



# Evaluating Mandatory Corporate Social Responsibility Disclosure Policies and Sustainability Development Goals Achievement in Indonesia

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## Article Information

Submitted : December 17, 2023

Reviewed : February 28, 2024

Revised : March 19, 2024

Accepted : April 15, 2024

**Keywords:** CSR; Indonesia company law; listed textile companies; mandatory disclosure; SDGs

Dol: 10.20961/yustisia.v13i1.81940

## Abstract

The enactment of the 2007 Company Law confirms Indonesia's requirement for mandatory disclosure of Corporate Social Responsibility (CSR). However, there has not been any research specifically examining CSR activities from the report disclosed. Only a few studies have examined the mandatory disclosure of CSR for companies whose core business does not directly include natural resources but whose activities significantly impact the environment. Therefore, this research aimed to evaluate and analyse the mandatory disclosure of CSR through company annual reports, taking a sample of listed textile businesses in Indonesia and the correlation with the achievement of Sustainability Development Goals (SDGs). The findings showed that the mandatory disclosure regulations in 2007 Company Law and Financial Service Authority Regulation Number 51/POJK.03/2017 failed to improve optimal CSR implementation by textile companies in Indonesia. Various textile companies focused more on community development while paying little attention to environmental concerns. Additionally, detailed and explicit provisions were lacking in achieving the SDGs target. Reformulation of CSR disclosure policies was necessary to regulate reporting procedures, content, and criteria for environmental aspects of the programs in annual reports while correlating with the targets of the 2030 SDGs policy.

## I. Introduction

A considerable body of literature has examined Corporate Social Responsibility (CSR) in developed and developing countries since the early fifties ([Bowen, 1953](#); [Davis, 1960](#); [Carroll, 2016](#)). According to Carroll (2016), businesses are expected and obligated to act righteously and fairly and minimise harm to all stakeholders. To ensure activities and products do not cause environmental damage, companies must implement CSR

through the 2007 Company Law in Indonesia ([Lin, 2021](#)). Despite strong opposition from several business associations, the parliamentary committee agrees that the law applies to natural resources companies and those with related activities as outlined in Article 74 of the 2007 Company Law. Implementing corporate CSR regulations faces several challenges, emphasising the need for clearer guidelines and effective enforcement mechanisms. A method to evaluate mandatory disclosure is through presenting CSR activities in annual reports, as stipulated in Article 66 (2) (c) of the 2007 Company Law, which will be discussed further in this research.

Indonesia has remained committed to implementing the Sustainable Development Goals (SDGs) since 2015 ([Alisjahbana & Murniningtyas, 2018](#)). This commitment is substantiated by various government policies leading to the achievement of 17 SDGs. Among the objectives are Presidential Regulation No.111 of 2022 concerning the Implementation of Achieving SDGs, the 2020-2024 National Medium Term Development Plan, Indonesia's SDGs Roadmap towards 2030, and the 2021-2024 SDGs Action Plan. Despite the presence of these various policies, the achievement of the 2030 SDGs remains suboptimal. Various Indonesia's trends in achieving SDGs lack information on the achievement based on the Sustainable Development Report. The objective with indicators not equipped with achievement information is Clean Water and Sanitation, denoted by the sixth SDGs ([United Nations, 2022](#)). The current condition suggests high water pollution levels in Indonesia due to industrial activities, specifically in the textile sector.

The textile sector plays a crucial role in Indonesia's economic development and is categorised as a strategic and priority industry due to its employment generation and contribution to foreign exchange. Alongside various environmental regulations, the government implements CSR obligations on companies to support sustainable and environmentally friendly economic development. The obligation to implement and disclose CSR activities in annual reports is stipulated in Law Number 40 of 2007 concerning Limited Liability Companies (hereinafter referred to as the 2007 Company Law). It states that companies in the field or related to natural resources should practice environmental and social responsibility. To ensure transparency in complying with Article 74 of the 2007 Company Law, companies should report CSR activities in the annual reports as required by Article 66 (2) clause (c) of the 2007 Company Law. In practice, CSR implementation should ensure sustainability and responsibility aspects ([Madaan et al., 2023](#)). The implementation of CSR is significant as it promotes environmental responsibility and contributes to social equity ([Setiawan, 2023](#)).

The research aimed to discuss the implementation of the mandatory disclosure policy of CSR by the textile sector using doctrinal legal publications. It further examines applicable legal regulations and how practices relate to the problem of mandatory disclosure of CSR. The research focuses on how disclosure policies are implemented for companies conducting business activities related to natural resources. A comparison was performed to validate the research data over the company's annual report (baseline

2018 to 2022), literature, and news from reputable mass media. The samples are obtained from textile companies listed on the Indonesian Stock Exchange in Bandung, Indonesia. Textile companies within Bandung represent the industry nationwide due to the significant number and contribution to river water pollution in the region from waste disposal activities in the Citarum River Basin.

The publication intends to determine when various textile industries adequately and effectively implement the mandatory disclosure policy in Indonesia. It further evaluates the policies from a norms perspective by identifying the country's legal framework for CSR and SDGs. The evaluation continues by analysing the disclosures in the annual reports of listed textile industries in Bandung, particularly concerning the environment. Reports of interviews with various parties are included to strengthen the findings showing the nonoptimal disclosure of CSR concerning the environment by textile companies. The research addresses two main questions. Firstly, it examines the effect of mandatory CSR regulations on the level of disclosure by textile companies in Bandung listed on the Indonesian Stock Exchange and the impact on improving environmental quality. Secondly, it investigates the coherence between CSR and SDG policies in achieving sustainable development objectives by 2030.

This research focuses on explaining the weakness of CSR disclosure in Indonesia. The findings show that the 2007 Company Law and the implementation of Government Regulation Number 47 of 2012 are suboptimal and ineffective. Research by Oppusunggu (2013) explained various weaknesses in CSR regulation as stipulated in Article 74 of the 2007 Company Law, such as a lack of clarity regarding allocated costs for the activities and the types of sanctions for violations. The lack of optimal mandatory regulation and implementation of CSR is evident from research showing relatively low implementation in Indonesia compared to ASEAN countries such as Singapore, Thailand, the Philippines, and Malaysia ([Loh et al., 2020](#)). Research by Sefriani and Wartini (2015) also showed that CSR implementation often excluded environmental aspects. CSR mandatory disclosure in Indonesia falls into the 'soft and hard law' category ([Lin, 2021](#)), appearing mandatory but having unclear rules, providing lessons for other countries to avoid regulation failure.

Various investigations are being carried out regarding the regulation and implementation of CSR for companies directly managing natural resources, such as mining, oil and gas, as well as plantation industries (Fajar, 2009; Azheri, 2010; Manurung, 2016; Rembrandt, 2017). Few publications examine CSR disclosure for companies whose core business does not directly manage natural resources but whose activities significantly impact the environment. Additionally, there has been no article specifically examining CSR from the aspect of the report disclosure. This research aims to fill the existing gaps and offers several significant contributions to CSR scholarships and disclosure regulation. It contributes substantially to the debate by developing connections between CSR and SDGs. The article initially establishes that the regulation lacks specific provisions regarding the disclosure for industries such as textile, indirectly related to natural resources.

Similarly, the findings lack specific provisions in these legal regimes regarding CSR reporting in annual reports. Clear criteria regarding the CSR program in the company's annual report and procedure specified to guide the implementation, planning, and reporting are further absent. Furthermore, the findings show no correlation between the norms in the 2007 Company Law and Government Regulation Number 47 of 2012 and the principles existing in target 6.3 of the SDGs. Indonesia's SDGs Road Map 2030 further lacks an explicit strategy towards achieving target 6.3 of the SDGs. This absence of strategy further affects other government policies and regulations toward achieving the SDGs, including CSR regulations. Therefore, ineffective implementation and enforcement of these regulations become inevitable due to erroneous or problematic legal norms.

This research article follows a structured format comprising four sections, each serving a specific purpose and contributing to the comprehensive understanding of the subject matter. It begins with an introduction, which is followed by a literature review including three aspects, namely (1) the definition, concept, and evolution of CSR, (2) an overview of CSR regulation in Indonesia, and (3) the various policies showing Indonesia's commitment to achieving the SDGs. Subsequently, the next section examines the influence of mandatory disclosure policies on listed textile companies in Bandung, focusing on CSR aspects in the annual reports. The final section briefly evaluates CSR mandatory disclosure policies and their implementation. It further discusses the failure of the Indonesian government to synergise strategies for achieving SDGs with mandatory disclosure policies for CSR. Recommendations are provided for reformulating the policies in Indonesia to correlate SDGs' target indicators with the conclusions offered in the final part of the research.

## II. Overview of Corporate Social Responsibility and Sustainable Development Goals

### A. The Concept of Corporate Social Responsibility

The concept of corporate social responsibility (CSR) began developing in the 1950s, with Howard R. Bowen initially proposing it in 1953. Howard stated that business actors should make decisions or carry out various actions correlating with society's objectives and values ([Bowen, 2013](#)). Similarly, Davis perceived CSR as a balance between the amount of social power possessed by business actors and social responsibility, where neglecting social responsibility led to the loss of business power ([Davis, 1960](#)). Due to the wide scope of CSR, many experts attempted to formulate various definitions ([Carroll, 2016](#)).

During the 1960s, societal concerns gained importance, and managers strategised to satisfy both shareholders and society's expectations. This condition continued in the 1970s when companies commenced taking organisational and managerial actions to address CSR concerns. In the 1980s, the CSR concept

evolved and developed to investigate how to adopt socially responsible policies and measure corporate social performance. The development brought greater visibility and reputational risk to non-sustainable companies in the 1990s. Research in the 2000s focused on examining companies' interaction with the external environment and the connection between CSR and Corporate Social Performance (CSP), as proposed by Carroll ([Carroll, 2016](#)). The concept of 'the pyramid CSR' was further developed, explaining that sustainability was the responsibility of companies to the natural environment, business ethics, CSP, and corporate citizenship ([Carroll, 2016](#)).

Adopting CSR activities and practices represented a competitive strategy that included ethical, social, and environmental concerns, allowing companies to improve their processes and resources ([Ferioli et al., 2021](#)). This matter is correlated with the triple bottom-line method, which is based on three pillars: economic prosperity, environmental quality, and social justice ([Elkington, 1997](#)). Furthermore, Burke and Logsdon identified CSR strategic dimensions to efficiently achieve objectives and develop economic values, including proactivity, the company's ability to formulate policies in anticipation of social trends, and the relevance of the recognisable and observable activities by internal as well as external stakeholders ([Latapí Agudelo et al., 2019](#)).

Considering the varied understanding of the CSR concept among business actors and stakeholders, ISO 26000 was introduced and prepared in a participatory manner by various parties ([International Organization for Standardization, 2018](#)). This circumstance made ISO 26000 the most comprehensive CSR guide, accepted by various groups worldwide, and provided voluntary standard guidelines regarding the social responsibility of institutions covering all sectors of public and private bodies in both developed and developing countries. According to ISO 26000, seven aspects of CSR were observed, namely, (1) Organisational governance, (2) Human rights, (3) Labor practices, (4) The environment, (5) Fair operating practices, (6) Consumer issues, (7) Community engagement and development ([International Organization for Standardization, 2018](#)).

The reformulation of mandatory disclosure regulations for CSR in Indonesia could have been conducted by clarifying existing regulations and paying attention to three important things. First, regulating the reporting procedures, content, and criteria for environmental aspects of CSR programs had to be disclosed in the annual report considering the targets to be achieved in the 2030 SDGs achievement policy. Second, formulating a monitoring mechanism includes various parties from the government, NGOs, and the environmental sector, as well as interested consumers and investors. The engagement of the government, business actors, and the commercial as well as non-commercial community in the implementation of regulations related to the environment was a visible method to increase optimisation in the regulatory process



([Wibisana, 2019](#)). The Financial Service Authority could have carried out control or supervision mechanisms, the Ministry of Environment and Forestry, and environmental auditors to assess the CSR programs and findings disclosed to the public in annual reports. Third, adequate sanctions should be implemented on companies ignoring mandatory CSR disclosures in the annual reports to ensure compliance with required programs.

## B. The Nature of Corporate Social Responsibility and Its Disclosure in Indonesia

Corporate social responsibility is mandatory in Indonesia. Its legal basis is found in the provisions of Article 33 of Indonesia's 1945 Constitution, where it is stated that 'the natural resources in Indonesia must be used for the prosperity of the Indonesian people'. From this constitution article, four legal regulations concerning CSR were derived, directly relating to limited liability companies. They include (i) Law Number 40 of 2007 concerning Limited Liability Companies. This issue requires companies in natural resource management to implement CSR ([Limited Liability Company Law, 2007](#)) (ii) Law Number 25 of 2007 concerning Capital Investment. It regulates CSR obligations for investors in Indonesia ([Investment Law, 2007](#)) (iii) Law Number 22 of 2001 concerning Oil and Natural Gas. This law states that local community development is one of the obligations of the oil and natural gas companies (Law No. 22 of 2001 Concerning Oil and Gas, 2001) (iv) Law Number 19 of 2003 concerning State-Owned Enterprises, which stipulates, among others that state-owned companies should carry out partnership and environmental development programs ([State Owned Enterprises Law, 2003](#)).

Initially, CSR regulations were not aimed at limited liability companies in a broad sense. However, they were directed specifically at limited liability companies whose business activities, like oil and natural gas companies, could directly impact the environment and society. Thus, CSR provisions concerning oil and natural gas were included in Law Number 22 of 2001. However, in 2007, CSR regulations for limited liability companies were more explicitly stated in the 2007 Company Law. Article 74 paragraph (1) stipulates that 'companies that carry out business activities in the field of or related to natural resources are obliged to implement social and environmental responsibility. These explicitly written CSR obligations are further integrated into the provisions of Article 2 and Article 3 paragraph (1) of Government Regulation Number 47 of 2012, where it is stated in Article 3 (1) that 'social and environmental responsibility as referred to in Article 2 is an obligation for limited liability companies carrying out business activities in the field of or related to natural resources based on the law. This matter means that these companies must have CSR programs. Nevertheless, these legal regulations are not specific regarding what kind of CSR programs the company must implement. ([Dewi & Jayadi, 2018](#))

On the other hand, the CSR activities carried out by these companies in compliance with the provisions of Article 74 of the Company Law must be included in their annual report as stipulated in Article 66 (2) clause (c) and Financial Service Authority Regulation Number 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Service Institutions, Issuers, and Public Companies. The latter, in Articles 10 (1) and (2), obliges the companies to report their CSR activities, and Article 12 (1) makes it mandatory for companies to disclose them to the public.

### C. Legal Frameworks of Sustainable Development Goals (SDGs) in Indonesia

The interest of several nations in respecting fundamental human rights and the growing need for sustainable development motivated the idea of the Sustainable Development Goals (SDGs) in 2015. Hence, SDGs became a guiding factor for companies to ensure that their activities contribute to societal well-being by formulating sustainable strategies. As a member State of the United Nations, Indonesia also played an active role in developing SDG targets. To fulfil its commitment towards achieving the SDGs, Indonesia enacted Presidential Regulation No. 59 of 2017 concerning the Achievement of Sustainable Development Goals Implementation aligns with the National Long-Term Development Plan (Rencana Pembangunan Jangka Panjang Nasional - RPJPN) and National Medium-Term Development Plan (Rencana Pembangunan Jangka Menengah Nasional - RPJMN) 2020-2024. Article 1 (1) of the presidential regulation states that SDGs contain global goals and targets from 2016 to 2030. It also contains strategic policies for achieving the SDGs from 2017 to 2030, adapted to national development targets. These national development targets are used as guidelines for ministries, regional governments, mass organisations, philanthropies, business actors, academics, and other stakeholders in the preparation, implementation, monitoring, and evaluation of SDG action plans following their areas of duties as stated in Article 3 of the Presidential regulation. This provision also regulates the mechanism for the periodic report of the achievements of the implementation of SDG targets once a year and at any time, if necessary, following the provisions of Article 17 of the presidential regulation.

After the SDGs agenda entered ten years (Decade of Action), the government issued Presidential Regulation Number 111 of 2022 concerning the Achievement of Sustainable Development Goals Implementation in replacement of Presidential Regulation Number 59 of 2017, as an effort to accelerate the achievement of the targets by all stakeholders both at the central and regional levels. The SDGs in Article 1 (1) are interpreted more specifically as a global development agenda to end poverty, improve prosperity, and protect the planet through achieving 17 goals by 2030. The implementation of achieving sustainable development goals is described in more detail in a matrix consisting of global goals, global targets, 2024 SDGs targets and implementing agencies.

SDGs policy in Indonesia can also be seen from the formation of the SDGs Indonesia Road Map towards 2030, the 2021-2024 SDGs Action Plan, the development of the SDGs Dashboard Feature, and the SDGs Investment Platform. The SDGs Road Map contains existing conditions and project scenarios for several SDGs indicators, followed by policy directions for each indicator in each goal. The SDGs National Action Plan is another policy showing Indonesia's commitment to realising the SDGs. Indonesia also regulates coordination, planning, monitoring, evaluation, and reporting mechanisms for implementing the SDGs through the Minister of National Development Planning Regulation Number 7 of 2018.

In implementing the SDGs, ministries carry out monitoring and evaluation mechanisms under their authority. Monitoring is carried out every six months, while evaluation is carried out once a year or at any time if necessary. Evaluation is carried out through a systematic and objective assessment of the implementation and results of the completed SDGs Road Map, National Action Plan, and Regional Action Plan.

The main principle of the 2030 Agenda for Sustainable Development is the common promise of every country to work together to achieve prosperity for everyone on a healthy and thriving planet (United Nations, 2023). However, halfway to 2030, realising the sustainable development goals (SDGs) seems unreachable. Based on a preliminary assessment of the 140 targets, it is apparent that only around 12% are on track (United Nations, 2023). While less than half of these targets are moderately or severely off track, 30% have seen no movement or regressed below the 2015 baseline (United Nations, 2023). Hence, real commitments and action are required to evaluate the coherence between the policies implemented by various countries, and the SDGs indicator framework agreed to by these countries. Based on the SDGs report, the crises that dominate the world apart from COVID-19 are climate change and environmental issues ([United Nations, 2022](#)). One of the crucial issues concerns the availability of clean water by protecting the earth's resources for future generations due to industrial activities, as stated in the 6.3 SDGs's targets by 2030.

### **III. The Effectiveness of the Mandatory CSR Disclosure: Compliance and Non-compliance by Listed Textile Companies in Bandung**

A country's development is realised through the role and responsibility of the government alone and support from all components of the society, especially business actors, to create social welfare and improve the community's quality of life. In elucidating the 2007 Company Law, it is stated that the aim for the inclusion of the regulations concerning CSR is to realise sustainable economic development. This condition shows that sustainable development is the basis for mandatory CSR regulations in Indonesia.



Sustainable economic development focuses not only on changing the economic structure in economic growth but also on improving the conditions of society through economic activity ([Hammer & Pivo, 2016](#)). Sustainable economic development is a program, policy, or activity designed to sustainably create a business climate that can contribute to environmental, social, and economic prosperity. Sustainable development in the CSR concept shows that economic activities aim to meet the current needs of the present generation without threatening the ability to protect future generations to meet their needs ([Kurnia et al., 2019](#)).

With the growing issue of sustainable development and various discussions at the international level where CSR has been accepted as the method for the realisation of sustainable economic development, CSR regulations are not only adopted by developed countries like the United States of America but also by the developing countries ([Hamed et al., 2022](#)). Indonesia is one of the countries that regulate CSR mandatorily through several provisions. Although Article 74 paragraph (1) of the Company Law does not specifically mention what companies are categorised as companies operating in the field of and related to natural resources, the elucidation of Article 74 paragraph (1) provides two explanations, namely: (1) Companies that carry out their business activities in the field of natural resources are companies whose business activities are involved in the management and utilisation of the natural resources, and (2) Companies that carry out business activities related to the natural resources are companies that do not manage and utilise the natural resources, but whose business activities have impact on the functioning capability of the natural resource. Therefore, it could be inferred that textile industries fall into the second category. Although their business activities do not directly involve managing and utilising natural resources, they impact the functioning of natural resources or the environment due to the textile wastes they produce.

One form of evaluating the CSR provisions as regulated in the 2007 Company Law is through the disclosure of CSR activities in the company's annual report as regulated in article 66 (2) (c), which requires that companies make annual reports comprising their CSR implementation report. Disclosure is one of the legal requirements for companies to provide certain prescribed information and reduce the occurrence of information asymmetry. According to Ogus (2004), mandatory disclosure is a part of information regulation to create market welfare through providing adequate information about a product and services. To avoid the occurrence of information asymmetry, mandatory disclosure in information regulation must be equipped with control of false or misleading information ([Ogus, 2004](#)). The impact of mandatory CSR disclosure on the information environment was also addressed by Ioannou and Serafeim (2017), who found an increase in the disclosure of corporate environmental, social and governance information in countries where CSR disclosure is mandatory. Various studies have been carried out to look at the various effects of mandatory CSR disclosure. For example, there is a study that assesses the real effects of mandatory CSR disclosure, including decreases in industrial wastewater and SO<sub>2</sub> emission levels ([Chen et al., 2018](#)) and

improved investment efficiency, by comparing the change in investment efficiency for industries mandated to issue CSR reports and industries not mandated to issue CSR report by law ([Liu & Tian, 2021](#)). Some studies also investigated the informational effects of CSR disclosure, including significantly enhancing CSR reporting quality that can influence investors' beliefs and market valuation ([Hamed et al., 2022](#)). Mandatory CSR reporting also reduces information asymmetry and restricts earning manipulation practices ([Wang et al., 2018](#)).

Furthermore, CSR disclosure creates space for good communication between the company and its stakeholders. In developing countries, CSR reporting is influenced by external forces/stakeholders who have great influence, including international buyers, foreign investors, international media, and international bodies such as the World Bank. Companies in developing countries receive less pressure from society to disclose CSR, which indicates that members of the public in developing countries receive less information on social and environmental issues and are furnished with programs which show concern for social and environmental issues ([Ali, 2017](#)).

Mandatory CSR disclosure by companies listed in the Indonesian Stock Exchange is specifically regulated in the Financial Services Authority Regulation Number 51/POJK.03/2017. Article 10 of this regulation requires financial services institutions, issuers, and public companies to prepare sustainability reports, which could be separate from their annual reports or as an inseparable part. Such a sustainability report shall contain at least three aspects: economic, social, and environmental (Regulation Number 51/POJK.03/2017 Concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies, 2017). Moreover, the sustainability report must be published based on Article 12 paragraph (1) provisions.

Even though Indonesia implements a mandatory disclosure policy on companies' annual reports, research by the Centre for Governance, Institutions, and Organisations of the National University of Singapore (NUS) shows that the level of disclosure in companies' annual report data in Indonesia is the lowest compared to other ASEAN countries (Malaysia, Philippines, Singapore, Thailand, and Vietnam) because only 51% of Indonesian companies disclose their performance in their annual reports as can be found below ([Loh et al., 2020](#)).

The ineffectiveness of the mandatory CSR disclosure policy on companies in Indonesia can also be seen from the disclosure of Economic, Environmental, Social, and Governance (EESG) aspects, where Indonesia is at the lowest level among ASEAN countries such as Singapore, Thailand, the Philippines, Malaysia, and Vietnam ([Loh et al., 2020](#)). Indonesia's CSR disclosure in the economic aspect is 50.0% (14.4% lower than the average disclosure percentage and the lowest in other ASEAN countries). In comparison, the environmental aspect is 70.0% (16% lower than the average percentage disclosure and the lowest in other ASEAN countries). The social aspect is 99.0% (a significant increase compared to the social aspect disclosure data in 2018, which was

only 52.1%), and the corporate governance aspect has a percentage disclosure smaller than other aspects at 39.0% (28.42% lower than the average percentage of disclosure).

Two crucial approaches are used in this research to evaluate the effectiveness of the CSR legal framework and whether its disclosure is mandatory for companies that do not use natural resources directly but whose activities are related to the use of natural resources. The first approach is looking at CSR norms and disclosure policies by exploring whether there are fallacies in corporate social responsibility reporting, clarity in the implementation procedures, supervision, and sanctions (compliance mechanism), and analysis of enabling conditions for norm ineffectiveness. Factors that may cause the ineffectiveness of a law or policy are the wrongfulness of the legal norms or the non-clarity of the norms, which opens the possibility for the wrongful implementation of the law.

From a policy perspective, there are no special regulations regarding CSR for companies that do not use natural resources directly but are related to the use of natural resources, whether regulated in Article 74 of the 2007 Company Law or the implementing regulations. Likewise, regarding CSR disclosure through annual reports, there are no clear criteria regarding CSR programs that should ideally be included in the annual report. The provisions of Article 66 (2) clause c of the 2007 Company Law only stipulate that CSR is one of the components that must be included in the annual report. However, there is no further explanation regarding the reporting procedure, content, and assessment criteria. There are also no provisions governing the parties authorised to access the CSR reports of the companies that do not directly use natural resources but whose activities are related to the use of natural resources. Therefore, it could be inferred that its assessment is open to the public. Unfortunately, the assessment is not optimal because there are no criteria to be used as a reference to assess the CSR programs included in the annual report. In the absence of norms that would help the public assess whether the CSR programs disclosed by the company are good or not, compliance with CSR regulations and disclosure cannot be assessed validly only by referring to the company's annual report.

The next approach is to look at the implementation of CSR disclosure rules through annual reports of companies that do not directly use natural resources but whose activities are related to the use of natural resources, specifically textile companies located within Bandung, listed in the Indonesia Stock Exchange. From the results of annual reports disclosed from 2018 (the year the Financial Services Authority Regulation Number 51/POJK.03/2017 was enacted) to 2022, it was found that some of these companies have yet to disclose their annual reports to the public. From a legal perspective, there should be a clear sanction for violating or neglecting CSR obligations. Although it is stated in Article 74 paragraph (3) that companies that do not carry out CSR obligations will be subject to sanctions, neither the 2007 Company Law nor Government Regulation Number 47 of 2012 as CSR implementing regulation in Indonesia contains provisions instituting sanctions for the neglect of CSR obligation by companies.

One of the provisions in the 2007 Company Law that can be used to enforce the obligation to report CSR activities in the company's annual report as mandated by Article 66 para (2) clause (c) of the 2007 Company Law is Article 146 paragraph (1) clause (a) of 2007 Company Law. Article 146 paragraph (1) clause (a) of 2007 Company Law states that the district court can dissolve a company at the request of the prosecutor's office because of the violation of public interest or for an act which violates statutory regulations committed by such a company. The above provision of the law can be used to enhance compliance with regulations concerning CSR obligations and reporting. However, until this research was conducted, there had not been any report about the dissolution of a textile company due to its failure to disclose its annual report to the public. Implementing regulations for CSR in Indonesia are too vague to provide any meaningful guidance for its implementation, and there is no legal provision for the government to monitor this process ([Lin, 2021](#)).

The CSR obligations for textile companies as those whose activities impact environmental quality as mandated in Article 74 paragraph (1) 2007 Company Law is, in principle, expected to reach not only the social aspects of the society but also the environmental aspects. Unfortunately, the CSR programs disclosed by these companies in their annual reports tend to be a fictitious creation or perhaps a simple duplication of the previous year's reports by these companies. On the other hand, the CSR programs performed by these companies are more directed towards community development, most of which are in the form of donations instead of sustainable development activities.

Preferably, these companies should design CSR programs that prioritise environmental quality by involving various parties related to environmental management and preservation, such as government agencies like the Citarum Harum Task Force, NGOs working in the environmental sector, and some local communities. However, these companies ignore the involvement of these agencies to ensure the appropriate implementation of their CSR obligations. They also seek the input of these agencies for proper CSR activities, which would help improve environmental quality and minimise river water pollution. Based on the analysis of the CSR programs of the textile companies located within Bandung revealed through their annual report, it can be concluded that there is no significant influence on improving environmental quality from the CSR programs performed by these textile companies. This condition is caused by many factors, among which are: (1) There is no clear definition in categorising matters of social responsibility and environmental responsibility, both in the 2007 Company Law and Government Regulation Number 47 of 2012 as implementing regulations for the obligation to implement CSR for companies as stated in the mandate of Article 74 paragraph (1) 2007 Company Law; (2) There are no sanctions explicitly stated for non-compliance with environmental CSR obligations. (3) Although the Ministry of Environment issues some guidelines concerning CSR activities within the environmental sector, they are not adequately implemented due to a lack of understanding and socialisation among the companies.

Thus, very few companies disclose their CSR activities to inform the public how they run their businesses correctly and simultaneously care for the environment. Under this circumstance, Vollero, in his research, stated that many companies are trying to build an image as highly committed to sustainability issues by progressively increasing the 'social responsibility' component in their companies and building marketing communications through CSR programs. Manipulating a company's image in this manner often leads to 'greenwashing' ([Vollero et al., 2016](#)). Mandatory disclosure of environmental performance, when not accompanied by adequate control of misleading information, will help these companies carry out greenwashing practices by manipulating their environmental performance data. The policy to disclose the company's environmental performance in a mandatory manner must be equipped with a monitoring mechanism by the government, NGOs, investors, and interested consumers, and should be able to change the company's internal reporting mechanism ([Fung et al., 2000](#)).

Monitoring should be carried out on predetermined environmental performance indicators. Determining indicators for environmental performance and company management practices that apply to mandatory disclosure is very influential in reducing the occurrence of greenwashing practices ([Delmas et al., 2010](#)). Therefore, verification or audit of environmental performance reports is necessary for company disclosure. The verification or audit must be transparent so that the public will have confidence in the information these companies report. In the context of mandatory environmental performance reporting regulation, NGOs can play an essential role in collecting and disseminating information disclosed by companies, thus making it easier to identify a company's good and bad environmental performance aspects. This circumstance can pressure bad environmental actors to improve their environmental performance. Moreover, the ease with which the public can access information on the company's environmental performance will improve its accountability in disclosing its environmental performance.

#### **IV. Activities of the Textile Companies within Bandung and Their Impact on the Environment**

Studies about the impact of the activities of textile companies on the environment have been conducted by various organisations. Observation carried out by Greenpeace at four different locations around the river where Gistex Company, one of the largest textile companies in Bandung, is located found that there is a brown, foamy waste stream from the company's main drainage pipe and also a high-level of hazardous waste and toxic compounds in the Citarum River as a result of wastes disposed by the company ([Greenpeace International, 2013](#)). Research by Komarawidjaja also suggests that the growth of textile industries in several villages in the Rancaekek District, Bandung Regency, impacts the decreasing environmental quality within the locality. The degradation tests on textile waste thrown into rivers show a high organic waste content, indicating that waste processing has not been carried out perfectly ([Komarawidjaja, 2016](#)).



Similarly, research conducted by the Asian Development Bank (ADB) and the World Bank found that 84% of water pollution in the Citarum River (the longest and largest river in West Java) was caused by industrial waste from textile industries. Another investigation carried out by Greenpeace Southeast Asia in conjunction with WALHI (Wahana Lingkungan Hidup Indonesia) and assisted by several other academics from the University of Padjadjaran and the University of Indonesia to explore the impact of industrial pollution on the Citarum River at ten illegal waste disposal points, often referred to as 'stealth-pipes'. The result shows that chemicals were found in liquid waste samples, including heavy metals such as mercury, hexavalent chromium, lead, and cadmium. Further analysis of the river sediments also showed high chromium, copper, and lead ([Putra, 2017](#)).

The condition of the Citarum River has decreased significantly, leading to its being dubbed the dirtiest river in the world by the World Bank in 2018. To overcome this, the government formed the Citarum Harum Task Force based on Presidential Regulation Number 15 of 2018 concerning the Acceleration, Control of Pollution, and Damage of the Citarum River Watershed. Handling industrial waste is one of the objectives of the Citarum Harum Task Force action plan program, intensively carried out with the proposal of 109 activities (Citarum Action Plan Matrix 2019-2025). The industrial waste management program is implemented through industrial data collection and mapping activities, construction of an integrated industrial wastewater treatment plant, and coaching, socialisation, and evaluation of the industry ([Putra, 2017](#)). This activity was carried out with a program outcome target, namely, the number of industries fostered was 1813 industries, and the number of industries identified and inventoried of their waste handling performance was 1043 industries by 2025 ([Revised Document for the Action Plan for Controlling Pollution and Damage to the Citarum Watershed 2021-2025, 2021](#)).

Most industrial waste management programs have not been optimally realised based on the achievement targets. In 2019, only 7 out of the 28 industrial waste programs (25%) were realised. However, in 2020, there was an increase to 10 programs (36%). The high number of industries in the Bandung area certainly causes an increase in pollution load from industrial waste. The main activity of the law enforcement program is carried out against industries which dispose of their waste products into the Citarum River without prior processing and do not comply with environmental protection and management obligations. In general, the law enforcement process is carried out by referring to complaints from the public and the findings of the Task Force ([Revised Document for the Action Plan for Controlling Pollution and Damage to the Citarum Watershed 2021-2025, 2021](#)).

In the last 30 years, Indonesia's GDP quadrupled from 794.027 billion in 2010 to 3.046 trillion in 2018. Indonesia's economic growth is predicted to reach 5.163 trillion in 2030, which will position Indonesia as the fifth strongest economy in the world. This improvement in economic development in Indonesia will lead to improved living

standards, as evidenced by the stability of the increase in GDP per capita and the structural transformation of the Indonesian economy. Transformation can be seen from the decreasing share of the agricultural sector, balanced by the increasing share of the manufacturing and service sectors. Economic improvements also increased the digital economy, the basis of the Industrial Era 4.0.

However, high economic growth comes with challenges, and industrial growth leads to pollution. The shift from the agricultural sector to the manufacturing sector resulted in a high level of urbanisation. It was estimated that in 2015, 53% of people lived in urban areas, which is expected to increase to 63.4% in 2030 ([Ministry of National Development Planning, 2019](#)).

Indonesia's commitment towards achieving the SDGs is about fulfilling global agreements and achieving Indonesia's goal of improving prosperity. SDGs are common goals that must be achieved in collaboration between the government and other parties. Moreover, proper planning, implementation, financing, monitoring, and a good evaluation process are required. Several global targets and indicators align with the National Medium-Term Development Plan (RPJMN) regarding Indonesia's position towards achieving the SDGs.

One major concern is the limited availability of clean water due to industrial growth and its consequent pollution. Water availability and sustainability are fundamental parts of sustainable development goals. Improving water quality is essential for protecting human and ecosystem health. The rapid growth of population and industries has greatly impacted the decreasing availability of clean water and the destruction of ecosystem functions ([United Nations, 2022](#)). This phenomenon is mainly caused by domestic wastes that are discharged into the bodies of river water. Data for 2017 and 2020 shows that only 32 of 153 countries have operational arrangements for managing rivers, lakes, and waters (United Nations, 2023). Based on the 2020 assessment of the quality of rivers and water areas in 97 countries, 60% of water conditions are good quality. Unfortunately, the assessment was not focused on developing and less developed countries (United Nations, 2023).

The need for clean water is an issue of great concern, so on March 22-24, 2023, the UN held a water conference. The basis of the conference was to evaluate the progress on water-related goals and targets, which remained alarmingly off track, jeopardising the entire sustainable development agenda. The following is a matrix between goal 6 of the SDGs (ensure availability and sustainable management of water and sanitation for all) and the National Medium-Term Development Plan (RPJMN).

**Table 1.** The matrix between Goal 6 of SDGs and RPJMN

Global Targets	SDGs 2024 Targets
<p><b>6.1</b> By 2030, achieve universal and equitable access to safe and affordable drinking water.</p>	<p>The percentage of households occupying residences with access to safe drinking water is 100% (with access to piped networks 30.45%), and the percentage of households occupying residences with access to safe drinking water is 15%. The base year 2020: 90.21% for access to safe drinking water, 20.69% for access to piped drinking water, and 11.9% for access to safe drinking water (data source: National Socio-Economic Survey, Central Bureau of Statistics and Water Quality Survey Drink, Ministry of Health)</p>
<p><b>6.2</b> By 2030, we aim to achieve access to adequate and equitable sanitation and hygiene for all and end open defecation, paying special attention to the needs of women, girls, and those in vulnerable situations.</p>	<ol style="list-style-type: none"> <li>1. The percentage of households occupying residences with access to adequate and safe sanitation (domestic wastewater) is 90% for adequate, including 15% for safe. Base year 2020: 79.53% for feasible, including 7.64% for safe (Data source: National Socio-economic Survey).</li> <li>2. The percentage of households still practising open defecation (BABS) in the open is 0%. The base year 2020: 6.19%. (Data source: National Socio-economic Survey).</li> <li>3. The number of home connections served by SPALD-T at the residential/city/regional (SR) scale is 3.9 million connections. 2019 base year: ±2.2 million house connections (Data source: Ministry of Public Works and Public Housing).</li> <li>4. The number of households served by Fecal Sludge Treatment Plants/IPLT (RT) is 8.6 million in 2020-2024. 2019 base year: ±900 thousand households (Data source: Ministry of Public Works and Public Housing).</li> </ol>

Global Targets	SDGs 2024 Targets
<p><b>6.3</b> By 2030, we aim to improve water quality by reducing pollution, eliminating dumping, minimising the release of hazardous chemicals and materials, halving the proportion of untreated wastewater, and substantially increasing recycling and safe reuse globally.</p>	<p>The Water Quality Index is 55.5. The base year is 2019:52.65 (Data source: Government Work Plan 2021).</p>
<p><b>6.4</b> By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity.</p>	<p>Increased availability of domestic and industrial raw water (m<sup>3</sup>/second) by 131.36 m<sup>3</sup>/second. The 2019 base year was 81.36 m<sup>3</sup>/second (Data source: RPJMN 2020-2024).</p>
<p><b>6.5</b> By 2030, implement integrated water resources management at all levels, including through transboundary cooperation, as appropriate.</p>	<p>The number of integrated PSDA policy documents for all centrally authorised river areas that have been prepared and updated is 64 (Data source: Government Work Plan 2022).</p>
<p><b>6.6</b> By 2020, protect and restore water-related ecosystems, including mountains, forests, wetlands, rivers, aquifers, and lakes.</p>	<p>The Water Quality Index is 55.5. The base year 2019 is 52.65 (Data source: Government Work Plan 2021).</p>
<p><b>6. a</b> By 2030, international cooperation and capacity-building support will be expanded for developing countries in water- and sanitation-related activities and programs, including water harvesting, desalination, water efficiency, wastewater treatment, recycling, and reuse technologies.</p>	<p>Does not include targets</p>
<p><b>6. b</b> Support and strengthen the participation of local communities in improving water and sanitation management</p>	<p>Does not include targets</p>

Source: Primary data, 2023 (Edited).

The table shows that target 6.3 of the SDGs is targeted to achieve a water quality index of 55.5 in 2024. The SDGs Road Map does not explain policy directions and strategies for reducing pollution, eliminating dumping, minimising the release of hazardous chemicals and materials, halving the proportion of untreated wastewater, and substantially increasing recycling and safe reuse globally. The evaluation report on the implementation of the 2021-2024 SDGs National Action Plan shows that the challenge in improving water quality is the high level of pollution in water bodies, resulting in a decline in the quality of available water and water storage decrease due to limited resources for maintenance. However, efforts have been made to increase water availability and security through the development and optimisation of the use of water supply infrastructure, improvement of the management and efficient use of water resources, conservation and control of the damage and pollution of river watersheds, and to protect water sources ([National Development Planning Agency, 2021](#)).

Midway to the 2030 agenda, Indonesia should review and revise its national strategies. The Sustainable Development Report 2030 indicates that current methods and mechanisms for implementing the agenda reflect pre-2015 world realities and are far from meeting the universality and transformative ambition of the SDGs. The third basic failure stands out: Firstly, implementation is primarily left to the national level and voluntarily, without effective multilateral enforcement mechanisms. Secondly, trade and international finance rules are not geared towards the SDGs. Unifying international business ecosystems could improve industrial supply chains by leveraging artificial intelligence. Thirdly, national governments lack 'vertical' coordination with subnational governments to implement SDGs. The 2030 Agenda and the Paris Climate Agreement established mechanisms to encourage and monitor their implementation by nation-states. Even the progress on consistent national reporting on SDG indicators is inadequate. There are no assessments or recommendations by the decision-making bodies on the adequacy or further enhancement of national implementation, let alone enforcement measures ([Sachs, 2023](#)).

There is inadequate information about Indonesia's performance towards achieving 29 indicators out of the 98 SDG indicators for SDG 6. Three of the five achievement targets that have been determined were recorded as not being equipped with achievement information, namely freshwater withdrawal, anthropogenic wastewater that receives treatment, and scarce water consumption embodied in imports. The condition above shows that although the Indonesian government has established various policies towards achieving the SDGs, weaknesses still abound in the implementation since there is a lack of available information to measure the achievement of SDGs in Indonesia.

There is a lack of coherence between the regulations enacted by Indonesia and the SDGs Achievement Policy, particularly target 6.3 of SDGs adopted by Indonesia. Corporate social and environmental responsibility stipulated in Article 74 (1) of the 2007 Company Law obliges companies whose business activities are in and/or related to using natural resources. The same law article stipulates that CSR shall further be



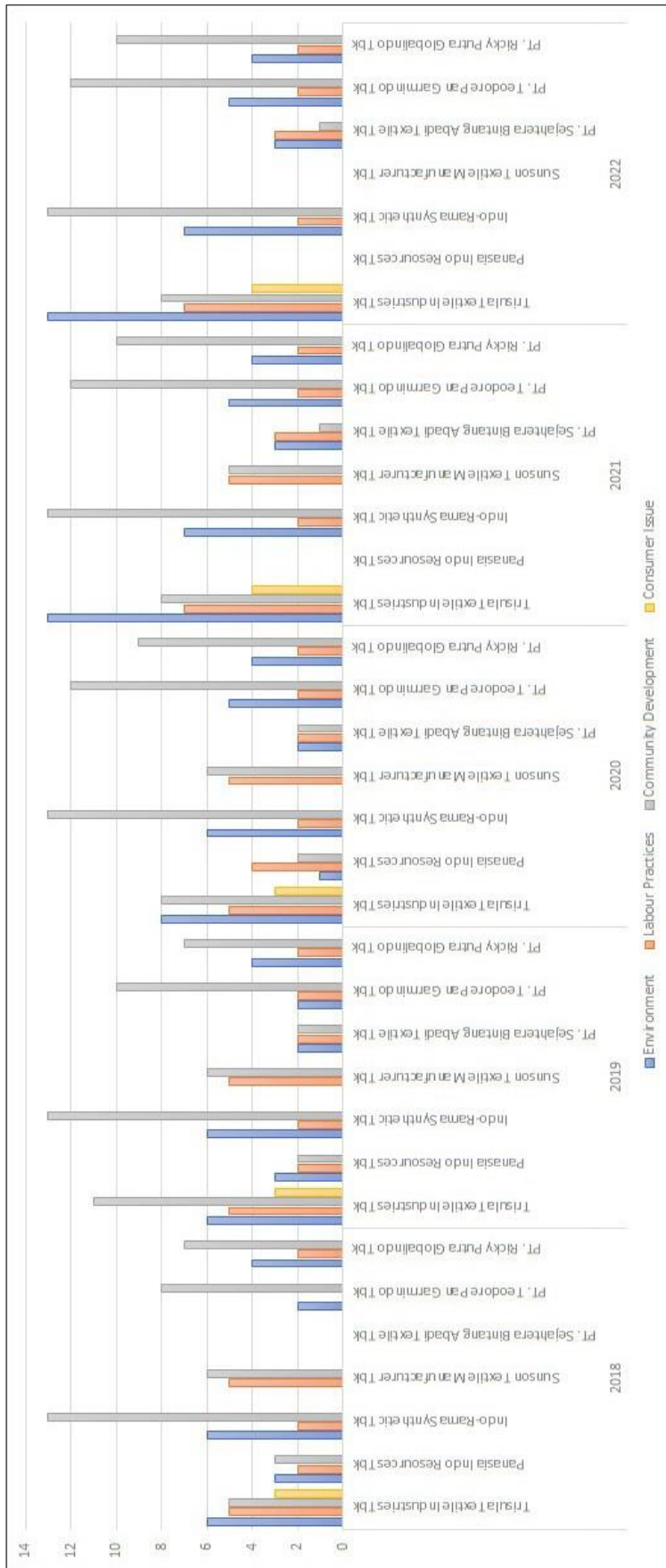
regulated in a government regulation. Nevertheless, Government Regulation No. 47/2012 concerning Corporate Social and Environmental Responsibility consists of only nine articles regulating the companies obliged to carry out CSR. The mechanisms for preparing CSR activity plans shall consider appropriateness and fairness, while CSR programs shall be reported in annual reports. Achieving target 6.3 of the SDGs is closely related to providing clear regulations and boundaries for companies to ensure their business activities do not increase pollution, especially textile companies that dispose of and release textile waste.

Unfortunately, the lack of adequate regulations and policies for achieving target 6.3 of the SDGs roadmap to 2030 in Indonesia has led to a lack of policy direction towards achieving the SDGs. The recommendation for achieving SDGs in 2030 is to review the roadmap and basic policies for implementing SDGs in Indonesia and reformulate CSR regulations to make them comprehensive and interlinked with SDGs' target indicators.

## **V. Analysis of the CSR Activities by the Listed Textile Companies**

Considering that the business activities of the textile industries impact the environment enormously, textile companies are obliged to disclose their CSR activities to the public. However, most of these textile companies do not publish this in their annual reports, thereby depriving the public of the right to receive information regarding the CSR activities of the textile companies listed on the Indonesian Stock Exchange. Results from the annual report disclosures from 2018 (the beginning of the enactment of Financial Services Authority Regulation Number 51/POJK.03/2017) to 2022 show that some textile companies are yet to disclose their annual reports. The disclosure of annual reports for 2018 through 2022, as required in the 2007 Company Law, has not been fully performed by some of the textile companies in Indonesia. This matter is substantiated by the percentage of disclosure, which is always below 100%, except in 2019. A decline in the level of CSR disclosure in the annual reports occurred in 2021, when it was only 80%, while in 2022, it only reached 45%.

Most of the 20 textile companies in Indonesia are located within Bandung, particularly in Bandung City, Cimahi City, Bandung Regency, and West Bandung Regency. In the representation of textile companies in Indonesia, those located within Bandung, due to their high number, were used as research samples in their annual reports. Because these textile companies' business activities significantly impact the environment, their CSR programs are expected to prioritise the environmental aspect. However, in practice, most of these companies are still not optimal in designing and realising CSR programs to improve environmental quality. Based on the identification of CSR reporting through the sample company's annual report, there are several CSR activities as standard in ISO 26000 carried out by the company in the 2018-2022 period, as shown in figure 1.



**Figure 1.** The number of CSR activities in the annual report listed textile firms in Bandung.

*Source: Results of analysis of company reports for 2018-2022*

Based on the CSR activities carried out by the sample companies (Figure 1), as stated in the annual reports for 2018-2022, most of the CSR programs carried out are community development programs in the form of donations to the local community. Meanwhile, CSR activities in the environmental sector carried out by textile companies are still very limited (Dani Amran Hakim, 2016). On the other hand, several activities categorised as companies' obligations, such as the building of infiltration wells, monitoring ambient air quality and surface water quality, noise and chimney emissions, the implementation of applicable guidelines and standards, and the management of liquid waste and dangerous and poisonous substances (B3) found in Environmental Documents are included in the CSR activities reported by these companies in their annual reports (Regulation of the Minister of the Environment Concerning Guidelines for Preparing Environmental Documents, 2012). These environmental documents include an environmental management plan, an environmental monitoring plan, and environmental management and environmental monitoring efforts.

Although the business sector in Indonesia rejected mandatory CSR law by resorting to judicial review of Article 74 to the constitutional court, Constitutional Court Decision Number 53/PUU-VI/2008 further confirmed Indonesia's position to implement mandatory CSR. An evaluation of Indonesia's mandatory CSR disclosure policy shows no clear criteria regarding CSR programs that should be included in a company's annual report. Article 66 para (2) clause (c) of the 2007 Company Law only states that CSR is one of the components that must be included in the annual report. However, there is no further explanation about the reporting procedures, content, and assessment criteria. There are also no provisions governing the authorised party to assess the CSR reports of companies that do not directly use natural resources but are related to the use of natural resources, hence leaving the assessment to the public. Unfortunately, the assessment is not optimal because there are no assessment criteria to be used as a reference to assess the CSR programs included in the annual report. Without legal norms, the public validate the integrity of these companies' CSR reports since compliance with CSR regulations and disclosure cannot be validly assessed only through the company's annual report. The CSR programs and disclosures implemented compulsorily in Indonesia should be a means of accelerating the achievement of the SDGs. However, although Indonesia regulates CSR and its disclosures in a mandatory manner (hard law) due to various regulatory weaknesses, as found in the evaluation results above, it could be inferred that the CSR regulations and disclosures are voluntary (soft law).

The nonoptimal CSR report given by textile companies located within Bandung certainly impacts the nonoptimal improvement in environmental quality that could be achieved from implementing the CSR program. Concerning ISO 26000 as a CSR implementation guideline applicable to all countries, companies in Indonesia should develop their CSR reports based on the seven existing guidelines. Apart from providing standards that target seven fundamental aspects of CSR implementation, ISO 26000 also

provides several steps for companies to be able to implement existing standards. The strategies are as follows ([International Organization for Standardization, 2018](#)).

- (1) Use the seven main principles to quickly analyse company performance relevant to the seven aspects of CSR. Map the role and impact of companies on society, especially the negative impacts resulting from business activities. Also, map the contribution that the company can make to sustainable development.
- (2) Carrying out stakeholder mapping, for example, compiling a wish list of stakeholders who can influence or be influenced by the company. Likewise, stakeholder expectations regarding legal compliance and company behavioural norms follow international standards.
- (3) Carrying out improvements to self-analysis through due diligence or developing gap analysis between current business activities and ISO 26000 guidelines as regulated in detail in the form of standards. Also, various recommendations for improvements must be identified and followed up immediately.
- (4) Determine the company's goals and objectives after receiving input from stakeholders. Immediately carry out sustainable improvements in various aspects of CSR, both short and long-term, to demonstrate the company's positive commitment in the social and environmental fields.
- (5) Integrate CSR in every aspect of the company as deemed necessary.

The reformulation of the mandatory CSR disclosure regulation in Indonesia can be done by clarifying the existing regulations and paying attention to three important things. Firstly, the reporting procedures, content, and criteria for environmental aspects of CSR programs must be regulated and disclosed in the annual report, considering the targets that must be achieved in the 2030 SDGs achievement policy. Secondly, a monitoring mechanism should be formulated involving various parties from the government, NGOs, and the environmental sector, as well as interested consumers and investors. The involvement of the government, business actors and the community (commercial and non-commercial) in the preparation and implementation of regulations relating to the environment is one visible way to increase optimisation in the regulatory process ([Wibisana, 2019](#)). Control or supervision mechanisms could be carried out by the Financial Service Authority, the Ministry of Environment and Forestry, and environmental auditors to assess environmental CSR programs and their findings, which are disclosed to the public in annual reports. Thirdly, adequate sanctions should be implemented against companies that ignore mandatory CSR disclosures in their annual reports to ensure compliance with CSR programs.

## VI. Conclusion

In conclusion, despite the Indonesian business sector rejecting CSR mandatory disclosure by resorting to judicial review, Constitutional Court Decision Number 53/

PUU-VI/2008 confirmed the country's position to implement the laws. An indicator for fulfilling the obligations by textile companies listed in IDX was CSR mandatory disclosure under Article 66 (2) clause (c) of the 2007 Company Law. This matter was further regulated in Financial Service Authority Regulation Number 51/POJK.03/2017. However, the mandatory disclosure regulations in 2007 Company Law and Financial Service Authority Regulation Number 51/POJK.03/2017 could not improve the optimal implementation of textile companies in Bandung, Indonesia. Unclear reporting procedures, criteria, and the lack of a control mechanism further led to repetitive or copied activities in the annual reports. Furthermore, the CSR programs were focused more on community development in the form of donations, neglecting the environmental sector.

Even though Indonesia was committed to achieving SDGs through various policies, such as Presidential Regulation No. 111 of 2022 concerning the implementation of Achievement of Sustainability Development Goals, these regulations did not clearly and unequivocally provide the methods for improving water quality through reducing pollution caused by textile companies. There was also an absence of a clear policy direction and strategy for achieving target 6.3 in Indonesia's SDGs roadmap towards 2030. Therefore, reformulating the mandatory disclosure policies for CSR in Indonesia was necessary. Attention was also to be given to the criteria, monitoring, and evaluating SDG 2030 achievements through the engagement of various parties such as NGOs, consumers, and members of society.

## VII. Acknowledgements

The author would like to thank the Education Fund Management Institute (LPDP) of the Ministry of Finance of the Republic of Indonesia for financing this research and Prof. Andri Gunawan Wibisana for providing input and suggestions for improvements. The author also thanks the anonymous reviewers and all the editors who helped with the manuscript revision process.

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