Syntax Literate: Jurnal Ilmiah Indonesia p–ISSN: 2541-0849
e-ISSN: 2548-1398
Vol. 7, No. 9, September 2022

THE DISCLOSURE OBLIGATION OF SUSTAINABILITY REPORTS IN THE BANKING SECTOR IN INDONESIA: A DESCRIPTIVE ANALYSIS

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Abstract

Sustainability reporting is a tool for communicating the company's environmental and social reports. This study was conducted to examine how far the sustainability reports are disclosed by banks in Indonesia. Banking sustainability reports in Indonesia have been required by banking regulations since 2019. The analysis is carried out by looking at the development of banking sustainability reports and also conducting different tests before and after the implementation of mandatory sustainability reporting in banking sector. The results show that banks in Indonesia have started making sustainability reports since 2009. Total banks that disclosed sustainability reports experienced a significant increase in 2019 (22.61%) and decreased in 2020 (14.78%). The results also show that there is no difference in banking disclosures on sustainability reports between before and after obligations, that is 2 years before disclosure obligations (2017-2018) and 2 years after disclosure (2019-2020).

Keywords: Environmental Social Governance, Mandatory Reporting, Sustainability Reporting, Sustainable Banking

Introduction

The implementation of sustainable development (SDGs) in the United Nations 2030's agenda as a whole is influenced by the financial sector, especially in the four main SGDs areas consisting of access, investment, risk, and also transversal effects (United Nations Global Compact/KPMG International, 2015). Due to the implementation of the SDGs which is influenced by the financial sector as well as awareness of climate change and the demand for an economically efficient transition to renewable energy, the United Nations established a Climate Risk and Financial Sector working group in partnership with the United Nations Environment Program Finance Initiative (UNEP FI), the World Resources Institute (WRI), and the Global Challenges Foundation. More than 200 institutions, including banks, insurance companies and fund managers, are working with UNEP to participate in sustainable development by paying attention to environmental and social considerations of financial performance (Puaschunder, 2017).

How to cite:	Rudy Hartanto. et al (2022) The Disclosure Obligation of Sustainability Reports In The Banking Sector In Indonesia: A Descriptive Analysis. *Syntax Literate: Jurnal Ilmiah Indonesia, 7*(9).
E-ISSN:	2548-1398
Published by:	Ridwan Institute

In communicating environmental and social considerations on financial performance, a report called a sustainability report is needed (Beerbaum & Puaschunder, 2019). The development of sustainability reports is increasingly being adopted by companies around the world due to requests from stakeholders regarding transparency on environmental and social issues (Siew, 2015). The increasing popularity of transparency on environmental and social issues has led to various initiatives to develop various reporting tools and standards such as the Global Reporting Initiative (GRI), AA1000 and the Carbon Disclosure Project (CDP) as well as other standards that serve as tools to inform companies' progress towards achieving sustainability goals (Gupta & Mohanty, 2014; Isaksson & Steimle, 2009; Mitra & Schmidpeter, 2017; Siew, 2015). The GRI standard is a standard that is currently being adopted by many companies around the world. As for the many standards regarding sustainability reporting, it creates difficulties in comparing the sustainability performance of companies (Escrig-Olmedo, Muñoz-Torres, & Fernandez-Izquierdo, 2010).

Indonesia as a part of the sustainable finance initiative has started an initiative under the Financial Services Authority (Otoritas Jasa Keuangan/OJK) by drafting regulations regarding the obligation to prepare Sustainability Reporting with a timeline for the implementation of the submission of sustainability reports for banks as follows (OJK, 2017):

Table 1. Implementation Timeline for Submission of Sustainability Reports for Banking

Banking Type	Year of Implementation
bank's tier 3 (BUKU 3), bank's tier 4 (BUKU 4), and Foreign Bank	2019
bank's tier 2 (BUKU 2), bank's tier 1 (BUKU 1)	2020

Source: Financial Service Authority, 2017

Even though there are already mandatory rules for banks to publish sustainability reports, there are other dimensions that support the discourse on sustainability reports, namely in the form of training, issuance of guidelines, awareness campaigns, market pressures, stakeholders and the public (Tauringana, 2020) and there are appropriate policies regarding Fiscal incentives, government intervention to support progress oriented towards sustainability of financial intermediaries and/or financial markets and/or financial instruments will be the basic ingredients in the transition to sustainable development (Ferri & Acosta, 2019). Therefore, the author intends to further analyze the development of banks that have issued sustainability reports both before and after the implementation of the obligation to disclose sustainability reports.

Literature Review

1. Sustainable Development

Sustainable development is defined as a development process that seeks to meet the needs of the present without compromising meeting the needs of future generations (Brundtland, 1987). The concept of sustainable development aims to maintain economic progress and at the same time protect the long-term environment in order to integrate environmental policies and development strategies (Brundtland, 1987). Furthermore, sustainable development was discussed at the Rio De Janero Earth Summit in 1992 by producing the main points of agreement, namely: 1) the Rio Declaration on the environment and development; 2) Climate change convention; 3) conventions on diversity; 4) forest management principles; 5) agenda 21, formulating an action program for the realization of sustainable development.

The main principle of sustainable development that underlies all other things is the integration of environmental concerns, social, and economic in all aspects of decision making (Munasinghe, 1993). All other principles in the sustainable development framework have been integrated at the core of decision making (Dernbach, 2003; Stoddart, 2011)

2. Sustainable Finance

Sustainable finance is one of the concepts to face challenges in terms of sustainable development. Achieving sustainable development costs in terms of funding which analysis shows that developing countries face an average annual funding gap of around USD $2.6 trillion for investments in health, education, roads, electricity, water and sanitation. For low-income developing countries, this means additional annual expenditures that can amount to as much as 15% of their gross domestic product (GDP) (Nations, 2019). The general definition of sustainable finance is as finance that considers LST factors into financial decision making (Schoenmaker, 2017). The sub-category of sustainable finance refers to the main forms of environmental degradation, and inequality that is part of the definition of the sub-discipline of sustainable finance (Ziolo et al., 2019). Meanwhile, in Indonesia, the Financial Services Authority (OJK) has formulated the definition of sustainable finance, namely: "Complete support from the financial services industry for sustainable growth resulting from harmony between economic, social and environmental interests" (OJK, 2015, 2017).

3. Indonesian Banking

According to the Law Number 10 of 1998 about Banking, a bank is a business entity that collects funds from the public in the form of savings and distributes them to the public in the form of credit and/or other forms in order to improve people's living standards. The classification of banking in Indonesia is divided based on business activities (bank's tier/BUKU) in accordance with Law Number 6/POJK.03/2016 about Business Activities and Office Networks Based on Bank Core Capital, namely: 1) bank's tier 1 (BUKU 1) Bank core capital: below

Rp1 trillion; 2) bank's tier 2 (BUKU 2) Bank core capital: Rp1 trillion-5 trillion; 3) bank's tier 3 (BUKU 3) Bank core capital: IDR 5 trillion-30 trillion; and 4) bank's tier 4 (BUKU 4) Bank core capital: a minimum of Rp30 trillion (OJK, 2016).

4. Sustainability Reporting

Sustainability Reporting (SR) can be defined as the practice of measuring, disclosing, and being accountable to internal and external stakeholders on organizational performance towards sustainable development goals (Global Reporting Initiative, 2011; Roca & Searcy, 2012). Sustainability reports reveal meaningful information on the triple bottom line (Guidry & Patten, 2010), namely the social, environmental and economic bottom line (Elkington, 1997), in a balanced, but often fragmented manner (Lozano & Huisingh, 2011; Lozano & Young, 2013). They must provide both quantitative and qualitative information on sustainable development performance, which can be presented in different ways, namely as account, narrative, or indicator-based (Dalal-Clayton, Bass, & Swingland, 2002; Lozano, 2006).

Sustainable development indicators are designed to facilitate monitoring of progress towards sustainable development, the installation of feedback mechanisms, and the direction of policy making towards the integration of sustainable development (Wilson, Tyedmers, & Pelot, 2007). Sustainability reports are often prepared in compliance with (international) guidelines, but there are disclosures of different indicators within each company sector with a difference of around 100 indicators among oil and gas companies, mining companies, transportation companies, power companies, banks, construction companies and chemical companies (Roca & Searcy, 2012). The existence of differences in the disclosure of sustainability reports in various sectors has resulted in various formats of sustainability reports for certain sectors.

Disclosure of sustainability reports in the banking sector itself has recently increased (Khan, Khan, Hanjra, & Mu, 2009) with conscious efforts to incorporate environmental management policies into banking operations (Chaklader & Gulati, 2015; Ihlen & Roper, 2014; Islam, Jain, & Thomson, 2016; Jizi, Salama, Dixon, & Stratling, 2014; Sahoo & Nayak, 2007). Disclosures made by banks emphasize disclosures that are both qualitative and quantitative about the practice of caring for the environment carried out by banks (Jeucken, 2010). However, there are obstacles inherent in the preparation of sustainability reports, that is legislation, training, publication of guidelines, awareness campaigns, and market pressure, stakeholders and the public (Tauringana, 2020).

Furthermore, the disclosure of banking sustainability reports in Indonesia has entered the stage of disclosure of obligations regulated in the regulations of the financial services authority (OJK, 2017). However, based on observations, there are only 17 banks out of 115 banks in Indonesia that have published sustainability reports in 2020. Therefore, based on the constraints and findings of the disclosure of sustainability reports, the hypothesis in this study is as follows:

H_0= There is no significant difference between the amount before the obligation to disclose the sustainability report and after the obligation to disclose the sustainability report.

Research Methodology

The research method used in this study is a case study because the data collected is data that crosses the research period (Eluyela et al., 2019). The data in this study covers a period of four years (2017-2020) with the research population of 115 banks in Indonesia. The selection of the research population in 2017-2020 is due to the implementation of the mandatory sustainability report starting in 2019. The explanation of the sample used in this study is as follows:

Table 2. Research Sample

Bank Classification	Pre-Obligation		Post-Obligation	
	2017	2018	2019	2020
bank's tier 3 (BUKU 3), bank's tier 4 (BUKU 4), and Foreign Bank	38	38	38	38
bank's tier 2 (BUKU 2), bank's tier 1 (BUKU 1)	-	-	76	76
Total	38	38	115	115

The test is carried out using the Different T-test using the Paired Sample T Test approach. The Paired Sample T Test approach is carried out to see the performance of the publication of the sustainability report before and after the obligation to prepare the sustainability report.

Results

1. Analysis of Indonesian Banking Sustainability Reporting

   The policy for preparing sustainability reports in Indonesia begins with the policies contained in Law no. 40 of 2007 concerning Limited Liability Companies in article 66 paragraph 2 which reads "The annual report as referred to in paragraph (1) must contain at least: a report on the implementation of Social and Environmental Responsibility". The implication of the law is that all companies have been listed on the Indonesia Stock Exchange. However, the research findings show that the report on the implementation of social and environmental responsibility has not been published explicitly or published separately.

   In the banking sector that has gone public, the report on social and environmental responsibility in separate reports began in 2009 and then increased in 2013 with the issuance of regulations regarding recommendations for presenting reports on the environment as stated in the Statement of Financial Accounting Standards (PSAK) No. 1 Paragraph 9 (IAI, 2009). However, a high increase from 2013, then until 2020 saw a decline in the publication of banking sustainability reports in Indonesia.

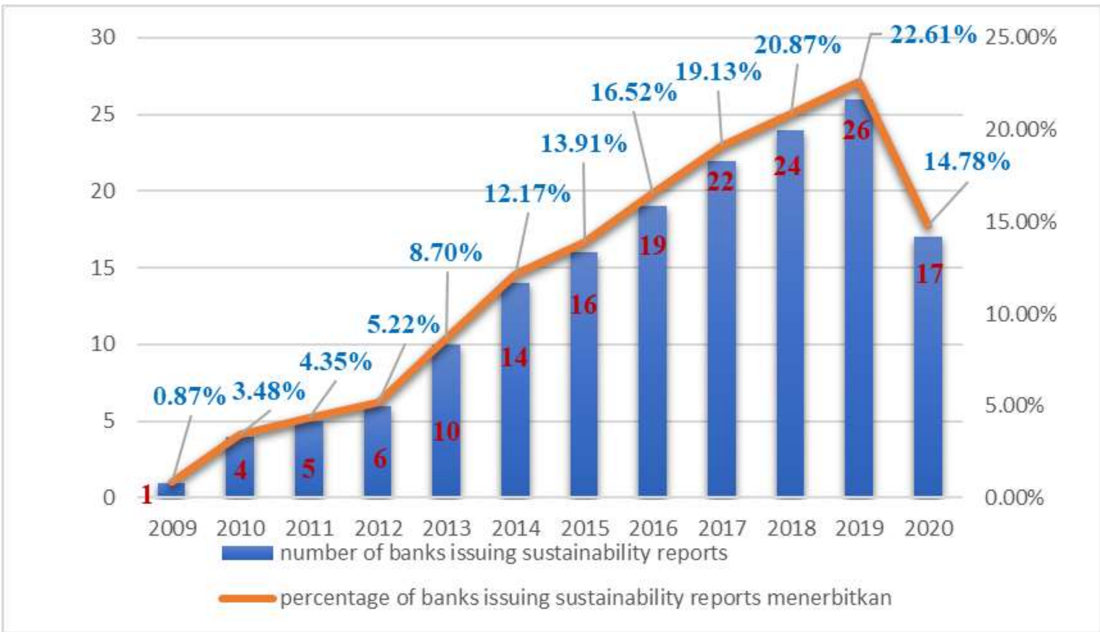

Figure 1
Development of Publication of Banking Sustainability Report Year 2009-2020

2. Analysis Before and After Obligation to Prepare Banking Sustainability Reporting in Indonesia

The obligation to prepare banking sustainability reports began to be carried out in stages in 2019 with banks issuing sustainability reports, that is banks with BUKU 3, BUKU 4, and foreign banks. Based on Figure 1, it can be seen that in 2019 there were 26 banks and in 2019 it decreased with only 17 banks that disclosed sustainability reports. Based on this, it is necessary to carry out a different test analysis to see whether banks that are included in the BUKU 3, BUKU 4 and foreign bank categories have complied with banking regulations related to the obligation to prepare sustainability reports. Different tests were carried out by testing the 2016-2020 period with the following results:

3. Paired Samples Statistics

Table 3. Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Pre_Mandatory	0.3553	76	0.48177	0.05526
	Post_Mandatory	0.3816	76	0.48900	0.05609

The table of paired samples statistics above shows that the SR disclosure scores before and after the disclosure obligation have different average values, namely 0.3553 and 0.3816. This shows that disclosure tends to be higher even though there is no significant difference (0.0263).

4. Paired Samples Correlations

Table 4. Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	Pre_Mandatory & Post_Mandatory	76	0.605	0.000

The table of paired samples correlations above shows a significant correlation value between the paired sample variables, namely sig. 0.00.

5. Paired Samples Test

Table 5. Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Pre_MSR - Post_MSR	-0.02632	0.43124	0.04947	-0.12486	0.07223	-0.532	75	0.596

The table of Paired Samples Test above is the main table of the output that shows the results of the tests carried out. The significance value of the table is 0.596 ($p > 0.05$). This shows that there is no significant change after the issuance of SR obligations. It can be concluded that the existence of regulations from the financial service authorities (OJK) regarding the obligation to issue sustainability reports has not been able to increase the awareness of banks to issue SR.

The results of the different tests on the disclosure of SR at Banks with BUKU 3, 4, and foreign banks indicate that there is still no concern for the disclosure even though it is required in the regulations of the financial service authority (OJK). This can be a reflection of how many banks have core capital and also a smaller scope of operations, namely BUKU 1 and BUKU 2 with SR obligations in 2020.

If we look deeper, there are sanctions for banks that do not publish sustainability reports, namely in the form of administrative sanctions such as warnings or written warnings. In addition, there are incentives for banks to implement sustainability reports in the form of: a) involving LJK, Issuers, and Public Companies in human resource competency development programs; b) conferring the Sustainable Finance Award; and/or c) other incentives (OJK, 2017).

Conclusion

Disclosure of sustainability reports in the banking sector in Indonesia is still relatively new and has received attention from both regulators and bankers themselves. This can be seen from the phase I (2015-2019) and phase II (2021-2025) sustainable finance roadmaps prepared by the regulator as targets and guidelines for banking developments in supporting the development of the year (OJK, 2021). However, to date, the number of banks that disclose banking sustainability reports is still low, namely 22.61% (2019) and 14.78% (2020). The existence of this gap, of course, has been realized by the regulator by compiling demand and supply in order to accelerate the banking transition towards sustainability as stated in the Phase II sustainability financial Roadmap for 2021-2025 (OJK, 2021).

There is still limited exploration of research results on the disclosure of banking sustainability reports in Indonesia, so the next research can be deeper by analyzing the obstacles in the disclosure of sustainability reports by banks. In addition, it can also be analyzed on the level of compliance of each indicator related to the sustainability report in terms of environmental, social and banking governance indicators.

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