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Implementation of ESG Principles in Empowering a Local Community-Based Green Economy: A Case Study of Sidan Kapuas Hulu Woven Bag Charm MSMEs

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ABSTRACT

This study examines the implementation of Environmental, Social, and Governance (ESG) principles in community-based green economic empowerment with a case study of the Bag Charm Tenun Sidan MSME in Kapuas Hulu Regency, West Kalimantan. The main objective of this study is to analyse how the application of ESG principles can strengthen local economic resilience while maintaining environmental sustainability and cultural preservation. This study uses a qualitative descriptive approach with a case study method through direct observation and semi-structured interviews with business owners, craftsmen, and local stakeholders. The results show that ESG principles have been contextually integrated into daily business activities. From an environmental perspective, this MSME implements eco-efficiency practices through the use of natural materials, fabric waste recycling, and the application of the circular economy concept. From a social perspective, these MSMEs play an important role in women's empowerment through training and employment, while also preserving the traditional Sidan weaving culture, in line with Sustainable Development Goals (SDGs) points 5 and 8. From a governance perspective, business management is conducted transparently based on the principles of Islamic business ethics of *adl* (justice), *amanah* (responsibility), and *sidq* (honesty) and is supported by digital transformation through social media and marketplaces to improve efficiency and transparency. The novelty of this research lies in how ESG principles can be implemented contextually at the rural SME level through local wisdom and collective awareness, thereby making a real contribution to strengthening the sustainable green economy model in Indonesia.

Keywords: ESG, Green Economy, Local Empowerment, Sustainable Development, SMEs

INTRODUCTION

The application of Environmental, Social, and Governance (ESG) principles in business is increasingly important in supporting sustainable economic growth. ESG covers three main aspects: environment (E), social (S), and governance (G). These principles aim to identify non-financial risks and opportunities related to company operations, which can ultimately increase investor appeal and support sustainable development goals (Latif et al., 2024). The implementation of ESG in small and medium-sized enterprises (SMEs) is crucial because they contribute significantly to the global economy but also face major challenges in terms of resources and knowledge (Ciocoiu, 2012).

Micro, Small, and Medium Enterprises (MSMEs) play a vital role in the global economy, including in Indonesia. MSMEs account for approximately 90% of total businesses and employ around 50-60% of the workforce (Qasim et al., 2024). However, MSMEs often face challenges in adopting sustainable practices due to limited resources and a lack of awareness (Jamian et al., 2013). Despite its importance, the implementation of ESG in SMEs still faces various obstacles. SMEs often have limited resources, knowledge, and technical capabilities to address the negative environmental impacts of their operations (Ciocoiu, 2012). In addition, economic challenges such as inflation and price instability can also hamper investment in ESG projects (Xu et al., 2025). In certain sectors such as textiles and

clothing, the implementation of green manufacturing also faces major challenges due to limited knowledge and resources (Nia Budi et al., 2020).

ESG principles help companies, including MSMEs, to identify and manage risks and opportunities arising from changes in market and non-market environments (Zammit & Grima, 2024). The implementation of ESG in MSMEs can improve environmental and social performance and strengthen corporate governance (von Rosing et al., 2024). Furthermore, ESG also plays a role in promoting green innovation and circular economy practices that can provide competitive advantages for SMEs (Yang et al., 2024). Empowering local communities through the green economy can improve community welfare and create new economic opportunities.\

Based on data from SIDT KUMKM (Bank Indonesia), there are 164,364 business units spread across 14 districts/cities in West Kalimantan Province. This figure reflects the significant economic potential of the region if managed in a targeted, sustainable, and innovation-based manner. Of the total 164,364 business units recorded in the SIDT KUMKM data, there are 15 MSME data from leading products per district in West Kalimantan.

Table 1
Data on SMEs from flagship products per district in West Kalimantan

No	Full Name	Brand Name	Region
1	Mrs. Hj. GITA HERNELY	Handicrafts from Marine Waste – Working Group 2 PKK Singkawang City (GITA CRAFT)	Singkawang City
2	Romi, S. Pd. I	Rosseme Rosella	Sambas Regency
3	Muhammad Syahbandi, S.Kom.I	Banana House Mempawah Buntat Djabar Banana Chips	Mempawah Regency
4	Biyan Bagus Bayuaji S. Tr. Par	Amigdala Kombucha	Sanggau Regency
5	Kurniadi	NIKEISHA, Aromatic Cassava Sugar Syrup, Cinnamon Flavour	Sekadau Regency
6	Valenta Apriyani Rosyan, S.H.,M.Kn	BAG CHARM SIDAN WEAVING	Kapuas Hulu Regency
7	Liliana	Kerajinan Kalung Kain Perca Tenun Ikat	Sintang Regency
8	INTAN LIANA	NANI LIANA	Pontianak City
9	Mrs. TINAWATI	TINAWATI SHRIMP CRACKERS	North Kayong Regency
10	Dewi Warni Kusuma Ningrum	THE STAR	Ketapang Regency
11	Siska Hardini	3 DARE	Kubu Raya Regency
12	Desi Priyanti	Teh Zona	Bengkayang Regency
13	Mrs. Yohana	Lidicraft Landak	Landak Regency
14	GAWATI	ARENMEL	Melawi Regency

Source: Processed data from 2025

The selection of BAG CHARM TENUN SIDAN as a case study object in this research is based on its characteristics that represent sustainability values relevant to the concept of Environmental, Social, and Governance (ESG). This micro, small and medium enterprise (MSME) originates from Kapuas Hulu Regency, West Kalimantan, and is known for producing bags and accessories based on

Sidan weaving, a traditional fabric typical of the region that is made manually by local craftsmen. This MSME was chosen because it has strong potential to represent the integration of economic value, cultural preservation and social responsibility, which are at the core of ESG implementation.

The Sidan Weaving Bag Charm SME in Kapuas Hulu is a concrete example of how ESG principles can be implemented in community-based green economic empowerment. By integrating local wisdom and digital technology, this SME can create unique products with high cultural value, while also opening up new economic opportunities for the local community (Andria et al., 2025). Previous research shows that ESG implementation can increase green innovation in SMEs. For example, a study in Romania shows that ESG practices can increase green innovation, especially when supported by a company's innovation orientation (Fülöp & Cifuentes-Faura, 2025). Furthermore, research in the logistics and supply chain sector identifies relevant ESG criteria and develops an implementation framework that can help SMEs overcome challenges in ESG adoption (Li et al., 2025). Other research shows that the integration of digital technology can support the implementation of lean-green practices in SMEs, which in turn can improve environmental performance (Queiroz et al., 2022). In Indonesia, digital transformation in SMEs has been shown to help improve the implementation of the green economy (Islam & Trinugroho, 2023).

This research offers novelty by focusing on a case study of the Bag Charm Tenun Sidan SME, a local business that combines weaving traditions with ESG principles. Unlike previous research, which is generally general in nature or focused on specific sectors, this study will explore how ESG principles can be practically implemented in the context of green economic empowerment in local communities. In addition, this study will also analyse the social and economic impacts of applying ESG principles on the surrounding community.

The objective of this research is to analyse and evaluate the implementation of ESG principles in community-based green economic empowerment, with a focus on the Bag Charm Tenun Sidan SME in Kapuas Hulu. This study aims to provide insights into the challenges and opportunities faced by MSMEs in adopting ESG practices, as well as to identify the positive impacts that can be generated from the application of these principles on economic and social sustainability in local communities. Thus, this study is expected to contribute to the development of policies and practices that support green economic empowerment in Indonesia. The implementation of ESG principles in community-based green economic empowerment not only supports environmental sustainability but also improves the social and economic welfare of the community. The case study of the Bag Charm Tenun Sidan Kapuas Hulu MSME shows that with the right strategy, MSMEs can become the driving force behind a sustainable and inclusive green economy.

METHOD

This study uses a descriptive qualitative approach with a case study method, focusing on analysing the application of Environmental, Social, and Governance (ESG) principles in community-based green economic empowerment at the Bag Charm Tenun Sidan SME in Kapuas Hulu District, West Kalimantan. Through the case study method, this study aims to provide a realistic picture of how ESG principles are implemented in economic activities based on local wisdom. This research was conducted in Putussibau Subdistrict, Kapuas Hulu Regency, which is a producer of traditional Tenun Sidan fabrics and the location of the Bag Charm Tenun Sidan MSME. This location was chosen because it represents a small business model that is not only oriented towards economic profit but also emphasises environmental preservation, social empowerment, and ethical governance in accordance with sustainability values.

The research data sources consist of primary and secondary data. Primary data was obtained directly from the field through observations and interviews with key informants, namely business owners, craftsmen, and representatives of the local community. Meanwhile, secondary data was obtained from various supporting documents such as business profiles, government agency reports, and academic literature and previous research relevant to the topic of ESG and the green economy in the MSME sector. Data collection techniques were carried out using two main methods, namely direct observation and semi-structured interviews. Observation was used to observe the production process, the use of natural raw materials, waste management, and social interactions in the work environment.

Meanwhile, interviews were conducted to explore the informants' perceptions, experiences, and understanding of the application of ESG principles, the role of businesses in community empowerment, and the governance practices applied in business activities.

The data obtained was then analysed using Miles and Huberman's interactive analysis model, which consists of three stages: data reduction, data presentation, and conclusion drawing. The analysis was conducted thematically based on the three main dimensions of ESG, namely environmental, social, and governance. The results of the observations and interviews were interpreted descriptively to explain the relationship between the application of ESG principles and the strengthening of the green economy and local community empowerment in Kapuas Hulu.

RESULT AND DISCUSSION

RESULT

Based on the results of observations and interviews with the management team of the Bag Charm Tenun Sidan MSME in Kapuas Hulu Regency, it was found that the application of Environmental, Social, and Governance principles had been implemented in daily business activities, even though the formal term ESG was not used. Sustainability principles had become part of the work culture and production practices rooted in the local wisdom values of the Kapuas Hulu community.

From an environmental perspective, this business demonstrates its commitment to sustainability by using authentic Tenun Sidan fabric as its main material, sourced directly from local artisans. The production process is carried out manually and in an environmentally friendly manner without the use of hazardous chemicals. Fabric scraps are reused to make derivative products such as key chains and brooches, while the product packaging uses recycled kraft paper and scrap fabric. This practice demonstrates ecological awareness to reduce waste and support material circularity. According to (Widjajanti & Sugiyanto, 2023), the application of eco-efficiency through the use of natural materials and the diversification of environmentally friendly products is one of the main indicators of the implementation of a green economy at the SME level, as it can reduce production waste while increasing the added value of locally-based creative products.

In the social aspect, the Bag Charm Tenun Sidan SME plays a crucial role in empowering local women. All production team members are PKK cadres trained in weaving, sewing, and assembling products. This activity increases family income, expands employment opportunities, and preserves the unique weaving cultural heritage of Kapuas Hulu. These results are in line with the research (May et al., 2025) which found that the empowerment of women in the creative economy increases economic independence and strengthens local identity. In addition, the involvement of the local community supports the achievement of Sustainable Development Goals (SDGs) point 5 (Gender Equality) and point 8 (Decent Work and Economic Growth).

Meanwhile, in terms of governance, the management system is run with a simple but transparent structure. Financial management is carried out manually by the treasurer and reported to the group leader every month. Business ethics, honesty, and openness are the main values upheld. In addition, Bag Charm Tenun Sidan MSMEs utilise digital platforms such as Instagram, WhatsApp Business, TikTok, and Shopee as means of promotion and transaction. This reflects adaptation to the era of digitalisation, which is one of the indicators of governance innovation in the SME sector. According to (Febrianita et al., 2023), digitalisation is key to the resilience and innovative governance of SMEs through the use of technology, social media, marketplaces, and technopreneurship. Overall, the field results show that the Sidan Woven Bag Charm SME has implemented ESG principles in an integrated manner, ranging from environmentally friendly production, social empowerment, to ethical and sustainability-oriented business management.

DISCUSSION

The findings of this study reinforce the view that the application of ESG at the micro-business level can be done contextually in accordance with local social and cultural conditions. In the context of Bag Charm Tenun Sidan, the application of ESG principles is not based on formal regulations, but rather grows from the community's awareness of the importance of environmental and social sustainability. These results are in line with the research (Fahreza & Maryam, 2025) which found that

SMEs' awareness and readiness towards the green economy model are significant factors in adopting sustainable practices.

In the environmental dimension, practices such as the use of natural materials, waste management, and recyclable packaging reflect the principle of environmental stewardship or ecological responsibility. These efforts not only support resource sustainability but also create new economic value from production waste. According to (Rustiarini et al., 2022), green innovation based on the use of environmentally friendly materials and waste management is one of the key strategies for SMEs to strengthen the competitiveness of their products in the global market.

On the social dimension, the involvement of local women as the main workforce demonstrates the social function of SMEs as agents of community empowerment. Collective economic activities not only generate economic value but also strengthen social solidarity and cultural preservation. These findings are in line with the research (Vujko et al., 2024) which confirms that the empowerment of women in the rural creative economy sector can be the foundation for sustainable community transformation. In a similar context, (Wijaya, I., & Ikmal, 2024) also explains that women's participation in local small and medium enterprises contributes significantly to improving household economies while strengthening social networks in rural communities. In the context of Tenun Sidan, this activity serves as a means of preserving cultural heritage while expanding women's economic participation.

Meanwhile, in terms of governance, the application of the values of honesty, openness, and responsibility demonstrates good governance practices on a micro scale. Although it does not yet have a fully digital-based management system, the management model implemented by the Bag Charm Tenun Sidan MSME reflects the application of Islamic business ethics, which emphasises the principles of justice (adl), trustworthiness, and honesty (sidq) in economic activities. According to (Achmad Soediro et al., 2016), the application of Islamic business ethics in micro-institutions plays an important role in building trust, accountability, and transparency among small business actors.

Additionally, the use of social media and marketplaces by these SMEs demonstrates their adaptation to digital transformation, which is part of modern governance innovation. (Kurniawan et al., 2023) explains that the adaptation of digital technology in the SME sector significantly improves marketing efficiency, expands business networks, and strengthens transparency and accountability in business management, which are important indicators of governance innovation in the digital economy era.

Thus, Bag Charm Tenun Sidan MSMEs can be categorised as a community-based green economy model, where ESG practices are organically implemented through a culture of mutual cooperation, preservation of local wisdom, and social responsibility towards the environment. This implementation not only creates economic value but also supports sustainable development goals, particularly in social and environmental aspects. These findings confirm that ESG principles can be adapted and applied flexibly by MSMEs without having to sacrifice local values that have long existed in the community.

CONCLUSION

This study shows that the application of Environmental, Social, and Governance (ESG) principles in community-based green economic empowerment can be effectively implemented through a local wisdom-based approach and social collaboration. A case study of the Bag Charm Tenun Sidan SME in Kapuas Hulu Regency proves that ESG practices are not only relevant to large companies but can also be implemented organically at the micro business level through the adaptation of local values and community awareness.

From an environmental perspective, this MSME has demonstrated ecological responsibility by using natural raw materials, utilising waste to create new products, and applying the concept of a circular economy. This proves that environmentally friendly innovation can go hand in hand with production efficiency and creative economic value. On the social aspect, the active involvement of local women in production activities shows that the implementation of ESG can be a means of community empowerment. Through training, cooperation, and preservation of the Tenun Sidan cultural heritage, this business strengthens social cohesion and contributes to the achievement of the Sustainable Development Goals (SDGs), especially in the areas of gender equality and inclusive economic growth.

Meanwhile, in terms of governance, the Bag Charm Tenun Sidan SME applies business ethics based on honesty, trustworthiness, and responsibility. Although its management system is still simple, its practices of transparency and fairness reflect the principles of good governance that support business sustainability. The use of digital technologies such as social media and marketplaces is also a concrete step towards a more adaptive and modern governance transformation.

The model developed by Bag Charm Tenun Sidan can serve as a best practice for community based green economy, where cultural values, social responsibility, and environmental sustainability converge to create shared prosperity. Thus, the results of this study are expected to serve as a basis for policymakers, financial institutions, and other MSME actors to integrate ESG principles into sustainable economic development strategies in Indonesia. Going forward, training, mentoring, and policy incentives are needed so that more MSMEs are able to apply ESG principles consistently and measurably.

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