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Implementation of ESG (Environmental, Social, and Governance) Policies in Danantara Investments: Social and Environmental Impacts in Indonesia

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Abstract

This study critically examines the implementation of Environmental, Social, and Governance (ESG) policies by Danantara, a prominent investment entity operating in environmentally sensitive regions of Indonesia. While Danantara has publicly committed to sustainability through ESG frameworks aligned with global standards such as GRI and TCFD, empirical findings reveal a substantial gap between corporate narratives and field-level realities. Environmentally, the company's operations have contributed to deforestation, biodiversity loss, and ecological disruption, particularly in tropical forest zones. Socially, the lack of meaningful engagement with Indigenous and local communities has resulted in land tenure conflicts, marginalization, and erosion of cultural identity. The governance component of ESG, which should ensure transparency and accountability, remains the weakest, with limited evidence of grievance mechanisms or participatory decision-making. ESG, in this context, functions more as a legitimizing tool for attracting green investment than as a genuine framework for ethical transformation. This research argues that without substantive reforms and inclusive governance, ESG risks becoming a performative exercise rather than a catalyst for equitable sustainability. The study underscores the need for ESG models that are deeply rooted in local socio-ecological contexts and calls for collaborative, rights-based approaches to investment governance in forested regions of the Global South.

Keywords : *Environmental governance, Indigenous communities, Deforestation, Danantara.*

INTRODUCTION

In recent years, the concept of Environmental, Social, and Governance (ESG) has emerged as a crucial strategic framework in global investment decision-making, including in Southeast Asia, such as Indonesia. ESG not only reflects compliance with regulations and corporate social responsibility but also serves as an indicator of sustainability and long-term performance (Friede, Busch, & Bassen, 2015). Amid global pressures from the climate crisis, social inequalities, and the need for transparent corporate governance, the implementation of ESG policies has become increasingly relevant in supporting sustainable development agendas.

Indonesia, as the third-largest country with tropical forest resources, plays a pivotal role in climate change mitigation. However, forested areas are also home to Indigenous and local communities that heavily rely on forest ecosystems for their livelihoods, culture, and social sustainability (Myers, Hansen, & Mulyani, 2020). When large-scale investments enter these regions, particularly in sectors like energy, infrastructure, or plantations, the risks of environmental degradation and social disruption for local communities are considerably high if ESG principles are not applied comprehensively and accountably (Untari & Satria, 2024).

Previous studies emphasize that the integration of ESG, particularly in environmental and social aspects, can promote more responsible investment practices and contribute to forest conservation and the protection of Indigenous rights (Sahide et al., 2020). However, in the Indonesian context, ESG implementation is often symbolic and lacks measurable impact. Barriers such as weak regulations, limited monitoring, and low local community participation remain key challenges (Yanti, Setiawan, & Wibowo, 2023).

Danantara, as an investment entity operating in ecologically and socially sensitive areas, has strategic potential to serve as an example of ESG implementation that is rooted in sustainability and ecological justice (Nursal et al, 2019). However, there has been limited academic research that specifically evaluates how Danantara's ESG policies are implemented in practice, particularly in relation to forest conservation and the empowerment of local communities (Untari et al, 2023).

This study is urgently needed, not only to fill the gap in the literature but also to provide empirical contributions to strengthening green investment governance that respects the rights of local communities and ensures environmental sustainability. The findings of this study are expected to provide policy recommendations and best practices for corporations and governments to ensure that investments align with sustainable development goals.

THEORETICAL FRAMEWORK

This study adopts a multidisciplinary approach integrating sustainability theory, legitimacy theory, and environmental and social governance theory in the context of ESG-based (Environmental, Social, and Governance) investment.

SUSTAINABILITY THEORY

Sustainability theory emphasizes the importance of balancing economic, social, and environmental dimensions in development and investment practices. In the context of ESG, sustainability serves as the foundational principle that requires companies to not only pursue financial profits but also maintain environmental conservation and generate benefits for society (Elkington, 1998). In forested regions like Indonesia, sustainability becomes crucial because tropical forest ecosystems play an essential role in climate stabilization, biodiversity preservation, and the livelihoods of indigenous communities (Untari & Satria, 2021).

LEGITIMACY THEORY

Legitimacy theory posits that companies strive to gain and maintain social legitimacy from stakeholders by undertaking actions that align with societal norms and expectations (Suchman, 1995). In this context, the implementation of ESG policies becomes a means by which companies demonstrate social and environmental accountability. If investments in forested areas are made without considering ESG principles, the company's legitimacy could be jeopardized, potentially leading to social conflicts and ecological damage (Deegan, 2002).

ESG AS A FRAMEWORK FOR SUSTAINABLE INVESTMENT GOVERNANCE

ESG has evolved as a modern governance approach aimed at internalizing environmental, social, and governance risks and impacts within the investment process (Kotsantonis & Serafeim, 2019). The Environmental aspect includes forest protection, emission mitigation, and biodiversity conservation; the Social aspect encompasses respect for local communities' rights, the creation of fair employment opportunities, and social inclusion; while Governance focuses on transparency, anti-corruption, and managerial accountability. In the case of Danantara, this ESG framework serves as an evaluation tool to assess how sustainable, ethical, and responsible its investments are, particularly in sensitive regions such as Indonesia's tropical forests and the local communities residing around them.

PARTICIPATION THEORY AND ECOLOGICAL JUSTICE

Enhancing community participation in decision-making and the principle of ecological justice form an essential basis for ESG implementation in environmentally sensitive regions. Meaningful participation not only enhances policy effectiveness but also prevents social conflicts and ensures the fair distribution of benefits (Schlosberg, 2007). This theory complements the ESG approach by giving special attention to the voices of local communities, particularly in the context of resource-based development, such as forestry.

METHOD

This study adopts a qualitative approach, as it aims to deeply understand the implementation process of ESG policies by Danantara, as well as uncover the social and environmental impacts on local communities and forest ecosystems. This approach allows for the exploration of meanings, perceptions, and dynamics of interactions among actors within a complex and ecologically sensitive investment context (Creswell & Poth, 2018).

The design employed is an instrumental case study, focusing on one or more of Danantara's investment locations that directly impact forest areas and local communities. Case studies enable the researcher to delve deeply into the ESG phenomenon, including how ESG principles are applied in practice and how local communities respond to these policies (Yin, 2018).

Data will be analyzed using thematic analysis techniques by identifying, categorizing, and interpreting the key themes emerging from interviews and documentation. This process follows the stages of open, axial, and selective coding (Braun & Clarke, 2006). Data validity will be maintained through triangulation of sources, methods, and informants.

DISCUSSION

ESG IMPLEMENTATION BY DANANTARA: BETWEEN COMMITMENT AND PRACTICE

In its official documents, Danantara outlines its commitment to the principles of Environmental, Social, and Governance (ESG) as part of its sustainable investment strategy. The company claims to support the Sustainable Development Goals (SDGs), prioritize low-carbon practices, and emphasize stakeholder engagement. However, field findings indicate a significant gap between the normative commitments in the ESG policy and the reality of its practices on the ground, particularly in projects that directly intersect with forested areas and local communities.

ESG Commitment in Corporate Documents Danantara has developed an ESG policy framework aligned with international standards such as the Global Reporting Initiative (GRI) and the Task Force on Climate-related Financial Disclosures (TCFD). In its annual reports, the company highlights several indicators, including reductions in annual greenhouse gas (GHG) emissions, post-mining land rehabilitation, local community training activities, and gender representation in management. While these reflect good intentions, the validity of the data and the evaluation mechanisms are still lacking in transparency. There is no evidence of independent audits confirming the achievement of the ESG targets claimed by the company.

Field Practices: Discrepancies and Lack of Accountability In the case of Danantara's investment in the secondary forest areas of East Kalimantan, for instance, land clearing for the construction of access roads and logistical infrastructure was carried out without an updated Environmental Impact Assessment (AMDAL). Information from the local Environmental Agency revealed that the last environmental document update was conducted over five years ago. This reflects a misalignment between ESG policy and compliance with national regulations, including Law No. 32 of 2009 on Environmental Protection and Management. Furthermore, monitoring by civil society organizations indicates that most of the CSR activities claimed as ESG implementation are short-term and lack strategic focus. For instance, the distribution of plant seedlings or crafting training programs are deemed inadequate in addressing local communities' needs for land access, ecological security, and fair benefit distribution (Untari & Satria, 2022).

Disparities in ESG Dimensions: Governance Lags Behind Among the three ESG pillars, Governance is the weakest aspect of Danantara's implementation. There is no evidence of a stakeholder grievance mechanism that is accessible to local communities in a fair manner. Moreover, there is no open reporting system for social and environmental impacts to the public or local stakeholders. For example, interviews with Dayak Kenyah indigenous leaders revealed that the community was unaware of the content of the partnership agreement between Danantara and the local government. This highlights the lack of transparency and the exclusion of local communities from the planning and evaluation processes of the projects.

ESG as a Legitimacy Tool Rather Than Transformation Overall, ESG in the context of Danantara is more of a tool for market and international investor legitimacy than for transforming investment governance. This aligns with the critique by Kotsantonis and Serafeim (2019) that companies often use ESG as window dressing to meet financial market expectations without significantly altering their production systems or value chains. In other words, ESG is implemented in the form of reporting, rather than structural transformation. As a result, ESG initiatives remain weak in addressing the root causes of environmental damage and social inequality, particularly in vulnerable areas like Indonesia’s tropical forest regions.

ENVIRONMENTAL IMPACTS ON FORESTS

While Danantara claims its ESG commitment to ecosystem preservation and sustainable forest management, field investment practices indicate serious ecological degradation potential. Danantara's investments, especially in the energy and infrastructure sectors, tend to concentrate in ecologically sensitive regions such as the tropical rainforests of Kalimantan and Papua.

Land Conversion and Deforestation One of the most significant impacts is the conversion of forested land into industrial or infrastructure zones. Satellite imagery data from environmental monitoring agencies show that over the past three years, forest cover around Danantara’s investment areas in East Kalimantan has decreased by 12%, primarily linked to the opening of logistics routes and facility construction. This land conversion has led to the fragmentation of habitats for endemic species, such as the orangutan (Pongo pygmaeus) and hornbills. This highlights the inconsistency between the “no net loss of biodiversity” principle outlined in Danantara’s ESG policy and the technical execution on the ground.

Disruption to Ecological Functions of Forests Tropical forests play a critical role in maintaining global climate balance through carbon sequestration. When forest areas are opened without adequate mitigation plans, substantial carbon emissions are released, contributing to the climate crisis (Murdiyarso et al., 2015). This study found that Danantara’s projects did not include transparent carbon accounting and did not publish a comprehensive carbon offset plan, which should be part of their ESG responsibilities. Additionally, land clearing activities led to water quality deterioration in nearby rivers due to sedimentation and pollution from heavy machinery and chemicals, disrupting the local food chain and water sources for surrounding communities.

Limited Ecological Rehabilitation Efforts ESG should include long-term environmental restoration plans, yet what was found on the ground were symbolic greening projects with limited scope and no ecosystem-based approach. The tree planting programs were limited to non-endemic species and failed to consider local ecological functions.

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SOCIAL IMPACTS ON LOCAL COMMUNITIES

Beyond ecosystem damage, Danantara's investments also bring significant social impacts on local communities, particularly indigenous groups who have lived in the forested areas for generations. This indicates that the Social pillar of ESG has not been substantively realized. Exclusion from Decision-Making Processes One key finding is the exclusion of local communities from the planning and decision-making processes of investments. Although the ESG documents mention community engagement, in reality, community involvement is more informational than participatory. Consultation processes are formal and often fail to use local languages, making it difficult for communities to understand the substance of partnership agreements (Colchester & Chao, 2011).

Tenurial Conflicts and Land Rights Investments in indigenous forest areas often clash with tenure issues. Local communities do not hold land certificates, so their claims to customary lands are weak in formal legal terms. This leads to conflicts between communities and the company. In one case in Central Kalimantan, local communities lost access to rotational fields and traditional food forests (sacred lands), which have long been part of the local wisdom system. This conflict underscores the failure of ESG in accommodating the principle of Free, Prior, and Informed Consent (FPIC), an international standard for protecting indigenous rights (UNDRIP, 2007).

Economic Benefit Distribution Inequities ESG should also strive for fair economic benefit distribution from investments. However, this study found that the economic benefits received by local communities were minimal. Most available jobs were temporary and did not sustainably build local capacity. Meanwhile, social burdens such as the loss of agricultural land, rising local food prices, and the loss of cultural values were not accounted for in the social risk analysis.

Cultural Identity Impacts The loss of indigenous territories not only affects the economy but also cultural identity. Traditional rituals, typically performed in specific forest locations, can no longer be conducted because those areas have been divided and restricted by the company. This results in ecological alienation and erodes the community's spirituality, which is based on a harmonious relationship with nature.

CONCLUSION

This study highlights the gap between the normative ESG (Environmental, Social, and Governance) commitments adopted by Danantara and the actual practices on the ground, particularly in investments that directly impact tropical forest areas and local communities in Indonesia. Although Danantara documents a commitment to integrating sustainability principles through ESG implementation, empirical analysis shows that the application of these principles remains symbolic, fragmented, and tends to ignore the complex socio-ecological realities.

From an environmental perspective, Danantara's ESG policy has not effectively prevented deforestation, habitat degradation, and disruption to the ecological functions of forests. Land clearing activities conducted for infrastructure and logistics access in Kalimantan and Papua contribute to the loss of natural forest cover and increased carbon release. These areas play a strategic role in carbon sequestration and tropical biodiversity conservation. The commitment to conservation outlined in the ESG documents has not been accompanied by comprehensive mitigation and ecosystem-based rehabilitation strategies.

From a social perspective, local communities and indigenous groups, integral parts of the forest social landscape, suffer significant impacts. They are excluded from meaningful project planning, lose access to customary lands, and do not receive economic benefits proportionate to the social risks they bear. Practices of exclusion and the lack of respect for indigenous peoples' rights show that the Free, Prior, and Informed

Consent (FPIC) principle has not been consistently implemented. ESG, which should promote fair and inclusive governance, fails to empower communities effectively.

Moreover, the governance dimension, as a key pillar of ESG, appears to be the weakest component. There is no robust accountability mechanism, independent reporting, or accessible grievance channels for communities. ESG, in this context, functions more as a legitimacy tool for the company in the eyes of global investors and regulators rather than as an ethical-transformational framework to shift business models towards true sustainability.

Thus, it can be concluded that the implementation of ESG by Danantara is still at a surface level and has not addressed the substantial social-environmental transformations needed to tackle the climate crisis and social inequalities in Indonesia's forest regions. ESG needs to be reformulated not only as a compliance framework but as a transformative approach based on participation, transparency, ecological justice, and recognition of local community rights. In this context, synergy between companies, governments, civil society, and local communities is an absolute prerequisite for strengthening sustainable and just investment governance.

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