



Emerging Markets Disclosure Project - Indonesia

As a G20 economy and the largest economy in ASEAN Indonesia is one of the important emerging markets countries in the world. It has abundant resources, a successful track record in export markets and a large domestic market that is increasingly consumption driven. Despite international crises, GDP growth has been steady and poised to pick up. The challenge for the country will be to achieve balanced and inclusive growth and also ensure that resource based sectors do not end up further aggravating an already fragile environment.

The country suffered a severe political and economic crisis in 1997/98 when several instances of corporate malpractices were brought to light. In the aftermath of the crisis regulations were tightened and financial sector reform made a priority by the government. Development and strengthening of capital markets has been an area of focus and considerable progress has been made. The Indonesian Stock Exchange or IDX continues to expand with new listings both from the public and private sector. Apart from large foreign and domestic institutional investors there are special plans for improving access for retail investors who are driving the rapid growth of the mutual funds industry.

To reduce concentration risk and vulnerability to short term speculative movements, IDX needs to attract more long term funds and responsible investors. These institutions typically factor Environment, Social and Governance (ESG) criteria into their investment decisions. It is therefore vital that listed companies are able to demonstrate higher and improving standards of disclosure. To study this trend and to also assess the importance given to ESG by the financial sector including banks, IndonesiaWISE and UN Principles of Responsible Investment (PRI) are co-leads in a multi stakeholder initiative researching trends in key emerging markets. For further details please contact information@indonesiawise.com



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Objectives of Emerging Markets Disclosure Project in Indonesia

1. To assess the extent of adoption of Environment, Social and Governance (ESG) principles by a sample of companies listed on the IDX.
2. To assess the approach, expectation and requirement of financial institutions (comprising of regulatory agencies, banks, asset managers, pension funds, etc) in relation to ESG.
3. To examine the extent to which existing ESG practices are in line with the regulatory framework in Indonesia.
4. To socialize best practices related to ESG so that important stakeholders like stock market participants, employees, customers, supply chain partners including SMEs, financial intermediaries, analysts, etc.

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Where as previously company disclosure focused primarily on corporate performance there is increasing awareness that nowadays stakeholders are also seeking good quality information on indicators of responsibility – Environment, Social and Governance or ESG.

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MANAGEMENT

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The Jakarta Post

Saturday, October 9, 2010

PART 1

Responsible enterprise gets going in Indonesia

For several decades after Indonesia's independence, the corporate sector was also partly responsible for some of the severe problems afflicting the country. These included monopolistic actions, facilitation of corruption, massive debts and write-offs, environmental degradation, lack of transparency and a resistance to adopting international best practice and standards. The rude wake-up call came in 1997/1998 when the Asian financial crisis shook up the establishment, brought ruin to several speculative ventures and triggered a change, slow but steady, in management perspectives.

A decade later in 2008 when much of the developed world was reeling under a Wall Street generated crisis, Indonesian companies and institutions largely weathered the storm. This was in part due to healthier balance sheets, better risk management, tighter controls exercised by an improved, albeit still inconsistent, regulatory regime and an understanding among leading companies that beyond opportunistic profit-taking, reputations are built on corporate responsibility.

Clearly, a prudently structured business model, financial management and implementation discipline are understood to be key aspects of corporate responsibility. But, increasingly the focus is shifting to organizational performance linked to environment, social and governance



Anel Titus

markets, typically listed blue chips, an Emerging Markets Disclosure Project (EMDP) initiative has been under way for the past few years and in Oct. 7, 2010, phase one of this project was completed in Indonesia.

Under guidance of coordinating international partners like United Nations Principles for Responsible Investment, IFC, Social Investment Forum and others the EMDP Indonesia team comprising Indonesia-WIRE, Minaca Selatan, Jamsostek, BNI, BNP Paribas Investment Partners and the Association of Sustainable and Responsible Investment in Asia surveyed 16 listed companies and 10 institutions. The research findings indicated positive trends in a challenging environment. The companies surveyed appeared sincere about implementing ESG and their track records over the last few years especially in areas like formalization of environment policies, progress toward the adoption of higher sector specific standards, occupational health and safety, employee welfare, CSR and creation of internal checks and balances like independent audit committees.

tive. Demonstrating their commitment, a range of eminent speakers then highlighted their own organizational achievements of facets of ESG. Hari Purnomo from IDEX stressed the importance of good corporate governance and transparency for continued strength of the exchange.

Syaeni Syahrizazamami from Jamsostek made a positive commitment of implementing good corporate governance and ESG in the organization's investment process. Sakaria Qori Hemawan elaborated on BNI's initiatives within the banking sector to embrace sustainability practices. Ari Sutanto highlighted achievements of the Astra Green Strategy while Bryan Dyer explained how PP London Sumatra has sincerely embarked on the challenging journey of producing sustainable palm oil at its estates.

Tamron Ganley from Hulsim Indonesia shared best practices being adopted by his company in the cement industry while Faisal Syam from Telkom emphasized the positive impacts of the company's growing CSR programs. Jobi Triandana from PGN explained his organization's commitment to another important aspect of ESG, industrial and operational safety standards. Like these companies, other participating companies too had positive demonstrations of ESG and best practices have been compiled in the report.

Looking beyond the current heady levels of the IDEX, will invest-

Indonesian blue chips are in a position to play a transformational role as far as ESG practices and disclosure is concerned. Their footprint extends far beyond their own boundary walls over the supply chain, customers and other stakeholders.

As and when they adopt responsible practices it sends an important message and a positive signal. Equally, when there are scandals the repercussions extend to the wider industry and reputation of the country's capital market.

The trend related to ESG practices and disclosure is positive if inconsistent across the research sample. With greater awareness and commitment it is hoped that the move towards higher standards will be maintained.

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Emerging Markets Disclosure Project Indonesia

Environment Social Governance in Indonesia

Positive Trends in a Challenging Environment



October 2010

Backdrop of Indonesia's ESG Challenges

• *Environment*

- Environmental degradation
- Industrial pollution
- Carbon policy & management
- NGO engagement
- Conservation challenges

• *Social*

- Economic disparities
- Unemployment
- Community health & safety
- Workforce expectations
- Discrimination challenges

• *Governance*

- Complex conglomerate structures
- Independence of Board
- Financial Transparency
- Concentration risk & volatility
- Corruption challenges

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Since 2010 the Emerging Markets Disclosure Project is progressing in a collaborative way with the participation of leading Indonesian companies and institutions. The project is voluntary and only the publicly available information on ESG indicators is discussed and analyzed.

Each year a sample of around 14-16 listed companies is selected. Their disclosure is assessed and areas of strengths and weaknesses identified across the sample. During the process companies also learn about the growing importance being given to ESG issues by financial stakeholders. Annual findings are also socialized through a seminar in which companies are also invited to share best practices.



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Emerging Markets Disclosure Project (EMDP) Indonesia – Research Participants

Sample of Listed Companies, 2010 – Research Completed	List of Institutions, 2010 – Research Completed
<ol style="list-style-type: none"> 1. PT. Astra International (Diversified) 2. PT. International Nickel Indonesia (Mining) 3. PT. Adaro Energy (Mining) 4. PT. Unilever Indonesia (Fast Moving Consumer Goods) 5. PT. Telekomunikasi Indonesia (Telecommunications) 6. PT. Indosat (Telecommunications) 7. PT. Riau Andalan Pulp & Paper (Pulp & Paper) 8. PT. PP London Sumatra Plantations (Palm Oil) 9. PT. Indorama Synthetics (Polyester & Textiles) 10. PT. Berlian Laju Tanker (Shipping) 11. PT. Perusahaan Gas Negara (Gas) 12. PT. Ciputra Development (Construction) 13. PT. Medco Energi (Oil& Gas) 14. PT. Holcim Indonesia (Cement) 15. PT. Astra Agro Lestari (Palm Oil) 16. PT. Bank BNI (Banking) 	<ol style="list-style-type: none"> 1. Indonesia Stock Exchange (IDX) 2. Bank Indonesia (Regulator) 3. BAPEPAM LK 4. International Finance Corporation (Private Finance Arm of World Bank) 5. Asian Development Bank (Multilateral Lending Institution) 6. Jamsostek (State Owned Social Security Provider) 7. BNP Paribas Investment Partners (Securities House/Asset Manager) 8. Schroders Indonesia (Securities House/Asset Manager) 9. Conservation International (NGO) 10. WWF Indonesia (NGO)

Emerging Markets Disclosure Project (EMDP) Indonesia – Research Participants

Sample of Listed Companies, 2011 – Research Completed	List of Institutions, 2011 – Research Completed
<ol style="list-style-type: none"> 1. PT. Aneka Tambang (Mining) 2. PT. Bank Mandiri (Banking) 3. PT. Indofood (Food and Beverages) 4. PT. Citra Tubindo (Pipes, Infrastructure Support) 5. PT. Mitra Adiperkasa (Retailer) 6. PT. Indika Energy (Energy and Services) 7. PT Indocement (Cement) 8. PT Timah (Mining) 9. PT. United Tractors (Mining, Contracting and Heavy Equipment) 10. PT. Chandra Asri (Petrochemicals) 11. PT Gajah Tunggal (Tires) 12. PT Ultra Jaya (Food & Beverages) 13. PT. XL Axiata (Telecommunications) 14. PT PAN Brothers (Textiles) 	<ol style="list-style-type: none"> 1. Indonesia Stock Exchange (IDX) 2. Kehati (NGO and Coordinator of SRI Index) 3. DEG (Development Oriented Financial Institution) 4. First State / Colonial First State Investments (Securities House) 5. Threadneedle Investments (Securities House / Asset Manager) 6. BNP Paribas Investment Partners (Securities House / Asset Manager) 7. Comgest (Securities House / Asset Manager) 8. Nordea (Securities House / Asset Manager) 9. Indonesian Chamber of Commerce (KADIN) 10. National Center for Sustainability Reporting (Awards and consulting)

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Financial institutions can play a key role in recognizing and influencing responsible practices related to ESG amongst Indonesian companies. Currently there are doubts on whether ESG criteria are being given due weight by investing institutions and banks in their decisions and choices.

Through the Emerging Markets Disclosure Project as well as seminars and capacity building workshops, IndonesiaWISE is playing a leading role in partnering with institutions like PRI and others to facilitate Responsible and Sustainable Investing in Indonesia. Our approach is to go beyond seminars to practical solutions, assessment tools and portfolio development.

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Sustainability Expertise available at IndonesiaWISE

- ❖ *Corporate and Institutional Engagement*
 - ❖ CSR advisory
 - ❖ Environment Social Governance (ESG) advisory
 - ❖ Sustainability reporting
 - ❖ Emerging markets best practice
- ❖ *Sustainable Supply Chains*
 - ❖ Identification and assessments
 - ❖ Integration with global buyers
 - ❖ Industry specific best practice
 - ❖ Certification advisory
- ❖ *Sustainable Financing*
 - ❖ Risk management advisory
 - ❖ ESG Due Diligence
 - ❖ Business development
 - ❖ Training and competency development
- ❖ *Youth Capacity Development*
 - ❖ Young Leaders for Eco Cities
 - ❖ International institutional linkages
 - ❖ Sustainability workshops
 - ❖ Internships and project mentoring



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