ABSTRACT

Indonesia has become a major force in advancing sustainable finance across emerging countries. One of the reasons was due to the role of the regulator and supervisor of Indonesia’s financial services industry, Indonesia’s Financial Services Authority, who required, through its regulation, Financial Services Institutions, Issuers and Public Companies to submit sustainable reports to Indonesia FSA and publish them for the public. This study is intended to conduct an assessment on the scope of disclosure presented on the sustainability report submitted by the Indonesian banking industry. The methodology used is qualitative with descriptive analysis. The evaluation was conducted through a desk study by analyzing banks’ sustainability reports available on their websites. The results of the analysis demonstrated that two years before the implementation of the Indonesia’s FSA sustainable finance regulation, only 28.5% of sustainability reports, which have been submitted voluntarily by large commercial banks, are in line with materiality and stakeholders’ engagement principles. After the sustainable finance regulation was implemented, it was found that only 56.6% of the sustainability reports submitted met the materiality and stakeholders’ engagement principles required by the regulation. Therefore, the biggest challenge lies in the effort to promote awareness and understanding on the importance of sustainable finance and the quality of sustainability report disclosure.

Keywords: sustainable finance, bank, sustainability report, materiality, stakeholders

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1. Introduction

Indonesia's commitment in executing the sustainable finance program, in order to support the attainment of the Sustainable Development Goals or SDGs and towards climate change, has been reflected in the Roadmap of Sustainable Finance\(^4\), which was initiated by the Indonesia's Financial Services Authority/Otoritas Jasa Keuangan (OJK) on December 5, 2014. The Roadmap mentioned covers medium-term plans (2015-2019) as well as long-term plans (2020-2024). The strategic targets of Roadmap Sustainable Finance cover the increase in supply for environmentally friendly funds, increase in demand for environmentally friendly financial products, as well as strengthening the surveillance and coordination in implementing sustainable finance in Indonesia.

Following the implementation of the Roadmap Sustainable Finance (2015 – 2019), in the year 2017, the Indonesia FSA rolled out its Regulation No.51/POJK.03/ 2017 concerning Implementation of Sustainable Finance for Financial Service Institutions, Issuers and Public Companies\(^5\) (Sustainable Finance Regulation) and the Indonesia FSA Regulation No.60/POJK.04/ 2017 concerning the Issuance of Green Bonds (Green Bonds Regulation); both received a positive response from the market. The Sustainable Finance Regulation was initially implemented by the banking sector, in stages according to their criteria for distribution of bank assets, which is divided into four tiers or categories of assets\(^6\), namely BUKU 4, BUKU 3, BUKU 2, and BUKU 1, with BUKU 4 being the largest. In addition, following the Green Bonds Regulation, the Board of Indonesia FSA issued a resolution in 2018 that offers incentives in the form of reduction of levy payable to Indonesia FSA, which is 25% of the bond registration fee, for the green bond issuers.

The Indonesia FSA’s Sustainable Finance Regulation requires a number of actions to be implemented by Financial Services Institutions (FIs), Issuers and

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\(^4\) The Sustainable Finance Roadmap is part of the Indonesian Financial Services Sector Master Plan (IFSSMP) published in 2015. The IFSSMP 2015 – 2019 is a reference for all industry players and related parties in developing the financial services sector in Indonesia. It is hoped that the financial services sector (FSS) can play a greater role for the national economy to improve the welfare of the people. MPSJKI has three main points in order to develop FSS in Indonesia, namely: 1) Contributive - efforts to increase the role of FSS in every economic activity, 2) Stable - strengthening fss resilience to maintain financial system stability and, 3) Inclusive - increasing the role of the financial sector in order to promote financial inclusion and promote equalization.

\(^5\) OJK defines Sustainable Finance as a comprehensive support of the Financial Services Sector to create sustainable economic growth by aligning economic, social, and environmental interests (The Indonesia FSA regulation No. 51 of 2017).

\(^6\) The criteria for the classification (BUKU) of banks based on the bank’s core capital was set forth in the Indonesia FSA Regulation No6/POJK.03/2016 concerning Business Activities and Office Networks Based on the Bank's Core Capital. Started from the highest order of Banks categorized as BUKU 4 with core capital of at least thirty trillion rupiah; Banks BUKU 3 with Core Capital amounting to at least five trillion rupiah to less than thirty trillion rupiah; Banks BUKU 2 with Core Capital amounting to at least one trillion rupiah to less than five trillion rupiah; Banks BUKU 1 with Core Capital up to less than one trillion rupiah.
Public Companies, which are: (1) to implement eight Sustainable Finance principles toward sustainable business⁷; (2) to organize, report, and implement the Sustainable Finance Action Plan (SFAP) – a document that contains business activity plans and Fls’ work programs, either short-term (one year) or long-term (five years); (3) to allocate a portion of SER funds to support Sustainable Finance implementation (for Fls that assume Social and Environmental Responsibility/SER); and (4) Fls, Issuers and Public Companies are required to organize and submit their Sustainability Reports to the Indonesia FSA, as well as publish them on their respective websites or through other media.

The submission of progress reports represents a means for a business/institution to transparently reveal information on their activities. Progress reports are a form of reports, submitted on an annual basis, that are available to the public, which accommodates the economic performance, finance, social, and environmental aspects of Fls, Issuers, and Public Companies in implementing sustainable business (OJK Regulation Number 51 of 2017). Sustainability reporting is essential in promoting reporting behavior that is accountable and transparent, particularly in managing risks, either financial, social or environment. Financial Institutions with financing portfolio that meets environment, social and governance (ESG) principles will benefit in the long run as this initiative will support the development of robust risk management; thus, which are building blocks for sound and sustainable financial institutions.

This analysis focuses on the Indonesian banking industry. The analysis emphasizes on information conveyed, which are, amongst others; (1) material topic; (2) stakeholders’ engagement; (3) identification of sustainability issues; and (4) suitability among material topic, sustainability issues and their effect on stakeholders. These four areas of analysis have become the main topics in Sustainability Reports as they show the level of understanding in the context of sustainability in the banking sector. As such, this analysis provides a general depiction regarding the quality of the information included in Sustainability Reports published by several domestic commercial banks in Indonesia, both prior to the implementation of Sustainable Finance Regulation or when sustainability reports were still voluntary, and after the implementation of the Sustainable Finance Regulation or when sustainability reports have become mandatory. It is hoped that the analysis on the quality of banking sustainability reports will provide empirical evidence for further improvements in order for

⁷ The eight principles of Sustainable Finance are: 1) Responsible investment; 2) Sustainable business strategies and practices; 3) Management of social and environmental risks; 4) Governance; 5) Informative communication; 6) Inclusive; 7) Development of priority flagship sectors; and 8) Coordination and collaboration.
banks in Indonesia to be able to furnish good quality Sustainability Reports, rather than a mere attempt to comply with the regulation; and in the long run, will contribute to the country’s sustainable development.

2. Literature Review

A. Sustainable Finance

The importance of realizing sustainable development provides strong reasons for the attention of all parties, both in terms of the deterioration of ecosystems and societies due to high carbon-trapped economic development (Zadek, 2018). The concept of sustainable development can be translated into every business process of a company in various industries that applies its business orientation based on profit (profit), people (social) and planet (environment) in each of its operations. This concept is called the Triple Bottom Line (TBL or 3BL). The TBL concept is a pillar that measures the success value of a company/industry with three criteria: economic, social and environmental (Elkington, 2013).

With the intention to achieve sustainable development goals, including a commitment to climate change, sustainable finance/investment supports are urgently needed (Schoenmaker & Schramade, 2019). The financial services industry and Financial Markets are key to achieving sustainable development because they collect, allocate and price capital, and provide risk protection, influence access to finance and risk protection and determine which Government, business or individual activities are financed or protected from risk in order to ensure their operations are environmentally and socially friendly (Strandberg, 2005; Zadek, 2018). The financial industry can contribute to a sustainable economy by increasing funding especially in industrial, energy, agricultural, infrastructure, and micro, small and medium enterprises (MSMEs) that encourage development by taking into account sustainability through economic, social and environmental aspects. The financial industry is also encouraged to provide banking services to vulnerable communities or groups and have limited access to formal financial services (Hadad & Maftuchah, 2015).

The role of financial services authority and central banks across the world are crucial in aligning financial sector strategic roadmap to sustainable development goals. The concept of sustainable finance implemented by the Indonesia FSA is a testament to the support of the Authority to create market deepening related to sustainable financial products and/or services to support
the sustainable development goals and a commitment to reduce climate change (Paris Agreement).\(^8\)

As a testament to support the development of sustainable finance towards the achievement of the SDGs, the Indonesia FSA issued a Sustainable Finance Roadmap\(^9\) in 2015. This is a milestone for the achievement of financial mobilization for sustainable development which presents three main aspects, namely: (i) introducing and clarifying definitions of sustainable finance that are in line with the UN SDGs and national development priorities; (ii) identifying the main objectives and principles underlying Indonesia’s sustainable finance program; and (iii) outlining a series of actions to channel finance into activities that support the achievement of sustainable development, including a timeframe for achieving the action plan and key strategic objectives that must be achieved in the medium to long term.

![Diagram of Sustainable Development Goals](image)

**FIGURE 1**

The Scope of Sustainable Finance

Source: Compiled by Yakovlev and Nikulina (2019) based on UNEP Inquiry, World Bank Group, 2017

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\(^8\) The Paris Agreement is an agreement within the United Nations Framework Convention on Climate Change, dealing with greenhouse-gas-emissions mitigation, adaptation, and finance, signed in 2016


Further to the Roadmap, in 2017, the Indonesia FSA also issued a Regulation No.51/POJK.03/2017 and its practical guidelines related to the Implementation of Sustainable Finance for Financial Service Institutions (FIs), Issuers and Public Companies applied to all financial services industry. The Sustainable Finance Regulation defines sustainable finance as a form of comprehensive support from the financial services sector to create sustainable economic growth resulting from harmonization of economic, social and environmental aspects. Sustainable finance includes the following dimensions: (1) achieving industrial, social and economic excellence in order to reduce the threat of global warming and prevent other environmental and social problems; (2) aims to shift the target towards a competitive low carbon economy; (3) strategically promote environmentally friendly investment in various business/economic sectors; and (4) supporting Indonesia’s development principles.

Currently, the development of sustainable finance continues to show a positive trend at the global level, including in Indonesia. This phenomenon is marked by the emergence of various innovations carried out by various parties, such as the Government, financial sector authorities/central banks and related stakeholders. The innovations referred to are related to the development of supporting rules or regulations for sustainable finance, providing incentives and developing sustainable finance products and services (Prasidya, 2020). In addition, the impact of climate change, on the one hand, can increase environmental and social risks for financing sources including the financial industry; however, on the other hand, climate change mitigation and adaptation efforts create new business opportunities (La Torre & Chiappini, 2020), including funding for renewable energy projects, organic agriculture, sustainable fisheries, green building, green infrastructure, and disaster/climate insurance.

B. Sustainability Report

Sustainable development is an agenda that must be supported by all parties, be it by the government as a regulatory and supervisory agency, industry players, and the community. The demands for corporations to run their business responsibly and transparently are getting higher (Compact, 2015), including the financial industry. Reporting of activities related to the impact of decision-making and corporate strategy on environmental and social aspects will be positively related to the long-term sustainability of organization (Ghosh, 2017) and increase the trust of investors and stakeholders (Zimara & Eidam, 2020).

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Although in general, the financial industry is not directly related to business activities that have an impact on the environment, the financial industry provides funding facilities for corporations. As in the banking industry, which has a high awareness of complying with environmental regulations and disclosure of policies related to environmental aspects in every banking operations, thus enabling accelerated transformation to a greener economy (Alberici & Querci, 2016; Islam, Jain, & Thomson, 2016). Therefore, the financial industry plays a vital role in determining the distribution of financing to companies that are more oriented towards the economy, social and environment (Yadnya & MM, 2020). The increase of stakeholder pressure regarding the transparency of performance and operational activities of a financial institution (Halabi & Samy, 2009) has led to the urgency of the creation of regulations, initiatives and guidelines issued by the government, stock exchange authorities and financial authorities regarding sustainability reports.

In various countries, a number of guidelines for sustainability reporting are continuously being developed and implemented (Adams & Narayanan, 2007; Kumar & Prakash, 2019). Sustainability reports are a form of a report done by a company in order to disclose or communicate the performance of sustainability accountable to all stakeholders, which is related to economic, environmental and social performance. Based on KPMG’s Survey of Corporate Responsibility Reporting which has analyzed the annual financial reports, corporate responsibility reports, and websites of 4,900 companies in 49 countries and explored emerging reporting trends including disclosure of climate-related risk, the UN Sustainable Development Goals, human rights and science-based carbon targets, around three-quarters of the 4,900 companies studied in this survey issue Corporate Responsibility reports and every sector has a reporting corporate responsibility rate of 60% or more (Blasco, 2017).

The benefits of preparing a sustainability report are a form of disclosure of the social and environmental responsibility of an entity, which is reflected in the improvement of Good Corporate Governance (GCG), financial support for industries that apply sustainable finance principles, and the creation of financial value (Hart & Milstein, 2003), access to long-term financing (Wehinger, 2011), increased transparency to stakeholders (Perrini & Tencati, 2006), increased company reputation (Lourenço, Callen, Branco, & Curto, 2014), staff motivation (Jabbour & Santos, 2008), improved management systems (Daily & Huang, 2001), encouragement of innovation (Hansen, Grosse-Dunker, & Reichwald, 2009), and continuous improvement (De Ron, 1998). Meanwhile, related factors that affect the level of disclosure in the Sustainability Report, the study conducted by Dienes, Sassen, and Fischer (2016) showed that the firm size, media visibility and ownership structure are the most important drivers of the
sustainability reports disclosure whereas other determinants such as profitability, capital structure, firm age or board composition as an indicator of corporate governance do not show a clear tendency.

Several international organizations have issued sustainability reports guidelines which are intended to encourage organizations to be more responsible for aspects of sustainable development. Guidelines that have been published and adopted by many organizations include GRI, UNGC principles, and NVG (Weber, Diaz, & Schwegler, 2014). Several international best practice standards referred to in the preparation of the sustainability report are:

1. Global reporting initiatives (GRI)

The most widely used guideline for preparing sustainability reports is the Global Reporting Initiative Guide. According to Isaksson and Steimle (2009), GRI was founded in 1997 by the Coalition for an Environmentally Responsible Economy (CERES) and the United Nations Environment Program (UNEP). The GRI Guidelines were originally published in 2000. It aims to support companies in producing sustainability reports that integrate the social, environmental and economic impacts of a company’s operations. GRI intends to establish its guidelines as an internationally accepted framework that promotes comparable sustainability reporting. Around two-thirds of reports analyzed in this survey apply the GRI G4 Guidelines or Standards (Blasco, 2017). GRI then made revisions to the sustainability report guidelines within a certain period. GRI G2 or version 2 was published in 2002, and then GRI G3, GRI G3.1, GRI G4 were launched sequentially in 2006, 2011, and 2013.

Several things that underline the importance of the Sustainability Report based on the Global Reporting Initiatives guidelines are: 1) Economic, ecological, political and cultural aspects that are increasingly dynamic and uncertain; 2) The importance of business resilience of financial service institutions and the creation of a sustainable financial climate; 3) Transparency of information in comprehensive reporting that addresses triple bottom line aspects; 4) Support for the government to achieve the Sustainable Development Goals, and 5) Support for a conducive investment climate.

In 2015, GRI formed the Global Sustainability Standards Board (GRI GSSB), which was specifically tasked with handling the development of sustainability reporting standards. In 2016, the GRI GSSB began to introduce the GRI Standards, which were then launched in Indonesia in 2017. The GRI Standards became effective on July 1, 2018.
2. The United Nations Global Compact

As described by Williams (2004), The United Nations Global Compact is a new initiative intended to enhance and spread the benefits of global economic development through voluntary company policies and actions. The UN Global Compact does not monitor or enforce company behavior or actions. Rather, it is designed to stimulate change and to promote corporate sustainability and foster innovative solutions and partnerships.

The ten principles of the UN Global Compact stem from the commitments made by governments at the United Nations to the Rio Declaration on Environment and Development, the Universal Declaration of Human Rights, the International Labor Organization Declaration on Fundamental Principles and Rights at Work, and the United Nations Convention Against Corruption. This encourages companies to adopt a principles-based approach to incorporate sustainability by embracing core values of human rights, labour standards, environment and anti-corruption (Zadek, 2018).

3. National Voluntary Guidelines (NVGs)

Starting with the Voluntary Guidelines on Corporate Social Responsibility issued in 2009, these Guidelines were later revised to become ‘National Voluntary Guidelines on Social, Environmental and Business Economic Responsibility, 2011 (NVGS). This guidance is the result of the need for a standardized framework in the Indian context, similar to an internationally accepted sustainability reporting framework (Mitra & Schmidpeter, 2017). The underlying rationale behind this guideline is to provide a holistically integrated platform between the core business and CSR concepts for companies in India to adopt and disclose their environmental and social performance through NVG reporting. This guide, designed for use by all businesses in India, contains a list of KPIs that companies must report, according to the following nine principles:\footnote{https://greenfinanceplatform.org/financial-measures-database/indias-national-voluntary-guidelines-social-environmental-and-economic}

- Ethics, transparency, and accountability (centred on corporate governance)
- Product life-cycle sustainability
- Employee well-being
- Stakeholder engagement
- Human rights
- Environment
- Policy advocacy
- Inclusive growth
- Customer value

4. Sustainability Accounting Standard Board (SASB FN-CB)

Further, there are also reporting indicators applied for commercial banks, issued by Sustainability Accounting Standard Board (SASB FN-CB), which contain guidelines for commercial bank reports in disclosing specific sustainability performance information\textsuperscript{12}.

Generally, Indonesia FSA Regulation Number 51 of 2017 and SASB FN-CB use compliance approach on all indicators, while GRI uses a material topic selection approach (Gunawan, 2015). For specific sectors such as GRI G4-FS, indicators listed are specifically designed for the financial services sector, although not necessarily entirely relevant to the characteristics of commercial banks in Indonesia. The Indonesia FSA Regulation on Sustainable Finance has 66 indicators, while GRI G4-FS and SASB have 16 and 12 indicators as the base of the analysis. For the purpose of this analysis, these various indicators have been classified into four aspects of analysis: namely economic, environmental, social, and governance (EESG).

1. Development of Sustainability Report Regulation in Indonesia

The disclosure of sustainability reporting has been widely undertaken by companies around the world, with a wide range of industry sectors. The Indonesian government has formulated a sustainable development strategy and a green economy for corporations classified as Limited Liability Companies (PT) in Indonesia, including in the banking sector. The transparency of the Sustainability Report is required by the Law No. 40 of 2007 on Limited Liability Companies, particularly on Article 74. However, not many institutions implement this regulation. It is believed to have caused by lack of understanding on the part of the companies concerning their social responsibilities, lack of government control of the implementation as well as lack of penalties imposed by companies violating this Law.

In the context of its implementation in Indonesia, some commercial banks have initiated to report their sustainability disclosures in the form of sustainability reports, separated from their annual reports. In general, the structure of these sustainability reports submitted by banks referred to the framework set by the Global Reporting Initiative (GRI) Sustainability reporting guidelines.

In terms of financial service institutions, issuers and public companies, the Indonesia FSA’s Sustainable Finance Regulation defines sustainability reports

\textsuperscript{12} The current standard of SASB; \url{https://www.sasb.org/standards-overview/download-current-standards/}
as reports made available to the public—which includes performance in business, finance, social, and environment—as a testament to their efforts toward sustainable business. Additionally, disclosure of information, which is mandatory for FIs, Issuers and Public Companies, has also been reported and attached to this analysis. Prior to the issuance of the said Indonesia FSA Regulation, disclosure of sustainability reports in Indonesia was voluntary with reference to global guidelines, such as the Global Reporting Initiative (GRI), Global Compact, or the United Nations Environment Program Finance Initiative. Through these various guidelines, several large banks voluntarily published sustainability reports, with an objective of winning recognition awards, or in response to their stakeholder requests. However, due to its voluntary nature, the quality of sustainability reports was very diverse and has not demonstrated a sufficient understanding of the sustainability context. In addition, the principles that need to be adhered to in preparing a sustainability report in practice have not been appropriately implemented (Gunawan, 2015).

Further, the same Indonesia FSA Regulation defines Sustainability Report as a report published to the public that contains economic, financial, social, and environmental performances of Financial Service Institutions, issuers, and public companies in conducting sustainable business. Different from the companies’ Annual Reports, which emphasize only on the economic and financial performances, Sustainability Report focuses on social and environmental aspects of the company.

Under this regulation, FIs, issuers and publicly listed companies may apply sustainable finance principles in their business activities. These include responsible investment principles; sustainable business strategy and practice principles; social and environmental risk management principles; governance principles; informative communication principles; inclusive principles; priority sector development principles; and coordination and collaboration principles. Additionally, FIs, issuers and publicly listed companies may also submit Sustainability Reports, which can either be integrated or separated from their annual reports. If the Sustainability Report is submitted separately from the annual report, it must at least contain the following information: sustainability strategy elaboration; summary of sustainability aspects (economic, social and environmental); a brief profile of FIs, Issuers or Publicly Listed Companies; description on Board of Directors; sustainability governance; sustainability aspect performance; verification from independent parties (if any); feedback sheet for the reader (if any); and response to previous year’s feedback.

2. Previous Research on Sustainability Reporting in Indonesia

There have been several studies related to the implementation of Sustainability and Corporate Social Responsibility (CSR) reporting in Indonesia, which in most cases still refer to the application of GRI (G3 & G4) and focuses on its impact on the financial performance of companies listed on the Indonesia Stock Exchange. However, to date, no research focuses on analyzing the implementation of the sustainability reports disclosure standards issued by Indonesian FSA. Some researches conducted on the implementation of Sustainability and CSR reporting in Indonesia are presented in the table below:

<table>
<thead>
<tr>
<th>Author</th>
<th>Objectives</th>
<th>Methods and Key Indicators</th>
<th>Key Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yadnya and MM (2020)</td>
<td>The study aims to investigate the effect of sustainability report disclosure on the financial performance of banks listed in Indonesia Stock Exchange (IDX) from 2013 to 2016.</td>
<td>The level of disclosure was measured through indicators in accordance with the Global Reporting Initiative (GRI) G4 Index and the financial performance was measured through Return on Assets (ROA).</td>
<td>The study revealed that the disclosure of the economic and social dimensions had a statistically significant effect on ROA, whereas the environmental dimensions did not affect the ROA.</td>
</tr>
<tr>
<td>Sari and Andreas (2019)</td>
<td>The purpose of the study is to learn about the influence of sustainability reporting to the financial performance of manufacturing companies and services listed in Indonesia Stock Exchange.</td>
<td>Analytical techniques used in this study were multiple linear regressions of manufacturing and services companies listed in Indonesia Stock Exchange for the reporting period of 2014-2016.</td>
<td>The study showed that all dimensions of sustainability reporting, namely economic performance, environmental performance, and social performance did not affect financial performance, which was measured by ROA ratio.</td>
</tr>
<tr>
<td>Handoyo and Jakasurya (2017)</td>
<td>The research aims to analyze the factors influencing disclosure level of CSR in the mining sector listed at Indonesian Stock</td>
<td>The method of data analysis was a linear regression analysis using SPSS 20. Index of CSR is measured with the company's indicators, disclosed by the number</td>
<td>This research showed that leverage and profitability have a positive and significant effect on the CSR disclosure. In contrast, foreign ownership has no effect</td>
</tr>
<tr>
<td>Year</td>
<td>Authors</td>
<td>Description</td>
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<tr>
<td>2016</td>
<td>Muallifin and Priyadi</td>
<td>This research is meant to find out whether sustainability report disclosure of listed companies in Indonesia Stock Exchange (IDX) for the period 2010-2014 influences the financial and market performance.</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>Lesmana</td>
<td>The study aims to explore the effect of sustainability reporting on financial performance, especially on the asset management ratios of public companies in Indonesia. SEM-PLS was used as the analysis method. The disclosure of sustainability reporting indicators based on the GRI - G3 Guidelines were grouped into three aspects, namely economic, social and environmental, as independent variables; and financial performance was the ratio of asset management (Inventory Turnover ratios, receivables Turnover ratios, Net Working Capital Turnover ratios, Fixed Asset Turnover ratios, Total Asset Turnover ratios) as dependent variables.</td>
<td></td>
</tr>
</tbody>
</table>
3. Data and Methodology

This study was carried out through a desk study, by delving into numerous sustainability reports that were available online, followed by a disclosure analysis of the reports. Emphasis was given to four sections of the reports, which are the main essence of sustainability reports and provide strategic information concerning banks' business risks and their stakeholders’ needs, namely:

1. Principles of Materiality. The materiality principles were evaluated by analyzing the topics disclosed in the sustainability reports; whether they are in conformity with business strategy, risks and stakeholders’ needs.

2. Stakeholders Engagement Principles. The stakeholders’ engagement aspect was evaluated by identifying different needs of stakeholders that should be addressed by the respective bank as part of its process in embracing the participation of various stakeholders.

3. Identifying material sustainability issues and their impact on the stakeholders. This section is very strategic as it conveys the institutions’ understanding on mapping important issues related to sustainability performance, as well as the impact of each important issue on their stakeholders. Without understanding the material issues and their impact, the institution may not be able to manage risks that might disturb or even threaten the sustainability of its business.

4. Appropriate presentation of material topic, sustainability issues and impact of stakeholders must be conveyed clearly and in a comprehensive manner.

The type of data used for this analysis is secondary data, as shown in TABLE 1, as follows:
### TABLE 2
Sustainability Report Data Analysis

<table>
<thead>
<tr>
<th>No</th>
<th>Reporting Year</th>
<th>Description</th>
</tr>
</thead>
</table>
| 1. | Reporting years of data collected are 2016, 2017 and 2018. Data used were all sustainability reports available online by April 30, 2019. The deadline for sustainability reports to be made available online was April 30, 2019, coincides with the deadline for FIs’ annual reports, which is also end of April each year. | a. Period when compliance to OJK Regulation on Sustainable Finance was voluntary.  
b. Sustainability Reports submitted by BUKU 4 Banks, BUKU 3 Banks dan Foreign Owned Banks.  
c. Total amount of banks between 2016 and 2018 are as follows:  
1. In 2016: total of 116 banks (i.e. BUKU 4 = 4 banks; BUKU 3: 24 banks; BUKU 2 = 50 banks; BUKU 1 = 25 banks and Sharia Commercial Banks = 13 banks);  
2. In 2017: total of 115 banks (i.e. BUKU 4 = 5 banks; BUKU 3 = 26 banks; BUKU 2 = 53 banks, and BUKU 1 = 18 banks and Sharia Commercial banks = 13 banks);  
3. In 2018: total of 115 banks (i.e. BUKU 4 = 5 banks, BUKU 3 = 27 banks, BUKU 2 = 51 banks, BUKU 1 = 18 banks, and Sharia Commercial Banks = 14 bank). Majority of foreign banks are classified as BUKU 3 and BUKU 2 Banks.  
(source: Indonesia’s banking sector statistical data – SPI, 2018)  
d. Analysis of BUKU 4 banks was conducted to all banks: whereas BUKU 3, BUKU 2, and BUKU 1—which also includes sharia and foreign banks—were conducted by purposive sampling. |
| 2. | Reports for the year 2019: data used were all sustainability reports available online by April 30, 2020 as the submission deadline for the annual report for FIs is also in the end of April. | a. Period after compliance to OJK Regulation on Sustainable Finance becomes mandatory  
b. The total number of banks in 2019 are 113 banks, with the following details: BUKU 4: 6 banks, BUKU 3: 25 banks; BUKU 2: 52 banks; BUKU 1: 13 banks; and Sharia Commercial Banks: 14 banks;  
c. In 2019, there were 53 banks (BUKU 4: 6 banks; BUKU 3: 25 banks; Foreign Owned Banks: 22 banks) were required to submit sustainability reports to OJK and public.  
d. Analysis of BUKU 4 was conducted for the entire population, with BUKU 3 and Foreign Owned Banks was conducted by purposive sampling. |
Notes:
According to Indonesian banking regulations, Foreign Banks can be classified into two categories, which are (1) branch offices of foreign banks; and (2) representative office of foreign banks (majority-controlled/owned by foreign banks). Foreign bank representatives, according to the regulations, are not allowed to carry out banking activities, making it unclassifiable as a bank institution. In this case, foreign bank representative offices are not required to furnish sustainability reports independently. Instead, it could refer to its head office’s sustainability reports. It is also possible that KCBA submits its sustainable finance information centralized at a global level, and as such, is outside the scope of this analysis.

4. Result and Discussion

A. Analysis of sustainability reports for the reporting period of 2016, 2017, and 201814

The analysis suggests that even during the period when FIs were not required to submit sustainability reports, some banks, particularly BUKU 4, BUKU 3 and Foreign-Owned banks, took the initiative in submitting and publishing their sustainability reports. Majority of these banks refer to the GRI standards and GRI-G4 guidelines for their reports submitted in the year 2016 and 2017. However, for the reporting of 2018 period, the published sustainability reports of all BUKU 4 banks have been mostly in accordance with the GRI standards and the Indonesia FSA’s Sustainable Finance Regulation cross-referencing index as 2017 was the year that Indonesia FSA issued a regulation on sustainability reports, although reporting was still not mandatory as the regulation has not become effective. Meanwhile, no BUKU 3 Banks submitted sustainability reports in this year. The level of disclosure of the sustainable information based on the 2016 - 2018 reporting periods was shown in the Figure 2 below.

In 2016, also within the period before the issuance of the Sustainable Finance Regulation, the level of disclosure concerning sustainable finance information for BUKU 4 banks was 88.1%; BUKU 3 banks was 62.5%, and foreign banks was 41.1%. The high level of disclosure regarding sustainable finance information of BUKU 4 banks was due to GRI standards that were referred to by all BUKU 4 banks in their sustainable reports.

During the period of 2017-2018, when Indonesia FSA rolled out the Sustainable Finance regulations, it was found that there was an increase in the quality of Sustainable Finance information disclosure in BUKU 3 banks (average: 63.8%), and foreign banks (average: 43, 2%); however, the level of disclosure in BUKU 4 was well maintained (average: 87.8%).

14 Voluntary based/ period prior the implementation of the Sustainable Finance regulation issued by The Indonesia FSA
This evidence indicates that the Sustainable Finance regulation issued by the Indonesia FSA increased banks’ awareness in disclosing Sustainable Finance information, especially regarding necessary adjustments to disclosure indicators on social and environmental aspects. In addition, there is a possibility that excellent reporting behaviour shown by BUKU 4 banks to contribute to the increasing or expanding the scope of disclosure of economic, environment, social dan governance (EESG) aspects in their reports. Although Indonesia FSA’s Sustainable Finance regulation was issued in 2017, banks still tend to maintain the same level of disclosure of EESG aspects that were used in the previous reports. From the disclosure analysis process, Banks in the BUKU 4 category have the highest level of compliance to Indonesia FSA’s Sustainable Finance Regulation, when compared to Banks in the BUKU 3 category and Foreign Banks, as shown in the FIGURE 2 below.
FIGURE 2
Sustainable Finance Information Disclosure Rate between 2016 and 2018
Source: Sustainability reports secondary data analysis from 2016 to 2018

1. Timeliness

Another Indonesia FSA regulation, namely Regulation No.29/POJK.04/2016 concerning Annual Reports of Issuers and Public Companies, requires the submission of annual reports which includes CSR information no later than the fourth month from the end of the financial year, or at the end of April the following year. For 2016 reporting, as many as 14 banks, out of 25 national commercial banks, which are also issuers or public companies, submitted annual reports that include CSR information for purposes of complying with this regulation. However, with regard to the timeliness of submission for 2018 reporting, only 6 (six) Banks made a timely submission. From this information, it can be said that only around 42.8% of banks made a timely submission.

Untimely report submission is an indication that the banks are not highly committed to complying with the Regulations. This is probably due to the absence of sanctions or penalties imposed by the Authority on the companies, and perhaps also related to the voluntary nature of the submission of sustainability reports.

2. Materiality and Stakeholders’ engagement principles

Out of the fourteen banks that had published sustainability reports during the period of 2016 and 2017, not all of them submitted information that was in conformity with the banking context. This discrepancy can be seen in:
a. The selection of material topics that were not yet in line with the Bank's business characteristics.
b. The absence of stakeholders' engagements in sustainability issues.
c. The highlighting material issues that were not relevant to sustainability issues. Suitability among material topics, sustainability issues and their impact on stakeholders.

On the analysis of the material topic, only four banks, or around 28.5%, showed the capacity to select important topics in accordance with the characteristics of the Bank, specifically for financing and economic performance. There were still around 72.5% of banks that delivered their topics without a proper understanding of the fact that the banking business is tied to the economy, as such, other topics, namely environmental and social issues, were only referred to as guidelines; for example, energy and waste issues. Energy and waste issues in the banking business certainly do not have a material impact compared to the bank's economic performance-related issues. This information can still be conveyed in the report; however, it does not need to be highlighted as a material topic since energy-saving and waste management, naturally, do not significantly affect a bank's business. Nonetheless, banks can provide information on conserving energy, water or waste management as a supporting initiative for environmental conservation. However, the primary focus should be given on how banks could provide credit/financing to specific sectors that strictly comply with regulations related to energy, water or waste management performance; for example, extractive industries (e.g. cement, mining, manufacturing, property). Lack of understanding in deciding material topics in sustainability reports indicate that sustainability topics in the banking industry are not comprehensively understood by banking industry players. This also implies that there is an absence of key stakeholders' engagement in providing information on material issues.

The stakeholders' engagement, either internal or external, becomes an essential basis of sustainability reports which covers economic, social and environmental aspects. From the stakeholders’ engagement, banks can reveal important issues that might be of concern to stakeholders which must be appropriately and attentively managed. Engagement can be done through in-depth discussions, interviews, or distributing and filling out questionnaires. It was found that the best way to explore and pinpoint essential issues is through conducting in-depth discussions with stakeholders. Companies will not be able to understand or delve into information if two-way discussions did not take place.
In preparing sustainability reports, stakeholders should be involved not only during deciding topics and exploring material issues; rather, they should be involved throughout the year, and have their views recorded and sent to the company leaders. If the stakeholders’ engagement process is carried out properly, then the material issues disclosed in the sustainability reports or the annual report will be more in line with the materiality principle and their impact on stakeholders.

However, since a large portion of stakeholders’ engagement in identifying material issues is not done properly, the issues raised in the sustainability reports are hardly in line with issues that are relevant to the company’s business, in this case, banking. The result is that material issues do not support material topics selected and, as such, do not reflect important issues needed to be highlighted, which are in line with the interest of stakeholders. This discrepancy can be seen in several sustainability reports that describe material topics, which are not the same as those presented in the topics described in the priority matrix.

In mapping material topic priorities, banks need to understand the impact of each of these topics, both for internal and external stakeholders. Setting priorities is crucial in order to assist banks in responding to specific topics, with certain issues considered more urgent than others. Strategies in managing topics and material issues are found to be crucial in preparing sustainability reports and maintaining the sustainability of banking business.

In selecting topics and material issues for Sustainability Reports, it is not necessary for Banks to create a new portfolio that is deemed sustainable. Rather, Banks could simply incorporate environmental-friendly aspects into their current portfolio, suitable to the Banks’ risk appetite. For example, if loans are provided to property developers, Banks could require developers to equip the new houses with solar panels, energy-efficient air conditioning or following green-building concept.

B. Analysis of sustainability reports in the year 2019\textsuperscript{15}

The year 2019 is the first year for banks to comply with their obligations as stated in the Indonesia FSA’s Sustainable Finance Regulation; in other words, it is the first year that banks were required by law to submit a Sustainable Finance action plan, leading to the obligation to submit sustainability reports. The

\textsuperscript{15} Mandatory based, period after the first phase implementation of the banking industry in its compliance with the Sustainable Finance regulation issued by the Indonesia FSA
difference between these two documents is that the Sustainable Finance action plan is provided by banks only for their respective banking regulators. In contrast, sustainability reports are public documents that are prepared based on specific best practice guidelines and can be read by all relevant stakeholders. Furthermore, the deadline for submitting sustainability reports for the first phase implementation of 2019 reporting period was 2020, together with the submission of the companies’ annual reports.

Based on our evaluation, in terms of disclosure level of sustainability report information, banks classified as BUKU 4, BUKU 3 and foreign banks, have fulfilled 100% of the reporting criteria included in the Indonesia FSA Regulation on Sustainable Finance, which is supported by technical guidelines for implementation with indicators and variables explained by the FSA. The sustainability information disclosed was in line with Indonesia FSA regulations. For BUKU 4 Banks, all of the six banks submitted the sustainability reports, supplemented by reference variables and indicators, as required by the Sustainable Finance Regulation issued by Indonesia FSA, and compared them with the GRI index reference. Across all BUKU 4, BUKU 3 and foreign banks, there were certain similarities found in their sustainability reports in as shown in TABLE 3 below:

**TABLE 3**

<table>
<thead>
<tr>
<th>Bank Classification</th>
<th>Description</th>
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<tbody>
<tr>
<td>BUKU 4, BUKU 3 and Foreign Owned Banks</td>
<td>1. Alignment of bank activities with efforts to support SDGs; 2. Disclosure of material topics that are more in line with the expectations of regulators, based on the suitability of material topics with their business processes. 3. Alignment of GRI index with the variables and indicators of the Indonesia FSA’s Sustainable Finance Regulations. 4. Reference added by the Indonesia FSA Regulation on Sustainable Finance; GRI standards, Sustainability Accounting Board (SASB), Sustainable Banking Assessment (SUSBA)</td>
</tr>
</tbody>
</table>

Source: Secondary Sustainability Reports data analysis in 2019

The analysis of sustainability reports on BUKU 4 banks has been adjusted to variables and indicators requested by the Sustainable Finance Regulation; however, the GRI standards are also used as a supporting reference. All BUKU 4 banks use the Sustainable Finance Regulation issued by Indonesia FSA as their main reference in preparing sustainability reports. However, BUKU 4 banks also include GRI standards, in addition to the Sustainable Finance Regulation, as a supporting reference. In terms of BUKU 3, around 24.5% of banks refer only to
GRI standards, while 75.5% of them refer to the FSA Sustainable Finance Regulation. This indicates that common understanding is not yet developed particularly regarding the adjustment of variables and indicators as requested by the regulators. Particularly for foreign banks, there are variations in the reference adopted in preparing sustainability reports. However, around 65.2% of submissions are based on the Indonesia FSA Sustainable Finance Regulation and GRI standards. About 25.3% of foreign banks adopt only GRI standards, and 9.5% is based on various standards of the GRI standard, SASB and SUSBA. Figure 3 below shows the sustainable reporting standards adopted based on the 2019 reporting period.
FIGURE 3
Level of Disclosure of Sustainable Finance Information: reporting year of 2019
Source: secondary data analysis of 2019 Sustainability Reports

1. Timeliness

From the timeliness perspective, all BUKU 4 and BUKU 3 banks have met the deadline in their report submission as required by the Sustainable Finance Regulation. Only around 5% of foreign banks do not comply with the submission deadline to the Indonesia FSA. This is due to different interpretation regarding definitions of foreign banks and foreign ownership (see Table 1 regarding the definition of foreign banks and foreign ownership).

2. Materiality and Stakeholders Engagement Principles

Based on the sustainability reports submission of 53 banks required by the FSA’s Sustainable Finance Regulation in the first phase of implementation, the materiality aspect of disclosure in sustainability reports has begun to show some improvements. For the six banks classified as BUKU 4 banks, the aspects of material topic selection are in line with the business conditions of each bank. Disclosure of the portfolio that meet the categories of sustainable business activities has also been highlighted. Stakeholders’ engagement has also been conveyed, and material issues have begun to cover all aspects, namely economic, social, environmental and governance aspects, which are in line with internal banks’ business processes as they have begun to internalize the sustainability aspect into their process.
Based on the sample of BUKU 3 bank respondents, the understanding of materiality varies among banks, especially in the submission of aspects of social and environmental performance. There are about 52% of BUKU 3 banks that have met expectations in conveying the materiality topics. For the submission of materiality aspects from foreign banks, 5% of foreign banks materiality aspect is still not relevant to the issue of sustainability, even though on average foreign banks have submitted sustainability reports voluntarily in the previous years. The aspect of stakeholders’ involvement in determining material issues is also lacking. This indicates that although those banks are owned by foreign entities, in term of size, most of those banks are still classified under small size category, namely BUKU 2 and BUKU 1, and submitting sustainability reports for these banks may seem to be done merely for purposes of complying with the regulation.

5. Conclusion and Recommendations

There can be a few conclusions gathered from the analysis and discussion, among others are:

a. Prior to the implementation of Indonesia FSA Regulation on Sustainable Finance, which requires the FIs to submit sustainability reports to Indonesia FSA, around 28,5% of the largest banks – BUKU 4, and BUKU 3 banks – had published sustainability reports that met the materiality principle and were in line with the context of the banking business. Its implementation was relatively low as there are no specific reporting standards and obligations issued by the relevant financial sector authority.

b. In 2017, the Indonesia FSA Regulation on Sustainable Finance had provided specific directions for banks to submit sustainability reports with information that fit the principles of Sustainable Finance. This Sustainable Finance Regulation serves as the basis for banks in implementing activities that fit with the principles of sustainability in order for them to be able to provide strategic and accountable sustainability information for the stakeholders. At a minimum, Sustainability Reports must include information on the financial institutions’ economic performance, social, environment and governance. Further, all information asserted in the Sustainable Reports is technically an implementation of Sustainable Finance Action Plans that were submitted by banks in the previous year. In addition, the Sustainability Reports that are complemented with a third-party verification statement demonstrate that the banks have a high level of commitment to the implementation of Sustainable Finance principles.

c. Our research suggests that Indonesia FSA’s Sustainable Finance Regulation is able to improve the financial industry’s awareness, specifically banks, issuers and public companies. It is also able to
successfully assist in enhancing the financial industry’s understanding on how to prepare comprehensive sustainability reports. From the perspective of the materiality principle, about 56.6% of banks have disclosed economic performance, social information, living environment and governance as required by the Sustainable Finance regulation. However, it still needs to be improved, particularly on the material topic suitability, sustainability issues and their effect on stakeholders. It is important for banks, for example, the ones with palm oil as their largest portfolio, to put forward issue related to empowerment of the palm oil farmers and communities in their sustainability reports. It is even more relevant if such banks could measure the impact resulted from the activities, i.e. from social and environment standpoint.

The analysis provides an overview of practice in reporting sustainability reports in the banking sector. There is a valid concern that although the regulatory requirement on sustainability report will increase the number of entities submitting sustainability reports, it is not complemented with an improvement in the quality of information that is supposedly useful for the stakeholders. After evaluating numerous Sustainability Reports, it is found that there is still a lack of knowledge is an important element of Sustainability Reports, namely, measurement of impacts. Although banks have some idea of selecting activities and improving portfolios, they lack the ability to measure the impact of activities chosen. Given the paramount importance of measuring impact in the Sustainability Reports, intensive campaigns and training need to be provided to promote the effectiveness of the Sustainability Reports as well as the implementation of Sustainable Finance principles.

d. Building awareness should not only be targeted at managers, risk management teams, communication teams, and corporate secretaries; rather, it should also be targeted at banking institution leaders level. Enhanced understanding is also meant to instill a mindset that implementing Sustainable Finance is actually the way forward for future businesses sustainability. Running a sustainable and future-minded business, that is not only profitable but also consistently mindful of social and environmental aspects, is one of the best strategies to win a global competition. In this regard, there is a strong need to build communications between the financial authority and the CEOs or corporate leaders of the financial services institutions to increase their awareness of Sustainable Finance issues as well as to encourage them into putting the knowledge into the mainstream business process.

e. Lastly, in order to bolster the implementation of sustainable finance principles and enhance the quality of sustainability reports that meet
international standards, establishing assessments frameworks on sustainability reports is necessary, either by the relevant financial Authority or third parties using indicator guidelines set by the financial Authority. Further, to boost healthy competition among the financial industry, there is a need for the Authority to incentivize the financial institutions that produce good quality of sustainability reports, which meet the guidelines set by the Authority, as well as international standards.
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