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**Environmental Social and Governance (ESG) based Mutual Fund Investment in  
Indonesia**

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**ABSTRACT**

Investment is a familiar activity in the 4.0 era like today. By utilizing technology that is always developing, Indonesia has become one of the countries that has experienced a significant increase in investment, especially in the capital market. One investment that is growing rapidly is mutual fund investment. Based on the KSEI report, investors in the capital market are dominated by those aged under 30 years, namely 60.32%. Mutual fund investment is an investment that has various advantages. Every investment definitely has risks. Mutual funds are no exception, there are also some risks. Indonesia is a country that has the potential for new renewable energy (EBT), so investing in ESG mutual funds is very suitable in Indonesia. This research uses normative juridical methods. This research uses a qualitative approach. The data used in this research is data originating from literature searches, statutory regulations, and other literature studies. The results of this research are investment. The novelty of this research is that the application of ESG in mutual fund products is quite interesting in terms of paying attention to the surrounding environment. That the regulations regarding investments that adopt the ESG system do not yet have specific regulations governing their implementation. The rule of law is very necessary in order to avoid unwanted fraud. This article tries to provide an alternative to how important ESG-based investment is in Indonesia.

**Keywords:** ESG; Investment; Mutual funds; EBT; Capital market.

**INTRODUCTION**

As technology develops today, all activities that are usually carried out conventionally are slowly becoming digital activities. This turns out to have a positive impact on investment activities in Indonesia. Investment activities are an activity that is very popular with young people. Investment is an activity to utilize funds and is also a source of income for the owner of these funds. Types of investment that are quite popular in Indonesia include: (1) Deposits, (2) Gold, (3) Property, (4) Shares, (5) Peer to Peer Lending, and (6) Mutual Funds(1).

In Indonesia, mutual funds have been known since 1990 through Presidential Decree Number 53 of 1990 concerning Capital Markets. In simple terms, mutual funds can be interpreted as a forum used to collect funds from the public as investors which will be invested in the form of a securities portfolio carried out by an investment manager. In mutual funds there are 3 (three) elements, namely: (1) funds sourced from the community, namely investors; (2) the funds are invested in a securities portfolio; (3) the funds are managed by an investment manager, in this case the investment manager has a quite important role in managing the capital that has been collected(2).

Mutual funds are an investment instrument that is suitable for people as investors who have limited funds, information, time and insight regarding investment. Mutual fund investment management is handled by an investment manager (hereinafter referred to as MI). The task of MI is to manage investment portfolios by investors. The development of mutual funds in Indonesia is

growing relatively rapidly. The background problem is that there are restrictions on large-scale activities directed by the government so that investors have to make investments without meeting in person.

The use of social media is one of the biggest factors that can influence investment development in Indonesia. In order to increase digital financial literacy, efforts will continue to be made until in 2022 the OJK announces the results of the 2022 National Survey of Financial Literacy and Inclusion (SNLIK). The results of the survey are a financial literacy index for Indonesian people of 49.68% and financial inclusion of 85.01%. These results show an increase in the 2019 SNLIK financial literacy index of 38.03% and financial inclusion of 76.19%. This shows that Indonesian people are starting to understand digital finance which is currently developing so it is hoped that the increasing SNLIK will result in many Indonesian people making investments. This is in line with activities organized by OJK, namely Financial Inclusion Month (BIK) with the capital market industry achieving 64,228 new securities accounts.(3).

Based on OJK data, it was recorded that the number of investors investing in the capital market increased by 16.24% in a period of 2 (two) months, increasing to 4.51 million investors at the end of February 2021, whereas previously in December 2020 there were only 3.88 million investors. This also shows an increase in investment in mutual fund products. Looking at the data obtained from the Indonesian Central Securities Depository (KSEI), the following graph shows the increase in the number of investors in mutual fund products in the last 5 years:<sup>1</sup>(4)

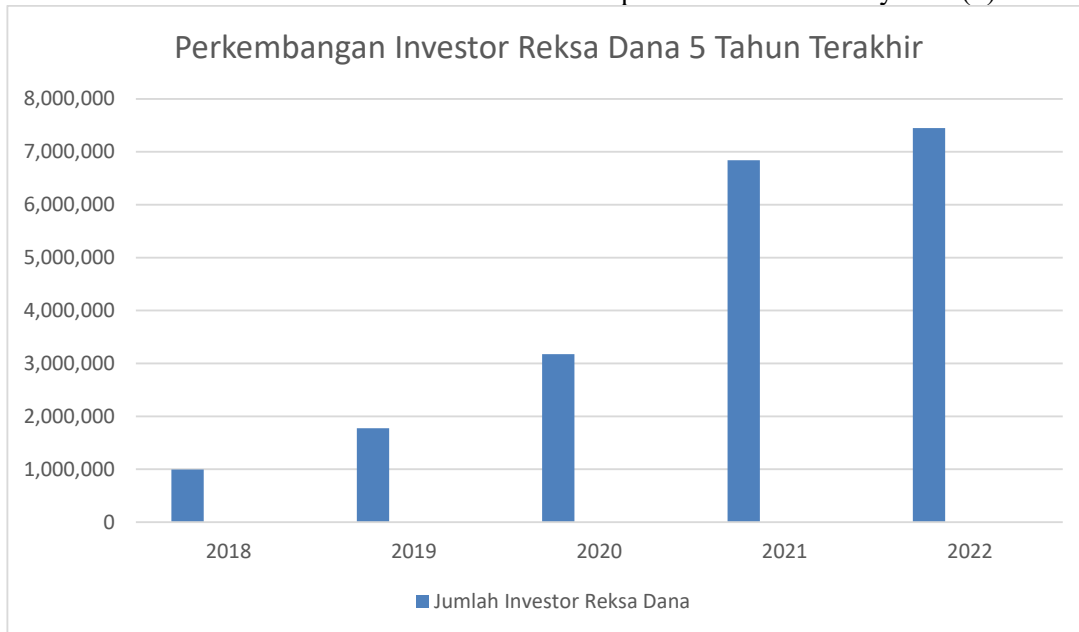


Figure 1. Development of Mutual Fund Investors

At the beginning of the Covid-19 pandemic in 2020, investors in mutual fund products began to invest until they reached 3.2 million, namely 78%, this figure was more than the previous year. Mutual funds are an investment that provides quite large profits. Besides that, there are big risks too. Even though mutual funds are a diversified product, mutual funds still have quite large risks, including mutual fund profits that cannot be guaranteed, investment value that cannot be separated from market risk, risk from the type of securities portfolio invested by MI, the existence of risks. liquidity, inflation and MI non-compliance in managing investments and product marketing. Apart from these risks, there are risks that arise which can lead to potential conflicts between investors,

<sup>1</sup> [https://www.ksei.co.id/files/Statistik\\_Publik\\_-\\_Februari\\_2022.pdf](https://www.ksei.co.id/files/Statistik_Publik_-_Februari_2022.pdf)

namely the issue of default on redemption requests for mutual fund products(5).

The number of cases affecting mutual fund companies has caused the level of public confidence in investment to begin to decline. The following are several examples of mutual fund company cases that occurred at PT. Jiwasraya Insurance Persero (hereinafter referred to as PT. Jiwasraya) which involves 13 MI companies, namely PT. DMI/PAC, PT. OMI, PT. PPI, PT. MID/MCM, PT. PAM, PT. MAM, PT. MAM, PT. GAPC, PT. JCAM, PT. PAAM, PT. CC, PT. TFII, and PT. SAM. PT case. Jiwasraya caused losses in financial management and investment funds at PT. Jiwasraya from 2008 to 2018 amounted to Rp. 12.157 trillion of the total state losses which reached Rp. 16.81 trillion. The second case in 2020 involving PT. Sinarmas Asset Management (PT. Sinarmas AM), in this case the OJK, has issued a purchase suspension letter on May 20 2020 with number S-452/PM.21/2020. In this letter, OJK has frozen the company's mutual funds which had previously been monitored on March 31 2020. The results of this monitoring found that PT. Sinarmas AM has calculated market values in general which do not refer to the price range determined by LPHE(6).

Based on the cases above, potential investors have doubts about investing, especially in mutual fund products(7). The cause of the cases above is that MI policies are not yet clear, however, the emergence of new regulations governing MI, namely POJK Number 17/POJK.04/2022 concerning Investment Manager Code of Conduct, has made MI stricter in implementing policies so that problems do not arise. new problem. Nowadays, all activities in Indonesia must prioritize environmental renewal. Likewise, investment activities are increasingly easier to access due to the very rapid development of technology and information. KSEI has reported that the number of capital market investors in Indonesia increases every year, followed by an increase in the number of investment products which are increasingly increasing and diverse. ESG-based mutual funds are one of the investment products that many investors are looking at. ESG is a standard for a company in implementing investments which refers to three concepts, namely Environmental, Social and Governance, so that the company implements policies in accordance with these three concepts.

The development of investment in the capital market has increased quite significantly, Indonesia is a country that supports the sustainable development goals (SDGs) movement, therefore investment in Indonesia is also starting to adopt environmentally friendly investment. One of them is ESG-based mutual fund investment. In Indonesia, there is a special thematic stock mutual fund product created to support the SDGs program, namely the Sucorinvest Sustainability Equity Fund. This investment was introduced for the first time on October 27 2021. Apart from this product, there is an MI company, namely PT Mandiri Manajemen Investasi (Mandiri Investasi), which is the first MI company to launch a product, namely the Mandiri FTSE Indonesia ESG Index in May 2022. Investing Through mutual fund products, you will get various benefits, namely: Firstly, mutual fund products provide investment returns equivalent to the FTSE Indonesia ESG index which has quite good performance and is relevant to other stock indexes. Second, it can provide access for investors to make investments by implementing ESG principles. By indirectly implementing this principle, investors also have a role in keeping the earth sustainable and supporting good corporate governance (GCG) in Indonesia. Third, mutual funds are transparent investments with competitive costs, because index mutual funds have good management and transparent information disclosure and can be accessed directly via the FTSE website(8). Based on the background above, the problem formulation in this research is how does the ESG concept support the SDGs?

## RESEARCH METHODS

The method in this research uses a normative approach or also known as doctrinal legal research(9). Legal doctrinal legal research is conceptualized as what is written in statutory regulations or laws which are conceptualized as rules or norms which are benchmarks for human behavior that is considered appropriate. The data collection method uses library research which refers to secondary data such as statutory regulations, books, academic journals and opinion articles that support the analysis process(10).

## RESULTS AND DISCUSSION

Mutual funds are an investment intended for potential investors who have limited capital and knowledge about investment, so they involve MI companies. Mutual funds are regulated in Law Number 8 of 1995 concerning Capital Markets (hereinafter referred to as Law No. 8/1995). Based on article 1 number 27, mutual funds are defined as a forum used to collect funds or capital originating from the public which are then used to invest in the form of a Securities Portfolio managed by an Investment Manager. Apart from this Law, there is Financial Services Authority Regulation Number 3/POJK.04/2021 concerning the Implementation of Activities in the Capital Market Sector (hereinafter referred to as POJK No.3/POJK.04/2021). However, these two regulations only regulate the implementation of mutual funds in general. The need for special regulations regarding mutual funds which regulate ESG.

Mutual funds are a financial investment instrument that can support Sustainable Development Goals (SDGs). SDGs 2030 or what are usually called sustainable development goals is an agreement formed based on human rights and equality to advance social, economic and environmental development. SDGs themselves consist of 17 goals and 4 main pillars, namely as follows: 17 goals, namely: 1. No poverty; 2. No hunger; 3. Healthy and prosperous life; 4. Quality education; 5. Gender Equality; 6. Clean water and proper sanitation; 7. Clean and affordable energy; 8. Decent work and economic growth; 9. Industry, innovation and infrastructure; 10. Reduced inequality; 11. Sustainable cities and settlements; 12. Responsible consumption and production; 13. Handling climate change; 14. Ocean ecosystem; 15. Land ecosystem; 16. Peace, justice and strong institutions; and 17. Partnership in order to achieve goals(11). Meanwhile, the 4 main pillars of the SDGs are the social development pillar, the economic development pillar, the environmental development pillar, and the legal and governance development pillar.(12).

In Indonesia, ESG-based investment has experienced quite significant development. In January 2020, the amount of managed funds from ESG mutual fund investments reached IDR. 1.8 Trillion. This is quite a fantastic increase in value because previously in 2017 the managed funds were only IDR. 132 Billion. In 2017 there was only 1 ESG-based mutual fund investment product, in 2019 the number of ESG-based mutual fund investment products increased to 10 products, then in 2020 the number increased to 13 mutual funds(13).(14). In 2021 there will be 15 ESG-based mutual funds in Indonesia. By 2022 there will be as many as 20 ESG-based mutual funds with managed funds reaching IDR. 2.6 trillion(15).

In 2021, the ESG-based mutual fund with the largest AUM value is owned by the BNI AM ETF MSCI ESG Leaders Indonesia index mutual fund, namely IDR. 626.2 billion(16). In general, capital market investors pay more attention to corporate social responsibility by applying the concept of corporate governance or implementing business ethics and environmental sustainability. Apart from this, the factors that attract investment interest are financial literacy, subjective norms and attitude which have quite a significant influence on ESG-based investment.(17).

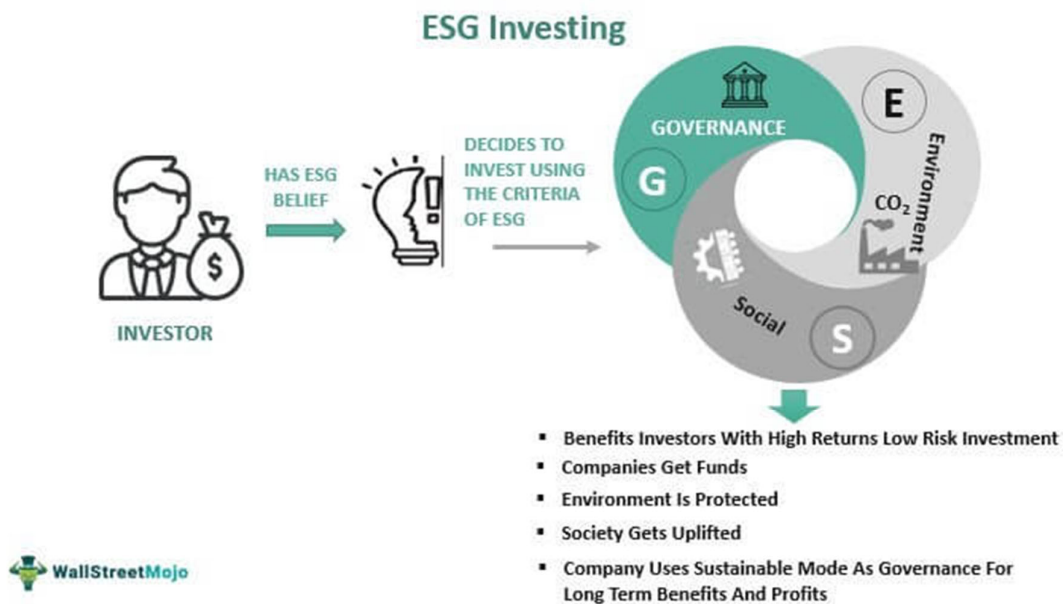


Figure 2. Investment with the ESG concept(18)

From an environmental perspective, ESG-based mutual funds must consider the impact of their business activities by paying attention to the environmental perspective. Mutual fund investments that pay attention to environmental impacts have long-term benefits. Funds invested by investors will be placed in global companies that pay attention to the ESG concept. In Indonesia, Batavia Global ESG Sharia Equity USD is the first global mutual fund product to adopt the ESG concept. The following are examples of companies that have mutual fund ownership in Batavia Global ESG Sharia Equity USD, namely the companies Johnson and Johnson, Procter and Gamble, Adibe, Chevron, and Salesforce.com. Mutual fund products that prioritize the ESG concept not only aim to increase the potential for long-term returns, but this mutual fund concept has been proven to be able to survive when market conditions are declining. Apart from this, companies with an ESG profile that have strong prospects will be managed well so that the potential for financial performance will be superior. Mutual fund products at Batavia Global ESG Sharia Equity USD provide investors with experience by reducing the impact of companies or industries that can be harmful to the environment. By investing in ESG-based mutual funds, investors have also made a real contribution in taking real action on sustainability issues, for example reducing carbon, fulfilling workers' rights, and providing the widest possible impact on society.(19). Socially based mutual fund products are defined as how a company can balance the rights and obligations of its employees from social aspects, such as wages, gender equality, and others.

PT. Insight Investments Management takes a role in supporting sustainable development by issuing an ESG-based mutual fund investment product, namely SRI-Kehati Likuid. From a governance perspective, it is how the company carries out good, structured and transparent governance. CSR activities that have been initiated by the Insight SRI-Kehati Likuid index mutual fund product include supporting the development of sorghum cultivation located on Flores Island, East Nusa Tenggara and supporting the development of Kehati Parks located in 8 provinces throughout Indonesia, namely West Sumatra, West Java, Java Central, East Java, Yogyakarta,

South Kalimantan and North Sulawesi.<sup>2</sup>This proves that ESG-based mutual funds are investment products that support sustainable development in accordance with the goals and pillars of the SDGs.

### CONCLUSION AND SUGGESTION

Mutual funds are an investment that provides quite large profits. Mutual funds are an instrument aimed at potential investors who want to invest but have minimal knowledge and the investment amount is not too large. In this instrument, MI is the party that manages the investments we have purchased in mutual fund products. In Indonesia, the mutual fund product that is currently being discussed is ESG-based mutual fund investment. In Indonesia, the concept of ESG-based mutual fund investment is developing quite rapidly and has become an alternative investment choice, especially for millennial people. Apart from that, the real form of mutual fund products is supporting various Indonesian biodiversity conservation programs and collaborating with biodiversity foundations. Therefore, the goals of ESG-based investment are in line with the increasing enthusiasm of society for investments based on environmental sustainability. Indonesian people are starting to make investments that were initially only based on profits, starting to change to investments that pay attention to environmental impacts, care about environmental, social, community and good corporate governance aspects. Based on the discussion regarding ESG-based mutual fund products, it can be concluded that these products support the SDGs program which is the commitment of the Indonesian nation. However, there is still a need for special regulations to regulate ESG-based mutual funds in Indonesia.

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<sup>2</sup> <https://investor.id/market-and-corporate/315445/tren-investasi-esg-meningkat-insight-siapkan-2-produk-reksadana-berbasis-esg>

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