

Responsible Investment in Indonesia Mineral Mining Sector

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ABSTRACT

Mining activities has long been associated with human rights violations. The extraction of minerals can cause a number or negative impact to local communities and the environment. At the same time, mining operation is very capital intensive industry. The need of capital in mining industry has been opening the opportunity for a responsible investment. The United Nations Guiding Principles on Business and Human Rights emphasizes that Investors has responsibility to identify and address human rights risks and impacts in their investment portfolios, and should use their power to influence investee companies to respect human rights. Indonesia is one of the world's largest producers of mineral mining. Mining operations in Indonesia—like many other global mining operations—have been under public scrutiny for its impact to the environment and livelihood of local and indigenous communities. This article seeks to analyse to what extent a good performance of environment, social and governance (ESG) and respect for human rights by a mining company may affect its financial performance. Further, this article seeks to discuss whether a good performance of ESG and respect for human rights by a mining company may attract responsible investors. PT Timah Tbk. is used as the case study because of its important position in Indonesian mineral mining sector, and data availability as a public listed company. This article finds that there is a strong indication of positive relation between a good ESG and respect to human rights performance, and the financial performance of PT Timah Tbk. A good observance of ESG and human rights attracts UNPRI Signatories in investing their funds in PT Timah Tbk. shares.

Keywords: *responsible investment, business and human rights, tin, mineral mining*

1. INTRODUCTION

Mining activities has long been associated with human rights violations. The extraction of minerals can cause a number or negative impact to local communities and the environment. Mining operation may cause the loss of land and livelihood, environment degradation, and may even contribute to gross violations of human rights. At the same time, mining operation is very capital intensive industry. The use of technology and expansion of mining operations needs to be funded by a huge capital. This is why, extractive industry is very much depending on funds from the issuance of bonds, or other equity in the capital market [1].

The need of capital in mining industry has been opening the opportunity for a responsible investment. According to the United Nations Guiding Principles on Business and Human Rights (UNGPs), all business enterprises regardless of sector have a responsibility to respect human rights, this includes investment companies, lending institution and fund managers [2]. The responsibility to respect human rights goes beyond the company's own activities, this responsibility also applies to its business relationships. Business relationships include the

company's business partners, and any other entity that is directly linked to its operations, products or services [3]. Therefore, like other companies, institutional investors have similar responsibility to respect human rights in line with the UNGPs. Investors has responsibility to identify and address human rights risks and impacts in their investment portfolios, and should use their power to influence investee companies to respect human rights [4]. One of the leading global frameworks in promoting responsible investment is the United Nations Principles for Responsible Investment (UNPRI). The UNPRI provides Six Principles as guidance for its members (investors) to incorporate Environment, Social and Governance factors into their investment and ownership decisions. The UNPRI Principles were established in 2005, and first launched in 2006 at the New York Stock Exchange. Till date, the member signatories have been growing to over 2.300 [5]. Indonesia is one of the world's largest producers of mineral mining. Indonesia is the second largest exporter of tin, the total number of tin export in 2018 was 33.444 tons, this is equal to 20% of the global demand. In relation to other minerals, Indonesia is the second largest exporter of coal, the third largest exporter of copper, and the fourth largest exporter of gold globally [6]. Despite its contribution to the national economy, mining operations in

Indonesia—like many other global mining operations—have been under public scrutiny for its impact to the environment and livelihood of local and indigenous communities.

This article seeks to analyze to what extent a good performance of ESG and respect for human rights by a mining company may affect its financial performance. Further, this article seek proof whether a good performance of ESG and respect for human rights by a mining company attracts investors, member of UNPRI, more importantly what does it mean for the investee company. This is article is based on a desk (library) research, it analyzes primary and secondary sources available on the library and the internet. PT Timah Tbk., is used as the case study because of its important position in Indonesian mineral mining sector, and data availability as a public listed company.

1.1. Our Contribution

This article demonstrates that a low standard of ESG and human rights performance, may have a significant impact to financial performance of a company. This is as evidenced by PT Timah Tbk. mining operation between 2012 to 2019. PT Timah Tbk. was accused of contributing to environment degradation and low standard of health and safety working conditions between 2012 to 2014. This situation was also followed by a significant decrease of PT Timah Tbk. net profit and Earning per Share ratio. Likewise, this article argues that there might be a positive relation between a good ESG and respect to human rights performance, and the financial performance of PT Timah Tbk. A good observance of ESG and human rights attracts UNPRI Signatories to invest their funds in PT Timah Tbk.

1.2. Paper Structure

Section 2 of this article discusses responsible investment. This part also presents discussion on UNPRI as global framework for responsible investment. Section 3 starts with brief overview on Indonesia's mining operations and negative impact it causes. This is followed by analyses on the relation between PT Timah Tbk.'s respect to ESG and human rights, and its financial performance. Section 4 contains conclusions.

2. RESPONSIBLE INVESTMENT IN MINING SECTOR

2.1. Why Responsible Mining is Important

The changing climate for doing business has seen a preference shift among investors to responsible investment as opposed to purely financial metric-based ones. In a 2019 survey involving over 162 major firms from 35 countries and territories, 91% indicated that they have

already adopted or are currently developing a responsible investment policy. In a similar survey in 2018, only 80% of respondents gave similar answer [7]. While the debate as to the net ethical impact of responsible investment is far from settled, it can hardly be disputed that such investment has the capacity of making large-scale impacts [8].

The importance of responsible investment can be viewed from the perspective of multiple stakeholders. For communities and governments, ESG (economic, social, and governance) benefits arising from responsible investment may be significant. Screening practices by investors, specifically, incentivize companies to pursue ESG as higher demands lead to higher share prices, but 'punish' them for failing to do so by decreasing economic competitiveness, but 'punish' them for failing to do so by decreasing economic competitiveness [9].

However, this positive impact is small to non-existent where responsible investment is comparably small to the overall size of the financial sector; lower demand by responsible investors for companies without good ESG practices is easily made up for by conventional demand, especially where share prices are lowered as a result [10]. Shareholder proposals, another way in which investors can affect the ESG considerations of companies, similarly only works in the rare occasion that a majority of shareholders vote for a proposal and are of a binding nature [11].

For investors, the importance of responsible investing has to do with expected investment value. Existing literature shows that these expectations have more to do with long-term security than immediate profitability. While studies have not shown a negative impact on returns from investing in ESG companies, they have also failed to show statistically significant positive correlation between responsible investment and returns [12]. There is even some evidence that anti-ESG, or 'sin' stocks performance may outperform the market, although this is largely attributed to the types of investors and lower analyst coverage than other stocks, not actual firm performance [13]. However, these facts do not diminish investor tendency to minimize long-term risks through responsible investment. Investing responsibly, viewed from a risk assessment perspective, prevents investors being impacted by drastic political measures in favor of sustainable policies or legal action against illegal practices, and prevents them losing investment value in the long run to environmental and social risks [8].

Similar considerations play a role in investment in the mining sector, which is particularly rife with ESG concerns. While the mining sector provides an important source of employment and government revenue, negative impacts due to unethical and/or unsustainable practices are numerous. The mining industry contributes greatly to CO2 emissions and water use [14]. The use of child labor is still prevalent practice in Asia, Africa, Latin America, and parts of Europe, as are unsafe mining practices. Disputes with, and human rights violations of local indigenous populations are numerous [15]. Fraud and corruption are widespread and exist at all stages of the mining process [16].

The notion of ‘responsible’ investment in the mining sector in itself raises questions. Due to its extractive nature, all forms of mining would have adverse, long-term environmental impacts, and as such can never truly be ‘responsible’. However, this arguably makes avoiding, minimizing, restoring, and offsetting further negative impacts of mining all the more important. Given that transactions in investment primarily involve the private sector, self-regulation is the primary means through which irresponsible mining practices could be prevented. However, government intervention also plays an important role in incentivizing responsible investment and reducing harmful practices [17].

2.2. United Nations Principles for Responsible Investment

As explained above, investment has substantial impact on economic, infrastructure and technology development for countries. In order to attain the benefits, many countries attempt to attract foreign investors into their countries to promote developments to increase human prosperity [18]. On the other hand, investors can enjoy their profits and facilities from host states. However, the condition would not be mutually benefit if many institutional investors only focus on ensuring that their business is conducted for profit maximization without taking into account environmental and social impact [19].

The exploitation of raw materials such as minerals, metals and gold result in destruction of environment and social impact. Their industrial activities emit carbon dioxide into the atmosphere which damage the ecosystem and human beings [20]. To solve this issue, investment leaders group create a framework to raise investors’ awareness on value of responsible investment that is set out in United Nations Principles for Responsible Investment (UNPRI) [19].

UNPRI provides a global initiative standard of responsible investment that integrates environmental, social and corporate governance (ESG) factors to measure investment performance [21]. All parties of the United Nations cannot automatically be binding to this principle instead each of organizations must internationally recognized Principle for Responsible Investment by signing the Principles as an affirmation that they have publicly demonstrated their commitment to build a more sustainable financial system. There are three categories of organization that allowed them to become signatories’ party for Responsible Investment [22].

First, Asset Owners which categorize as the principal signatory. As an asset owner, the organization represents holder of long-term retirement savings, insurance and other assets such as pension funds, sovereign wealth funds, foundations, and other financial institutions that manage deposits. Second, Investment Managers which the organizations that assist company to manage or control, not more than half of its own account or on behalf of others of investment funds. Third, Service Providers which is the organizations that provide products or services to

asset owners or investment managers. As it bound to PRI, Signatories’ organization must adhere with the Principles for Responsible Investment therein [23].

Principle 1 provides that these signatory organizations have committed to provide, develop and promote services that support clients’ implementation of the Principles in analysing and making decision processes. They have responsibility to examine how their clients address ESG issues. The objective of UNPRI is to bring responsible investors together to work on sustainable markets that contribute to a prosperous world for all for over the next 10 years. Principle 2 of the UNPRI encourage Signatories to be an active owners and incorporate with ESG issues into PRI’s ownership policies and practices. Investment Leaders are planning on how to implement these goals by explaining three points [22].

First, responsible investors. An investment leader will strengthen, deepen and expand their core work to lead responsible investment to pursue long-term value and to enhance alignment through investment chain by empowering asset owners, supporting investors to cooperate with ESG issues, fostering a community of active owners, increasing accountability, convening and educating responsible investor. Second, sustainable market. The investment leader will assess unsustainable aspect of the markets to achieve efficient economy, sustainable global finance system that responsible investment and beneficiaries need by challenging barriers to a sustainable financial system and handling meaningful data in the markets. Third, prosperous world for all which encouraging investments to contribute on a prosperous and inclusive society for current and future generations. The investment leaders seek the result of compliance of the Principles to resolve climate action and enable real-world impact aligned with Sustainable Development Goals [23]. Principles for Responsible Investor (PRI) present as an international standard for investment industry as a parameter in code of conduct for responsible investment. The assessment on application of principles above will be integrated by ESG Framework. The framework comprises of research, security level and Portfolio Level. The research stage consists of qualitative analysis which based on company data, financial information, all agendas of investment meeting and active ownership that analyze voting rights and management of shareholders. Whereas the security level assesses on security valuation on equities and fixed income. Lastly, the portfolio level analyzes on risk management, portfolio construction and asset allocation [25].

Principle 6 of PRI requires voluntary commitment to lead company and investor to incorporate with ESG principles therein on strategies planning and decision making. In order to monitoring implementation progress, whether the asset owner and investment manager align with the Principles, they must represent a self-reporting system [23]. Self reporting system is an accountability mechanism that Signatories by their own awareness is agree to evaluate the effectiveness of the Principles and report annually on investment activities whether it aligns with principle and interest of society [26].

Subsequently, PRI will conduct internal audit on outcome data based on ESG Framework and Principles and conclude whether Signatories has complied with PRI standards. In any event, Signatories do not meet the criteria, auditors will examine explanatory data to interpret the report as it has provided by Signatories prior to conclude its decision [27].

Currently, there is no regulatory sanction for signatories' incompliance to the Principles. However, there will be an reputational risk for companies which has failed to take any action to meet PRI standard. Furthermore, the board of PRI would also be delisted if Signatories which in turn continuing breach on the Principles and if it does not report activities and progress of Principles' implementation [28].

3. POSSIBLE RELATION BETWEEN RESPONSIBLE INVESTMENT AND INDONESIAN MINING SECTOR

3.1. Overview on Indonesian Mineral Mining Sector

Indonesia is a country with abundant mineral deposits, the mining industry in Indonesia has been playing a significant role in the world's production of gold, nickel, and copper. Indonesia produces about 60% of global nickel exports and 70% for bauxite [29]. Based on Indonesia's formation of geology, mineral deposits are remain very vast. Indonesia has potential deposit of lead, zinc and silver, but its most important metal minerals are nickel, bauxite, tin, copper and gold [30].

Mining sector is also a major contributor to the Indonesian economy, it contributes to almost 5% to Indonesian GDP in 2018. This contribution is supported by the increase of global commodity price, particularly coal. Likewise, mining sector has also been contributing significantly to Indonesian total export. The contribution of mining to total exports increased from 14% in 2017 to 16% in 2018, this increase was backed by the improvement of coal export [31].

Further, mining sector has also been one of the largest contributors to the total amount of incoming foreign direct investment to Indonesia for the last five years. A data from the Indonesia Investment Coordinating Board shows that since 2014, mining sector has attracted foreign investment amounting at US\$18.84 billion. This is equal to 12.74% of the total inbound foreign investments within five-year period. In average, foreign investments in mining sector is at US\$3.768 billion per year [32].

Based on the Ministry of Energy and Mineral Resources data, the mineral reserves for some commodities remain large. For instance, the reserve for Copper is 2.76 billion tons; Nickel 3.57 billion ton; Iron 3 billion ton; Bauxite 2.4 billion ton; Gold 1.132 Au; Silver 171.499 Ag; and Tin 1.5-million-ton Sn. Some of these mineral reserves will be last for a long period of time, such as Silver (1.145 years); Iron (769 years); Bauxite (422 years); and Nickel (184

years). However, some mineral reserve will be fully exploited in the near future, these are: Gold (28 years); and Tin (21 years) [33].

It is difficult to find the exact number of mineral mining operations in Indonesia. This is because some of the mining operation licenses were issued by the local governments, before it was taken back to the central government. Based on the Corruption Eradication Commission data, there are at least 10.922 Special Mining Operation Licence issued. Among this licences, there were 7.843 active mining operations [34]. Apart from that, there are 31 mining operations under the Contract of Works scheme, two of which have converted into Special Mining Operation Licence, these are: PT Freeport Indonesia and PT Amman Mineral [35].

3.2. Human Rights Concerns in Indonesian Mineral Mining Sector

In general, report by the Human Rights Commission in 2016 found that corporations rank in second place as the most reported for allegation of human rights abuses. Corporate human rights violations were reported in 1.030 cases, most of which are allegations of abuses resulting out of land conflicts and labour issues [36]. The number of report against corporation was slightly decreasing to 973 in 2018, but the issue of human rights abuses remain. Land conflict remain the dominant cause of human rights abuses involving companies [37].

Despite its contributions to the Indonesian economy, mineral mining operations has long been under scrutiny for its negative impact to human rights. A report by Jaringan Advokasi Tambang on human rights abuses in the mining sector in 2004-2005 found that mining operation may violate human rights. These include forced displacement of local community, and other economic, social and cultural rights [38].

Environmental degradation and pollution have been a serious problem in mining operations in Indonesia. The nickel mining and smelting operations in Southeast Sulawesi has caused pollution to coastal area in Hakatutobu [39]. Likewise, the Ministry of Environment found 47 violations of environment law and regulations at the gold mining activities operated by PT Freeport Indonesia in Papua. Among these findings are the losses of forest space, diminishing biodiversity, or pollution exceeding the government's standards [40].

Likewise, mining operation can also affect the rights to life. A 2016 report by the Human Rights Commission found that mining operations has caused the death of at least 27 children from 2011 to 2016. The mining companies have failed to recovering their mining pits, which turn into water pool and kills children from drowning [41]. Till date, the number of victims have been increasing to 35 children [42].

Apart from environmental degradation, mining operation may also bring negative impact to the living conditions of indigenous people. Mining operations may force

indigenous people to move out from their land an area where they depend their life for traditional farming, food sources and water resources. Therefore, many indigenous communities have been rejecting mining companies to operate. This is evident in some place, such as in Seko-South Sulawesi [43], in Kendeng-Central Java [44], and in Tumpang Pitu-East Java [45].

3.3. Major Mineral Mining Companies in Indonesia

As mentioned above, there are thousands of mineral mining licenses issued by both central and local governments. However, only a small number of these mining companies has a significant mineral production, and contribution to the Indonesian economy. Based on their monetary contribution and performance, the top 5 major metal mining companies in Indonesia are: PT Freeport Indonesia; PT Amman Mineral Nusa Tenggara; PT Vale Indonesia Tbk. (PT Vale); PT Aneka Tambang Tbk. (PT Antam); and PT Timah Tbk (PT Timah).

In 2018, three mining companies were named as the largest contributor to the payment of mining fee and royalty. These companies are: PT Freeport Indonesia (Rp3.02 trillion); PT Amman Mineral Nusa Tenggara (Rp310.38 billion); and PT Aneka Tambang Tbk. (Rp243.8 billion) [46]. Likewise, there are three mining companies with significant performance based on their performance in the capital market. In 2018, the shares of PT Vale Indonesia Tbk.; PT Aneka Tambang Tbk.; and PT Timah Tbk., were the most recommended metal mining shares for traders in Indonesian stock market [47].

The strong performance of PT Vale in the stock exchange was influenced by the high demand of nickel in global market. The low supply of nickel from other countries' producers has pushed the price up and created opportunity for PT Vale to increase its profitability [48]. Similarly, although the performance of both PT Antam and PT Timah Tbk. are fluctuating—depending on the price of commodities in global market—the opportunity to gain profit remain high [49]. Particularly for PT Timah Tbk., the company booked a net profit of Rp502.43 billion in 2017, this is an increase of 100.30% from the previous year [50]. In mid of 2019, PT Timah Tbk. also experience a good performance with net profit amounting at Rp205.29 billion, an increase of 20.66% from the same period last year [51].

As explained above, the good performance of PT Timah Tbk. is boosted by the global price of the mineral commodities. Based of PricewaterhouseCoopers report, by the end of March 2018 and end of March 2019, the world's price of Tin is higher than other commodities, such as Nickle, Cooper and Iron Ore. Within the same period, only Gold, Bauxite and Coal prices were higher than Tin [52].

3.4. Investors' Influences to PT Timah Tbk. ESG and Human Rights Performance

Assuming that a company with good performance in the stock market would attract more investors, this article focuses on to what extent respect to human rights issues by a company would attract responsible investors. As a public company, listed at the Indonesia Stock Exchange, the shares of PT Timah Tbk. is traded on a daily basis.

PT Timah Tbk. is a state owned enterprise, it was established in 1976 under the name of PT Tambang Timah (Persero). In 1995 it became a public company and listed in Indonesia Stock Exchange under the name PT Timah (Persero) Tbk. The Indonesian government owned 65% of shares (B-Shares) in PT Timah Tbk. [53]. In 2017, the government decided to established mineral mining holding company. Through Government Regulation No. 47/2017, PT Timah Tbk. becoming a subsidiary of PT Indonesia Asahan Aluminium (Inalum). The government holds 100% shares in Inalum, and Inalum holds 65% shares (B-Shares) which include one share (A-Share) holds by the Indonesian government in PT Timah Tbk. [54].

Based on its annual report in 2018, the company currently owns 14 subsidiaries and 129 mining permits (IUP) covering an area of 473.401 hectares, with total tin ore resources of 1.043.633 tons and tin ore reserves of 415.359 tons. The company sets its vision 'To Be The World's Leading Environmentally-Friendly Mining Company', and one of its mission is 'To optimize the Company's value and contribution to the Shareholders and social responsibility'. With total production of 33.444 Metric Ton in 2018, PT Timah Tbk. was the world's second largest producers of Tin [55].

Tin production in the company's mining operations was under global scrutiny for the loss of workers' life and other human rights violations. A report by Businessweek in 2012 found that work safety standard was low [56]. Apart from concern on working conditions, an article published by The Guardian showed that tin mining activities by PT Timah Tbk. has also caused environmental degradation, loss of forest area, coral reefs destruction and affecting the source of income for local communities (farmers and fishermen) [57]. Another important human rights issues with tin mining is the illegal mining. An investigation by BBC Panorama in 2014 found that illegal mining operations used child labour and put them in a dangerous working conditions [58].

Indeed, the above human rights issues had a significant impact on PT Timah Tbk. At the third-quarter of 2012, PT Timah Tbk. experienced significant decrease of net profit, from Rp860 billion in the same period the previous year to only Rp370 billion. This situation had also impacted the company's Earning per Share ratio, declining from Rp171,- to Rp73 per share [59]. This condition continued to the first-quarter of 2013, where the company experienced another fall in net profit at 51% than the same period last year. This had further decreased the company's Earning per Share ratio to Rp20,- per share [60].

Further, following the issues of child labour and poor working conditions in illegal mining operations in 2014, the company experienced another significant decline of net profit. The net profit of PT Timah Tbk. was decreasing at 84.90%, from Rp672.99 billion in 2014, to only Rp101.56 billion in 2015. With this situation, the company's Earning per Share ratio was falling to only Rp14,- per share in December 2015 [61].

In 2014, PT Timah Tbk. started to adopt the Global Reporting Initiative (GRI) Sustainability Reporting Standards [62]. The GRI helps companies to identify and inform their impact on critical sustainability issues. These issues include climate change, human rights, governance and social welfare. This report assist companies to take necessary action in create social, environmental and economic benefits for the affected groups. For the company itself, GRI reporting may spur economic benefit by improving governance and stakeholder relations, enhancing reputations and building trust [63].

Likewise, in 2015 the Ministry of Trade issued a regulation which adds requirements for tin export [64]. Only certain types of tin products can be exported, and tin bar product both for foreign and local market must be sold in Indonesia Commodity and Derivatives Exchange. To export, a tin exporter must obtain Royalty Verification, Clean and Clear Certification, and export approval from the Ministry of Energy and Mineral Resources. Likewise, a Registered-Tin Exporter certificate issued by the Ministry of Trade is required. All of these requirements is aiming at ending tin export originating from illegal mining and smelter operations [65].

It seemed that those steps taken altogether have enabled PT Timah Tbk. to address social and human rights impacts, reduce illegal tin mining operations, and restoring environmental damages [66]. PT Timah Tbk. started to regain its positive performance in 2017. At the first quarter of 2017, PT Timah Tbk. booked a 57.24 % increase in its net profit of Rp66.5 billion after a net loss of nearly Rp139 billion in the same period previous year [67]. Further, the

company's Earning per Share ratio has been positively increased progressively from Rp34,- (2016); Rp68 (2017); to Rp71,- (2018) [68].

The above discussion shows that to a certain extent human rights situations may contribute to the company's financial performance. Inappropriate working conditions, low health and safety standards, environmental degradation associated with company's operations may affect the company's financial performance. As a result, this situation may also affect investor's decision to invest in the company. One way to see investors' confidence is by examining the company's Earning per Share ratio.

Particularly for investors in the capital market, the price of a company's share is substantial element in determining their selling and buying position. These investors expect profit from the increase of the company's share price in the market. One of the most important factor in predicting the fluctuation of share price is the Earning per Share. Earnings per Share ratio reflects the operation and financial performance of a company. The higher a company's Earning per Share, the more likely the share price to increase [69].

Another indicator to show a significant change in PT Timah Tbk.'s mining operation is to look at its investor's background. As discussed above, some global investors are very conscious to environmental, social and governance issues when investing their funds. These investors usually have their own standard on responsible investment, or joining the UNPRI as signatories.

Based on The Wall Street Journal database, there are a number of global investors that holds or was previously hold PT Timah Tbk.'s shares. There are two types of investors listed as shareholders: (a) Institutions; and (b) Mutual Funds. Table 1 and Table 2 below show the list of PT Timah Tbk. current or past shareholders, who are Signatories of UNPRI [70].

Table 1 PT Timah Tbk. Institution Shareholders as of 10 October 2019

| No. | Investor | Signatory Category | UNPRI Member Since | Country |
|-----|--|--------------------|--------------------|---------------|
| 1. | Dimensional Fund Advisors LP | Investment Manager | 8 August 2012 | United States |
| 2. | The Vanguard Group, Inc. | Investment Manager | 6 November 2014 | United States |
| 3. | Norges Bank Investment Management | Asset Owner | 2 July 2006 | Norway |
| 4. | BlackRock Fund Advisors (Registered as BlackRock) | Investment Manager | 7 October 2008 | United States |
| 5. | First Trust Advisors LP | Investment Manager | 15 April 2015 | United States |
| 6. | BlackRock Advisors (UK) Ltd. (Registered as BlackRock) | Investment Manager | 7 October 2008 | United States |
| 7. | Mellon Investments Corp. | Investment Manager | 12 August 2013 | United States |

Source: The Wall Street Journal (2019)

Table 2 PT Timah Tbk. Mutual Funds Shareholders as of 10 October 2019

| No. | Investor | Signatory Category | UNPRI Member Since | Country |
|-----|---|--------------------|--------------------|---------------|
| 1. | DFA Dimensional Emerging Markets Value Fund (Registered as Dimensional Fund Advisors) | Investment Manager | 8 August 2012 | United States |
| 2. | DFA Emerging Markets Core Equity Portfolio (Registered as Dimensional Fund Advisors) | Investment Manager | 8 August 2012 | United States |
| 3. | DFA Emerging Markets Small Cap Series (Registered as Dimensional Fund Advisors) | Investment Manager | 8 August 2012 | United States |
| 4. | Vanguard Emerging Markets Stock Index Fund (Registered as The Vanguard Group, Inc.) | Investment Manager | 6 November 2014 | United States |
| 5. | Government Pension Fund - Global (The) | Asset Owner | 2 July 2006 | Norway |
| 6. | Vanguard Total International Stock Index Fund (Registered as The Vanguard Group, Inc.) | Investment Manager | 6 November 2014 | United States |

Source: The Wall Street Journal (2019)

The above list indicates that a better environment, social and governance performance of a company, may have influence in attracting responsible investors to invest their funds. There are at least two benefits for PT Timah Tbk. to have UNPRI Signatories as its shareholders. First, having UNPRI Signatories as shareholders may signals other prospective shareholders that PT Timah Tbk. has a good standard in respecting human rights and ESG issues. As a result, PT Timah Tbk. may has a wider range of prospective shareholders. Second, since UNPRI Signatories are committed to embedding ESG issues and obliged to report its investment activities, PT Timah Tbk. will be under constant scrutiny by its shareholders. This situation may force PT Timah Tbk. to maintain its good standard in respecting human rights and ESG issues. If PT Timah Tbk. fails to maintain its performance, it may lose a significant number of investors, most significantly responsible investors—members of UNPRI signatories.

4. CONCLUSION

This article shows that there has been an increasing awareness amongst investment institutions on ESG and human rights issues. Global investors are beginning to realize that they have a significant role to improve the respect for human rights and environment protection by business. To facilitate this growing awareness, the UNPRI a standard of reporting for investment companies to

communicate their responsible investing performance with other stakeholders. The UNPRI signatories are committed to embed environment, social and corporate governance issues when investing their funds.

As a country with abundant mineral mining resources, mining sector plays important role in Indonesia's economy. Unfortunately, mining operations may also bring negative impacts to social life and environment. This article demonstrates that a low standard of ESG and human rights performance, may have a significant impact to financial performance of a company.

This is as evidenced in PT Timah Tbk. mining operation between 2012 to 2019. PT Timah Tbk. was accused of contributing to environment degradation and low standard of health and safety working conditions in 2012 to 2014. This situation was also followed by a significant decrease of PT Timah Tbk. net profit and Earning per Share ratio. In 2014, it started to adopt GRI G4 sustainability reporting standard and communicate with all relevant stakeholders, this was coupled with a stricter government regulation in tin export in 2015. With these steps, PT Timah began to experience an increase of net profit and the price of Earning per Share. Likewise, UNPRI Signatories are among the shareholders of PT Timah Tbk. in the capital market.

With the above findings, this article argues that there might be a positive relation between a good ESG and respect to human rights performance, and the financial performance of PT Timah Tbk. A good observance of ESG and human rights attracts UNPRI Signatories to

invest their funds in PT Timah Tbk. shares. In order to maintain these responsible investors to stay on board, the company must maintain its ESG and respect to human rights performance. This finding may be an important lesson learned for other mining companies in improving their ESG and respect to human rights performance.

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