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ESG Integration In SOEs: Transformation of Environmental Protection and Embodiment of Sustainable Business In SOEs

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ABSTRACT

Climate change carries enormous risks and threatens the lives of many people. Environmental damage not only endangers living creatures, but risks causing business losses. Therefore, there is a demand from the public and investors to publish sustainability reports. The disclosure of a sustainable report not only acts as a tool to maintain reputation, but also as a form of evaluation of business activities that have been carried out in a certain period of time. Apart from that, sustainability principles are not only used as a reporting reference, but are also used as a consideration in making business and investment decisions. As a member country of the UNFCCC, Indonesia has a target to contribute to overcoming climate change. State-Owned Enterprises, which are large state-owned business conglomerations, should integrate ESG aspects as a consideration for their business operations. As mandated by Article 33 of the Constitution of the Republic of Indonesia, SOEs have control over businesses in sectors that cover the lives of many people. Through Glasgow COP26, IFRS has published ISSB as a reference in forming sustainability reports. This is a response to the systematic misalignment of sustainability reporting that exists throughout the world. Therefore, an international standardization is needed which can be used as a reference. In this case, SOEs should adopt these international standards in connection with the absence of regulations that specifically regulate the obligation for SOEs to carry out environmental considerations. This article aimed to discuss the regulatory status quo that applies in the context of implementing ESG and how ESG will later be integrated as a form of realizing sustainable business.

Keywords: Environmental Social and Governance; State-Owned Enterprises; Sustainable Business; Sustainable Report.

INTRODUCTION

In the era of globalization and a massive technology innovation, the concept of sustainability has become a central focus in many aspects of human life. This terminology is no longer limited to be used in academic environments, but has grown into a principle and guidance for any action and development in various sectors.[1] A sustainability based innovation is a relevant and notable concept in this fast developing era, specifically in the scope of environmental, social, and governance (ESG) challenges to be operated responsibly by enterprises.[2] In this context, ESG principles emerge as an important framework in fostering sustainable innovation.

[1]Hendro, J.& Bowo, A.,P. (2023), Inovasi Berkelanjutan: ESG Initiatives Untuk Masa Depan Yang Bertanggung Jawab, *Jurnal Ilmu Sosial, Manajemen, Akuntansi Dan Bisnis,* 4(4): 135–47.

[2]Ibid.

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Sustainable innovation is crucial to ensuring a more environmentally responsible future by prioritizing the sustainability of the environment itself. The ignorance towards sustainable innovation could lead to an uncontrollable climate crisis, decreasing variety of biodiversity, and social disorder.[3] At present, the issue of sustainability has become a concern to various groups. With the arising of environmental related risk and a demand of a sustainable business from the market, the mentioned issue has directly affected the business sectors. This issue is inseparable from increasing awareness of the importance of preserving the environment and the social impacts caused by business activities. Thus, it can be concluded that the existence of sustainability concepts would help to create a balance between the business operation and the surrounding environment.[4]

In 1997, the Global Report Initiative (GRI) was founded to create the first accountability mechanism to ensure companies adhere to responsible environmental conduct principles. Previously, GRI has set 3 aspects called as 3P (profit, people, and planet) to be considered in terms of forming a sustainability report which was then broadened to include social, economic and governance issues in order to create the first accountability standardization to assure companies comply with conscientious environmental conduct principles. Additionally, ESG will be used to measure the sustainability and social impact of investments in companies or businesses in the upcoming years.[5]

Later on, In 2004, the United Nations Global Compact (UNGC) released a movement called "Who Care Wins" which called on financial institutions to take full responsibility for environmental, social and governance aspects for all their transactions. Since then, ESG has received a lot of attention from business and academic sectors. Apart from that, this proposal stands on 3 pillars, namely environment, social, and governance, and there are relevant issues that can be of concern to investors or analysts. The issues raised in the "Who Cares Wins" movement are aligned with each aspect of ESG as shown in the following table.[6]

[3]Vikrant, P. (2019), Innovation: The Key to Achieve Sustainable Development, *Vikrant, Pachnanda, Innovation: The Key to Achieve Sustainable Development. OIDA International Journal of Sustainable Development, 12(9): 41-48.*there is no question that we can deliver on our shared responsibility to put an end to poverty, leave no one behind, and create a world of dignity for all." - The then Secretary General of the United Nations ,Ban-Ki Moon in 2015 The concept of 'sustainable development' was highlighted for the first time at Stockholm in the United Nations Conference on human environment in 1972. However, this term was coined two years later in the Cocoyoc (Mexico

[4]Reza, M.,D. & Wicaksono, A. (2023), Benchmarking Analysis: A Comparative Study of ESG Implementation Using MSCI Rating Standard on State and Regional Owned Enterprises in Indonesia, *Review of Integrative Business and Economics Research,* 12(2): 266–282.

[5]Felisia and Limijaya, A. (2014), Triple Bottom Line Dan Sustainability, *Bina Ekonomi,* 18(1): 14–27.

[6]Qiu, Z. (2023), "The Evolution of ESG and Its Practice and Development in China," *PalArch's Journal of Archaeology Of Egypt/Egyptology,* 20(1): 185–205.

Table 1. Aspect of ESG Source: UNGC

E	• Addressing climate change and its associated risks • Minimizing pollution, emissions, and resource waste • Reducing the environmental impact of products and services • Providing environmental improvement services and eco-friendly products • Ensuring transparency in environmental information disclosure and understanding the impact of achieving environmental objectives on corporate reputation
S	• Ensuring health and safety in workplaces • Fostering positive community relations • Upholding human rights within companies and among partners • Ensuring transparency in social responsibility information disclosure and understanding the impact of achieving social responsibility objectives on corporate reputation
G	• Board membership and accountability • Financial transparency • Independence of audit institutions • Executive compensation practices • Anti-corruption measures

One of the United Nations Working Conventions on Climate Change, namely the United Nations Framework Convention on Climate Change (UNFCCC) is an international framework and it is legally binding for Indonesia as it has adopted their principles through Law number 16 of 2016 concerning Ratification of Paris Agreement To The United Nations Framework Convention on Climate Change. This convention was conducted in Paris and known as COP21 which then resulted in a consensus called the Paris Agreement.[7] Indonesia is one of the developing countries bound by this agreement and is committed to overcoming climate change. One example is the presentation of Indonesia's commitment by President Joko Widodo to contribute to reducing greenhouse gas emissions by 29% with its own efforts and 41% with international assistance until 2030.[8]

Indonesia is one of the most impacted countries in the world by climate change as this nation is geographically nestled in the equatorial line, in the middle of Indian and Pacific Oceans.[9] Yet with this condition, the regulations concerning the implementation of sustainable practices are not obligated, but tend to be regular recommendations that do not come along with a fixed guideline on sustainable practices in Indonesia.[10] According to the Ministry of State-Owned Enterprises, The SOEs have reached the 20% contribution of carbon emission and greenhouse gas. Moreover, this large percentage of contribution only comes from 7 companies of SOEs.[11]

[7]Paris Agreement (2015), *Paris Agreement. In Report of the Conference of the Parties to the United Nations Framework Convention on Climate Change*, Getzville, NY, USA: HeinOnline.

[8]Wahyuni, E. and Ardiansyah, H.(2022), Indonesia's National Strategy and Commitment towards Transition to Renewable Energy, in *Indonesia Post-Pandemic Outlook: Strategy towards Net-Zero Emissions by 2060 from the Renewables and Carbon-Neutral Energy Perspectives*, BRIN.

[9]Walter M. Goldberg (2018), *The Geography, Nature and History of the Tropical Pacific and Its Islands*, World Regional Geography Book Series, Cham: Springer International Publishing.

[10]Khodijah, A., S. (2022), The Influence of Environmental, Social, and Governance Performance on Foreign Investment, *Journal of Accounting and Investment* 24(1): 64–83social, and governance (ESG

[11]Fajrian, H. (2023, August 25), 7 BUMN Sumbang 20% Emisi Karbon Indonesia, Dari Pertamina Hingga PTPN, *Microsoft Start*, accessed July 1, 2024, https://www.msn.com/id-id/ekonomi/ekonomi/7-bumn-sumbang-20percent-emisi-kar-

As of March 2023, the Ministry of State-Owned Enterprises (hereinafter referred as Ministry of SOEs) has issued the SOEs Omnibus Regulation which consolidates and integrates more than 45 ministerial level regulations. The aim of the Ministry of SOEs in issuing the SOEs Omnibus Regulation is to create a synchronized and harmonious Regulation of the Ministry of SOEs in order to support planned, integrated and sustainable management of State-Owned Enterprises, in particular the need for legal breakthroughs by combining several related Ministerial Regulations of State-Owned Enterprises into one comprehensive Ministerial Regulation (Ministry of State-Owned Enterprises).[12]

In fact, there are no specific rules in the regulations that address a matter of ESG aspect as the considerations on making a business or investment decisions for SOEs. Yet, one of the programs contained in the a quo regulation and often mentioned as the establishment of ESG is the social and environmental responsibility program (hereinafter referred as TJSL Program). This program itself was originally contained in the Ministerial of SOEs Regulation Number 5/2021 on Social and Environmental Responsibility Programs which has been amended by the Ministerial of SOEs Regulation Number 1/2021 on BUMN Ministerial Regulation Number 5 of 2021 on Social and Environmental Responsibility Programs. One of the agenda stipulated from the mentioned regulation is to promote sustainability within the business core of SOEs.[13] Regardless of the existence of this program, the Ministry of Environment and Forestry (hereinafter referred as MEF) still stated that there are SOEs that are considered environmentally unconscious. Therefore, this research aimed to examine whether the implementation of ESG in SOEs is sufficient and how the integration of ESG aspects would accelerate the sustainable business practice.

METHOD

The type of research carried out is juridical-normative research. Soerjono Soekanto stated that the definition of normative juridical research is research into legal principles, legal systematics, levels of legal synchronization, and legal comparisons and how they are implemented in practice.[14] This research later it will refer to the norms and legal principles contained in statutory regulations and outside statutory regulations. This research is categorized as juridical-normative research because it will examine legal vacuum regarding existing environmental protection regulations in the realm of state-owned companies. This research is legal research that uses 2 approach methods, namely the approach to Legislative Regulations (Statute Approach) which in principle focuses the discussion by examining laws or other regulations related to the object of research, both written and unwritten.[15] Then, this research also using a conceptual approach (Conceptual Approach), which is done by looking at concepts related to the content of values and norms in statutory regulations.[16]

ANALYSIS AND DISCUSSION

Status Quo of ESG in the Ministry of State-Owned Enterprises

The concept of ESG is not a new invention, but rather a fusion, integration or reclassification of previously existing sustainability concepts. For example, the capital market in America

bon-indonesia-dari-pertamina-hingga-ptpn/ar-AA1dO8LS.

[12]Kementrian Badan Usaha Milik Negara (2023, March 30), Rilis Dan Pernyataan: Tiga Omnibus Peraturan Menteri BUMN Telah Diundangkan, *BUMN*, accessed July 1, 2024, https://bumn.go.id/publikasi/berita/rilis/detail/tiga-omnibus-peraturan-menteri-bumn-telah-diundangkan-2r.

[13]See the Ministerial of SOEs Regulation Number 5/2021 on Social and Environmental Responsibility Programs which has been amended by the Ministerial of SOEs Regulation Number 1/2021 on BUMN Ministerial Regulation Number 5 of 2021 on Social and Environmental Responsibility Programs.

[14]Soekanto, S., & Mamudji, S. (2001). Penelitian Hukum Normatif Suatu Tinjauan Singkat. Rajawali Perss.

[15]Marzuki, P. M. (2017). Penelitian Hukum: Edisi Revisi. Jakarta: Penerbit Kencana.

[16]Diantha, M. P. (2016). Metodologi Penelitian Hukum Normatif dalam Justifikasi Teori Hukum. Jakarta: Kencana.

began to pay attention to sustainability developments for listed companies since 1960. At that time, companies listed on the capital market in America themselves provided information reports on sustainability developments in the form of CSR. So that the reporting of sustainable development information can be promoted and regulated, the United Nations (UN) Compact proposed the Ten Principles of the Global Compact between 2000 and 2004. In the following table, it can be seen that ESG itself is very much in line with the UN's Ten Principles of the Global Compact and 17 Sustainable Development Goals as written in the following table.

CSR (Based on the ten principles of the Global Compact)	ESG	SDGs
• Environmental challenges preparation conducted by the businesses. • Increasing the responsibility regarding environmental protection initiated by the enterprises. • Promoting the establishment and dissemination of environmental matters.	E	• Good health and well-being • Clean water and sanitation • Affordable and clean energy • Industry, innovation and infrastructure • Sustainable cities and communities

• Honoring and strengthening a legitimate international human rights' value. • Enterprises will never partake in any kind of act related to a disrespect or a misappropriation of human rights. • Enterprises should protect the independence of acknowledging the right of mutual bargaining between workers and management. • Enterprises should ban any kind of forced labor. • The abolishment of child labour should be supported by all enterprises. • The abolishment of discrimination in any forms should be banned in employment and occupation.	S	• No poverty • Zero hunger • Good health and well-being • Quality education • Gender equality • Decent work and economic growth • Industry, innovation and infrastructure • Reduced inequalities • Peace, justice and strong institutions
• Enterprises should go against any kind of deceitfulness in the form of corruption, bribery, and extortion.	G	• Reduced Inequalities • Peace, Justice and Strong Institutions • Partnerships for the goals

Table 2 source: UNGC.

The implementation of ESG aspects is something that is supposed to be considered by SOEs in their business operations. According to data issued by MEF back in 2011, the SOEs have contributed to environmental damage, as shown in the MEF monitoring results, which show that there are still state-owned companies that have not carried out good environmental management. As stated by the Secretary of the MEF Proper Team, Sigit Reliantoro, revealed that there are 11 SOEs that are included in MEF's blacklist and classified as environmentally friendly.[17]

This was further intensified by the results of monitoring by the MEF that found that 49 out of 1,002 companies were deemed negligent and violated regulations, which resulted to

[17]Husna, G., A., Yuhertiana, I.,& Susilowati, E. (2023), Pengaruh Good Corporate Governance Terhadap Pengungkapan ESG Dan Kinerja Perusahaan Pada Perusahaan BUMN Yang Terdaftar Di Bursa Efek Indonesia Periode 2018-2022, *Jurnal sosial dan sains* 3(12): 1235-1252.

the damage of the environment. A total of 11 of the 49 companies are SOEs and included to a blacklist.[18] Apart from that, the Forests & Finance coalition report also found that the OJK and three large state-owned banks in Indonesia, namely BNI, BRI and Mandiri, also contributed to funding projects that caused forest destruction by continuing to finance companies with a track record of destroying forests and grabbing local community land, such as palm oil and pulp & paper.[19] In general, the banking sector is not directly connected with environmental development nor the damage. But, the consideration to see the banking sector as a financial institution that holds significant powers can not be ignored.[20] Banking and environment are commonly connected in many paths, regularly through funding operations for a project that directly gives an impact to the quality of an environment.[21] Thus, the banking sector plays a big role in determining the quality of the natural environment.[22]

As a comparison, Indonesia Financial Services (hereinafter referred as IFS) also has issued a Sustainable Roadmap that explained about the work plan for a sustainable financial program addressed to the whole financial services industry below IFS, whether it be bank, capital markets, or financial technology services**.** It is mentioned in the roadmap that the goal of sustainable finance itself is increasing the strength and competitiveness of the financial services industry so it could grow and develop under the sustainability principles, provide funding authority needed by the financial services community in accordance with RPJP and RPJM which emphasize the principles of pro-job, pro-poor, and pro-environment. Moreover, it also has the intention to give a contribution to the national commitment towards the climate change problem through prevention and adaptation while implementing the competitive low-carbon economy. With this condition, it can be said that the ESG element itself is still not fulfilled in the context of actualization in state-owned companies or in regulations.

The absence of regulations regarding obligations for the implementation of the ESG concept is an important matter to be addressed. The existence of a legal vacuum itself is an uncommon situation and could possibly create a legal or legislative uncertainty in society which leads to legal chaos. Thus, a specific legal regulation is needed that regulates the integration of ESG concepts for state-owned companies as an effort to avoid this legal risk**.**[23] Apart from the previous ratification of the UNFCCC, Indonesia and other ASEAN countries have also made a consensus to implement climate change prevention agendas in their respective countries through ASEAN Join Statement On Climate Change To The 28th Session Of The Conference Of The Parties To The United Nations Framework Convention On Climate Change.[24]

Currently, the Ministry of SOEs does not have specific regulations regarding ESG aspects. However, all state-owned companies have an obligation to implement a Social and Environmental Responsibility Program (TJSL Program) as mandated in the Regulation of the Minister of State-Owned Enterprises of the Republic of Indonesia Number PER-05/MBU/04/2021 concerning the amended Social and Environmental Responsibility Program for State-Owned Enterprises.[25] With the Regulation of the Minister of State-Owned Enterprises

[18]Pusat Studi Lingkungan Hidup Universitas Gadjah Mada (2011, December 4), Ada 11 BUMN Berpredikat Perusahaan Hitam, accessed July 1, 2024, https://pslh.ugm.ac.id/ada-11-bumn-berpredikat-perusahaan-hitam/.

[19] Reza, M.,D. & Wicaksono, A. *Op.cit*

[20]Saputri, S., A. & Fernos, J. (2019), Pengawasan Kredit Pada Bank Nagari Cabang Siteba 1–15.

[21]Derek, W. (1995), *The Gilbart Lecture 1995: Banking and the Environment*, Chartered Institute of Bankers.

[22]Weber, O., Scholz, R., W., & Michalik, G. (2010), Incorporating Sustainability Criteria into Credit Risk Management, *Business Strategy and the Environment* 19(1): 39–50

[23]Alam, S. (2017), Kekosongan Hukum Dan Percepatan Perkembangan Masyarakat, *Jurnal Hukum Replik* 5(2): 173.

[24]Association of Southeast Asian Nations(2023, August 25), ASEAN Joint Statement on Climate Change to the 28th Session of The Conference of The Parties to The United Nations Framework Convention on Climate Change (UNFCCC COP-28), accessed July 4, 2024, https://asean.org/asean-joint-statement-on-climate-change-to-the-28th-session-of-the-conference-of-the-parties-to-the-united-nations-framework-convention-on-climate-change-unfccc-cop-28/.

[25]See Regulation of the Minister of State-Owned Enterprises Number PER-05/MBU/04/2021 of 2021 Regarding the Program of Social and Environmental Responsibility of State-Owned Enterprises.

Number PER-6/MBU/09/2022 concerning Amendments to the Regulation of the Minister of State-Owned Enterprises Number PER-05/MBU/04/2021 concerning the Social and Environmental Responsibility Program for State-Owned Enterprises. In Article 1 paragraph (12) of Ministerial of State-Owned Enterprises Regulation Number 05/2021, the TJSL Program is defined as an activity that is a company's commitment to sustainable development by providing economic, social, environmental, legal and governance benefits with more integrated, targeted, measurable principles impact and can be accounted for and is part of the company's business approach. Meanwhile, TJSL itself can be carried out in the form of financing and coaching micro and small businesses or assistance and other activities.[26]

Based on the definition above, it can be understood that the TJSL program is an initiation from the BUMN ministry to contribute to society through the assistance provided.[27] However, the stipulated regulation does not regulate an obligation related to the environment and a sustainability report disclosure. The outcome of the TJSL program by few SOEs currently comes in the form of micro businesses funding, environment restoration, and providing public facilities for the community.[28] Considering the outcome of the TJSL program, it can be concluded that TJSL tends to be a corporate social responsibility actualization.

Moreover, this regulation is still not sufficient as a binding legal product for all state-owned companies considering that there are no penalties or other obligations if state-owned companies do not implement this program. Apart from that, SOEs companies are also still making unsustainable investments which are often found in the banking sector despite the mentioned sector has made efforts to implement green banking. According to an investigation carried out by Transformasi untuk Keadilan Indonesia (TuK Indonesia), three SOEs banks became creditors to fund environmentally destructive palm oil companies. Bank Mandiri provided funding for US$ 4,5 Billion, while Bank Rakyat Indonesia provided US$ 4,3 Billion, and followed by Bank Negara Indonesia with US$2,5 Billion funding.[29] The findings in this investigation has shown the contradict between the green banking commitment from the SOEs banking sector and their investment decisions.

Furthermore, Other sectors also have not yet made the principle of environmental protection a priority in carrying out their business activities. The Ministry of Environment and Forestry itself has stated that PT Aneka Tambang Tbk (Antam), PT Solusi Bangun Indonesia Tbk (SMCB), and PT Semen Indonesia are on the list of unfully complied companies regarding their business permits in the forestry sector as stated in Decree Number 196/MENLHK/SETJEN/KUM.1/3/2023 concerning Data and Information on Business Activities that Have Been Established in Forest Areas that Do Not Have Permits in the Forestry Sector Phase XI. Thus, it implies that the ESG practice in SOEs is still inadequate. [30]

Integrating ESG To Enforce Sustainable Business Practices

As stipulated in our constitution, article 33 paragraph (2) has mandated that production branches that are important for the state and that affect the livelihoods of many people are

[26]See Regulation of the Minister of State-Owned Enterprises Number PER-6/MBU/09/2022 concerning Amendments to the Regulation of the Minister of State-Owned Enterprises Number PER-05/MBU/04/2021 concerning the Social and Environmental Responsibility Program for State-Owned Enterprises.

[27]Kementrian Badan Usaha Milik Negara, "Bakti BUMN," https://www.bumn.go.id/prioritas/prioritas/Bakti BUMN.

[28]PT Pupuk Indonesia. (2022). Sustainability Report. Retrieved from https://www.ifrs.org/content/dam/ifrs/groups/trwg/summary-of-the-trwg-work-programme.

[29]Trisna, C., D. & Putra, N. (2021, August 5), BANK BUMN SERAMPANGAN MODALI SAWIT, *TUK Indonesia*, accessed July 1, 2024, https://www.tuk.or.id/2023/11/bank-bumn-serampangan-modali-sawit/.

[30]See MEF Decree Number 96/MENLHK/SETJEN/KUM.1/3/2023 on Data and Information of Business Activities Established within Forest Areas without Forestry Permits, Phase XI.

controlled by the state.[31] In this matter, the government of Indonesia uses SOEs as a tool to take control of the production and form themselves into various holdings in different sectors. Thus, with the big domination that they hold within, it creates a big business conglomeration that comes with a big responsibility.

Article 33 paragraph 4 stated that the national economy shall be organized based on economic democracy with the principles of kinship, fair efficiency, sustainability, environmental consciousness, independence, and by maintaining a balance of progress and national economic unity.[32] From this stipulation, it can be concluded that the SOEs should run their businesses in accordance with the regulated principles in our constitution. To achieve that, SOEs should maintain the sustainability of the business and ESG integration as an aspect to be considered in the business decision making.

Meanwhile, reporting and mapping a climate-related risk is growing within global business. This pressure comes from an increased concern from investors regarding the financial damage caused by climate change.[33] Thus, investors are demanding a climate-related disclosure for a better consideration on investment and leading to the growing skepticism for companies that do not provide their climate-related disclosure for the market actors.[34] Conducting a climate-related risk mapping and reporting has become an obligation and being a part of companies and public policy. Various frameworks have been made previously to mitigate the demand for the climate-related risk report disclosure.[35]

One example of implementing environmentally based business is also in the green banking concept carried out by several state-owned banks in Indonesia. Based on the ongoing report published by the Indonesia Stock Exchange in 2021-2022, there are state-owned banks in Indonesia that have taken steps to implement green banking by forming internal policies that support carbon emission reduction practices, such as the use of renewable energy and energy efficiency.[36] However, in practice there are still obstacles in the form of a lack of understanding and awareness regarding the benefits and business potential of this practice. So, efforts are still needed to harmonize this concept as a whole. Not only in the banking business line, but targeting all BUMN business sectors.[37]

In fact, SOEs have the will to enforce a sustainable business practice despite there is no regulation that specifically requires all SOEs should do such practice, few SOEs companies also have disclosed their sustainability report to the public. Moreover, there are SOEs that have a strong intention to shift their business to be sustainable by joining to be the UNGC member as seen on the UNGC member list.[38] But, considering the absence of the regulation, each company has their own purpose on ESG since they don't have an integrated goal to be achieved. Referring to COP28, the ASEAN member states have strengthened their commitments on overcoming climate change. Among those countries, 118 countries have decided to focus on collaborative

[31]See Article 33 Paragraph (2) Constitution of Republic of Indonesia 1945.

[32]See Article 33 Paragraph (4) Constitution of Republic of Indonesia 1945.

[33]Bos, K., & Gupta, J. (2019), Stranded Assets and Stranded Resources: Implications for Climate Change Mitigation and Global Sustainable Development, *Energy Research & Social Science* 56: 101-215.

[34]Fink, L. (2020). A fundamental reshaping of finance. https://www.blackrock.com/au/individual/larry-fink-ceo-letter

[35]Andersson, F., N., G.& Arvidsson, S. (2023), Understanding, Mapping and Reporting of Climate-Related Risks among Listed Firms in Sweden, *Climate Policy* 23(8): 945–958.

[36]Indonesia Stock Exchange (2022, August 7), Sustainability Report of Indonesia Stock Exchange of 2021 and 2022, *IDX*, accessed July 1, 2024, https://www.idx.co.id/id/tentang-bei/laporan-keberlanjutan.

[37]Shobri, A., & Muslihah, E. (2024), Konsep Model Kepemimpinan Direktif Dan Instruksional, *Reslaj: Religion Education Social Laa Roiba Journal* 6(4): 1905–1913.collected, and analyzed from books and scientific journals with similar topics, then used as writing and conclusions.

[38]United Nations Global Compact (2024 July 1), UNGC Member List, *UNGC*, accessed July 1, 2024, https://unglobalcompact.org/what-is-gc/participants.

efforts which obtain financial support and streamlined processes.[39] Thus, a standardization and integrated focus should be formed in a regulation or framework.

To determine the main integrated focus in implementing ESG, SOEs can refer to the goals contained in the UNFCCC. In general, the UNFCCC itself aims to control Greenhouse Emissions as a form of overcoming climate change.[40] Therefore, the integration of ESG in SOEs itself will refer to the main objectives of the UNFCCC and the form of implementation will be adapted to each sector. Thus, the implementation of ESG in SOEs should be focused on:[41]

a. Energy Transition;
b. Sustainable investment;
c. Measure and analyze greenhouse gas;
d. Reduce energy use; and
e. Assessing the carbon footprint.

At the Glasgow COP26 summit, the International Reporting Standards announced the creation of the International Sustainability Standards Board (ISSB) to develop a global baseline of high-quality sustainability disclosure standards for investors. This includes the consolidation of the Climate Disclosure Standards Board (CDSB—an initiative of CDP) and the Value Reporting Foundation (VRF—which includes the Integrated Reporting Framework and the SASB Standards) into the IFRS Foundation.[42]

The current reporting landscape is fragmented, resulting in inconsistent and non-comparable reporting. In response, the IFRS Foundation announced the formation of an international standard-setting entity comprising two boards: the Climate Disclosure Standards Board and the Value Reporting Foundation. The ISSB has published two prototype standards for climate-related disclosures and general sustainability disclosure requirements. [43]

These standards are crucial for establishing consistent and transparent reporting of ESG factors affecting businesses. A recognized framework benefits investors by improving decision-making and addressing the gap in disclosure requirements for companies and their auditors. With two prototype standards issued, SOEs could adopt the standardization issued by ISSB. The main focus of these reporting standard prototype mainly guided by these aspects:[44]

a. Evaluating the impact of climate risk and climate commitments in upcoming year-end reporting cycles
b. Continuously improving the quality of climate-related disclosures
c. Assessing risks of material misstatement in financial statements caused by climate-related impacts and developing appropriate audit responses.

Following the issuance of the ISSB standards, the IFRS has initiated the Technical Readiness Working Group's Program of Work to provide recommendations for the ISSB's considerations. This meeting produced a technical guide for companies, institutions, and state entities to create sustainability reports.[45] The reporting standards established by the ISSB can

[39]Rahmawanti, H., H. and Meliala, A., J.(2024), Legal Policy Impact on Indonesia's Geothermal Industry Development: FDI Cooperation and NDC, *Journal of Law, Politic and Humanities* 4(4): 481–494.

[40]Hermwille, L., et al. (2017). UNFCCC before and after Paris – What's Necessary for an Effective Climate Regime? Climate Policy, 17(2), 150-170.

[41] Morgan, J., & Waskow, D. (2014). A new look at climate equity in the UNFCCC. Climate Policy, 14(1), 17-22.

[42]Reyes, O., E (2024), Review of the Sustainability and Climate Change Initiatives Within the Line of Investment Portfolios, *ODEON*, 25: 95–115.

[43]PricewaterhouseCoopers International (2024), *PwC's View of the ISSB's COP26 Announcement on a Page*, *PwC*, n.d., accessed July 1, 2024, https://www.pwc.com.au/assurance/ifrs/issb-cop26-announcement.pdf.

[44]See International Sustainability Standards Board (ISSB). (n.d.). Climate-related disclosures prototype. Retrieved from https://www.ifrs.org/content/dam/ifrs/groups/trwg/trwg-climate-related-disclosures-prototype.pdf and see International Sustainability Standards Board (ISSB). (n.d.). Technical Protocols for Disclosure Requirements

[45]Technical Readiness Working Group (2021), *Summary of the Technical Readiness Working Group's Programme of Work*, IFRS Foundation.

serve as a reference for SOEs in their sustainability reporting. This standardization by the ISSB will make report formation more focused, ensuring that the final results achieved through ESG integration are more structured and aligned with global plans.

The findings of environmental damage caused by state-owned companies and also the non-compliance of state-owned companies to fulfill compliance requirements prove that state-owned companies themselves have not fully implemented environmental considerations in their business activities. ESG integration itself will be carried out by providing an obligation for companies to make environmental and sustainability analyzes as a consideration when making a decision or study to make an investment. This integration should be embedded in ministerial regulations to stipulate a responsibility for all state-owned companies. This regulation will be separated from TJSL so that the TJSL program itself continues to be implemented as CSR and avoids different legal interpretations in the context of providing obligations for companies. With this integration, SOEs can start sustainable practices and business.

CONCLUSIONS

The Ministry of SOEs currently does not yet have a specific regulation regarding the obligation to implement the ESG concept in its business and investment decisions. Even though there are several reports from state-owned companies that have good sustainability reporting, this does not rule out that there are still many state-owned companies that do not prioritize environmental aspects. Moreover, SOEs as companies that monopolize many business sectors also contribute greatly to the formation of carbon and greenhouse gas emissions. Therefore, a regulation is needed that specifically regulates obligations regarding the integration of ESG concepts. Meanwhile, the integration of the ESG concept will later be embedded in regulations in the form of ministerial regulations which must be obeyed by all state-owned companies. The standardization used in ESG regulations itself will refer to the provisions in the UNFCCC as a form of Indonesia's commitment as a member country. The output that is expected to be carried out is the obligation to prepare an annual report by each state-owned company. The standardization that will be used in forming this report is to use the ISSB standard which is a derivative product of COP26. This is intended so that the ESG concept implemented and reported is more focused and also in line with international standards so that reports issued by the SOEs can be compared with reports from any institutions or companies in other countries. By integrating the ESG concept, it is prospected that SOEs business activities can be more environmentally oriented and can create sustainable businesses.

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