

Empowering MSMEs in Achieving Net Zero Emissions through Sustainability Reporting Implementation



Bahrul ulum Ilham

Nobel Indonesia Institute, Makassar, Indonesia

ABSTRACT: This research explains how implementing sustainability reports in MSMEs can contribute to realizing Net Zero Emissions. In large numbers, MSMEs contribute significantly to the local, regional, and global economy. The method used in this research is a literature study. The conclusion of this research is the preparation of sustainability reports for MSMEs by compiling company profiles referring to the GRI Standards. GRI standards are a global best practice for publicly reporting various economic, environmental, and social impacts. Specifically, MSMEs calculate greenhouse gas emissions using a calculator developed by GRI. Empowering MSMEs to realize Net Zero Emissions through Central Bank support and Penta Helix collaboration.

KEYWORDS: MSMEs, GRI Standars, Zero Emission, Sustainability Reporting

I. INTRODUCTION

Micro, small, and medium enterprises (MSMEs) play a significant role in the local, national, and global economy because they are huge in number and directly impact the broader community. The World Bank calls MSMEs the backbone of the world economy because they account for 95% of all world business actors. MSMEs also contribute 35% to the world's gross domestic product (GDP) growth, absorbing around 50% of the workforce worldwide (Alibhai et al., 2017).

In Indonesia, the role of MSMEs is undoubtedly a pillar of the national economy. The MSME sector for the Indonesian nation played a fundamental role during the monetary crisis, economic crisis, and the pandemic hit, which continues to drive the people's economy. The Indonesian Ministry of Cooperatives and SMEs at the end of 2019 recorded that the number of MSMEs reached 64.2 million with a contribution to GDP of 61.07% or 8,573.89 trillion rupiah. The contribution of MSMEs to the Indonesian economy also includes the ability to absorb 97% of the total workforce and collect up to 60.4% of total investment (Limanseto, 2021).

The significant contribution of MSMEs to the economy is crucial in realizing a sustainable economy. The problems of climate change, global warming, and sustainable economic development have become the world's attention in connection with efforts to realize *the Sustainable Development Goals (SDGs)*.

Concerning achieving the SDGs, the role of MSMEs is to contribute to the 17 goals of the SDGs, as explained in *the UNDESA – Report on MSMEs and the Sustainable Development Goals*. This report states the role of MSMEs in each SDG goal in economic activities related to job creation, income, and livelihood opportunities (Sobir, 2020). The role of MSMEs in sustainability issues is significant to realize shared agendas and prove that the relationship between MSMEs and sustainability cannot be separated.

II. METHOD

The type of research used is library research or literature study, where researchers rely on various literature sources to obtain research data. This research uses a qualitative approach because the data is in words or descriptions. Library or literature research is a type of research that focuses on the study and analysis of library or literature sources. In this research, researchers explored by utilizing similar or related studies (Purwanto, 2008).

III. SUSTAINABILITY REPORT FOR MSMES

Implementation of *sustainability reports* or global sustainability reports began in 1997 when *the Global Reporting Initiative (GRI)* was founded in Boston, United States. The GRI organization was founded due to increasing pressure for transparency regarding

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the influence of company business activities both economically, environmentally, and socially so that a guideline or *framework is needed* to develop *sustainability—reports* for companies of various sizes and business sectors worldwide (Maharani, 2015).

The aim of establishing GRI was to create the first accountability mechanism to ensure companies adhere to the principles of responsible environmental behavior, which was later expanded to include social, economic and governance issues (www.globalreporting.org 2020). GRI exists to help organizations become transparent and responsible for their impacts, so that GRI can create a sustainable future by creating a common global language for organizations to report their impacts (www.globalreporting.org 2020).

In 2002, GRI launched *Sustainability Reporting. The Guidelines* are the only guidelines for domestic and foreign companies to create *sustainability reports*. This guide was prepared by *the National Center for Sustainability Reporting (NSC)* with references from the world's independent institution, namely GRI, which is based in the Netherlands. *Sustainability The report* contains information about the company's performance in sustainable matters and its commitment to supporting a healthy global economy in line with the state of the surrounding environment.

At the end of 2021, the Global Reporting Initiative (GRI) updated the 2016 GRI Standards, which are no longer valid, and replaced them with the 2021 GRI Standards. The Disclosure Concept in the 2021 GRI requires organizations to present the information required by the GRI standards, either in the form of a statement, information, narrative, or data. Apart from that, in GRI 2021, Human Rights is an element that must be mandatory reported in sustainability reports.

Research related to *sustainability reporting* by Laskar in 2009-2014 (Laskar, 2018) shows that the impact of SR on financial performance in developed countries is more significant than in developing countries in Asia. The results of this research also show that the level of *sustainability disclosure reporting* in Indonesia still needs to be higher, only 72%, compared to Japan (90%), India (88%), and South Korea (85%).

The MSME sector plays an essential role in the national and global economy, but on the other hand, their involvement in sustainability issues still needs to be improved. Only a few in the MSME sector have implemented sustainability principles in their business strategy and daily operations. Based on **GRI's data *Sustainability Disclosure Database***, in 2017 and 2018, only 10.22% and 15% of the total sustainability reports collected during the year came from MSMEs, and this percentage has been almost the same for the last seven years (Anbumozhi & Kalirajan, 2022).

A sustainability report is not only an obligation for large companies or those listed on the Indonesian Stock Exchange but for all companies in Indonesia. The obligation to make sustainability reports is regulated in OJK Regulation no. 51, page 21, in 2017. With this regulation, banks are encouraged to distribute credit data to Micro, Small, and Medium Enterprises (MSMEs) and large businesses with sustainable principles.

Sustainability report Reporting is essential for MSMEs to improve their business's sustainability and evaluate internal business performance in economic, social, and environmental aspects. Sustainability reports also build trust among parties outside MSMEs that the business they run is responsible.

One way for SMEs to run a responsible business is to convey information about their business activities through sustainability reports. For MSMEs, sustainable reporting is by writing *sustainability performance* in the *company profile*) which is to the principles and standards issued by GRI (Owo, 2021).

IV. IMPLEMENTATION OF NET ZERO EMISSION THROUGH SUSTAINABILITY MSME REPORT

Implementation of sustainability reports for MSMEs by compiling company profiles referring to *GRI Standards*. In this case, MSME actors report their business performance and then see whether it complies with the indicators in the *GRI Standards guidelines*. Business performance includes, among other things, innovation, products, and services, as well as positive impacts on the social and surrounding environment while still considering business relevance and the needs of stakeholders. (GRI Secretariat 2023).

According to GRI standards, the business profile includes economic performance such as income, profit, investment, and economic contribution. Furthermore, environmental performance includes energy and resource use, greenhouse gas emissions, waste, and other environmental impacts. Furthermore, social performance includes employee welfare, human rights, diversity, and inclusion, as well as contributions to society, and governance performance includes organizational structure, risk management, integrity, and compliance with regulations.

More specifically, MSMEs can report business performance related to the environment by supporting *net zero emission efforts*. In this case, MSMEs calculate greenhouse gas emissions using the emissions calculator developed by GRI on the website www.bgkghcalculator.com. An overview of the calculation of greenhouse gas emissions is described as follows:

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ENERGY		EMISSION	
Types of Energy Sources	Volume	Emission Type	Volume (in tonnes CO ₂ eq)
Coverage 1			
Operational fuel consumption Gas Liters	Operational Fuel – Pertamina	
		Operational Fuel - Diesel	
		Operational Fuel - Peralite	
		Wood Fuel	
		LPG	
		Paper	
		Refrigerant / Cooling	
		Total Covered Emissions 1	
Scope 2			
PLN Electricity	... Kwh	PLN Electricity	
		Total Emissions Coverage 2	
		Total Emission Reduction (Tree Planting)	
Total Energy		Total Emissions Entire Coverage	

Sustainability training materials GRI-ABDSI (ABDSI 2021)report

In this way, MSMEs can identify sources of greenhouse gas emissions and waste management, then calculate the amount of greenhouse gas emissions produced in tons of CO₂e (carbon dioxide equivalent). Based on the results of this analysis, MSMEs then create action plans to reduce their greenhouse gas emissions, such as adopting clean technology, increasing energy efficiency, or using environmentally friendly raw materials.

Net zero emissions or zero carbon emissions is a situation where the amount of carbon emissions released into the atmosphere does not exceed the earth's ability to absorb these emissions. It is necessary to transition from the current energy system to an environmentally friendly one to achieve harmony between human activities and natural balance. One aspect that needs to be considered in achieving this is reducing the amount of carbon or gas emissions produced from various human activities over a certain period, better known as the carbon footprint, including business activities in MSMEs. MSMEs account for more than 99% of all businesses in Indonesia. This means that MSMEs have a significant impact on Indonesia's carbon emissions.

CONCLUSIONS

To help SMEs develop sustainable businesses, the Global Reporting Initiative (GRI) introduced sustainability reports. They prepared sustainable reports for MSMEs by compiling company profiles and branding or marketing strategies using GRI principles. Through this report, SMEs can not only use it to help access bank credit but data from the report can be drawn and designed in such a way as to create a company profile, as well as promotional, branding, and marketing strategies.

The Indonesian government is committed to realizing the Net-Zero Emission target by 2060. Efforts to achieve the Net Zero Emission target require support from regulations, technology, and cooperation between industrial entities, including banking. All parties and sectors must work together holistically, not only on projects but also on supporting policies.

Central banks are essential in encouraging sustainable economic policies for large companies and the MSME sector. One of its roles is providing incentives for companies implementing sustainable practices. Bank Indonesia (BI) is encouraging the growth of banking credit or financing for priority sectors, primarily through the People's Business Credit (KUR) program and green financing launched on April 1, 2023.

Collaboration to empower MSMEs in Indonesia is carried out using the Penta helix collaboration approach, referring to collaboration involving five parties known as ABCGM (Academics et al., Government, Media) in a project. The hope is that the Penta helix collaboration can encourage more inclusive, faster, and real target achievement because the program being implemented is supported by five different stakeholders, each with particular roles and expertise (Maturbongs & Lekatompessy, 2020).

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