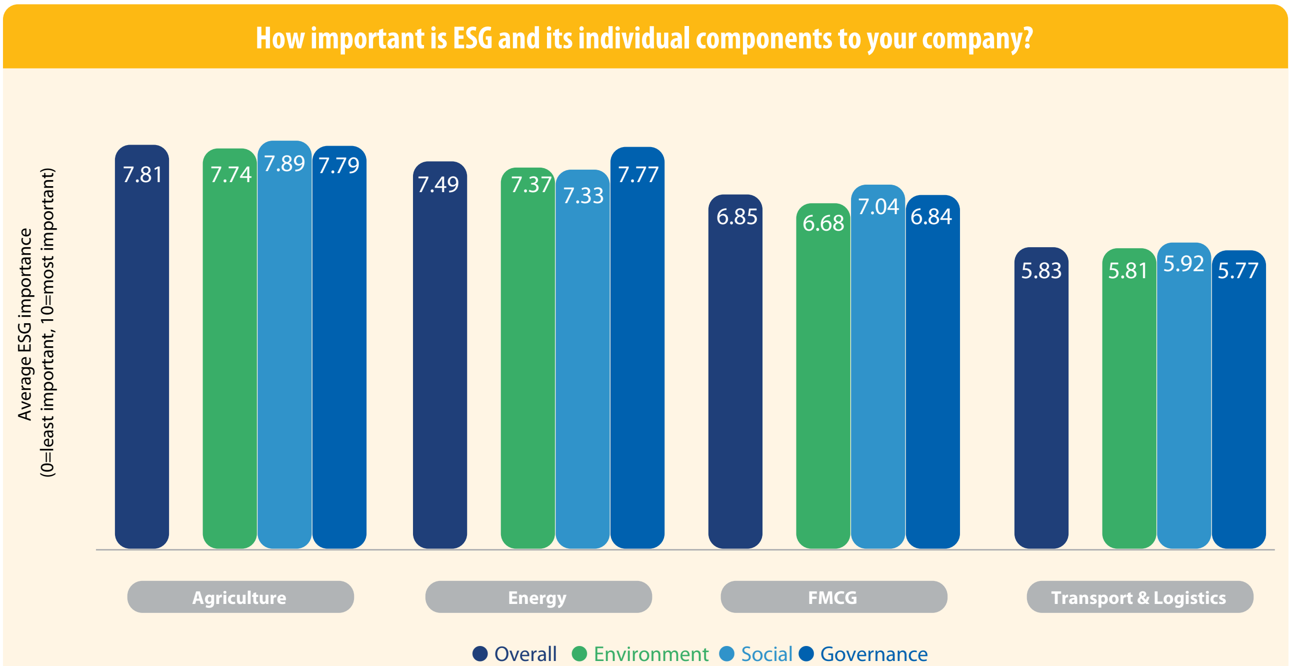




Comparing 4 Priority Sectors

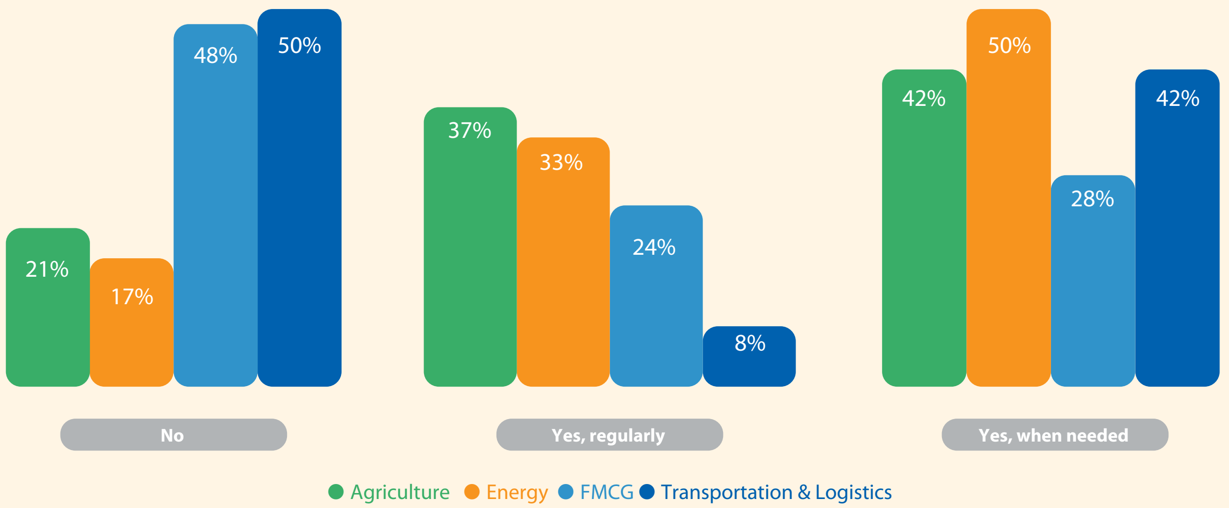
Energy, Agriculture, Transport & Logistics, and FMCG

All 4 sectors rated ESG components differently, however 'E' did not rate as the most important. The logistics and transportation sector consistently rated lower compared to other sectors.



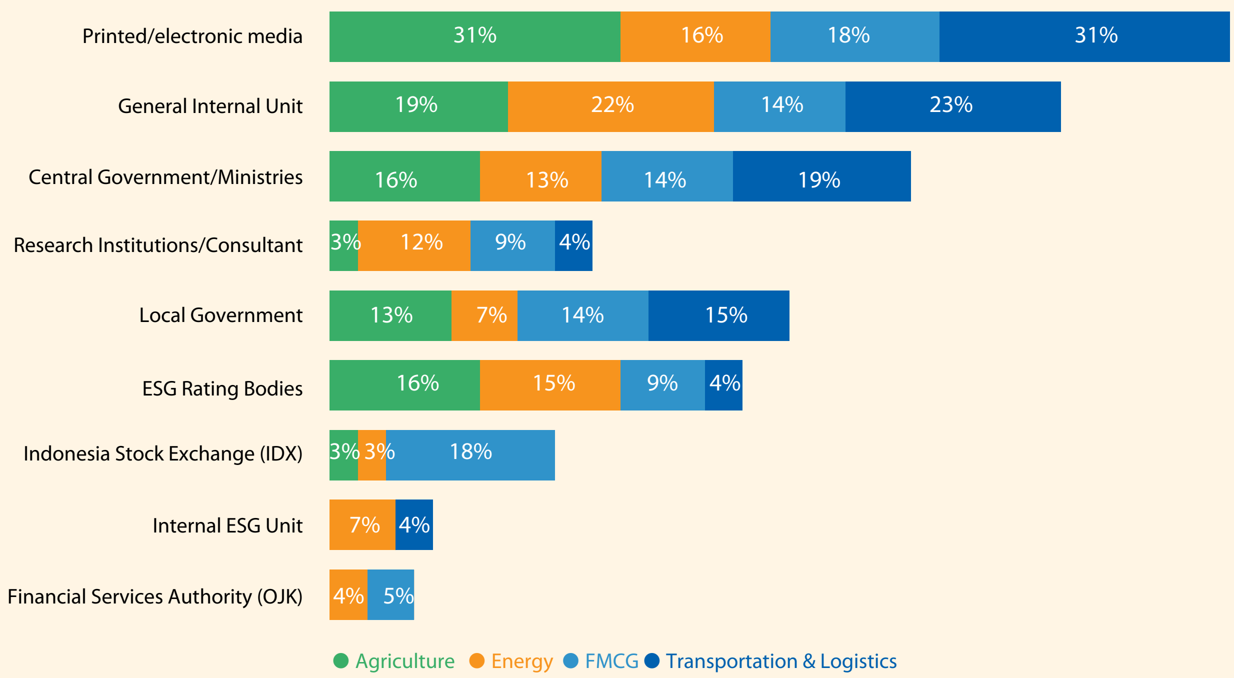
Approximately 50% of the FMCG and Transportation and Logistics sector do not search for ESG information. Not even half of companies in each sector search for ESG information regularly.

How often does your company search for ESG Information?

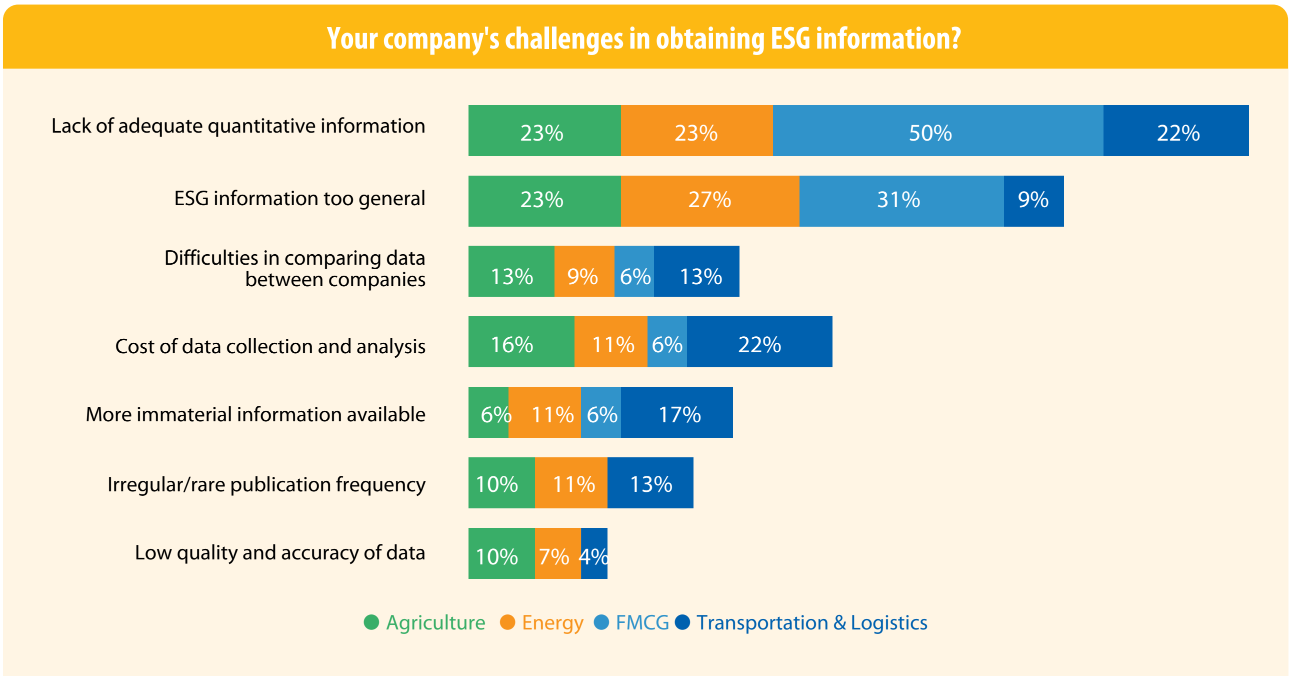


The energy sector mainly relies on their internal units for ESG information, while the agriculture and transportation and logistics sectors relies on printed/electronic media. Interestingly, companies in energy sector are more often getting information from consultant or research institution.

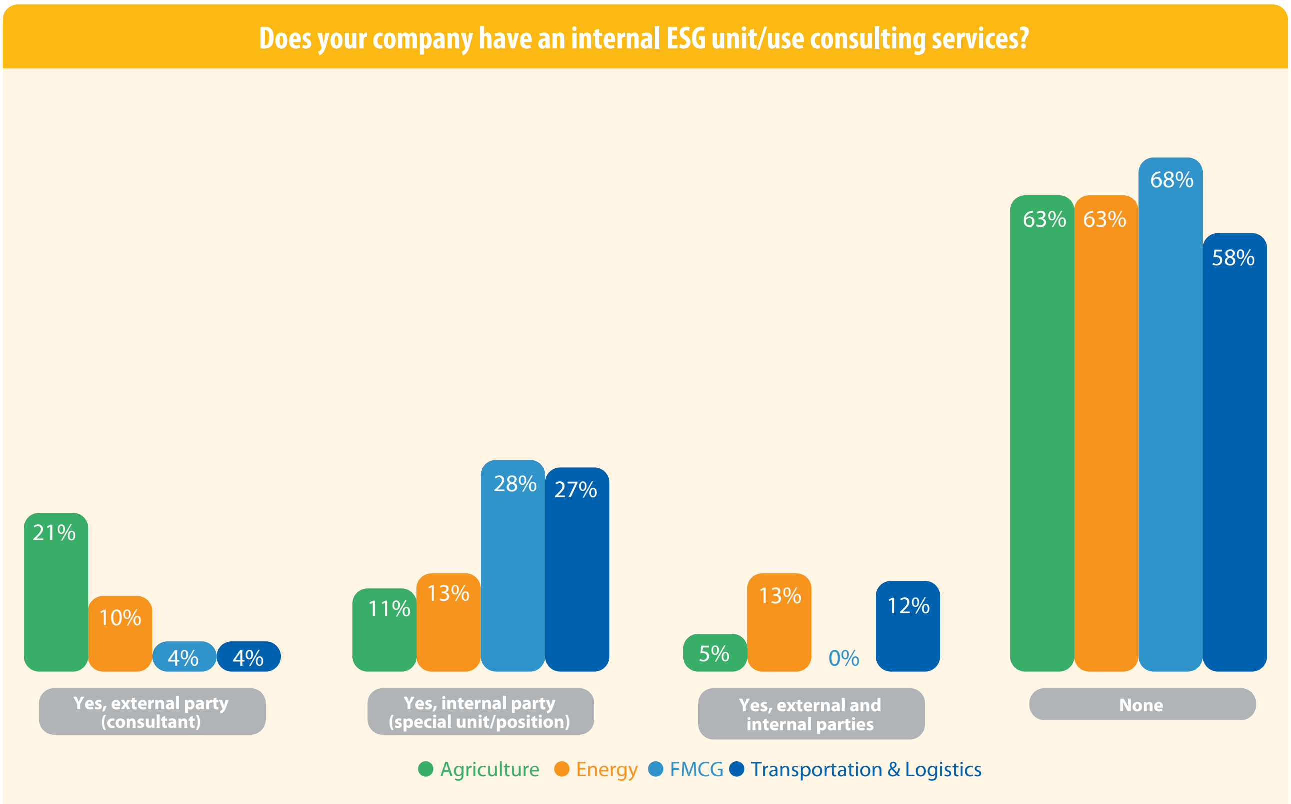
Where do you get ESG information from?



The energy sector's main problem in accessing ESG information is that available data is too general. The agriculture and FMCG sectors finds a lack of adequate quantitative information.



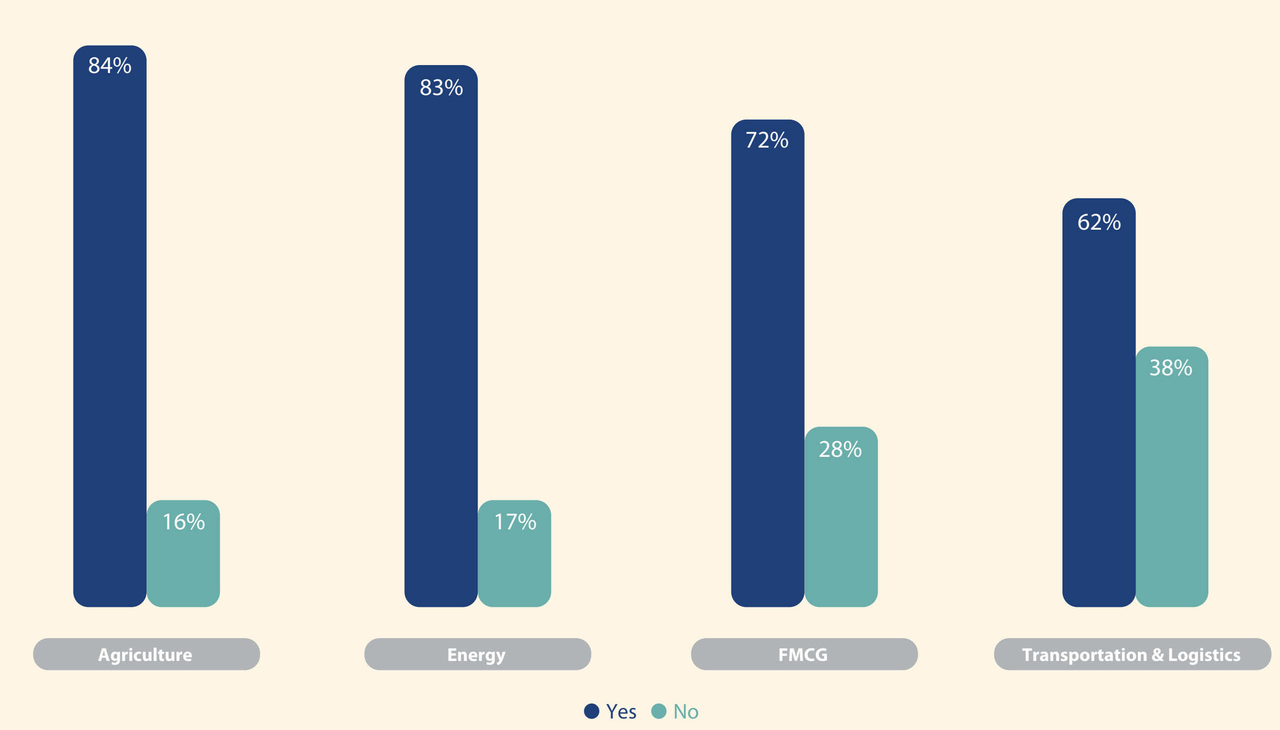
The majority of all sectors don't have an ESG specific unit at all. The portion of sectors that do have help with ESG use internal units more than external consultants.



#02 How we perceive ESG?
Surveys from Private Sector

Fortunately, more than 80% companies in agriculture and energy sectors consider ESG in business practices. Meanwhile 38% of the transportation and logistics sector don't consider ESG.

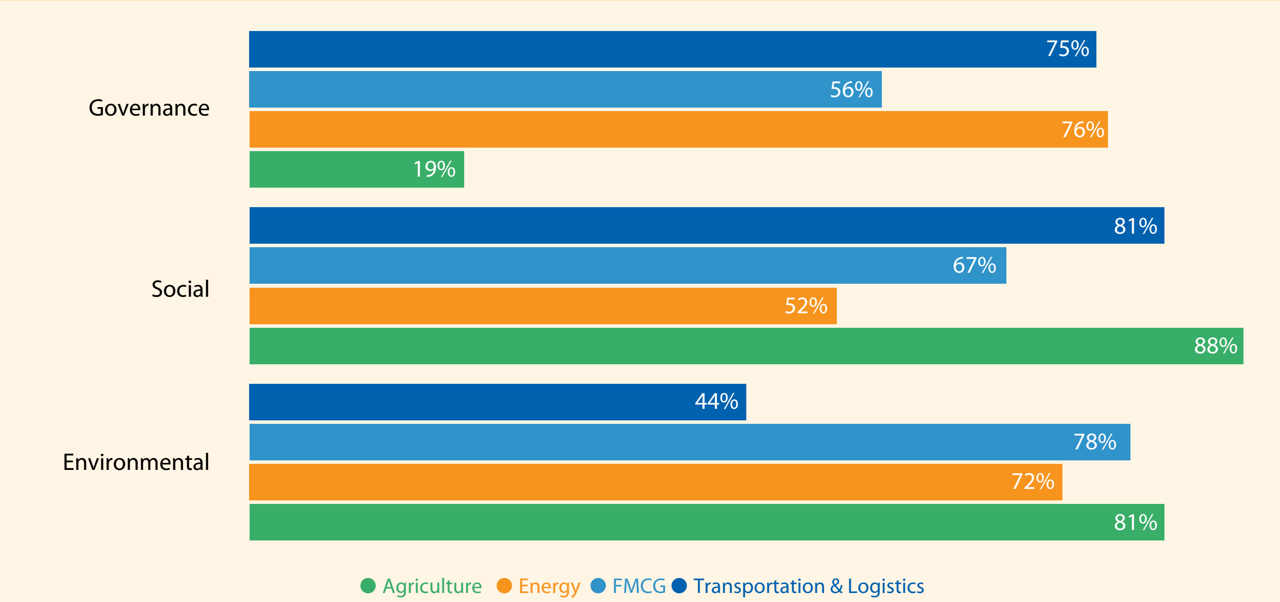
Do you consider ESG in business practices?



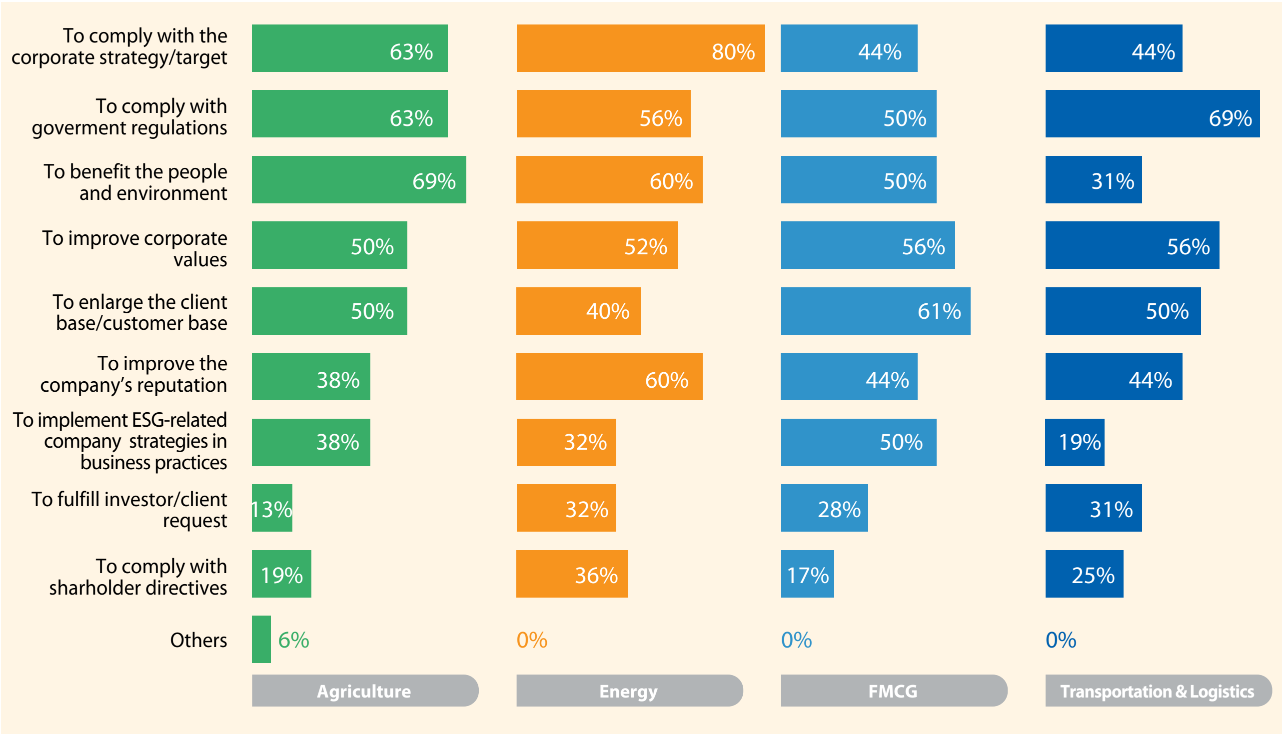
Every sector puts different priority on each ESG components

The agriculture and FMCG sector prioritizes 'E', while energy prioritizes 'G'. Meanwhile, transportation & logistics prioritize 'S'.

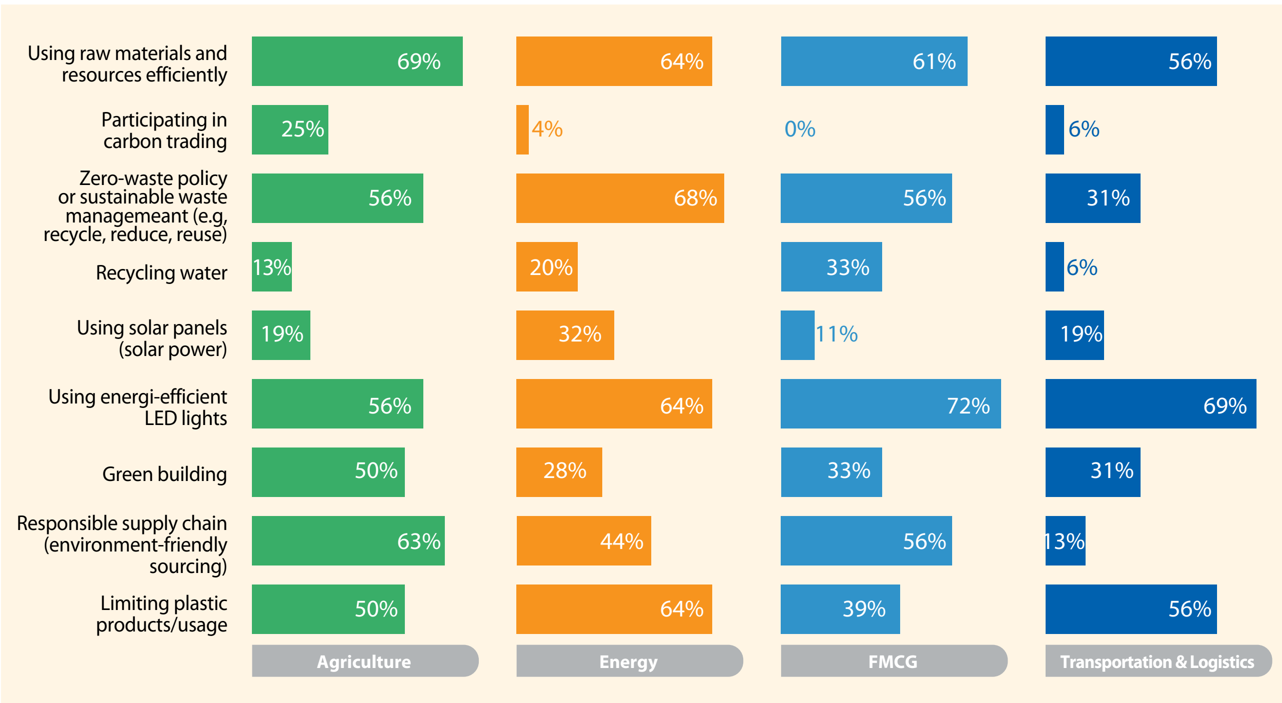
Which ESG component does your company prioritize?



Being beneficial for society is the main motivation to implement ESG in the Agriculture sector. Energy sector complies to fulfill company's target, while FMCG sector complies to enlarge customer/client base. Transportation and logistics sector are motivated to follow government regulations.



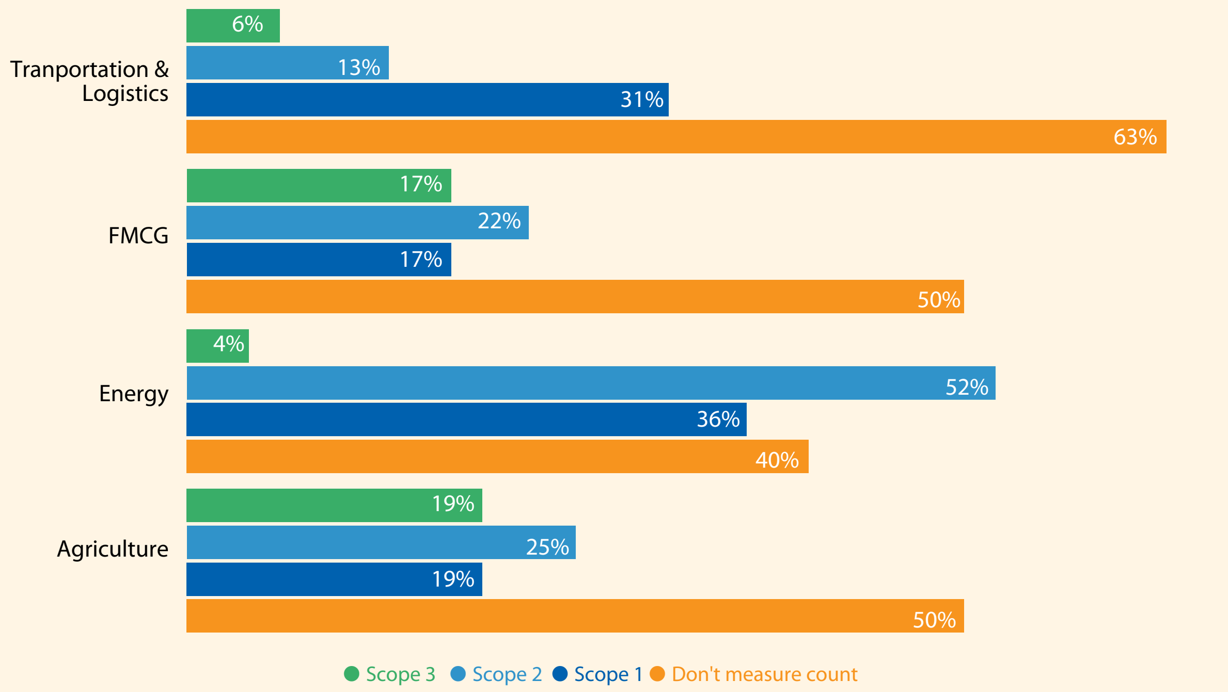
In supporting environmental policies, the majority of the energy sector implements zero-waste policies. Transportation and FMCG sectors use LED lights. The Agriculture sector balances between limiting use of plastic, responsible supply chain, LED lights, zero waste, and saving resources.



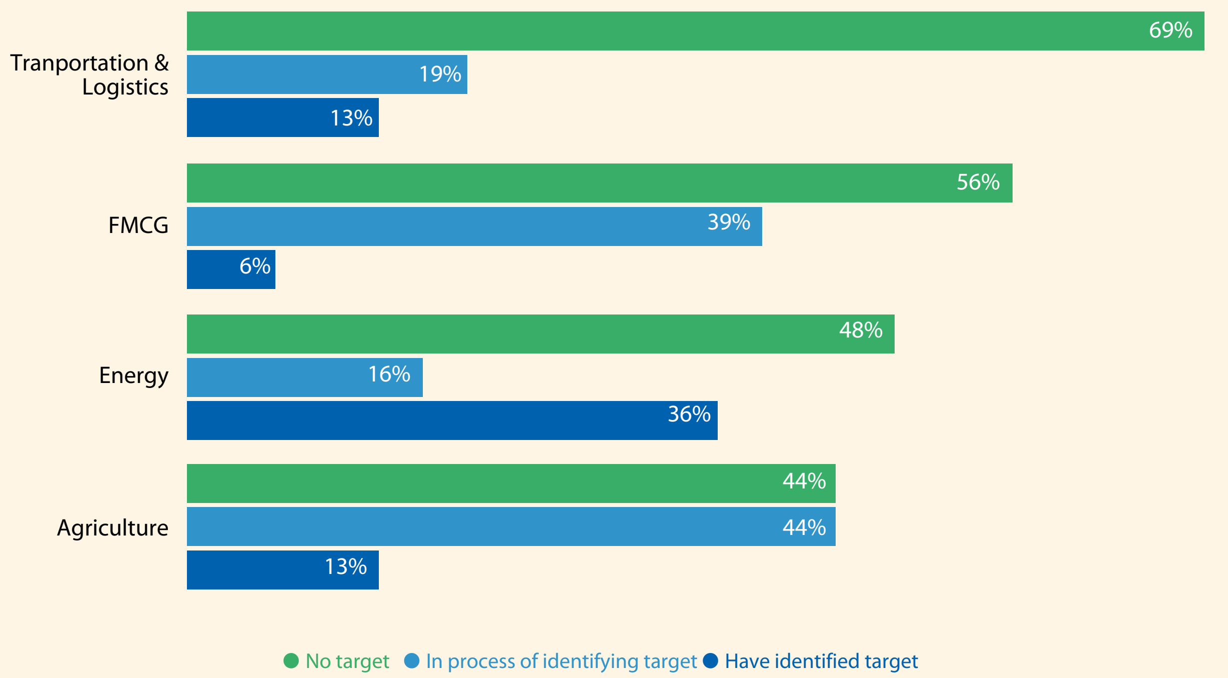
The energy sector is the most diligent in counting emissions, especially in scope 2.

Approximately half of all sectors have no target for reducing emissions. However, there is still progress being made in identifying targets throughout all sectors..

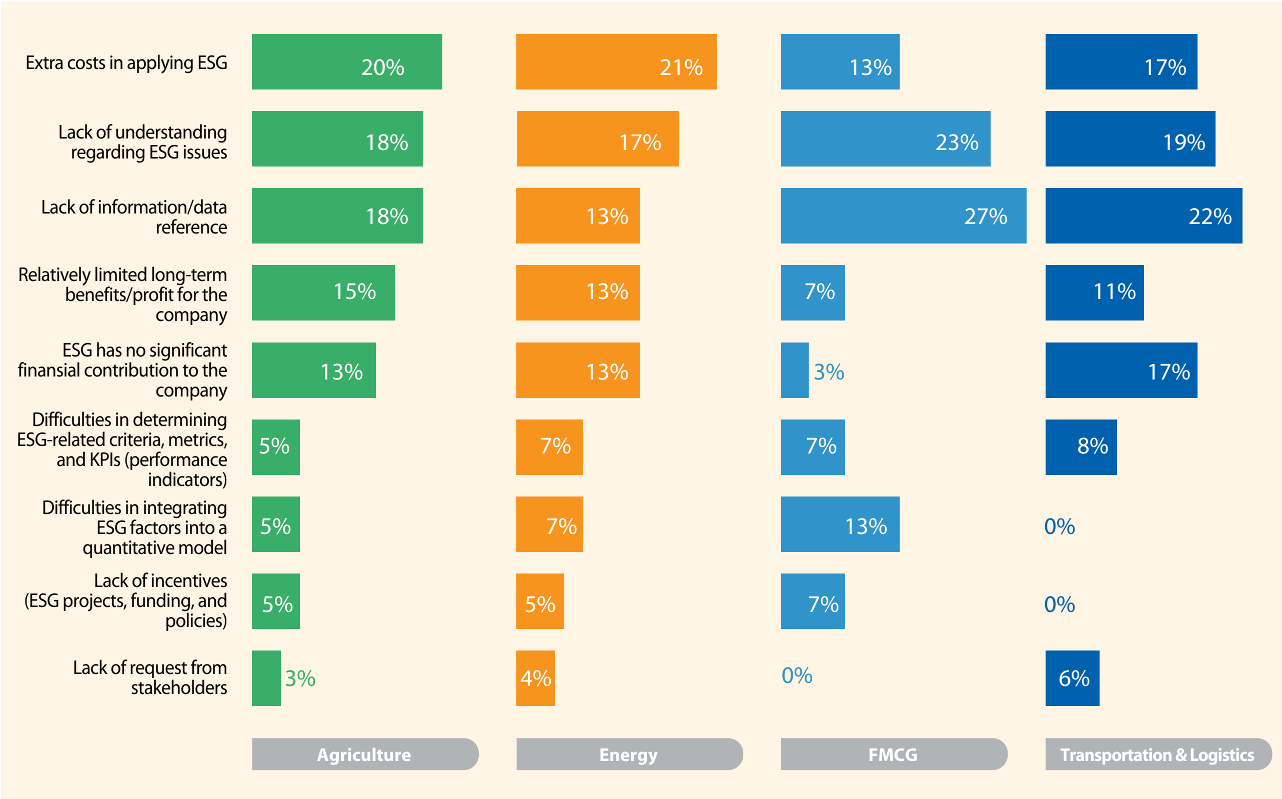
Does your company measure emissions?



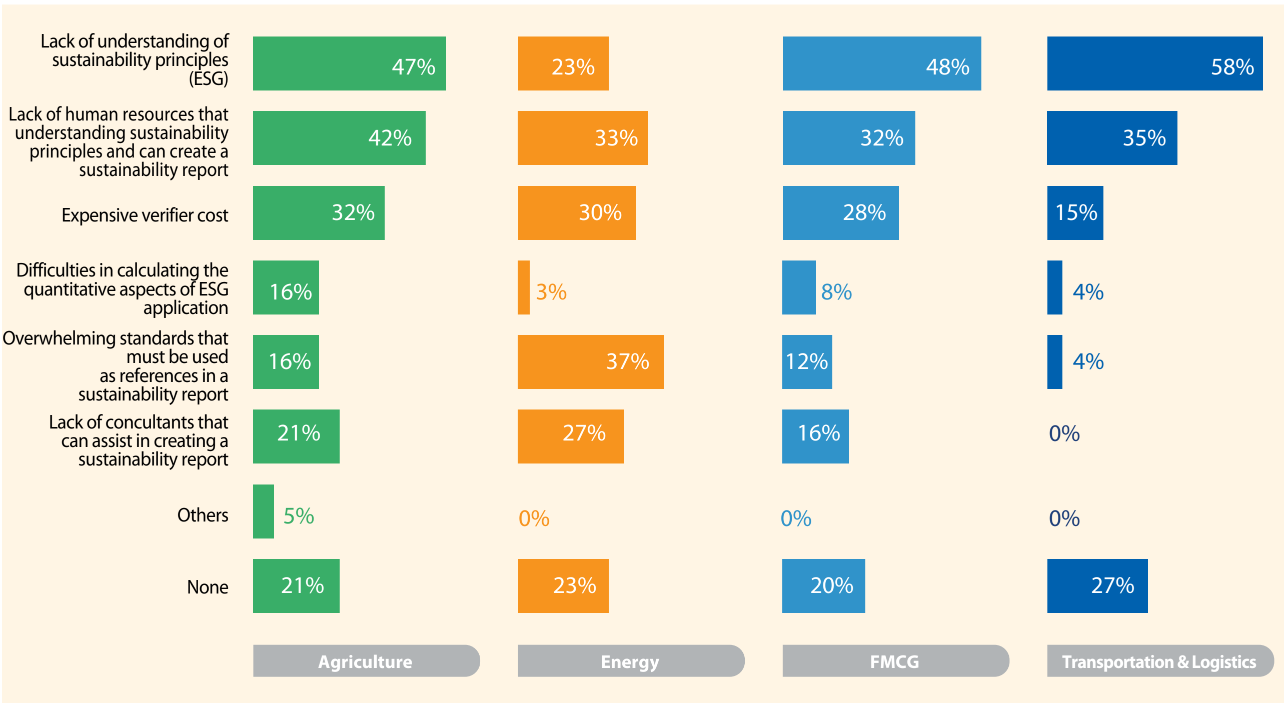
Does your company have a target in reducing emissions?



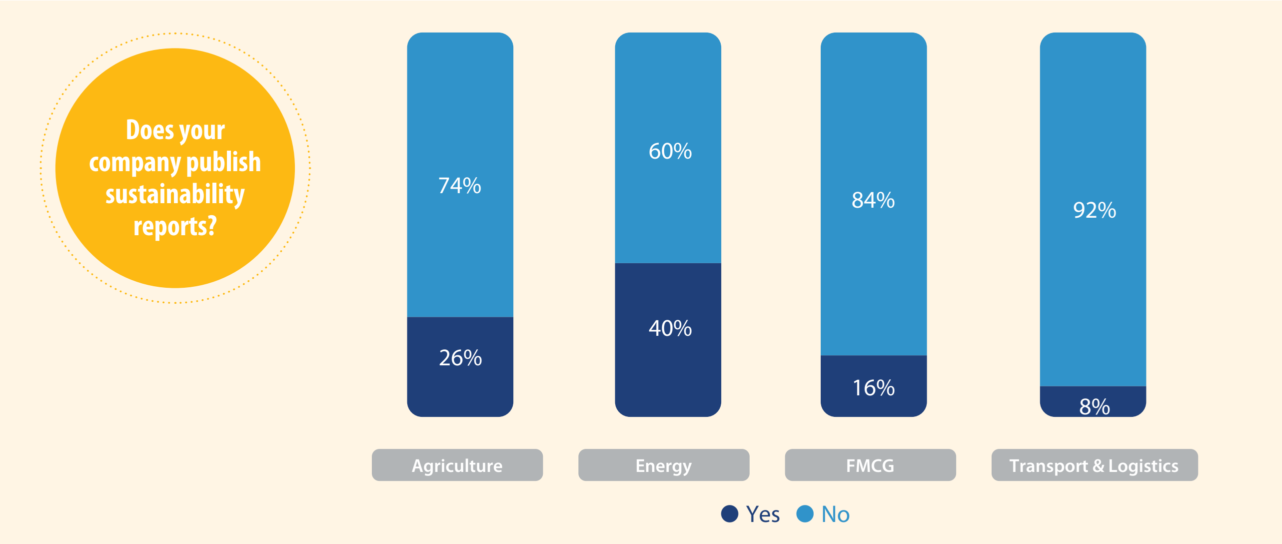
The additional cost of ESG burdens the energy and agriculture sector the most in implementing ESG, while the lack of information is a challenge for the transportation & logistics and FMCG sector.

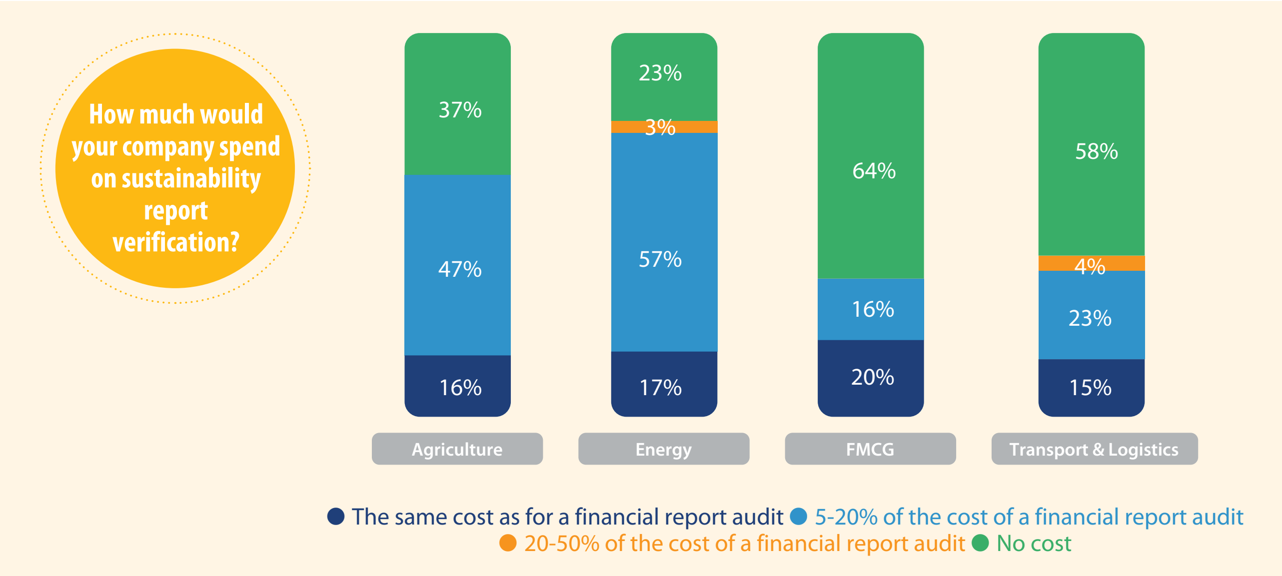


What challenges does your company face when assembling an ESG report?



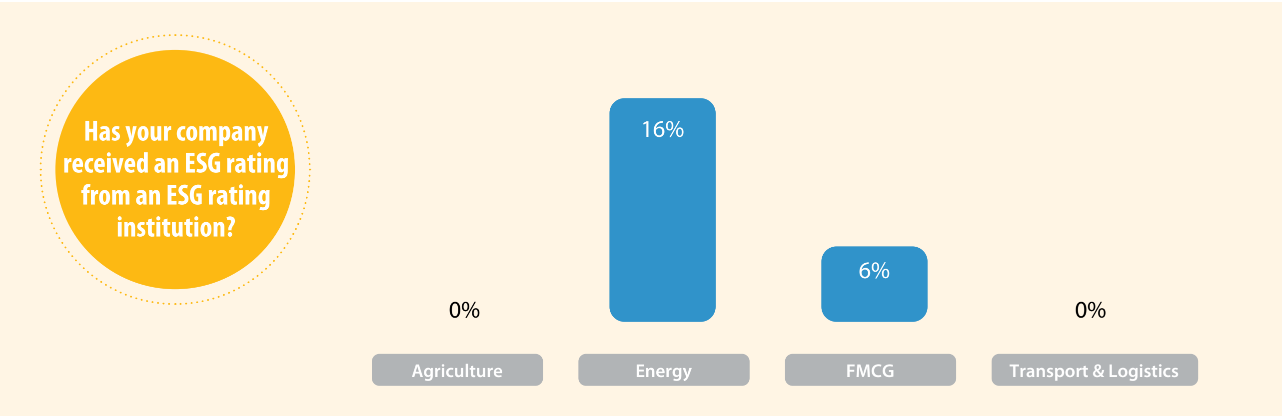
The energy sector is more prevalent to publish sustainability report



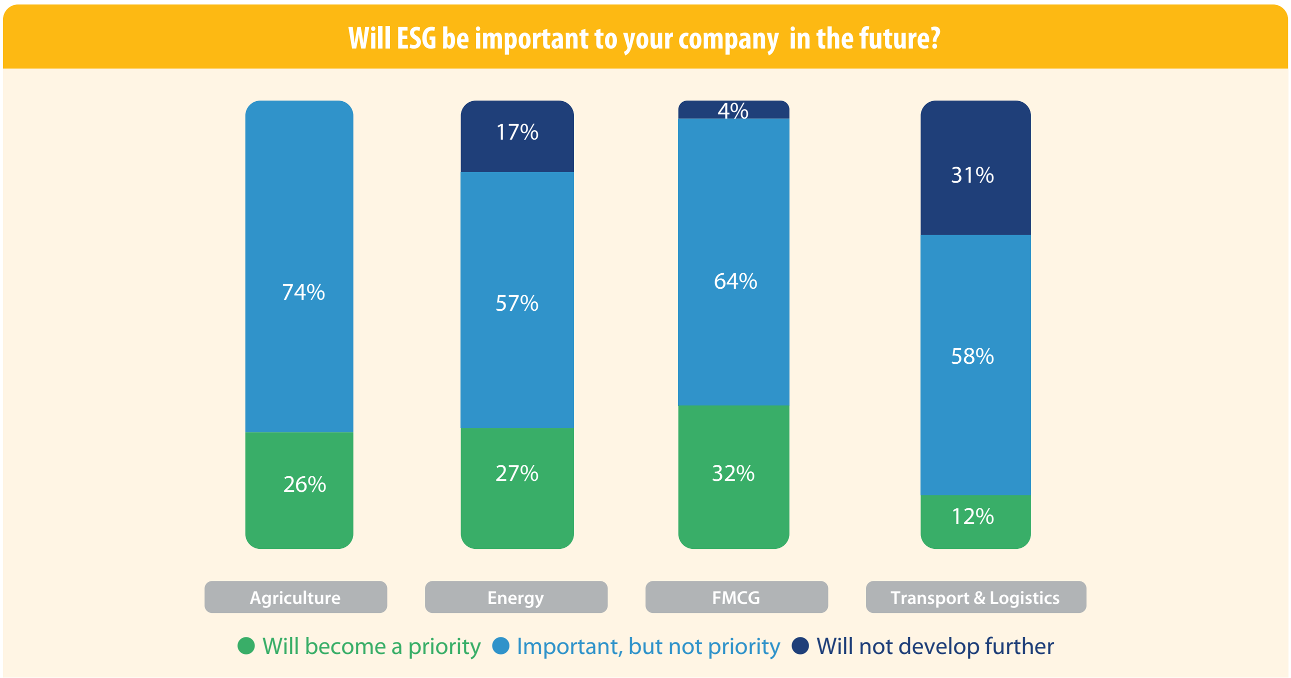


The majority of companies don't have ratings from ESG rating companies.

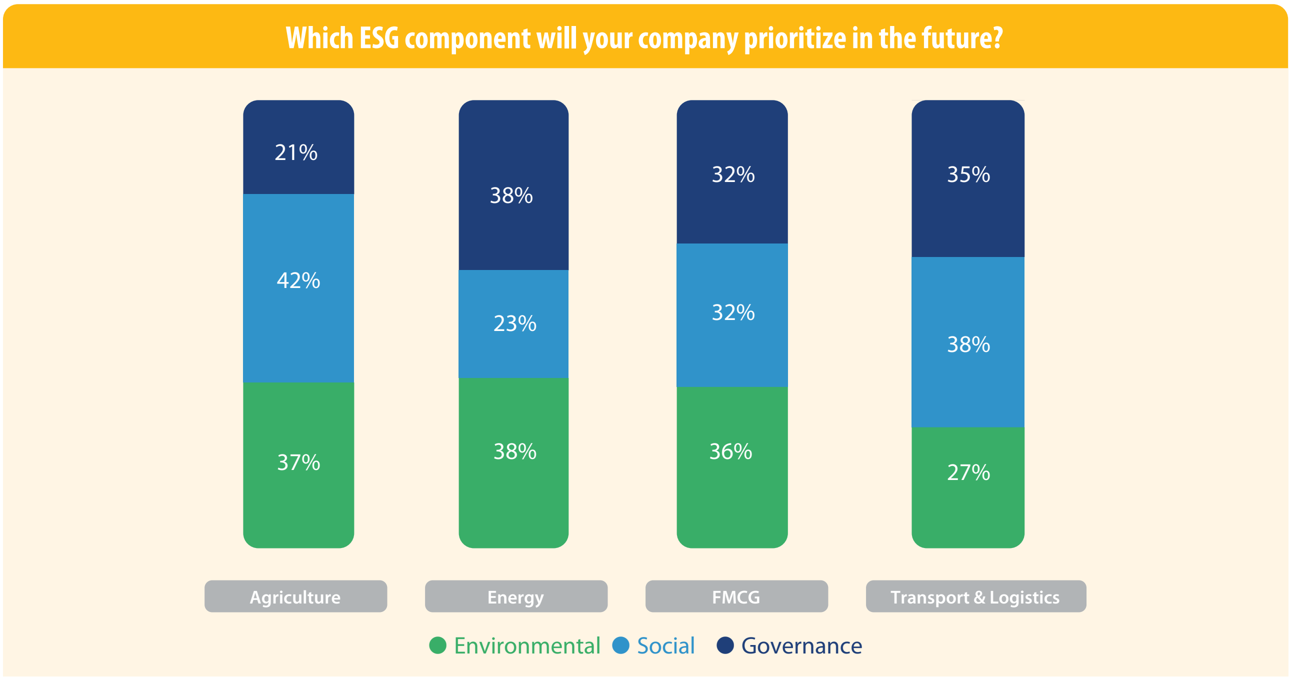
However, 19% of the energy sector have, making it the highest of all sectors.



There is a general consensus among all 4 sectors that ESG will be important in the future, but not a priority. Agriculture sector sees the importance of ESG in the future.



Interestingly, when asked which ESG component would be most prioritized in the future, agriculture and transport & logistic answered 'S'. FMCG answered 'E'. While energy would prioritize both 'E' and 'G'.



#03

Policy Direction:

Enabling and disabling factors of ESG implementation in Indonesia

ESG or SDG based investments show an increasing trend as more investors care for sustainability issues. In 2016, Indonesia Stock Exchange listed only one ESG product on the capital market, while in 2021 the number increased to 15 products with a total value of Rp3.45 trillion. Also back in 2021, the government has also issued its first SDG Bond and SDG themed bond with a total value of Rp35.2 trillion[1].

For companies, ESG is used as an instrument to achieve a sustainable economy and concrete contributions to social and environmental issues. The more companies to implement ESG is the bigger impacts to deliver. Cooperation between the government and private sector is the key to a successful ESG implementation. With ESG application in Indonesia continues to evolve, however, more challenges have come. Some challenges and factors that can hamper the success of ESG application in Indonesia are:

It is not easy to apply ESG as it needs knowledge while ESG understanding is still low in Indonesia. A survey by IBCSD in 2021, ESG Index in Indonesia was ranked 36 of 47 capital markets in the world. Other survey by IBCSD said that 40% of companies in Indonesia have still less understanding of the importance of ESG application. Our discussion with stakeholders concluded some challenges facing ESG implementation such inadequate resources, lack of talents who understand ESG, costly ESG consulting and the complexity of ESG measures and standards.

In the following part, we discuss ESG standards, as one of challenges, that businesses typically encounter. But we also explore the future direction of these standards. It is expected that the framework and ongoing directions of the standards would provide us insight about the future trend of ESG measurement.

1) Coordinating Ministry of Economic Affairs, HYPERLINK "http://www.ekon.go.id" www.ekon.go.id

a. Policy Direction towards ESG Implementation: Taxonomy, Criteria, and Complexity in Standards

1. Overview

A paradigm shift takes place in business and investment cycle over the past decade. Profit no longer holds the sole consideration as issues concerning planet and people eventually have stakes in their survival. This finding is reaffirmed by many recent studies. Macquarie Asset Management's 2021 ESG Survey Report found that ESG has gained more attention for around 85% of 180 investors, compared to that of the previous years.[1] In the similar tone, PwC's Global Investor Survey 2021 also indicated very high favorability among investors to include ESG into their deliberation, with almost 80% saying yes.[2] The number of web searches on ESG has spiked to the highest level which demonstrates a growing attempt by society's collective consciousness to demand more from the companies to align their values with ESG trend (Figure 1).

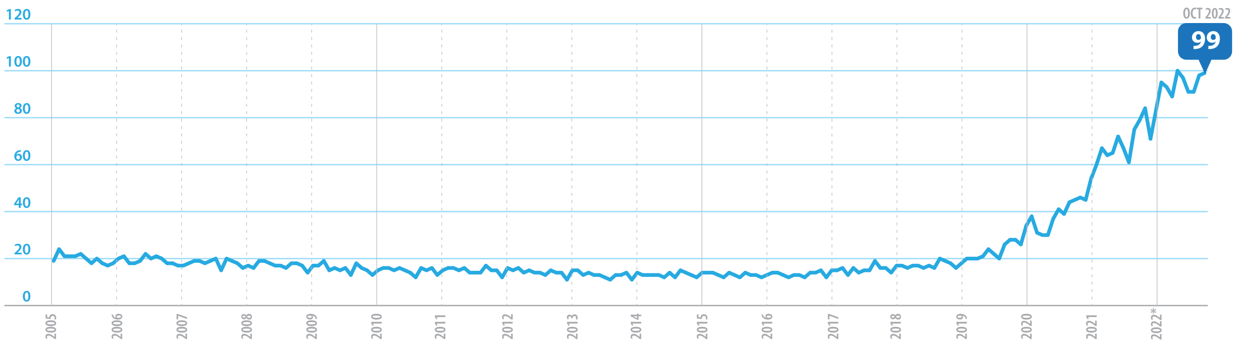


Figure 1. Google Search Trend on "ESG" worldwide.
*) as of October 2022

2. Multiple Factor

Multiple factors fuel this growing trend; increasing risk perception from ESG issues is one of them. KPMG's 2021 CEO Outlook and IBM's 2022 CEO Study interestingly provided an identical finding, confirming that ESG has been on the top-of-mind of many corporate leaders. Based on the KPMG's data, environmental/climate change risk has climbed from the 4th challenge priority to the first within just a year.[3] Similarly, a study by IBM showed sustainability also has topped the list of future potential disruption for many CEOs . It was a significant climb from the 6th rank in the previous year.[4] Not only presenting a material risk for companies in the form of potential stranded assets and litigation risks, ESG can also perform reputational risk that will eventually impact corporate "license to operate".[5]

Increasing pressure from other stakeholders serves as another driving factor to encourage companies to advance their ESG commitment. The next generation of individual investors wishes to make a meaningful difference toward their communities and the world at large. EY's 2022 Emerging Sustainability Information Ecosystem Report unveiled the fact that younger generation, mainly Generations Y and Z, expected to play greater roles in enabling a favorable environment for ESG disclosure.[6] There is a new trend towards reduction in "greenwashing" and therefore individual investors are demanding to get greater clarity on what their money is invested in and how business decisions are made.

1) Macquarie Asset Management's 2021 ESG Survey Report: Key insights from our investors
2) PWC's Global Investor Survey: The Economic Realities of ESG (December 2021)
3) KPMG 2021 CEO Outlook: Plugged-in, people-first, purpose-led
4) Global C-suite Series 25th Edition the CEO Study: Own your impact, practical pathways to transformational sustainability, IBM Institute for Business Value
5) Look: The Global Compact: Who Cares Wins — Connecting Financial Markets to a Changing World
6) The Emerging Sustainability Information Ecosystem July 2022

Along with them, financial institutions **also start to voluntarily hold themselves from funding** businesses that have negative impacts on ESG. The Net-Zero Banking Alliance, with 115 members across the globe, has committed themselves to pick-and-choose debtors and climate-friendly portfolios using science-based measures.[7] The majority of Multilateral Development Banks also made unprecedented moves in 2020 by halting new energy investment portfolios on coal projects.[8] At the same time, there is a growing number of commercial banks in Southeast Asia that put Roundtable on Sustainable Palm Oil (RSPO) certification as a requirement against their beneficiaries.[9]

Pressures from states manifest in two folds when it comes to ESG. **First, states can act as market regulator to encourage, if not require, ESG disclosures for listed companies**. According to Krueger et al (2021), between the years 2000 and 2017, a total of 25 countries passed laws requiring companies to disclose ESG information. Among these countries were Australia, China, Canada, and the United Kingdom (Appendix 1.1).

The development of similar regulations in the European Union **is also worth to consider**. After issuing 2014/95/EU Directive demanding obligation to publish ESG issues for major corporates with >500 employees in 2014, the Union, through the European Commission, advanced its ESG governance directives by issuing several guidelines. One of the published guidelines highlighted social and environmental disclosure in 2017, and the other one put emphasis on climate data disclosure in 2019. Recently, we have seen more advancing development when the Union unveiled its plan to adopt the Corporate Sustainability Reporting Directive (CSRD) in October 2022. The directive will change the rule of the game in three ways: requiring more comprehensive ESG disclosure, targeting medium and small enterprises, and demanding highlights of these ESG information during disclosure.

Second, states can use their international standing to halt domestic companies from engaging in businesses having bad ESG impacts. Under the EU Green Deal, companies operating in or seeking investment from EU entities, will need to adhere to taxonomy and regulatory requirements, such as subject to disclosure requirements for domestic or imported products or paying the same carbon prices as EU standard. China's assertion to stop lending money for overseas coal-fired power plant projects at the United Nations General Assembly in 2021, was another recent sample.[10] Previously, Uzbekistan had pledged to end forced and child labor in its cotton industry at the United Nations General Assembly in 2017.[11] Once they break the commitments, both the private and public sectors will suffer from reputational damage.

7) Net-Zero Banking Alliance: The Commitment
8) "Fossil Finance from Multilateral Development Banks Reached USD 3 Billion in 2020, but Coal Excluded for the First Time Ever,"
9) The intention-action gap: Banking on Palm Oil in Southeast Asia – Hope and renewal, or more of the old greenwashing?
10) "China pledges to stop building new coal energy plants abroad," BBC News, September 22, 2021, https://www.bbc.com/news/world-asia-china-58647481
11) "Uzbekistan's Leader Talks Right, Now More Action Needed," HRW, September 21, 2017, https://www.hrw.org/news/2017/09/22/uzbekistans-leader-talks-rights-now-more-action-needed

3. Taxonomy and Target of Net Zero Emission

> **We are facing global warming impacts. The global temperature on earth has risen by 1.1°C since 1800s. Global warming as a result of greenhouse gas emission is believed to generate adverse impacts for the earth and the global ecosystem, bringing together people around the world to join forces and prevent the earth temperature to not warm up more than 1.5°.**

The Paris Agreement 2015 agreed on the importance of taking significant steps to reduce emission by 45% in 2030 and reach net zero emission by 2050. Energy sector contributes three fourth of the current greenhouse gas emission. Transformation of clean energy or renewable energy is substantial to reduce carbon emission. More than 70 countries have agreed on net zero emission target such as China, United States of America and European Union.

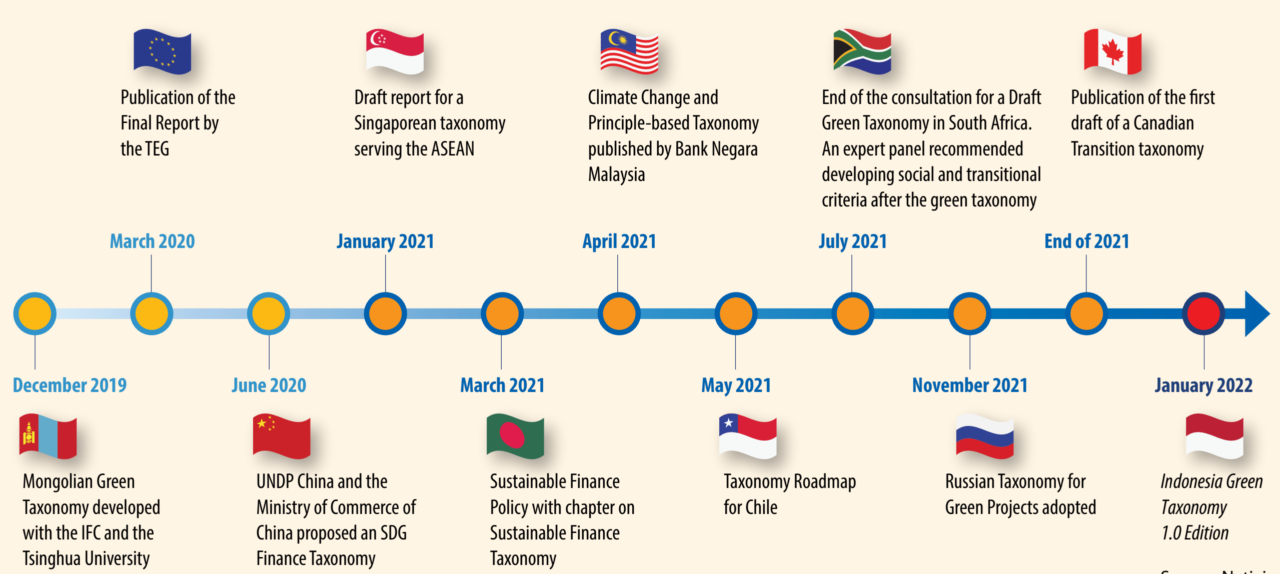
However, according to UN Climate Action, it is not an easy task to achieve net zero emission target by 2050 as it requires all parties to seriously commit and make concrete progress on the implementation of their responsibilities. Currently, of 193 countries that adopt Paris Agreement, 151 countries have communicated their commitment progresses and the results are still far beyond satisfactory because of numerous reasons, including lack of financial capacity, political commitments as well as economic crisis due to pandemic.

All countries joining in Paris Agreement have prepared their own agenda and roadmap or Nationally Determined Contributions (NDC) to achieve the goal of net zero emission. Every five year, each country will report or update the results of agenda implementation. Policies and regulations are applied in many countries globally to encourage the emission reduction. The implementation of EU Taxonomy is one example, which is echoed by other countries, including Indonesia to release Green Taxonomy 1.0 Edition. The Indonesia Green Taxonomy sets criteria and standard for 919 business fields from 8 sectors.

Indonesia

Indonesia on the other hand has issued a number of policies to represent its commitment to meet latest NDC commitment of 31.89% (unconditional) and 43,2% (conditional) GHG reduction target as well as Net Zero Emission (carbon neutrality) target by 2060. Energy transition to net zero emission essentially requires energy infrastructure, technology, and funding supports to promote the New Renewable Energy (NRE).

Development of Low Carbon Economy



Source: Natixis

4. Existing Benchmark

As disclosure becomes a way to inform relevant stakeholders about ESG progress, **a myriad of ESG measurement then begins to flourish.** Table 1.1 summarizes sustainability landscape and five leading ESG measures applied by global financial players. On the one hand, their common characteristic is primarily on the absence of authoritative power to force businesses and investors to comply with their respective metrics. These measures also do not set minimum substantive thresholds for each ESG issue. Instead, they limit their metrics to disclosure threshold. On the other hand, these measures diverge in many aspects, including in the way they approach ESG, what needs to be disclosed, the availability of specific sectoral guidance, and degree of adoption by stakeholders.

Table 1.1. Framework, standards, indexes, and ratings are created to address differences issues across the sustainability landscape

	Definition	Scope	Use	Entity
FRAMEWORKS	A broad set of principles-driven guidance contain list of information or materials should be covered, how it should be prepared and disclosed.	Guidance for all organizations in order to create sustainable future.	Provides the baseline metrics to track and showcase current ESG progress.	GRI; Science Based Targets; Greenhouse Gas Protocol; CDP; TCFD
STANDARDS	Set list of specific rules for what should be reported issued by a standard-setting body, making the framework can be implemented.	Disclosure of information related to ESG materiality.	Provides internal monitoring and transparency to all stakeholders.	SASB; ISO; CDSB Climate Disclosure Standards Board; PCAF Partnership for Carbon Accounting Financials
RATINGS	Assessment of a company's material ESG performance or risk management measured using quantitative indicators.	Absolute ESG score measured based on company's ESG performance or risk.	Provides ESG score to monitor specific entity and construct ESG indices.	MSCI; Bloomberg; RepRisk; Sustainalytics; Refinitiv
INDICES	An index which measures and ranks the performance of a group of companies in sustainability using a variety of metrics and methodologies.	ESG performance relatives to peers and overall standards.	Provides information to investors on the relative performance of the companies in the index.	Indonesia Stock Exchange Bursa Efek Indonesia; Dow Jones Sustainability Indexes; WFE World Federation of Exchanges; FTSE Russell

Source: PWC, OECD

Multiple ESG Standards and Frameworks

	GRI Sustainability Reporting Standard	SASB Standard	International <IR> Framework	CDP Climate Change Reporting Guidance	Task Force on Climate-Related Financial Disclosure Framework	CDSB Framework for reporting Environmental and Social Information
Approach	Materiality-based	Industry-based	Principles-based	Climate change-related modules for industry-based	Climate-related risk and opportunities	Reporting Requirements
Targets	Multi-stakeholder	Companies	Companies, Public Sector, and Not-for-profit organization	Companies	All organizations	Individual Companies or corporate groups
Sectoral Guidance for Agriculture	Yes	Yes	No	Yes	Yes	No
Sectoral Guidance for Transportation & Logistics	No	Yes	No	Yes	Yes	No
Sectoral Guidance for FMCG	No	Yes	No	No	No	No
Sectoral Guidance for Energy	Yes	Yes	No	Yes	Yes	No
Enforcement	Voluntary	Voluntary	Voluntary	Voluntary	Voluntary	Voluntary
Creator	Global Reporting Initiative	Sustainability Accounting Standards Board	The International Integrated Reporting Council	CDP Global	Financial Stability Board	Climate Disclosures Standard Board
Publishing the Measures	2016	2018	2013, revised in 2021.	2021	2017	2015, updated in 2018.
Use/ Support by (Latest Number)	>100 countries (2022)	>30 countries (2020)	75 countries (2022)	50 countries (2021)	89 countries (2021)	N/A, consolidated
Characteristics	Standards	Standards	Framework	Framework	Framework	Framework

5. Latest Development

To avoid greenwashing and misplacing investment signals**, there are ongoing efforts to achieve a global consensus on consistency, comparability, and utilization of ESG metrics**. In June 2021, the G7 Finance Ministers and Central Bank Governors made a firm commitment to tackling ESG issues. The significance of these initiatives to establish a distinct ESG reporting baseline was further emphasized in the G20 communique in July 2021. The International Organization of Securities Commissions (IOSCO) also emphasized the need for investors to have comparable ESG data. Putting this into action, the International Financial Reporting Standards Foundation (IFRS), with the endorsements of the G7, G20, and IOSCO, is preparing to establish an International Sustainability Standards Board to sit alongside the International Accounting Standards Board and develop these global standards that can serve as a global baseline of sustainability information.

The good news about those efforts **is they have been showing a significant progress by far**. In 2020, five leading agencies working on voluntary ESG disclosures expressed their intention to achieve a joint reporting standard.[1] The IFRS Foundation also successfully consolidated the Integrated Reporting Framework and CDSB in early 2022. Months later, the IFRS Foundation also managed to produce two living ESG disclosure drafts. The Exposure Draft S1 generally aims to help companies measure the extent of sustainability-related risks and opportunities to their total value.[2] Meanwhile, the Exposure Draft S2 is designed to identify climate-related risks and opportunities to the companies' financial performances, total values, and business models.[3] The two drafts aligned their substances with the TCFD works and are currently being revised after receiving the last public input in late July 2022.

1) Statement of Intent to Work Together Towards Comprehensive Corporate Reporting, September 2020
2) Exposure Draft S1 General Requirements for Disclosure of Sustainability-related Financial Information
3) Exposure Draft S2 Climate-related Disclosures

b. Global Standard of ESG Implementation in 4 Priority Sectors

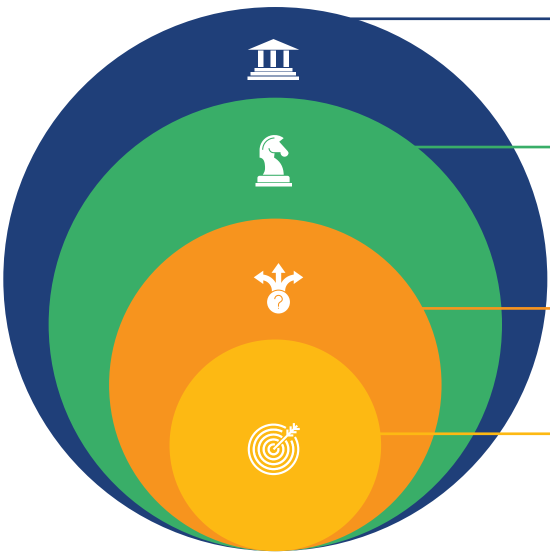
A reporting standard is increasingly necessary as reference for ESG implementation in a company's operation. Identifying factors materially can affect the business sustainability, besides risk management and mitigation as well as capability to optimize each opportunity. Not only the companies, ESG reports are also important for investors.

Resent form of ESG or sustainability reporting is applicable for unspecific types of industries. However, such form is prone to weaknesses as industries have different characteristics one another, thus disclosures or metrics used in the reporting standard cannot clearly represent ESG aspect within the context of each business sector. However, there are some ESG or sustainability reporting standards that can accommodate some industries, such as Sustainability Accounting Standards (SASB) that offer different reporting forms for specified industries: Consumer Goods (comprising 7 sub sector industries), Extractives and Minerals Processing (8 industries), Financials (7 industries), Food and Beverage (8 industries), Health Care (6 industries), Infrastructure (8 industries), Renewable Resources and Alternative Energy (6 industries), Resource Transformation (5 industries), Services (7 industries), Technology and Communications (6 industries) and Transportation (9 industries).

GRI Standard also recently introduced a new format which is industry based. The new reporting standards will apply to industries such as Oil and Gas (GRI 11), Coal (GRI 12), as well as Agriculture, Aquaculture and Fishing (GRI 13), and it is in the process of preparing new standards for the other 40-45 sectors.

In the meantime, Task Force on Climate-related Financial Disclosures (TCFD), is applied as a reference for most financial investors in conducting an analysis into corporate strategies, policies relating to measurement of financial impacts to climate risk and opportunities. Supplementary disclosures of TCFD consist of financial sector group (Banks, Insurance Companies, Asset Owners, Asset Managers) and non-financial sector group (Energy, Transportation, Materials and Buildings, Ag, Food, and Forest Products).

Core Elements of Recommended Climate-Related Financial Disclosures



Governance
The organization's governance around climate-related risks and opportunities.

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.

Risk Management
The processes used by organization to identify, assess, and manage climate-related risks.

Metrics and Targets
The Metrics and targets used assess and manage relevant climate-related risks and opportunities.

#03 Policy Direction:
Enabling and disabling factors of ESG implementation in Indonesia

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
› Describe the board's oversight of climate-related risks and opportunities.	› Describe the climaterelated risks and opportunities the organization has identified over the short, medium, and long term.	› Describe the organization's processes for identifying and assessing climate-related risks.	› Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
› Describe management's role in assessing and managing climate-related risks and opportunities.	› Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning	› Describe the organization's processes for managing climate-related risks.	› Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	› Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	› Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	› Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

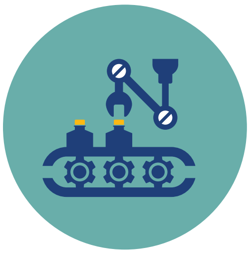
1. Energy

Energy is a key element in economic activities that involve all industries. While most of source of clean energy is still derived from fossil fuel, the industry group is financially exposed to transition relating to Greenhouse Gas emission. Therefore, the energy companies are facing huge challenges, such as extracting, processing, producing and distributing fossil energy. They are challenged in the way how they deal with the risk and optimize the opportunities, regulatory challenges and shifting demand for low carbon energy or renewable energy.

2. Transport & Logistic

Technologies that ease the daily activities and the emergence of e-commerce which has changed global lifestyle gives ample room for the transport and logistic industry to enjoy vast growth. The industry sector does need energy in the operations.

The companies in the industry sector shall prepare themselves for transition risk toward low carbon transportation and energy. They are required to prepare innovation in mode of transportation used to represent their support for low carbon emission policy. Otherwise, their business will be prone to the risk of new competitors that are ready for climate change. Investment in R&D using new technologies and means of transportation is becoming significant to adjust emission standard.



3. **FMCG**
   Fast Moving Consumer Goods (FMCG) is a capital intensive industry that takes up huge investment for the their plants, equipment and raw materials. Climate change, particularly relating greenhouse gas emission generated and water shortage due to flood or extreme climate issue, poses a risk to the industry. Technologies and renewable energy are of then used to address the issues, such as in the implementation of carbon emission price and other regulations. Such adaptation will determine a company's financial condition.

4. **Agriculture**
   The industry is also prone to climate change issues. From the beginning of land opening to cultivation activities, it can cause damages to land ecosystem, such as deforestation and forest fire that will increase greenhouse gas. The water consumption in areas with high water stress and farmland that generates methane gas. On the other hand, the industry has the opportunity to help address climate change issue such as planting plants that can produce biofuel or renewable energy. Management of those risks and opportunities shall be balanced to ensure the sustainable business operation.

c. Comparison between GRI and SASB Across 4 Sectors

While expecting for the upcoming final product of those harmonization efforts, this paper draws its current attention to **GRI and SASB standards against the selected four sectors**. There are two rationales explaining those moves. First, GRI and SASB are understood as standards, not frameworks. By definition, standards require some expected quality of reporting whereas frameworks allow some flexibility in it.[1] Second, the coverage of GRI and SASB is relatively comprehensive, encompassing all components of ESG. Their materiality is not merely limited to climate or environmental issues.

To begin with, there are **two critical differences** between GRI and SASB standards. First, **they differ in terms of available translation**. GRI provides translated versions of its standards in the languages of emerging economies, such as Indonesia, Vietnam, and Saudi Arabia. On the other hand, SASB only provides standards translated into the languages of developed economies, such as France, Germany, and Japan. Logically, with the more translated versions available, the more countries are likely to adopt it.

Second, **they also differ in terms of available sectoral standards**. While envisioning to cover 40 different impactful sectors, GRI has only concluded specific guidance for three sectors by 2022. These include oil and gas (GRI 11), coal (GRI 12), agriculture, aquaculture, and fishing (GRI 13). GRI's strength does not lay on the specific sectoral guidance, but in its wide-ranging material-based standards. On the contrary, sectoral standard is SASB's forte. SASB offers 77 industry-based standards. Its materiality is more limited to focus on five following themes: environmental, social capital, human capital, business model & innovation, and leadership & governance.[2]

1) The GRI Perspective: ESG Standards, frameworks, and everything in between, Issue 4, (March 2022)
2) Look Appendix 2

Agriculture: Comparing GRI & SASB

Similarities

1. *Some material topics.*
2. *The way data should be collected and presented (using combination of quantitative and qualitative methods).*

Differences

1. *The way the sector is perceived.*
   Whereas agriculture is an independent sector from F&B based on GRI standards (GRI 13), SASB standard perceives agriculture as an industry within food-and-beverage sector (FB-AG). Agriculture is included in the group of basic materials and needs according to GRI.
2. *Number of material topics.*
   GRI = 26 Material topics (To include animal health and welfare, indigenous people).
   SASB = 8 Material topics (6 of them are quite similar with GRI) .
3. *Coverage of GHG Emission.*
   GRI = Scope 1,2,3 (within 7 metrics).
   SASB = Focus on Scope 1 (within 3 metrics).
4. *Measuring renewable energy.*
   GRI = Not measuring renewable energy percentage use in the agriculture specifically.
   SASB = Measuring.
5. *Specific Global Standard for Food Safety.*
   GRI = Not referring to a certain standard .
   SASB = Global Food Safety Initiative.
6. *Specific attention to GMO*
   GRI = N/A.
   SASB = Strategies to manage GMO.

Energy: Comparing GRI & SASB

Similarities

1. *Both GRI and SASB disaggregate energy sector.*
2. *Referring to the same standard in coal — Global Industry Standards on Tailing Management (GISTM), International Council on Mining and Metal (ICMM).*

Differences

1. *The extent it is disaggregated.*
   GRI = Currently, they only have a distinguished standard for oil and gas (GRI 11), and coal (GRI 12). However, they planned to have different sectoral standards for mining, and utilities, and renewable energies. All of these sectors are covered in the Group I basic materials and needs according to GRI. In GRI 11, basically already covers (EM-EP, EM-RM, and EM-SV).
   SASB = Currently, they have five different standards for oil and gas (EM.4), as well as coal (EM.1). SASB disaggregates oil and gas in further details: exploration and production (EM-EP), midstream (EM-MD), refining and marketing (EM-RM), and services (EM-SV). SASB has already produced three utilities-related standards, and four renewable energies-related standards. SASB treats renewable resources and alternative energies as major thematic sectors (RR) different from oil and gas that are within the groups of extractive & mineral processing.
2. *Number of material issues [In Coal].*
   GRI = 22 (It has advantages in S element. It covers issues, such as child labor, forced labor and modern slavery, non-discrimination, and equal opportunities).
   SASB = 10 (9 of them are relatively similar with GRI). The only difference is about reserves valuation and capital expenditures. Having 3 metrics within its scope, it tries to measure sensitivity of coal reserve levels to future price, and estimated CO2 emission in the proven coal reserves. In GRI, these issues only become additional sector recommendations.
3. *Coverage of GHG Emission (For Coal).*
   GRI = Scope 1, 2, 3 (within 4 metrics).
   SASB = Focus on Scope 1 (within 2 metrics).
4. *More comprehensive in its applicability.*
   GRI = Can also be applied for supply of equipment and services to coal mines (including seismic information services).
   SASB = Cover those companies that mine coal and those that manufacture coal products.

5. *Number of material issues [In Oil and Gas].*
   GRI = It has 22 material issues (It includes non-discrimination and equal opportunities, as issues that are not relatively touched by SASB).
   SASB = It sets different material issues for four existing oil and gas-related industries.
   a. For the case of EM-EP, it has 11 material issues. The one prominent difference with GRI is SASB treats reserve valuation and capital expenditure as a single material issue. On the contrary, this specific issue is named under climate adaptation, resilience, and transition in GRI standard.
   b. For the case of EM-MD, it has 5 material issues. All of them are generally similar to GRI standards. Interestingly, it also covers "competitive behavior". This material issue explains about how much its losses financially from legal proceedings on federal pipeline and storage regulations. This material issue does not appear in EM-EP, EM-RM, and EM-SV. However, EM-MD does not cover material issues related to security and human rights, community relations, reserves valuation, corruption, and management of the regulatory environment.
   c. For the case of EM-RM, it has 9 material issues. It has two new material issues that do not appear in EM-EP, EM-MD, EM-SV: product specifications & clean fuel blends, as well as pricing integrity & transparency. Whereas the former explains about commitment to renewable energies and their market, the latter explains about how much its losses financially from legal proceedings on price fixing or price manipulation. The missing material issues of EM-RM are similar with the missing ones in EM-MD, except for management of the regulatory environment.
   d. For the case of EM-SV, it has 8 material issues. Nothing new is included here. The most visible difference is that EM-SV does not name greenhouse gas emission for its material issue. Instead, they use the terms of 'emission reduction services & fuel management'. This is partly because SASB believes that emissions generated from the operations of their customers are much more significant compared to the ones that these services directly produce. The missing material issues of EM-SV are similar with the missing ones in EM-RM.
6. *Specific attention to Midstream.*
   GRI = Not giving any.
   SASB = Has a specific standard for it. (EM-MD).
7. *Specific attention to biodiversity in certain geographical area.*
   GRI = Just general.
   SASB = In EM-EP, it pays attention to biodiversity in Arctic and impacting shorelines with Environmentally Sensitive Index (ESI) rankings 8-10. In EM-MD, it also spares attention to ecological impacts in Arctic and Unusually Sensitive Areas (USA).
8. *Specific attention to international corruption index*
   GRI = Just general.
   SASB = Highlighting the 20 lowest rankings in Transparency International's Corruption Index (EM-EP). This specific attention also appears in EM-SV.
9. *Specific attention to revenue from renewable energy.*
   GRI = Only suggests recording CAPEX for investment in renewable energy. It is treated as an additional sector recommendation.
   SASB = In EM-EP, it also suggests recording the amount of revenue generated by renewable energy sales in addition to the amount of investment in renewable energy. In EM-RM, it even puts percentage of Renewable Volume Obligation (RVO) as one of the metrics. This metric measures production of renewable fuels and separated renewable identification numbers (RIN). In EM-SV, it has specific metrics to count percentage of renewable energy used in on-road equipment and vehicles, as well as off-road equipment.
10. *Specific attention to Non-Accident Releases (NARs) from Rail Transportation.*
    GRI = Just general.
    SASB = In EM-MD, it has specific metric.
11. *Coverage of GHG Emission (For Oil and Gas).*
    GRI = Scope 1,2,3 (within 4 metrics).
    SASB = Focus on Scope 1 (within 3 metrics in EM-EP; 2 metrics in EM-MD and EM-RM). It does not specifically mention scopes in the case of EM-SV.

Transportation & Logistic: Comparing GRI & SASB, GGP CAP, S&P

Cannot be compared as GRI has not issued its own sectoral standard for transportation. However, we try to provide some key comparison backgrounds with other ESG standards:

Aspects	GRI Sustainability Reporting Standard	SASB Standard for Transportation Sector	Greenhouse Gas Protocol Corporate Accounting Standard	S&P Global Ratings' Transportation ESG Evaluation Key Sustainability Factors
General Approach	A very comprehensive reporting standards: universal standards, sector standards (40 sector), topic standards; covering all E, S, and G aspects; sectoral standards are still being developed.	Emphasizing on financially-material sustainability indicator; streamlined variables factors, but each subsector has its own variables which may differ with each other; including automobile retailer and rental & leasing sector.	Focusing on a robust greenhouse gasses accounting and reporting process; differentiates scope 1, 2, and 3 emission; the corporate standard is not applicable for offsetting projects.	Rating frameworks mainly using quantitative indicators; standardized factor for all subsectors although the indicator and weighing differ for each subsector; focusing on material environmental and social indicators.
Sub-sectoral Coverage	6 subsectors are tobe developed under transportation sector: transportation infrastructure, shipping, trucking, airlines, trading, distribution & logistic, and packaging.	9 subsectors: air freight logistics, airlines, auto parts, automobiles, car rental & leasing, cruise lines, marine transportation, rail transportation, road transportation.	Two broad standards: 1) corporate accounting and reporting standard, including the project quantification standard, and 2) community-scale greenhouse gasses inventory, applicable for a city-level (regional) and country-level, to some extent .	9 subsectors: airlines, air freight & logistics, shipping, road (trucking/ car/busses), rail freight, rail tracks & rail passengers, airports, ports, and roads.
Components	At the moment, only universal and topic are in force, which are applicable for all economic sectors. Environmental factors include materials, energy, water & effluents, emmissions, waste. Social factors include employment, labor relations, OHS, training and education, diversity and equal opportunity. Governance includes anti-corruption, market presence, procurement, practice, and tax.	Mostly quantitative variables. Different topics for each subsector, but including: 1) GHG emission (scope 1, strategy & emission reduction target, fuel consumed); 2) Air quality (NOx & PM10 emission); 3) Employee & health safety (e.g. fatality rate, recordable indicident rate); 4)Competitive behaviour; 5) Accident & safety management; 6) Ecological impacts; 7) Discharges; 8) Fuel economy, etc	Covering 7 greenhouse gases covered by the Kyoto Protocol: carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PCFs), sulphur hexafluoride (SF_6) and nitrogen trifluoride (NF_3).	Environmental factors: 1. GHG emissions 2. Waste and pollution 3. Land use and biodiversity 4. Water Social factors: 1. Safety management 2. Workforce and diversity 3. Customer engagement 4. Communities Each factor has key and other (additional) performance indicators.

Examples of ESG Adoption in Transport and Logistics

gojek	DHL EXPRESS
Gojek released its first sustainability report in 2021 "Sustainability Report 2020". **The report aims to report 13 ESG topics that are material to its business process**. The topics include data security, user privacy, driver health and safety, COVID-19 response, plastic use and disposal, sustainable livelihood of drivers, climate action, diversity and inclusion, socioeconomic development, business ethics, air quality, compliance with laws and regulations, and governance structure.	**DHL has published two ESG annual reports to date (2021 and 2020).** In 2019, it produced a sustainability reporting, meanwhile prior to that, from 2011 to 2018, it produced corporate responsibility reports.
Despite referring to GRI and SASB, **Gojek developed its own material topics which are unique for their own business.** For example, COVID-19 response is not covered by both GRI and SASB, but they include it in its sustainability reporting. They implemented key stakeholders engagement to identify the topics.	The ESG report **referred to four reporting standards: GRI, SASB, Task-force on Climate-related Financial Disclosure (TCFD), and World Economic Forum (WEF).** TCFD, in specific, is another standard which focus on reporting of climate-related financial information (informed capital allocation).
Another interesting approach is that **the indicators are explicitly connected to relevant SDGs targets.** Most of the indicators are in the form of quantitative variables.	They clustered **the indicators according to the E, S, and G components**, which is slightly different with Gojek's fluid sustainability reporting. **The indicators are also connected to relevant SDGs targets.**
As it is essentially a on-demand multi-service platform company, the scope-1 emission of Gojek is limited to energy use in its buildings. **However, the sustainability reports include scope 2 and scope 3 emission, which comprise the majority of its emission.**	Similar with Gojek, DHL includes scope 1-3 emissions. In addition to that, **scope 1-3 energy consumption is also reported in the report.**

FMCG: GRI vs. SASB

Cannot be compared as GRI has not issued its own sectoral standard for food products or FMCG.

d. Policy Recommendation

1. Policy and consultations with concrete benefits are necessary for a company to better understand and become motivated to implement ESG.
2. While Indonesian government has issued the Financial Service Authority Regulation No. 51/POJK.03/2017 which regulated every company running a sustainable finance including guidance to the formulation of a Sustainable Report, it is still important to develop the matrix of sustainability disclosure that is relevant to any industries. This is important to make easy comparison to sustainability performance of each company of similar industry.