TOWARDS SUSTAINABLE FINANCE?

Critical Review of Bank BNI's 2017 Sustainability Report

TuK INDONESIA

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Jalal

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ABSTRACT

BNI Bank is one of the banks known for showing an interest in sustainable finance in the past few years. In 2017, BNI became of the eight banks designated to be the early movers of sustainable finance in Indonesia by the Indonesia Financial Authority (Otoritas Jasa Keuangan – OJK). It is no surprise that the sustainable finance report, developed for 2017 and published in June 2018, was given the title "Towards Sustainable Finance". This document, authored by Jalal for Transformasi untuk Keadilan Indonesia (Transformation for Justice Indonesia – TuK) — intends to present whether BNI had indeed taken itself in the direction of sustainable finance or whether it is merely corporate communications which gives the impression of such a direction.

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FOREWORD

It is interesting to observe opening lines chosen by BNI in their 2017 Sustainability Report which was a statement regarding BNI's selection as one of the pioneers of sustainable financing banks in Indonesia as part of the program introduced by the Financial Services Authority of Indonesia (OJK). The introduction of the report states that, "PT. Bank Negara Indonesia (Persero), Tbk (Limited Liability State Owned Enterprise) or better known as BNI has been selected as one of the First Movers on Sustainable Banking (First Movers), as a form of the BNI leadership's commitment to commence the sustainable finance concept. The selection of BNI by the Financial Services Authority of Indonesia (OJK) as a First Mover has the Company initiating the sustainable banking strategy which is currently being prepared in the sustainable finance action plan (*rencana aksi keuangan berkelanjutan - RAKB*)."

Furthermore, BNI revealed that (one of the) manifestations of sustainable finance is environmentally friendly financing. They stated that "BNI is moving towards environmentally friendly financing which supports Sustainable Development Goals (SGDs). In addition, BNI also supports renewable energy projects through the purchase of the Insight Renewable Energy Fund mutual funds in March 2017."

It may be stated that BNI has a solid start to their Sustainability Report. Their status as an early mover in sustainability banking, the recognition of OJK, environmentally friendly financing, dan investments in renewable energy projects demonstrates BNI's mastery of the appropriate vocabulary. This impression is further reinforced by their summary of achievements.

The performance demonstrated in **Illustration 1. BNI 2017 Performance Achievement** (BNI Sustainability Report, page 3) encompasses the increased revenue (12%), then the increased profit. (20,1%). This illustrates that BNI has good efficiency because its increased profit percentage far outweighs its revenue increase percentage.

Illustration 1

Subsequently, there is the 69.589 figure which is the number of Agen46s. although we can presume what this means, perhaps it is rather confusing for readers who are not familiar with BNI. The increase in KUR (government soft loans for micro and small businesses) disbursements is the next aspect. The figure is stated to be 33,5%. However, readers will question the disbursement value and not only the percentage increase.

The next figure is the proportion of green financing. The figure will surprise readers because 18,31% is very substantial for a bank which claims to have newly commenced its sustainable financing portfolio. The expectation that the proportion will continue to increase renders this number not just surprising but also exciting. The critical question in the minds of those who understand sustainable financing is what criteria are employed in assigning this green financing label. As this is the introduction section, the answer must be sought in the subsequent sections.

The next figure displayed is the number of staff members participating in the *Environmental, Social, and Governance* (ESG) training and the Environmental Analyst Training (*Training Analis Lingkungan Hidup - TAL*), which is 50 people. It is unclear whether this is a combined training with both subjects or two different training courses with the same participants or the figure combines the number of participants in two training courses with different participants. Perhaps the reader would be curious to know whether this is the total number of BNI employees who have been trained and how many employees require this training, for example all credit analysts or whether other divisions are included.

It is interesting that the next figure stated was the reduction in paper usage. By stating that 1.155 tonnes of paper were saved and we can imagine that the amount of paper utilized in a bank's operation would indeed be substantial. Therefore, it may be important to display the quantity of paper saved but readers should also be given an idea of the proportion of savings. Also, whether the paper used by BNI is fully sustainably sourced – considering that eco-label certified paper does exist. If the majority, if not the entirety, of the paper comes from renewable sources then 1.155 tonnes is a high proportion therefore a good achievement.

On the other hand, however, does saving paper – assumed to be due to the digitisation of transactions, have a clean and positive impact on the environment? Digitisation requires a high increase in electricity consumption for operating the data centre. If this transition towards a paperless BNI does not correspond with an increase in electricity consumption then this demonstrates a positive environmental performance. In Indonesia, where less than 10% of the energy comes from renewable sources, an increase in electricity consumption is sure to have a negative impact in the environment.

SUMMARY OF SUSTAINABILITY PERFORMANCE

The following section is a summary of the sustainable performance which is actually quite confusing as the previous section also contained sustainability performance. Take from the BNI Sustainability Report: pages 4, 5, dan 6, **Illustration 2a, 2b & 2c. Summary of Economic, Environmental, and Social Performance**— stated below in accordance with the sequence according to the Global Reporting Initiative (GRI) reporting standard, provides an illustration of how BNI defines sustainability performance.

The economic aspect displays to categories of data which are 'market presence' and 'engagement of local parties related to sustainable finance'. In the first category, the information provided is the number of domestic and overseas offices, the total number of accounts including credit cards/consumer funding and lending (IDR 441,3 billion), total income (IDR 66,6 billion), profit for the year (IDR 13,7 billion) as well as dividends (IDR 3,9 billion). According to the GRI guidelines, BNI also presented data from the preceding 2 years. From this time series, the reader is able to discover that the BNI business experienced a rapid growth in the past three years.

The same progress can also be observed in the second part where it states that the Partnership Program (*Program Kemitraan - PK*) disbursement reached IDR 71,1 billion while the disbursement of the Community Development Program Fund (*Bina Lingkungan - BL*) was IDR 107,8 billion. The Partnership Program and the Community Development Program (*Program Kemitraan dan Bina Lingkungan - PKBL*) is an obligation which BNI must undertake as a State-Owned Enterprise (*Badan Usaha Milik Negara - BUMN*) Bank.

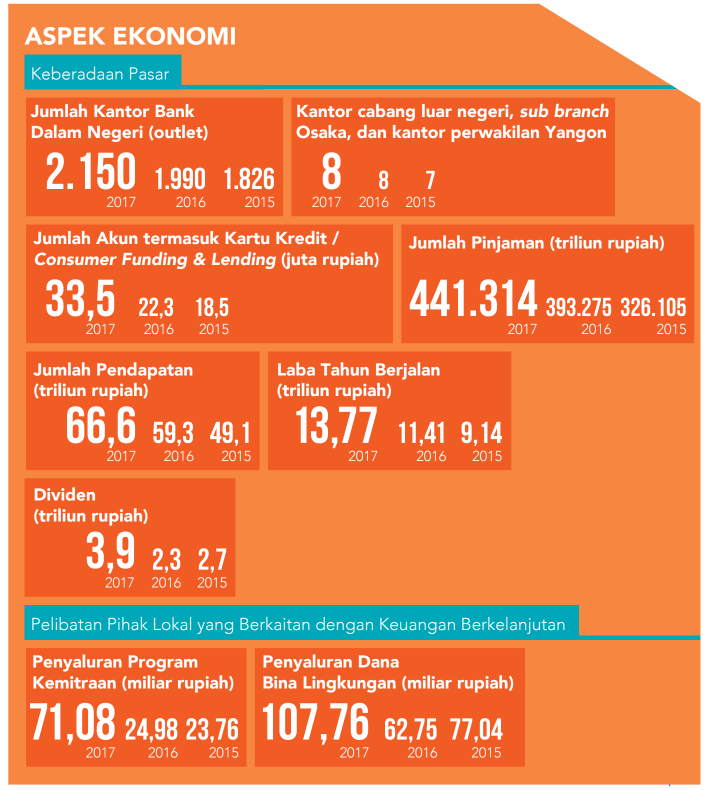


Illustration 2a

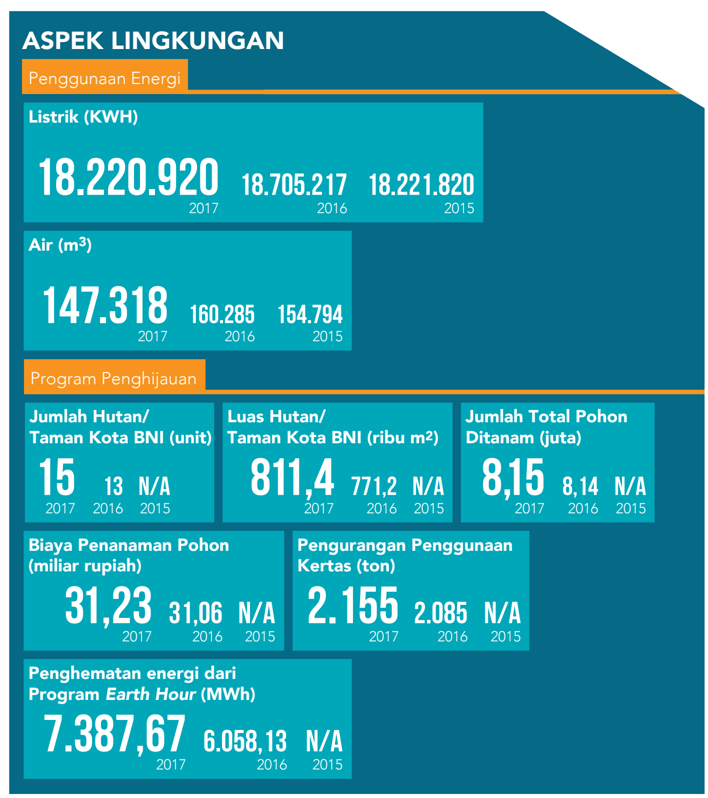


Illustration 2b

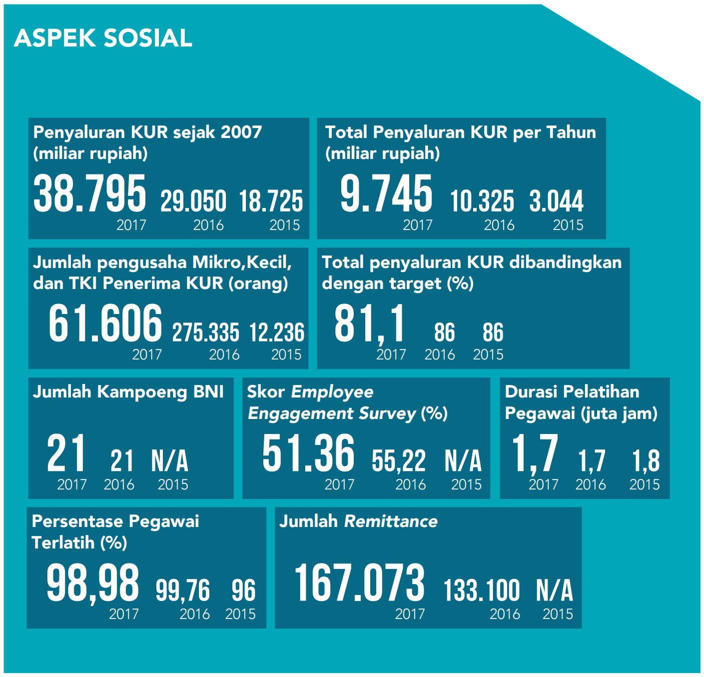


Illustration 2c

The Partnership Program is a revolving micro-credit whilst the Community Development Program is a donation for community development. When stating that PKBL is the 'engagement of local parties related to sustainable finance' then it is perceived that BNI conducts its PKBL in accordance with one or more sustainable finance principles as introduced by the OJK Regulation (POJK) 51/2017. Therefore, this issue will be re-examined in the parts relevant to PKBL.

However, it is important to note that if PKBL is part of their economic performance, why is KUR – which has the same micro-credit features as PK and only differs in its source funding coming from the Government, is included in the social performance. BNI disburses IDR 9,7 billion in KUR loans which is far larger than IDR 71,1 billion in the Partnership Program (PK). Is it because PK is part of the allocated profits (in accordance with the old PKBL regulation) or because it is budgeted (according to the newer PKBL regulation) therefore is considered part of the economic performance? Meanwhile, KUR which is disbursed Republic of Indonesia Government funds, is part of the social performance because BNI 'only' disburses the funds?

How the economic performance actually relates to sustainable finance is quite peculiar, because the preliminary part of the report explicitly states that green financing reached 18,31% of total credit (IDR 441,3 billion) which means approximately IDR 80 billion. Why is this green financing not included as part of the economic performance as it relates to sustainable finance? More important may be the question which haunts many parties: does the credit portfolio which is declared to be green financing have the same, better or worse performance compared to general credit? It would clearly attract the attention of stakeholders especially analysts and investors if BNI could answer that question in this section.

The environmental performance summary contains two categories of data. First, energy usage and second, reforestation program. The summary contained electricity consumption in 2017, at 18,2 million kWh. This figure is lower than the previous year which was 18,7 million kWh, and more or less the same as 2015. This demonstrates that banking service digitalization has not raised the consumption of electricity while simultaneously reducing paper consumption. This is exciting data.

The next data in the energy consumption category is water usage. It is actually inaccurate to state this as energy consumption as water is not used as a source of energy by BNI. Water consumption should be expressed as material consumption. Nevertheless, BNI has demonstrated a reduction of water usage from 160.285 cubic meters in 2016 to 147.318 cubic meters in 2017. This final figure is also lower compared to the highest consumption figure in 2015 at 154.794.

These two figures signify that the significant growth experienced by BNI has not increased their electricity and water consumption and has instead been reduced. The same trend is shown by the reduction in paper usage. This may indicate that BNI has experienced what is known as absolute decoupling, whereby business growth does not increase energy and material usage. Should this continue in the long term, BNI is on the right track.

The environment performance continues with a discussion on reforestation indicators. In 2017, BNI developed 2 forest/city parks thus taking the total to 17 and the area to approximately 40.000 square meters or 4 hectares, from 771,2 thousand square meters to 811,4 thousand square meters. 10.000 trees were planted in this area at a cost of IDR 31,23 billion. It is unclear how much of the expenditure was for land purchasing as opposed to planting costs.

The 'reforestation program' also contains data which should not be expressed as part of reforestation unless reforestation is defined in an extremely broad sense. It is stated that the reduction of paper usage is 2.155 tonnes which is an improvement from the previous savings, stated to be 2.085 tonnes. However, this figure is confusing because it differs from the figure from the previous section which stated the saving to be 1.155 tonnes, not 2.155 ton. Which is the correct reduction figure?

Another figure is electricity savings due to their participation in the 2017 Earth Hour, stated to be 7.387,67 megawatts; an increase from the previous year at 6.058,13 megawatts. This is not just a substantial saving in electricity but also a significant cost saving. In comparison, PLN's statement which was widely quoted in the mass media on March 25, 2018 regarding the 2018 Earth Hour which said that the Jakarta public saved 170 megawatt or equivalent to IDR 249 million. A saving of almost 7.400 would naturally be valued at more than IDR 10 billion. Is this figure valid? If the entire city of Jakarta was only able to reduce their electricity consumption by 170 megawatts, is it possible for BNI to save 43 times more? Ig the figure is valid, of course it would be very exciting and could be a role model for other large banks in energy conservation, emission reduction as well as substantial cost savings.

With regards to social performance, BNI is presenting data on KUR recipients in addition to the quantity of KUR disbursed. The figure is 61.606 people in 2017, a sharp decline compared to the preceding year with 275.335 people yet much higher compared to disbursements in 2015 which only reached 12.236 people. Despite the number of recipients declining only to approximately 22% compared to the preceding year. However, the funds disbursed is in reality only a decline from IDR Rp10,3 billion to IDR 9,7 billion or 94%. This means that on average the KUR loan recipients borrowed 4 times the preceding year average. This data may be inaccurate yet if accurate, this definitely requires explanation.

The other data presented is the percentage of KUR disbursement versus target. If in 2015 and 2016 BNI was able to achieve 86% of the target, in 2017 the figure decreased to 81%. The number of *Kampoeng BNI* (BNI Villages)—explained in the text of the report— did not increase in 2017. The employee engagement survey score fell from 55,22% in 2016 to 51,36% in 2017. Employee training duration remained at 1,7 million hours compared to 2016, but declined in comparison to 1,8 million hours in 2015. The percentage of trained employees – which also required more explanation in the text— declined from 99,76% in 2016 to 98,98% in 2017. Meanwhile, the number of total remittances managed by BNI increased to 167.073 from the preceding year which reached 133.100 people.

REGARDING THE REPORT AS WELL AS DEFINING THE CONTENT AND QUALITY OF THE REPORT

This section is the first to demonstrate why the BNI report seemingly deviated from the title of "Towards Sustainable Finance" because it was insufficient to discuss the various aspects which form the core of sustainable finance as illustrated in the summary section above. Except perhaps for the KUR disbursement, the BNI report does not contain indicators which are truly relevant to the core business of banking when in fact the introduction of this section stated:

"The report was prepared in accordance with the Financial Services Authority Regulation (POJK) No.51/POJK.03/2017 under Sustainable Finance. In addition, the report is complemented with Sustainability Reporting Standard (SRS) and Financial Services Sector Supplement issued by Global Reporting Initiative (GRI). This report has been prepared with reference to GRI Standard: 'Core' Options. References to support for the achievement of sustainable development (SDGs) are also delivered through community empowerment activities."

Whether the report is according to the OJK Regulation POJK number 51/2017 as stated will be assessed in the conclusion. However, it appears highly inaccurate to refer to GRI SRS while claiming conformance to the Financial Services Sector Supplement (FSSS). Since GRI G4, the version prior to GRI SRS, GRI no longer uses the nomenclature sector supplement, which was devised for GRI G3, using instead Financial Services Sector Disclosure (FSSD) which requires additional reporting in the Disclosures on Management Approach (DMA), in the G4 indicator as well as indicators specific for this sector.

Furthermore, the statement of the BNI "support for the achievement of sustainable development (SDGs) are also delivered through community empowerment activities". May be interpreted as partial. The company may contribute towards the Sustainable Development Goals, abbreviated as SDGs in three ways (Nelson, Jenkins, dan Gilbert, 2015, *Business and Sustainable Development Goals – Building Blocks for Success at Scale*). These are core business, social investment and policy advocacy. Stating that BNI contributes to SDGs through community empowerment, with the current paradigm being social investment, may create the impression that the most important contribution through the core business and policy advocacy becomes secondary. Whether this is true remains to be seen in the relevant section.

BNI employs a four-step process to define the content of the report as required by GRI G4 and maintained in GRI SRS. These four steps are identification, prioritization of topics, validation and review. See **Illustration 3. Determining Content of Report** (BNI Sustainability Report, page 11) for an explanation of these steps.

As an explanation of how identification is conducted, the report states that "Relevant sustainability topics (sustainability context) were identified based on the characteristics of the banking industry, particularly the concept of sustainable finance, and the impact on stakeholders."

In the 'identification' section, BNI does not provide a clear and detailed explanation on how stakeholders are identified. For example, is it with reference to the preliminary Theory of Stakeholder Identification advised by Mitchell, Agle, and Wood (1997), in *Toward a Theory of Stakeholder Identification and Salience: Defining the Principle of Who and What Really Counts*, or Driscoll and Starik (2004) *The Primordial Stakeholder: Advancing the Conceptual Consideration of Stakeholder Status for the Natural Environment*. Or whether identification guidelines

Illustration 3

as demonstrated by the standards of *AA1000 Stakeholder Engagement Standard* (2015) was used. Therefore, the reader cannot examine whether the results are correct.

By stating that the identified stakeholders encompassed customers, employees, academics and government, it is apparent that BNI did not include several stakeholders who are extremely important in sustainable banking which are: Non-Government Organisations and the public. In any case, the OJK Regulation on Sustainable Finance places responsible investment as its first principle. Therefore, close attention must be paid to the impact of investments made by financial service institutions including banking sector. In the case of investment impacts, the communities within the proximity of BNI financed projects must inevitably be identified and their opinions heard. It is also important to seek the views of NGOs who provide assistance to these communities.

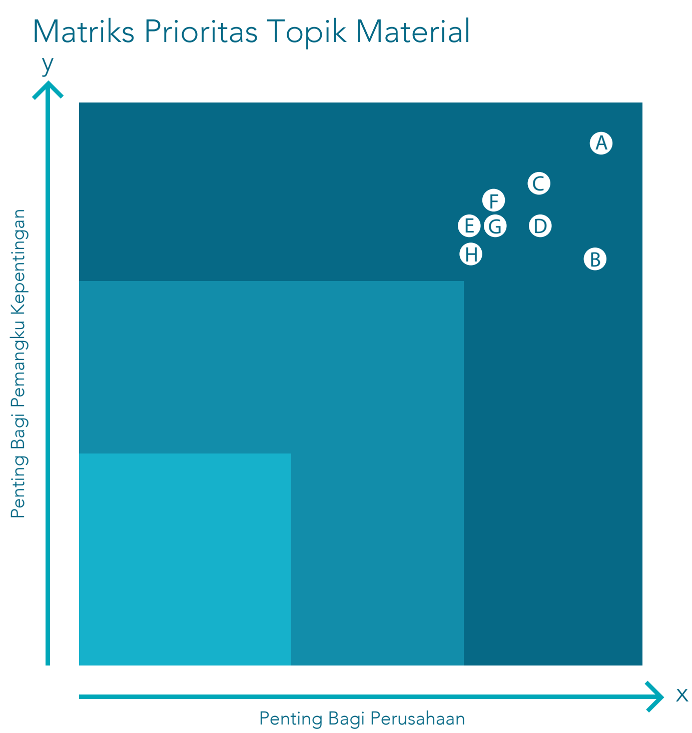
If particular stakeholders whose issues should be included are being neglected in the 'identification', their screening would remain incomplete. In the AA1000 Accountability Principle (2018), as one of the objectives of developing a sustainability report, accountability should be signified by inclusivity, materiality, responsiveness and impact management. When determining the topics of a sustainability report excludes stakeholders who are clearly impacted by company decisions – in this case BNI investments, it can be clearly determined that their material issues are incomplete. Furthermore, BNI would have difficulties in demonstrating an adequate response to these excluded stakeholders and the possibility remains that certain BNI decisions to finance projects would create neglected impacts.

MATERIAL TOPICS

BNI determined four material information in ‘very high’ category, namely: Economic Performance, Manpower, Product Portfolio, and Training and Education. Other information in the ‘high’ category, namely: Indirect Economic Impact, Customer Privacy, Anti-Corruption and Fraud, and Risk Assessment Audit, which included the assessment of the environmental and social policies implementation.” This is the conclusion of the materiality topics review.

Illustration 4. BNI 2017 Sustainability Material Topics (BNI Sustainability Report, page 12) illustrates the material topic review results in a very concise manner with the explanation presented in the previous section. The quoted sentence above is the explanation presented by BNI. The report then explains the ‘impacts’ on both internal and external stakeholders then how the BNI management manages those impacts. The issue is that the section does not explain at all what impacts are faced by the stakeholders. The report merely lists the impacted stakeholders.

For example, **Illustration 5. Material Topic of Stakeholders and Management Approach: Economic Performance** (BNI Sustainability Report, page 13) presents the company’s internal and external stakeholders who are impacted by the issues. However, there is no explanation whatsoever regarding the impact of BNI’s economic performance on each stakeholder. BNI subsequently explains their management approach yet in those three paragraphs, no explanation is given on how these impacts on stakeholders are managed. The explanation is in the nature of how BNI ensures high levels of economic performance without any connection to the stakeholders. Although useful, this explanation is not the intended objective of the material topics and the relevant stakeholders. BNI should raise the issues of impacts faced by their stakeholders in detail then explain how the BNI management ensures that the positive and negative impacts are managed in an optimal manner.



Keterangan :
A. Kinerja Ekonomi
B. Ketenagakerjaan
C. Portofolio Produk
D. Pelatihan dan Pendidikan
E. Pengaruh Ekonomi Tidak Langsung
F. Privasi Nasabah
G. Anti Korupsi dan *Fraud*
H. Audit Penilaian risiko

Illustration 4

Dampak Pada Pemangku Kepentingan	
Dalam Perusahaan	**Luar Perusahaan**
Investor/Pemegang Saham, Pegawai, Serikat Pekerja	Nasabah, Pemerintah dan Otoritas Jasa Keuangan, Pemasok, Organisasi Masyarakat/NGO, Media

Pendekatan Manajemen

Kinerja ekonomi penting bagi perusahaan sesuai dengan karakteristik perusahaan yang bergerak di layanan jasa keuangan. Selain itu, kinerja ekonomi juga menjadi landasan utama dalam mengambil berbagai keputusan penting dan strategis di seluruh aspek perusahaan.

Untuk memantau kinerja ekonomi, maka dilakukan audit oleh internal dan eksternal berdasarkan Standar Akuntansi Keuangan (SAK) dan International Financial Reporting Standard (IFRS). Hasil kinerja dilaporkan secara berkala kepada Direktur Keuangan dan hasil konsolidasi laporan keuangan disampaikan dalam Rapat Umum Pemegang Saham Tahunan (RUPST) dan laporan tahunan.

Hingga tahun 2017, kami berhasil meningkatkan pertumbuhan laba bersih hingga 20,1% dibandingkan target pertumbuhan laba sektor perbankan sebesar 16,5%, sehingga ROE meningkat menjadi 15,6% dibandingkan tahun sebelumnya. Selain itu, kami juga meningkatkan pertumbuhan pinjaman sebesar 12,2% dibandingkan tahun sebelumnya.

Illustration 5

Furthermore, this section revealed the awareness that the public and NGOs are actually recognized as stakeholders by BNI yet were not included in the survey for identifying material topics. In addition to appearing in the economic performance issues, the public and NGOs appear in training and education issues as well as indirect economic effects as well.

Logically, the public and NGOs should also be taken into consideration as stakeholders in the issues of labour and risk assessment audit (which also encompasses social and environmental risk). The general public has an interest in being aware of the employment opportunities in BNI as well as their value chain. Labour NGOs has an interest in monitoring BNI's labour performance. With regards to the risk assessment audit, although the public may not have direct influence yet as a stakeholder which also bears the risk, BNI should be aware of the social and environmental impacts faced by the communities due to BNI's investments. NGOs, especially those with an understanding of sustainable banking such as Responsibank Coalition members, should be part of the stakeholders with sought-after input on this topic.

Does a materiality review which does not include input from stakeholders have a high level of saliency which would then support the validity of these topics? It appears that these results would be viewed as also ignoring several issues. In fact, GRI itself has produced several documents as guidelines for banks in conducting their materiality review in order to ensure alignment with their sector's sustainability. The first document is, of course, the GRI FSSD. Other GRI documents such as *Sustainability Topics for Sectors: What Do Stakeholders Want to Know?* (GRI, 2013), and the findings of the GRI study in collaboration with ROBECO SAM in 2015, *Defining Materiality: What Matters to Reporters and Investors* then followed.

GENERAL STANDARD DISCLOSURES	
• Strategy and Analysis • Organizational Profile • Identified Material Aspects and Boundaries • Stakeholder Engagement	• Report Profile • Governance • Ethics and Integrity

SPECIFIC STANDARD DISCLOSURES		
Category	**Economic**	**Environmental**
Aspects[1]	• **Economic Performance ✚** • Market Presence • Indirect Economic Impacts • Procurement Practices	• Materials • Energy • Water • Biodiversity • **Emissions ✚** • **Effluents and Waste ✚** • Products and Services • Compliance • Transport • Overall • Supplier Environmental Assessment • Environmental Grievance Mechanisms

Category	**Social**			
Sub-Categories	**Labor Practices and Decent Work**	**Human Rights**	**Society**	**Product Responsibility**
Aspects[1]	• Employment • Labor/Management Relations • **Occupational Health and Safety ✚** • Training and Education • Diversity and Equal Opportunity • Equal Remuneration for Women and Men • Supplier Assessment for Labor Practices • Labor Practices Grievance Mechanisms	• **Investment ✚** • Non-discrimination • Freedom of Association and Collective Bargaining • Child Labor • Forced or Compulsory Labor • Security Practices • Indigenous Rights • Assessment • Supplier Human Rights Assessment • Human Rights Grievance Mechanisms	• **Local Communities ✚** • Anti-corruption • Public Policy • Anti-competitive Behavior • Compliance • Supplier Assessment for Impacts on Society • Grievance Mechanisms for Impacts on Society	• Customer Health and Safety • **Product and Service Labeling ✚** • Marketing Communications • Customer Privacy • Compliance • **Product Portfolio ✚✚** • **Audit ✚✚** • **Active Ownership ✚✚**

1 The word topic is used in the Guidelines to refer to any possible sustainability subject. The word Aspect is used in the Guidelines to refer to the list of subjects covered by the Guidelines.

✚ G4 General Standard Disclosures and G4 Aspects where sector specific content has been added.

✚✚ Sector specific Aspects.

Illustration 6

These documents demonstrated the expectations of stakeholders in banks such as BNI. FSSD itself, as shown in **Illustration 6. Emphasis on the GRI Document Financial Services Sector Disclosure** on the right shows that the emphasises aspects are Economic Performance, Emissions, Effluents and Waste, Occupational Health and Safety, Investments as Related to Human Rights, Local Communities, as well as Product and Services Labelling, Product Portfolio and Active Ownership.

At a glance, it can be observed that BNI has included Economic Performance, Product Portfolio and Audit into the material aspects. Labour has been included as an issue in the sub-category section rather than as an aspect thus requires further observation in the included description. There are also several aspects emphasized in the FSSD which were not included in the material topics submitted by BNI. Although FSSD does not state that these aspects are compulsory in the sustainability report, the given emphasis does provide a clear indication of their importance according to GRI.

In the *Sustainability Topics for Sectors* document, GRI details their study findings regarding the stakeholders in each sector including financial service institutions. This document demonstrates that in their discussion regarding the economic category, stakeholders demand that banks reveal two key topics which are investments in communities as well as socially responsible investment, abbreviated as SRI and regional development. In the environment category, the important categories include timber material sourcing, plastic material sourcing and utilization, emissions from business travel as well as paper and electronic waste management.

Stakeholders have extremely broad expectations regarding reporting in the social category. In addition to those emphasised by FSSD, stakeholders also demand that bank be transparent regarding the impact of their investments on indigenous communities, the banking sector's endeavours to protect their customer data as well as how banks implement financial inclusion and conducts financial literacy education. In the category of general disclosures, stakeholders focus on the design of products which deliver environmental and social benefits, the bank's environmental and social policies and requirements in investment decisions, due diligence by banks in managing their environmental and social risks as well as ESG risk management. This section also demands the disclosure of business strategies on climate change, the bank's policies on investing in high risk and conflict areas, long term strategies on the environment and social issues and how the bank faces natural disasters and its influence on their business.

The demands expressed by global stakeholders appears to be very strident regarding how the banking investment decisions impacts the environmental, social and economic conditions of their stakeholders especially the communities and environments in the investment locations. These stakeholders request that the banks be prudent in their investment, in order to ensure that these investments do not create negative impacts while also ensuring that the bank does not risk bad investments. Stranded assets are inevitably linked to adverse environmental and social conditions. Furthermore, stakeholders clearly demand that banks should have long term strategies for their investments by viewing the resolution of environmental and social issues as business opportunities.

The findings of the GRI and Robeco SAM research on sustainable reports produced by global banks which were then compared against the issues sought by investors produced a similar narrative.

Illustration 7

Illustration 7. Banking Risk Matrix According to Banks and Investors, on the left side, which was taken from the *Defining Materiality: What Matters to Reporters* and Investors document shows which issues are considered to be crucial. Although this materiality review was limited to investors, the results align with the expectations displayed by the broad stakeholders.

The report emphasises the importance of banks managing their environmental and social impacts by stating that: "*Far more significant than bank's own environmental operations is the impact of the bank's investment strategies and policies. The integration of sustainability factors in the bank's lending practices and investment process also provides an important means for understanding how effectively banks manage long-term risks throughout their investment processes. In addition, sustainable investment products and strategies represent a differentiated product offering, which can in turn demonstrate the degree to which a bank is able to provide innovative and differentiated products and solutions for its clients.*"

SUSTAINABLE FINANCE

It is abundantly clear that the stakeholders consider that sustainable finance is the most material sustainability theme for the banking industry. Of course, 'greening' operations in the office is a noble act yet the demands of stakeholders go beyond that. They desire that banks make meaningful contributions to sustainable development especially through their core business. Every investment decision made by the bank is expected to contribute to the achievement of the SDGs and not the opposite.

Van der Stichele, SOMO researcher, explained in their presentation entitled *Sustainable Finance: What It Means in Practice (for Accountants)* that the objective of sustainable finance is to "*... contribute in a transparent way to improving social and environmental aspects in the short and long term, pro-actively aim to achieve the SDGs and the Paris Agreement, implement ESG issues throughout their value chain, and avoid financial instability.*" (van der Stichele, 2017). This explanation has become the mainstream position of sustainable finance experts where van der Stichele is one of the foremost experts.

Another expert, van Gelder – one of the founders of Profundo, stated in their presentation *Sustainable Finance in Indonesia: Facing the Challenge*, that three strategies must be implemented in order to achieve this objective. First, funding innovations which fulfil global needs in a sustainable manner. Second, project financing which protects and utilizes natural resources in a sustainable manner. Third, financing which ensures social justice and decent livelihoods for all humankind. In *Every Investor Has a Responsibility: A Forests and Finance Dossier*, RAN and Profundo (2017) highlights a fourth strategy which is risk mitigation for the financial services industry and their investors.

These strategies are crucial for banks in the ASEAN region. In the *Sustainable Banking in ASEAN Update 2018* report, WWF and NUS (2018), quoted the UNESCAP research and reiterated that the ASEAN countries are not on the right track as yet to achieve the SDGs. Should the tendencies currently being displayed, including by the financial services institutions, continue then it would be impossible to achieve SDGs in this region. The report stated that: "*In order to address these threats, the region and the world must adapt to a resource- and carbon- constrained future and transition to a sustainable, low-carbon economy that is aligned with the SDGs and the Paris Agreement. The finance sector can play a unique enabling role in this transition by redirecting financial flows towards sustainable businesses and away from environmentally and socially damaging business activities. Banks can influence their clients by linking access to, and cost of, capital to science-based sustainability criteria; and they should use this influence to encourage clients to take ambitious steps to sustainably transform our food, energy and transport systems.*" Again, the achievement of SDGs and the Paris Agreement are objectives which are explicitly stated for sustainable finance.

The same does not follow for regulations in Indonesia as the foundation for the implementation of sustainable finance. These regulations do not explicitly refer to the SDGs and the Paris Agreement Despite being formulated after Indonesia's ratification of both. In the OJK Regulation POJK number 51 of 2017 regarding Sustainable Finance, the definition of sustainable finance is also stated in Article 1: "... the comprehensive support from the financial services sector to create sustainable economic growth by harmonizing economic, social, and environmental interests." Even the term sustainable development was lacking in this regulation. Sustainable economic growth is not interchangeable with sustainable development.

Article 2 of the regulation contains sustainable finance principles, of which there are eight: the principles of responsible investments, sustainable business strategy and practice, social and environmental risk management, governance, informative communication, inclusiveness, priority prime sector development and coordination and collaboration. The explanation for these principles is available in the Elucidation section.

With reference to these principles, examining the product portfolio is crucial as it would reveal the first, second and third strategies as expounded by van Gelder (2017) and its correlation with risk management as the fourth principle in sustainable finance (RAN and Profundo, 2017). Therefore, the indicators associated with product portfolio and risk management as stated in FSSD is the focus of assessing whether the sustainability report developed by a bank does demonstrate whether the bank is genuinely pursuing the objectives of sustainable finance.

PRODUCT PORTFOLIO IN FSSD: POLICY, PROCEDURE AND PERFORMANCE

FSSD has a number of guidelines on reporting with regards to the product portfolio. These govern how the policies, procedures and performance relevant to the product portfolio should be reported. The first indicator shown by FSSD is "*Policies with specific environmental and social components applied to business lines.*" It is explained that this indicator provides an overview of the reporting organization's intention to take into consideration the entire design and execution of the core product and service (e.g. project financing, loans, mortgage, mutual funds etc). This indicator is not aimed at focusing on the policies of administrative operations but rather focusing on the quality of environmental and social policies as well as its implementation which may influence the institutional risk exposure and the environmental and social impacts generated by the project or activities made possible by the banking product and services.

Furthermore, the policies which we would like to see in the report on indicators are those on issues including as climate change, human rights, resettlement of communities, forestry, investments in controversial countries or regions and policies related to specific industries such as mining, chemicals etc.

The second indicator is "*Procedures for assessing and screening environmental and social risks in business lines*." This indicator aims to explain the process and procedures employed by the reporting organization to assess the environmental and social impact of their products and services and how these procedures influences their transaction decisions. This indicator will provide an insight into the capacity of the reporting organization in managing their environmental and social risk and minimizing the negative environmental and social impact along its entire business line. This indicator will also be relevant for helping to explain the application of some of the policies reported under Policies with specific environmental and social components applied to business lines

It is also explained that the opportunities and significance of adverse environmental and social impacts which are created by the activities of the financial institutions, their clients, investee companies as well as transactions and their effects has both a financial and non-financial impact on the company or their client.

Next is indicator three, *"Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions."* The explanation: many institutions manage the environmental and social impacts of the clients and business partners by establishing standards or specific performance targets in their agreements as a requirement for the provision of capital. This indicator explains how the reporting organization ensures the proper compliance with these requirements. This also provides insights into how these banks ensures the implementation of specific environmental and social impacts policies in their business lines.

These indicators emphatically demand that the bank reports the following: the methods used to track the fulfilment of the environmental and social improvement objectives agreed by the client, the form of this monitoring including its frequency and duration and how non-compliances of the agreement signed and the procedures subsequent to violations of the agreement or transaction conditions. In the Indonesian context, this means various commitments such as the implementation of the Environmental Management Plans and Environmental Monitoring Plans (*Rencana Pengelolaan Lingkungan dan Rencana Pemantauan Lingkungan - RKL/RPL*) in the Social and Environmental Impact Assessment (AMDAL) must be monitored by the credit provider.

The fourth indicator, *"Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines,"* enables the assessment of the extent to which the reporting organization has ensured the necessary competence for the effective handling of environmental and social risks and opportunities relevant to their products and services. This issue is relevant for understanding how the organization implements certain environmental and social policies, manages risk and opportunities identified in the assessment and screening procedures for environmental and social risk as well as monitoring implementation as reported in the client implementation and compliance of environmental and social requirements encompassed in the agreement or transaction.

The process utilized by the reporting organization to ensure that their staff who are managing environmental and social risks and opportunities have the competence to implement the environmental and social policies and procedures in their business lines, the participants of capacity building activities, capacity building materials provided and whether the activities conducted (such as training or mentoring) is part of the core capacity building or a separate and additional feature must be reported.

"Interactions with clients/investees/business partners regarding environmental and social risks and opportunities" is the fifth indicator. This indicator explains the measures implemented by the reporting organization to influence the behaviour of clients, investees and other business

partners. The indirect impact caused by client actions may be more significant than the direct impact of the financial institution. Therefore, the interaction between the bank and their business partners may be a key opportunity for managing impact. This applied to investment portfolios (asset management) and financing portfolios (banking). Engagement is also crucial in the implementation of policies and procedures for assessing environmental and social risk.

FSSD expects a report which contains a summary of the interaction to be included as the main topic, objectives and results, the department and/or organization conducting the interaction, the method employed to prioritize the topic and target for interaction, the method employed (such as face-to-face meetings, questionnaires) as well as the process for monitoring and following-up the interaction results.

"Percentage of the portfolio for business lines by specific region, size, and by sector." The sixth interaction is expected to provide contextual information for the portfolio and client base of the reporting organization and to function as the entry point for further engagement with stakeholders. The information may provide proxy for potential environmental and social risk exposure (both threats or opportunities). This indicator is very relevant when combined with information regarding environmental and social policies and the screening assessment procedures which banks have for every business line.

The reportable items are the business sector, area and size with whom the reporting organization conducts financial transactions as part of their business activities, and how the reporting organization determines the sector and areas with significant potential environmental and social (such as utilizing the World Bank classification). For each sector and area, the reporting organization is expected to disclose the value of the entire portfolio for the business line.

The seventh indicator, *"Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose."* This indicator is intended to provide insight into the degree to which the financial institution has specifically sought to build social capital to address broad-based needs. Building of social capital has multiple dimensions. On a general level, it can relate to meeting needs of all members of society such as education, affordable housing, etc. On a more specific level, it can focus on the role of financial institutions in helping to support development opportunities for disadvantaged groups and enhance their economic capacity. While all products and services could be considered to offer some form of social benefit, this indicator focuses on those specifically designed with a particular social outcome. The products which targets an underserved, neglected, or highly disadvantaged population. Examples are microfinance, microinsurance, remittances, products for students, products which support affordable housing and preferential products for charities/ community groups.

This indicator expects banks to report the list of products and services broken down by business line (retail banking, commercial and corporate banking). For each, purpose, product description, the target social group, monetary value (for products) or number of transactions or customers (for services), and the proportion of this value to the total monetary value for each business line.

Eighth, *"Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose"* is the same indicator as above but aimed at creating environmental benefits. Environmental products and services are defined as products and services designed with the explicit objective of addressing environmental issues. For example, products designed to provide renewable energy, address water scarcity, enhance biodiversity, improve energy efficiency and others.

The indicator assesses the relative size of products and services with an environmental focus in the organization's overall product and service offerings. These products or services can have specific environmental impacts and this information provides insight into the capacity of the organization to innovate new offerings. This data is calculated independently from the organization's efforts to integrate environmental risk assessment into its standard processes for developing and delivering products and services. This information is particularly relevant when analyzed in terms of year-on-year trends to assess the development of this product area for an institution.

PRODUCT PORTFOLIO IN THE BNI SUSTAINABILITY REPORT

Explaining how BNI contributes to sustainable development, the 2017 BNI Sustainability Report commences with the section "Building Sustainable Finance Culture" (BNI Sustainability Report, page 56). The report stated: "One of the corporate cultures that continues to be disseminated is the financial inclusion program which is essentially the responsibility of the whole society. Thus, according to BNI's mission of raising awareness and responsibility to the environment and community, the active role of every employee is required to ensure the success of the financial inclusion program. The financial inclusion program is conducted through the services of Agent46. The Agent46 is a form of BNI's commitment to support the financial literacy program as well as providing convenience of service for rural and urban communities." This illustrates that BNI considers that financial inclusion, which is the provision of financial services for all segments of the community is a 'culture' related to sustainable finance.

BNI continued with "In addition, BNI's commitment to sustainability culture is also reflected in the development of digital products and the building construction with green concept. The changes in mindset and behaviour toward digital technology began to internalize in every BNI personnel through Digital Ninja program. ... Similarly, the construction of BNI Tower in Pejompongan is expected to become a model building with green building concept. This is one of the steps to foster the culture and provide an opportunity to adapt to eco-friendly behaviour." If financial inclusion is for customers, for external

Produk Inklusi Keuangan BNI

Produk	Deskripsi	Jumlah (miliar rupiah)	Rekening (unit)
Tabungan			
BNI Pandai	Tabungan perorangan dengan persyaratan mudah dan ringan yang diterbitkan oleh BNI yang memiliki karakteristik *basic saving account* (BSA) dan dapat dibuka melalui Kantor Cabang BNI maupun melalui Agen46	241,8	1.979.582
TabunganKu	Tabungan perorangan yang diterbitkan bersama-sama oleh bank-bank di Indonesia guna menumbuhkan budaya menabung	2.570,3	1.104.307
BNI Simpanan Pelajar (SimPel)	Tabungan siswa yang diterbitkan secara nasional oleh bank-bank di Indonesia, dengan persyaratan mudah dan sederhana serta fitur yang menarik, dalam rangka edukasi dan inklusi keuangan untuk mendorong budaya menabung sejak dini	62,7	450.989
Bantuan sosial dari Kementerian Sosial dan Kementerian Pendidikan & Kebudayaan			
Program Indonesia Pintar (PIP)	PIP melalui Kartu Indonesia Pintar (KIP) adalah pemberian bantuan tunai pendidikan kepada anak usia sekolah (usia 6 - 21 tahun) yang berasal dari keluarga miskin, rentan miskin: pemilik Kartu Keluarga Sejahtera (KKS), peserta Program Keluarga Harapan (PKH), yatim piatu, penyandang disabilitas, korban bencana alam/musibah.	1.185,3 (SMK) 1.241,8 (SMA) 94,6 (Madrasah)	1.879.627 (SMK) 1.520.422 (SMA) 185.111 (Madrasah)

Illustration 8a

stakeholders, the next item reported by BNI was for their internal stakeholders.

As stated in the FSSD, sustainable finance is actually associated with how a bank can provide a clean economic, social and environmental impact through specific policies, procedures and processes more for the broader public and simultaneously improve their business performance including protection from myriad risks. Therefore, BNI's more relevant conduct towards their internal stakeholders would be those which supports this objective, i.e. training on sustainable finance. Green buildings, although crucial, are more relevant for their office operations.

BNI continues to explain their various inclusive financial products such as BNI Pandai (savings product for individuals), TabunganKu (joint Indonesian banks savings product for individuals), BNI Simpan Pinjam (Students

Produk Pendukung Inklusi Keuangan

Produk	Deskripsi	Kartu Telah Aktivasi
Infrastruktur Pendukung		
Kartu Bansos JAL	Kartu Bansos merupakan salah satu produk kartu Debit BNI yang digunakan untuk penyaluran program pemerintah (Bansos).	4.309.037
Kartu Tani BSL	Kartu Tani merupakan salah satu produk kartu debit yang diperuntukan bagi segmen petani Indonesia. Selain berfungsi sebagai kartu debit, juga berfungsi sebagai media penerimaan subsidi maupun bansos dari pemerintah.	1.704.674
Kartu Indonesia Pintar	Kartu debit yang dapat digunakan sebagai penanda untuk menjamin serta memastikan seluruh anak usia sekolah (6-21 tahun) dari keluarga pemegang KKS untuk mendapatkan manfaat Program Indonesia Pintar.	1.566.227
Kartu Jaring BSL	Kartu jaring merupakan salah satu kartu debit yang digunakan untuk menyalurkan bantuan sosial dari Kementerian Kelautan dan Perikanan dengan target sasaran masyarakat yang tinggal di daerah pesisir dan/atau nelayan.	1.900
Kartu Multiguna Banten	Kartu Multiguna Banten merupakan salah satu kartu debit yang digunakan untuk menyalurkan bantuan sosial dari Dinas Sosial Pemerintah Provinsi Banten yang disebut dengan Program Jamsosratu.	44.354

Illustration 8b

Savings Account), Smart Indonesia Program (*Program Indonesia Pintar*), Family Welfare Program (*Program Keluarga Harapan*), Ex- East Timor Assistance (*Bantuan Eks-Timor Timur*), 15 products in total, with the monetary values and the number of existing accounts. There are also financial inclusion products including *Kartu Bansos* (government social assistance debit card), *Kartu Tani* (farmers' debit card product), *Kartu Indonesia Pintar* (debit card for school age children for disbursement of Smart Indonesia Program support), *Kartu Jaring BSL* (debit card for distribution of assistance from Ministry of Marine Affairs and Fisheries), and the *Kartu Multiguna Banten* (Banten Multipurpose Card for distribution of Banten Provincial Government assistance). In this category of products, only the number of active cards are listed. See **Illustration 8a & 8b. Some of the Financial Inclusion Support Products and All BNI Financial Inclusion Support Products** below (BNI Sustainability Report, pages 57-59).

Financial inclusion is clearly a crucial issue. Both FSSD as well as GRI and Robeco SAM publications reiterate this. However, the data presented by BNI remains insufficient in fulfilling the expectations as emphasized in FSSD. Policies, procedures, processes and performance as expected by FSSD has not be explained satisfactorily because BNI has only presented information regarding their product typologies. The presentation of product types itself has limited information as can bee observed above.

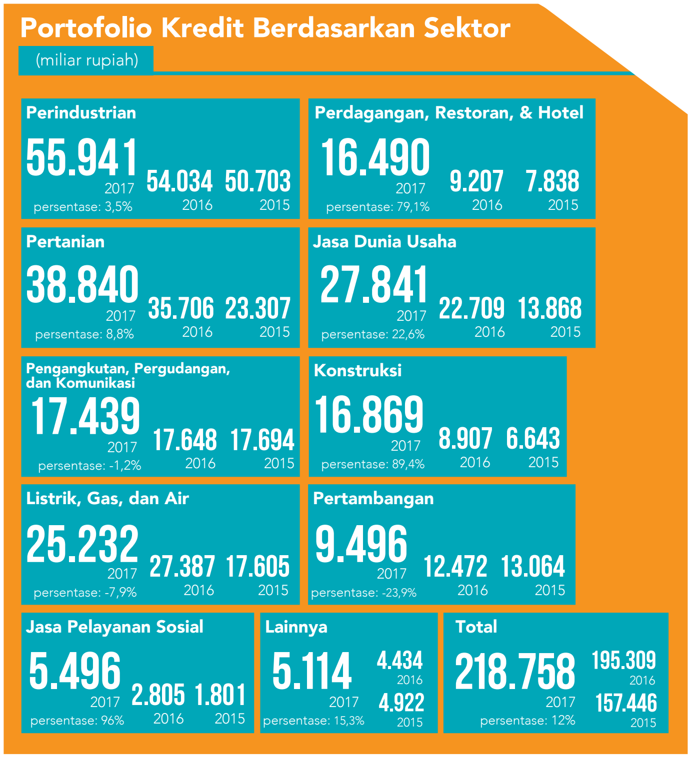


Illustration 9

The stakeholders expected to be able to read about BNI's financial inclusion policies in full as well as the procedures and processes which formulated these products and its execution. The financial inclusion product section, for example, is critical in explaining how these products which originated from BNI itself as well as those which are social assistance from the Government of the Republic of Indonesia were created. A description of the working relationship between BNI and the Government of the Republic of Indonesia with regards to planning, execution, monitoring and evaluation would be very beneficial for the stakeholders who wish to know, considering the numerous products included in this category.

The next information presented by BNI is shown in **Illustration 9. Credit Portfolio by Sector** (BNI Sustainability Report, page 60) on the left. In addition, BNI also provides credit portfolio data based small, medium and corporate categories. BNI admitted that they have not been able to provide credit portfolio data based on region as requested by FSSD. However, the portfolio by sector information itself does not fulfil the spirit of FSSD.

FSSD, as the standard for sutsianable reporting is very empathic in elaborating their expectations on what must be presented, i.e. the relationship between the portfolio and issues of sustainability especially regarding social and environmental aspects. Therefore, it is critical for the reporting organization such as BNI to provide an explanation regarding their lending or investment policies as the basis for decision-making. This is even more imperative as the sectors presented in the Illustration entail complex sustainability issues. Agriculture, for example, is the second largest sector funded by BNI in the credit portfolio by sector in 2017 and has been increasing since 2015. This sector is well known to have substantial negative impact potential specifically regarding water resources and climate change. We cannot explore further whether BNI is guiding these projects towards sustainable agriculture because BNI does not elaborate further on the agriculture projects they are financing, although most likely associated with palm oil estates. On the other hand, mining is declining in the BNI portfolio and continues to do so since 2015 yet similarly, we cannot determine whether it is due to social and environmental considerations or a reflection of the declining business in that sector.

Based on the size of credit recipients, BNI is dominated by corporate clients. Small enterprises received IDR 56,477 billion (17,94%) in credit, medium enterprises IDR 70,261 billion (22,32%) in credit while corporations were supplied with IDR 188,026 billion (59,74%) in credit. In the past three years, these proportions did not change. Therefore, BNI's credit growth from IDR 231,132 billion in 2015, the IDR 286,087 billion in 2016, and IDR 314,764 billion occurred proportionally between these varying client sizes. However, the domination of corporation raises further questions of whether these corporations financed by BNI also has high sustainability

Portofolio Pembiayaan Pembangunan Sektor Ekonomi

(miliar rupiah)

	2017	2016	2015
Jalan Tol dan Konstruksi	29.854	23.298	11.253
persentase	30%	27%	17%
Ketenagalistrikan	28.858	25.887	19.196
persentase	29%	30%	29%
Transportasi	16.917	16.395	12.577
persentase	17%	19%	19%
Telekomunikasi	10.946	9.492	11.253
persentase	11%	11%	17%
Minyak dan Gas Bumi	12.937	12.081	11.915
persentase	13%	14%	18%
Total Proyek Pemerintah	99.512	86.290	66.193
persentase	100%	100%	100%

Illustration 10

standards and genuinely implements these standards thus the nature of credit provided by BNI is not destructive against the public and the environment.

Illustration 10. Loan Portfolio for Government Projects by Economic Sector on the righthand side (BNI Sustainability Report, page 62) raises similar questions to those for corporation financing. BNI disbursed IDR 29,854 billion for toll road and construction, IDR 28,858 billion for electricity, IDR 16,917 billion for transportation, IDR 10,946 for telecommunication and IDR 12,937 for oil and gas project associated with government projects which totals IDR 99,512 billion, or approximately 45,5% of all credit provided by BNI. The substantial proportion of the Republic of Indonesia Government infrastructure financing, cannot just be equated with socially oriented project financing. The statement that "To support the improvement of the economy of the state with social insight, BNI, among others, provides financing for infrastructure development." (BNI Sustainability Report, page 62) is actually a claim which cannot be made without substantiating the claim. As stated in FSSD, all financing can be interpreted as delivering social benefits however FSSD's emphasis is on how the reporting organization creates and delivers a product which genuinely delivers social benefits to a particular segment.

Regarding social impact, the construction of toll roads often involves the displacement of particular community groups, although not always. In various regions, the toll road construction has been indicated to convert the function of land from agriculture and this threatens short term and long-term food security/sovereignty. The construction of power plants is also problematic especially because these power plants are fossil-fuel based specifically coal powered plants. Not only is this contrary to the objectives of the Paris Agreement which Indonesia signed in 2015, there are multiple health impacts on the communities living in the mining areas and surrounding the transportation routes. Naturally, if BNI chooses to finance clean and renewable energy generation projects, their investment would be extremely beneficial both socially and environmentally.

Transportation and telecommunication may be sectors which are considered to have positive impacts especially if we are referring to financing for mass transportation. Meanwhile oil and gas developments are now considered to be problematic. Oil should be replaced by degrees with gas being utilized as a transitional energy source. What are these Government of Republic of Indonesia projects being financed by BNI and what are the impacts? How does BNI screen these projects?

BNI has provided the following information "In addition to green financing of the palm oil sector and renewable energy power generation, BNI also financed other green sectors such as geothermal power plant in Patuha, West Java and gas power plant in Musi Banyuasin, South Sumatra with a maximum credit of IDR 1,864.48 billion, green building management of Soekarno Hatta Airport amounted to IDR 700 billion, and processing of steel ore waste of IDR 326 billion. BNI has yet

Portfolio Kredit Maksimum*	2017	2016
Green Financing Korporasi	57.646	21.570
Kredit Korporasi	188.026	174.073
Total Kredit BNI (tidak termasuk kredit konsumer)	314.764	286.087
Rasio Persentase	**2017**	**2016**
Green Financing Korporasi/Korporasi	30,66%	12,39%
Green Financing Korporasi/Total Kredit	18,31%	7,54%

*Miliar Rupiah

Table 1

to present the percentage of environmental and social credit debtors compared to the total funded debtors." (BNI Sustainability Report, page 65).

Many experts would debate the terminology green financing for the palm oil sector, even if the entire sector has Roundtable for Sustainable Palm Oil (RSPO) certification, considering the multitudes of palm oil plantations' environmental impact which cannot truly be deemed environmentally friendly. The comparison between carbon storage in natural forest, industrial forest and palm oil plantations demonstrates that palm oil plantations have the lowest storage capacity. If palm oil is converted from industrial forest, let alone natural forest and even further, natural forest on peat soil, its negative environmental impact is too excessive to be labelled as 'green'. We may agree that renewable energy, geothermal power plants, green buildings are green projects. However, gas powered electricity plants are also debatable because of the fossil fuel despite having half the emissions of coal.

BNI then continued, "Aside from providing credit directly, BNI also supports the development of renewable energy projects through cooperation with debtors and other financing institutions as security agent and escrow agent. One of this cooperation is Mini Hydro Power Plant project in Sangir, South Sulawesi. BNI provided syndicated loans in the hydro power plant project in Poso and Malea. Support on renewable energy development projects was also given by BNI through the purchase of mutual funds, Insight Renewable Energy Fund, in March 2017. In this case, BNI acted as an investor."

The statement in this paragraph should not invite debate amongst the experts. Micro hydro power plants (*Pembangkit listrik tenaga mikrohidro - PLTMH*), hydro power plants (*PLTA*) and mutual funds for renewable energy purchased by BNI will be included in green finance. There may be a note for the hydro power plant (PLTA) which must pay careful attention in order to prevent negative social impacts.

Table 1. Green Financing Credit Portfolio and Corporate Credit (BNI Sustainability Report, page 64) demonstrates how the percentage of green financing is calculated. However, with the notes

against palm oil plantations and gas-powered electricity plants, therefor the credit figures and the percentages could be debated further. And this also raises a new question regarding the BNI credit portfolio which was submitted initially. The new question is: how does BNI categorize green and 'non'-green or brown? Subsequently, what would BNI do to ensure that the investment portfolio claimed to be green will in actuality be completely free of controversy. Furthermore, what is BNI's plan to expand the proportion of green financing or further, sustainable thus BNI will no longer be contributing to sustainability problems? Are there negative screening criteria – for example, cigarette and coal industries, which are commonly employed by sustainable finance leaders?

BNI SUSTAINABLE FINANCE POLICIES

It is difficult to answer these questions because BNI does not supply data on who their corporation clients are and their economic sectors. BNI itself has not revealed their credit policies for each sector therefore it is not possible to assess whether their credit risk management is sufficient for all their credit sectors. In the 2017 BNI Sustainability Report it was only revealed that "BNI pays attention to the eight Principles of Sustainable Finance stipulated in the Regulation of Financial Services Authority (POJK)." (BNI Sustainability Report, page 40), followed by a list of these principles.

This revelation is, of course, insufficient. The first principle, responsible investment is defined in the OJK Regulation number 51/2017 as "... financial investment approach for sustainable project and development initiatives, environmental conservation products and policies which support sustainable economic development growth as well as being confident that long-term investment profits depend upon the economic, social, environmental and governance system." Meanwhile, UNPRI defines this as "*an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns*." (please see https://www.unpri.org/pri/what-is-responsible-investment.)

The OJK Regulation number 51/2017 does not elaborate what is included in the 'the economic, social, environmental and governance system,'. However, UNPRI explicitly gives examples of the factors encompassed within Environment, Social and Governance (ESG). On the same page, PRI explains that the environmental aspect includes "*climate change – including physical risk and transition risk; resource depletion, including*

Manajemen Risiko [102-11]

BNI memiliki manajemen risiko sebagai pendekatan kehati-hatian atau *precautionary approach* untuk meminimalkan risiko perusahaan dan menjalankan prinsip keuangan berkelanjutan. Empat pilar penerapan manajemen risiko merupakan prosedur dalam mengidentifikasi, mengukur, memantau dan mengendalikan risiko atas penerapan keuangan berkelanjutan.

4 Pilar Manajemen Risiko

Evaluasi manajemen risiko dilakukan melalui pemilihan sampel berdasarkan *risk based* atas debitur pada sektor industri, perkebunan, dan konstruksi dengan ruang lingkup audit yang tertuang dalam Program Audit Perkreditan. Program ini termasuk:

- Persyaratan legalitas usaha debitur untuk memiliki ijin Analisa Mengenai Dampak Lingkungan (AMDAL).
- Persyaratan perolehan kinerja pada Program Penilaian Peringkat Kinerja Perusahaan (PROPER) dari Kementerian Lingkungan Hidup.
- Untuk kendaraan angkutan limbah harus memiliki:
  - Izin pengoperasian alat pengolahan limbah B3 dengan metoda elektro-koagulasi
  - Izin pengoperasian alat pengolahan limbah B3
  - Izin pemanfaatan limbah B3
  - Audit lingkungan hidup kegiatan pengangkutan, pengumpulan, penyimpanan sementara, pemanfaatan dan pengolahan limbah B3
- Debitur usaha industri *furnitur* dengan skala ekspor harus memiliki *ecolabelling* dan Sistem Verifikasi Legalitas Kayu.
- Debitur usaha industri air minum dalam kemasan (AMDK) harus memiliki SIPA (Surat Ijin Pengambilan Air Tanah).

Illustration 12

water; waste and pollution; and deforestation." The reference to social aspects includes "*working conditions, including slavery and child labour; local communities, including indigenous communities; conflict; health and safety; and employee relations and diversity*." And the governance aspect includes, amongst others, "*executive pay; bribery and corruption; political lobbying and donations; board diversity and structure; and tax strategy*."

BNI uses the GRI standards and all the issues encompassed within ESG are included in the GRI indicators. The difference is that in responsible investments, the investor must require that the same standards be enforced by their client. This means that through their policies, procedures and processes, BNI must ensure that the recipients of their loans or investments manage these issues satisfactorily. Therefore, examining how BNI ensures this requirement becomes a critical point.

Illustration 12. Risk Management in Sustainable Finance (BNI Sustainability Report, page 42) on the righthand side explains that their policies, procedures and processes are contained in 4 pillars of risk management. However, since BNI does not list what they already have, it is not possible to determine whether BNI really does possess the appropriate policies, procedures and processes to enforce sustainable finance. BNI should have comprehensive policies for all ESG aspects, in addition to policies related to the key sectors. Despite possibly having these, they are not contained in the 2017 BNI Sustainability Report. The other possibility is that since the OJK Regulation POJK 51 of 2017 is coming into effect beginning in early 2019 and the Sustainable Finance Action Plan (RAKB) will only be included at the end of 2018, BNI did not possess these in 2017. It would be extremely odd for BNI not to list at least part of their policies, procedures and processes in their 2018 Sustainability Report.

The right column of Illustration 10 shows that BNI actually has a Credit Audit Program which includes a Social and Environmental Impact Analysis (SEIA) or AMDAL (as required by the business type and scale), Corporate Performance Rating Program or PROPER performance, permit for hazardous and toxic waste or B3 (for waste transportation vehicles, ecolabel (certificate?) and Timber Legality Verification System (*Sistem Verifikasi Legalitas Kayu - SVLK*) for export furniture companies as well as Groundwater Withdrawal Permit (*Surat Ijin Pengambilan Air* Tanah - SIPA) for bottled drinking water industries. This examination is crucial, yet: (1) This is clearly a formality in order to comply with regulations and not for sustainability, except in the matter of eco-label certification, and (2) the sectors are very limited.

An important note regarding AMDAL/SEIA, because many cases have demonstrated that it cannot be said that the majority of AMDAL conducted in Indonesia is of high quality. 'Copy and paste' AMDALs are commonly found where the social components contained within are completely deficient and is overly simplistic in describing the reality of the situation. Many of these AMDAL have been assessed by persons without AMDAL assessment licences and/or by people without the requisite capacity. If BNI merely checked that a project is in possession of the AMDAL without examining its quality then there is a high probability that these issues remain associated with the projects they are financing.

Should BNI be willing to apply sustainability standards equal to the sustainability standards applied to the requirements for export furniture businesses to their borrowers, the equal standard would be the requirements for Roundtable for Sustainable Palm Oil (RSPO) certification. Meanwhile, there should be requirements of sustainable construction for the construction for toll highways and other construction projects, as there is for green building certification and for mines being financed by BNI are also required to comply with the international standards of Bettercoal (for coal mining) or to adhere to the sustainable principles introduced by the International Council on Mining and Metals (ICMM).

The information regarding palm oil plantation debtors was actually placed in a separate section. On page 64 of the report, the following statement was made: "Mandatory requirement for debtors who will apply for credit at BNI is at least already registered in the process of RSPO or ISPO certification. This requirement applies to all BNI palm oil corporate debtors. In 2016, 6 palm oil company debtors have been RSPO and/or ISPO certified and 4 were still in the certification process. This number increased in 2017 to 13 certified debtors and 23 who were still in process."

It is not known why BNI did not include this information in the section detailing the Credit Audit program – whether 'the compulsory requirements' stated have the same status as the requirements for AMDAL, PROPER and others. It is also important to be aware that RSPO and ISPO are standards with different degrees of sustainability whereby ISPO is much more appropriately thought of as a legality standard, akin to SVLK for timber rather than a sustainability standard.

GOVERNANCE, STAKEHOLDERS AND SUSTAINABILITY

"Good Corporate Governance (GCG) is implemented by BNI with reference to the Financial Services Authority Regulation No.55/POJK.03/2016 on the implementation of Good Corporate Governance for Commercial Banks, Circular of the Financial Services Authority (OJK) No.13/SEOJK.03/2017 on the Implementation of Good Corporate Governance for Commercial Banks, OJK Regulation No. 21/POJK.04/2015 on the Implementation of Governance Guidelines for Public Companies, OJK Circular Letter No. 32/POJK.04/2015 on Governance Guidelines for Companies, Regulation of the Minister of State-Owned Enterprises No. PER-01/MBU/2011 on Good Corporate Governance and its amendment Regulation of the Minister of State-Owned Enterprises No. PER -09/MBU/2012 dated July 6, 2012."

This statement introduces the section on Governance in the 2017 BNI Sustainability Report (BNI Sustainability Report, pages 46-47). With this, BNI is stating that their governance meets the OJK Regulation requirements for commercial banks, public companies and State-Owned Enterprises. There is no information whether BNI also refers to the *ASEAN Corporate Governance Scorecard* which is has also been applied in Indonesia since 2015 as a consequence of Indonesia's membership in the *ASEAN Economic Community*. Similarly, there is also no information whether BNI refers to corporate governance standards or best practices beyond those stated above. With this statement, it appears that BNI is minimally fulfilling their governance (the G in ESG) therefore raising further questions regarding how BNI is enforcing sustainable governance.

The 2017 BNI Sustainability Report does not provide further elaboration on these standards and/or best practices, instead revealing their capacity building training for their employees on governance.

Illustration 13 Type of Governance Training for BNI Employees (BNI Sustainability Report, page 47) above provides an overview on the subject of training as well as the number of trained employees. The training is on anti-money laundering and terrorism financing, work culture, good corporate governance, risk-culture as well as risk management certification. The training seems to be given to the majority of BNI staff except for risk management certification. The

Jenis Pelatihan	Total Peserta
Anti Pencucian Uang & Pencegahan Pendanaan Terorisme (APU PPT)	27.526
Budaya Kerja	28.286
Good Corporate Governance	28.383
Risk Culture	56.350
Sertifikasi Manajemen Risiko	3.959
Total	144.504

Illustration 13

table does not show the number of training hours, as requested by GRI and the total training participant number is not for unique individuals. The training appears to be for all BNI employees except on the last topic.

The above illustration also does not contain information on ESG related training. However, the next paragraph contains an explanation of the training. "The implementation of sustainable finance principle requires adequate competencies. Currently, the Board of Directors and the Board of Commissioners have not had specific duties related to sustainable finance. Therefore, the Board of Directors and the Board of Commissioners have not attended any training on sustainable finance. However, during 2017, in relation with sustainable finance, there were 28 employees who attended ESG Integration Training held by OJK and supported by WWF-Indonesia as OJK partner for First Movers. In addition, 20 employees have attended OJK's Environmental Analysis Training (TAL) on the internal introduction of sustainable finance initiatives. Another training was ESG (Indonesia WISE) on understanding the environmental risks, which was attended by 30 BNI employees."

This description is far clearer than the summary of training presented in the beginning of the report. The previous section only stated that 50 people had taken part in ESG and TAL training whereas here it is stated that there are three different training courses with different participant figures. Because the total number is relatively low and throughout 2017 only three courses were convened, the likely possibility is that the training remains incidental and specifically for specific employees. To revisit Illustration 13, ESG and TAL training is not mentioned. The compulsory and routine training are provided to all BNI employees, not specific segments such as ESG and TAL. However, the number of BNI employees who should be receiving this training is undetermined and whether BNI will establish this as routine and/or compulsory.

The description of training specifically presents information that not one of the BNI Board of Commissioners or the Board of Directors members have received training on sustainable finance. On one hand this frankness must be appreciated yet this shows that sustainable finance has not been sufficiently positioned in BNI. Illustration 12 states that the risk management function is overseen by the Board of Commissioners and Directors thus the question must be raised on how this oversight could be effective regarding sustainability issues if the Commissioners and Directors have no special insights into this subject. Certainly, BNI's Commissioners and Directors have no need for ESG and TAL training for executors yet strategic insight in order to conduct their correct function regarding sustainable finance.

The report continues to explain that "BNI involves stakeholders in every decision-making process and strategy determination, including in preparing plans toward sustainable banking. The mapping of stakeholders is done through identification and assessment by considering the principles of dependency, responsibility, tension, influence, diversity, perspectives and proximity." The statement regarding the attributes of stakeholders – not principles as stated in the report, signifies that BNI has made use of the *AA1000 Stakeholder Engagement Standard* Version 2015 guidelines in this identification.

A number of these stakeholders can be seen in **Illustration 14. Engagement with Several BNI Stakeholders** (BNI Sustainability Report, page 48) above. These include customers, investors, employees, labour unions, the government and OJK, suppliers, business organization, NGOs and media. This differs from the section on identification of materiality (see Illustration 5) which encompasses the public whereas stakeholder does not. Community based organisations are included in the same category as NGOs. It cannot be definitely determined whether this indicates that BNI leverages community-based organisations as proxy for the public.

Pemangku Kepentingan dan Pendekatan PT Bank Negara Indonesia Tbk.				
Pemangku Kepentingan	**Basis Identifikasi**	**Topik Pembahasan**	**Pendekatan dan Respon BNI**	**Frekuensi Pendekatan**
Nasabah	Hubungan Ekonomi	• Keamanan transaksi perbankan • Kredit Usaha Kecil & Menengah • Fasilitas perbankan & kemudahan akses • Informasi produk & layanan perbankan yang jelas & transparan	• Layanan Call Center • Survei Kepuasan Pelanggan • *Website & frontline information* • *Gathering* Agen46	Setiap saat Dua tahun sekali Setiap saat Minimal setahun sekali
Investor/ Pemegang Saham	Hubungan ekonomi, kepemilikan & legal	• Kinerja keuangan & non keuangan • Investasi untuk perusahaan ramah lingkungan	Pelaporan Kinerja Menyelenggarakan RUPS	Setiap kuartal
Pegawai	Legal & pemangku kepentingan yang membantu pencapaian tujuan perusahaan	• Hak-hak pegawai • Kesetaraan kesempatan • Pengembangan karir • Pengalaman bekerja yang berharga & menyenangkan	• Media Internal (Portal), *hotline* telepon dan surel • Survei Kepuasan pegawai	Setiap saat Setahun sekali
Serikat Kerja	Legal	• Hak-hak pegawai • Remunerasi & tunjangan	Pembahasan Perjanjian Kerja Bersama	Dua tahun sekali

Illustration 14

Furthermore, BNI stated "Following the end of Indonesia First Movers on Sustainable Banking Pilot Project in 2017, BNI has established a Sustainable Finance function in the Corporate Secretary and Communication Division in October 2017." This establishment could be considered odd. As discussed in the FSSD section, sustainable finance is far intimately related to credit portfolio rather than communication. The development of credit products which creates social and environmental benefits also clearly cannot be delivered under this division.

"Green financing is in line with Sustainable Finance (SF) principles. To implement all the principles of sustainable finance, BNI prepared the Sustainable Finance Committee. This Sustainable Finance Committee will provide the functions of policy formulation and decision making on Sustainable Finance." BNI continues to explain that, "The first step in realizing SF was to continue product development by initiating various technology-based and environmentally-friendly products. ... The second step was to build capacity through various training programs, both in class, such as TAL and ESG training, as well as on-line training via applications. Currently BNI has been planning to make organizational adjustments to refine SF's function and prepare roadmap aligned with SF principles. Third, the focus of this action plan will continue to be improved in 2018."

With this information, we can anticipate what we should be focusing upon in the 2018 BNI Sustainability Report. The statement does not clarify whether the Sustainable Finance Committee being established will be an executive committee or a Board of Commissioners level committee. BNI may place the committee within the Board of Commissioners considering that their stated function is policy formulation and decision making. The Board would also be providing an oversight and advisory function. If the stated second step is capacity development – which seems an appropriate first step, the Directors and Board of Commissioners should first of all develop their own capacity.

There remains a gap in the sustainability finance policies and procedures which should already be in place. This may be accepted as a time limitation issue since the OJK Regulation on Sustainable Finance will be enacted in 2019. However, BNI was the sole signatory Indonesian bank of the United Nations Environment Programme Finance Initiative (UNEP FI) in 2005, yet BNI still does not have the requisite policies and procedures which may be explained as being caused by a lack of capacity amongst their Directors and Board of Commissioners.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

BNI is a bank which is often said to be in the frontlines of sustainable banking in Indonesia. In 2017, this status appeared to be reinforced when BNI was selected as one of eight first movers on sustainable finance banks by OJK. The BNI 2017 Sustainability also elected to highlight this theme and strengthen this status, "Towards Sustainable Finance". This review was conducted with this background, specifically to determine the reality of how BNI is implementing sustainable finance.

After a thorough examination of the 2017 Sustainability Report, these following conclusions can be drawn:

First, the BNI 2017 Sustainability Report has demonstrated many improvements in the indicators associated with sustainable finance in comparison with previous sustainability reports. The relevant information content has increased both quantitatively and qualitatively.

Second, in comparison with the sustainability reports produced by other national banks, BNI has reported the most amount of information content associated with sustainability finance. However, in comparison with sustainability reports from the most progressive banks at the global level, BNI remains behind in the sustainable finance information content reporting.

Third, in conducting their materiality review, there seems to be some exclusion of particular stakeholders especially communities and NGOs in their survey; an addition to a lack of sufficient explanation of the impact of investment and operational decisions to the respective stakeholders. On the other hand, the explanation of the engagement methods with the stakeholders have been explained according to expectations.

Fourth, when compared against the expectations of stakeholders as mapped by GRI as well as the combined contents of GRI and Robeco SAM, BNI has reported several similar key issues yet seems to ignore other sustainability issues. This could be due to several stakeholders being neglected in the materiality review, and because the key issues faced by BNI differs from those at the global level.

Fifth, BNI reports the continuation of the business operations as part of sustainable finance; meanwhile the myriad definitions, standards and practices of sustainable finance places a definite emphasis on product portfolios which are dedicated towards resolving various economic, social and environmental issues.

Sixth, in reporting the product portfolio which resolves specific economic, social and environmental issues, BNI has not fully met the expectations established by FSSD GRI especially in explaining the product details, the proportion of all investments and the impact of each specific product.

Seventh, BNI reported all the financing for government projects – highways, electricity, transportation, telecommunication and oil and gas, as projects which has a social orientation. Despite these projects delivering particular social benefits however GRI explicitly states that the nature of specific social issue resolutions is specific especially for under-served communities. Including these projects automatically under the label of socially oriented investment is not only inaccurate but also covering the fact many negative social impacts which may be caused by these various projects.

Eighth, BNI also reported the proportion of products included in the 'green' or environmentally oriented category. However, BNI made these assumptions based on particular sectors. In addition to having to delve further into the practices of each project, their inclusion of palm oil and gas-based power generation financing is very much problematic.

Palm oil plantations, including those already RSPO certified, are often proved to have a significant and irreversible negative impact on the environment; the case is even more so for those with only ISPO certification or even those pursuing either one of these certifications. For gas, even with half the emission of coal, still cannot be considered as 'green'.

Ninth, the ambiguity with which BNI categorises projects into social and environmentally oriented ('green') is quite possibly related to the lack of established policies and procedures for sustainable finance. Several of the reported policies are closer to compliance examination and not sustainability. BNI also has not reported its criteria for negative screening which should be more stringent than merely meeting regulatory requirements, for example in controversial sectors such as cigarettes and coal mining/coal power generation or policies per sector as well as per issue such as regarding Human Rights fulfilment and zero deforestation.

Tenth, the various identified areas for improvement in the sustainability report may be related to the sustainable finance regulation in Indonesia coming into effect in 2019 and the intensive preparations were only conducted during 2018. However, as a member of UNEP FI since 2005, BNI should have been better prepared in their policies, procedures and human resources. BNI frankly revealed the fact that not one of their Directors or Board of Commissioners have received training in sustainable finance which may explain the breadth of these areas for improvement.

Recommendations

Recommendation for Bank Negara Indonesia (BNI)

Of course, with the OJK Regulation POJK 51 of 2017 coming into effect, beginning in early 2019, BNI has myriad homework tasks to complete in completing the areas of improvement which have been identified above. These tasks include – some may have been completed or are ongoing throughout 2018, are as follows:

Providing capacity building opportunities for Directors and members of the Board of Commissioners in sustainable finance in order for the oversight and advisory function (of the Board of Commissioners) and Executive (Directors) regarding sustainable finance may continue in an appropriate manner.

Expanding the relevant capacity building regarding sustainable finance for all staff members responsible for credit loans with training which includes more topics and incorporates these into their regular training.

Identifying various policies and procedures related to screening positive and negative aspects of investments – including policies for key sectors and issues as well as establishing stages for formulating the aforementioned identified policies and procedures.

Conducting a materiality review of sustainability issues by ensuring the inclusion of all relevant stakeholders as well as leveraging the comprehensive guidelines from GRI and other relevant guidelines such as from Robeco SAM, IIRC (for integrated reporting), SASB (for sustainable accounting) and TFCD (for reporting associated with climate change).

Publishing existing policies and procedures including but not limited to the sustainability report including its main contents in order to demonstrate their commitment to sustainable finance.

Distinctively separating initiatives for greening business operations through the creation of products and financing which are dedicated to resolving specific economic, social and environmental issues.

Reviewing the categories for social and 'green' oriented financing in order to be fully in alignment with the objectives of resolving specific economic, social and environmental issues as intended in the definition of sustainable finance and FSSD guidelines.

Endeavours towards reporting performance – direct results (output), indirect results (outcome) as well as the impact of various financing projects through the sustainability report in addition to other corporate communication formats which facilitate more in-depth reporting.

Reporting specific progress in the sustainable finance initiatives in the 2018 BNI Sustainability Report, including details of the Sustainable Finance Action Plan (*Rencana Aksi Keuangan Berkelanjutan - RAKB*) submitted to and/or approved by OJK.

Considering that a number of BUKU 4 banks (BUKU is an abbreviation of *Bank Umum Kegiatan Usaha* which is Commercial Bank Based on Business Activities whereby BUKU 4 has a Core Capital of at least IDR 30 Billion) and foreign-owned banks operating in Indonesia will commence implementing the principles of sustainable finance together with BNI therefore the aforementioned recommendations may well be beneficial to these banks as well as other banks who are preparing to enforce these principles in the future. A critical point to keep in mind is that sustainable finance relates to how the banks and other financial institutions operate their business rather than merely how they report their activities. The sustainability report of banks and other financial institutions are expected to truly be tools of transparency and accountability with regards to the practice of sustainable finance as opposed to being a tool of deception in presenting an image of sustainability.

Recommendations to the Government

To the Government of Indonesia, especially the OJK, the following actions to ensure sustainability reports can become tools of transparency and accountability towards sustainable finance are recommended:

First, develop regular training on sustainability reporting for the financial industry, especially with reference to the GRI standard. OJK can also consider referring to the framework created by The International Integrated Reporting Council (IIRC) so that the relationship between ESG performance and financial performance becomes clearer. For the training the OJK can work with GRI Indonesia.

Second, develop special training related to reporting of financial industry contributions to the achievement of SDGs in Indonesia, with reference to the standards made jointly by the GRI and the UN Global Compact. The document, *Integrating SDGs into Corporate Reporting: A Practical Guide*, will make reporting uniform and comparable, also with financial companies at the global level. OJK can cooperate with Indonesia Global Compact Network (IGCN) for this purpose.

Third, develop special training related to the consequences of climate change on the financial industry, given the increasing urgency of banks to participate in financing the low carbon development scenario. Reporting on this matter can refer to documents made by the Task Force for Climate-Related Financial Disclosures (TCFD)—which can assist the financial industry to understand the financial risks in various industries (i.e. the clients) due to climate change.

Fourth, build a database of sustainable financial reporting knowledge, by providing a variety of documents that can be referenced, including Indonesian translations of important international documents, and various examples of sustainable financial policies, and sustainability reports made by financial services institutions that are considered to be the most progressive.

Fifth, make an OJK Circular Letter regarding sustainable financial policies and procedures that need to be made by every financial service institution. The policy includes any sectors that cannot be financed in sustainable finance—especially as an embodiment of the principle of responsible investment—along with a firm time frame to actually leave it.

Sixth, build internal capacity of the OJK in supervising financial service institutions' compliance with the principles of sustainable finance, including the quality and correctness of the sustainability reports made. In this case, sustainable finance training, applicable international standards, along with possible violations, are urgently needed to the supervisors.

Finally, build a mechanism for stakeholder participation to be able to help financial service institutions to meet the principles of sustainable finance and/or help oversee their implementation. Mechanisms to be built include reporting of violations committed by financial service institutions and their resolutions.

Towards Sustainable Finance?

Critical Review of Bank BNI's 2017 Sustainability Report

TuK INDONESIA
Jl. Tebet Utara IIA. No. 13 Tebet
Jakarta Selatan 12810 Indonesia