



Corporate Social Responsibility (CSR) in INDONESIA

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MAP of INDONESIA



INDONESIA - BASIC FACTS

- Land Area (consists of 18,306 islands) :
1,904,443 sq km
- Sea Area (exclusive economic zone) :
3,166,163 sq km
- Total Area : 5,070,606 sq km
- Population : 234.7 million
- Literacy Rate : 88%

INDONESIA – Economic Data

	2005 ^a	2006 ^b	2007 ^c	2008 ^c	2009 ^c	2010 ^c
Population, income and market size						
Population (m)	228.9	231.8 ^a	234.7	237.5	240.3	243.0
GDP (US\$ bn at market exchange rates)	287.0	364.5 ^a	424.2	477.4	523.1	584.1
GDP per head (US\$ at market exchange rates)	1,250	1,570 ^a	1,810	2,010	2,180	2,400
GDP per head (US\$ at PPP)	3,730 ^b	4,000	4,300	4,630	4,950	5,340
Private consumption (US\$ m)	184.0	228.5 ^a	260.3	290.4	316.6	353.2
Private consumption per head (US\$)	800	990 ^a	1,110	1,220	1,320	1,450

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

CSR in INDONESIA

CURRENT STATUS

- Recently becoming a popular topic, but understanding of CSR is relatively still poor and patchy
- Still very often seen as philanthropic acts or cause-related marketing or public relations
- Perception that shareholders are more important than stakeholders still predominant
- Misperception that CSR is cost instead of investment is also still very common
- Belief that CSR will become increasingly important in 5 years prevalent

CSR ENVIRONMENT in INDONESIA

LEGISLATIVE FRAMEWORKS

- Environmental Protection Laws
- Employment Laws
- Consumer Protection Laws
- Code of Good Corporate Governance
- Regulations applicable to SOE
- Regulations applicable to publicly listed companies
- Standards related to SR

CSR ENVIRONMENT in INDONESIA

PRIVATE SECTOR ADVOCATES

INDONESIA BUSINESS LINKS (IBL)

- Born out of a multi sector discussion in response to the economic crisis in Indonesia, IBL was founded by prominent business leaders in Indonesia with the support of IBLF, to primarily promote ethical business practices in the country.
- To date IBL has been rapidly expanding its activities covering wider remit of CSR areas.

CSR ENVIRONMENT in INDONESIA PRIVATE SECTOR ADVOCATES

INDONESIA BUSINESS LINKS (IBL)

Core Programmes

- **Business Ethics Workshops & Talkshows**, promoting clean business practices
- **CSR for Better Life**, promoting CSR best practices and collaborative programmes among companies
- **Young Entrepreneur Start up (YES)**
- **Entrepreneur Enabling Centre for SMEs**
- **Youth Employment & Entrepreneurship Initiative**

CSR ENVIRONMENT in INDONESIA PRIVATE SECTOR ADVOCATES

Corporate Forum for Community Development (CFCD)

Founded in 2002 by 15 corporate managers which had been conducting CD programs , with a mission to develop competence and skills of and information network in the field of CSR/CD.

As such CFCD functions as forum to exchange information, experience, ,knowledge, best practices and consultation among members.

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PRIVATE SECTOR ADVOCATES

Corporate Forum for Community Development (CFCD)

Major Programmes:

- CD Training
- In house training on CD
- Consulting in designing, developing and evaluating CD program
- Publishing books and magazines on CD
- Conducting Indonesia CD Awards program in 2005 and 2006

Corporate Foundations:

Major MNCs as well as national corporations which are serious about their CSR have set up their own corporate foundations

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MAJOR NGO ADVOCATES

- **PIRAC (Public Interest Research and Advocacy Center)**
- **The Business Watch Indonesia**
- **YPB (Foundation for Sustainable Development), the Indonesian chapter of LEAD (Leadership for Environmental and Development)**
- **Association of Philanthropy Indonesia**
- **National Center for Sustainability Reporting**
- **National Committee on Governance**

MULTI STAKEHOLDER INITIATIVE

“National Round Table on CSR” initiative

- Has been taken by the KADIN (Indonesian National Chamber of Commerce), Indonesian Textile Manufacturer’s Association, Ministry of Trade and Industry, with cooperation of some German organization like GTZ, AVE, etc
- Objective is to find solution together to the problem faced by the Indonesian textile industry due to quota and more stringent requirements imposed by the importers
- Conducted three times since 2004

MULTI STAKEHOLDER INITIATIVE

- **Global Compact Network**
- Only 2 Indonesian organizations signed the original Global Compact in the UN, the Jakarta Stock Exchange and Martha Tilaar (a traditional cosmetics company)
- In 2003/4 UNDP office assigned the Indonesian Employers Association to develop the Global Compact Network in Indonesia, but it was not successful
- In 2006 the Indonesian Marketing Association took the initiative and was successful, with initial 23 signatories which has increased to 80 currently, comprising not only corporations but also NGOs and Universities

MULTI STAKEHOLDER INITIATIVE

National Mirror Committee on Working Group Social Responsibility – ISO 26000

- Indonesia had decided to be involved in all ISO/SR standardization activities since its participation in the Bangkok meeting September 2005.
- By the end of 2005 the National Standardization Body established the National Mirror Committee on WG SR with 18 experts representing Government, Corporation, Labour, Consumer, NGO, SSRO.

CSR Scope in INDONESIA

CURRENT FOCUS of PROGRAM

- Education 61%
 - Disaster relief 50%
 - Environment 48%
 - Public Health 45%
 - Philanthropy 38%
 - Economic & Enterprise Development 38%
 - Business Ethics and GCG 25%
 - Human Rights, Labour, Security 24%
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CSR Scope in INDONESIA

FUTURE INVESTMENT FOCUS

- Education 60%
- Disaster Relief 20%
- Environment 48%
- Public Health 44%
- Philanthropy 21%
- Economic & Enterprise Development 38%
- Business Ethics and GCG 35%
- Human Rights, Labour, Security 26%

CSR in INDONESIA

NEW DEVELOPMENT

- The House of Representatives recently proposed CSR as a compulsory item in the Corporate Law
- No stakeholders consultation were undertaken beforehand
- Later decision was taken based on comparative studies in China, the Netherlands and Thailand

CSR in INDONESIA



WHAT (20) CEOs HAVE to SAY

**REGARDING THE PROPOSED CSR
OBLIGATION IN THE CORPORATE
LAW?**

CSR in INDONESIA

WHAT (20) CEOs HAVE to SAY

- Majority of companies would increase their spending of 2006, and over half would significantly increase if there is tax incentives
- Majority don't really believe a separate law will help to guarantee that CSR is mutually beneficial for the corporations and local communities

CSR in INDONESIA

WHAT (20) CEOs HAVE to SAY

- 7 believe the proposed CSR legislation will help improve the quality of CSR activities but on the contrary 13 said it would decrease the efforts put by companies
- 9 believe overtime the proposed CSR legislative will decrease the total pool of money spent on CSR in Indonesia, 4 feel it will increase and 7 unsure

CSR in INDONESIA

REACTION TO PROPOSED CORPORATE LAW

- As a reaction of the proposed Corporate Law (in which CSR is proposed to be an obligation), IBL, KADIN (the Indonesian National Chamber of Commerce), the Indonesian Accountant Association, Employers Association, and various Industry Associations had sent a petition to the House of Representatives to convene strong concerns about potential detrimental effects imposed by the Law.

CURRENT STATUS of the CORPORATE LAW

- In July 20 Indonesia has become the first nation to legislate CSR, after the House of Representatives dismissed all objections from the business sector to pass the bill on Limited Liability Companies.
- Initially, CSR was to be mandatory for all limited liability companies, but heavy opposition from the KADIN and other representatives of the business world had compelled the parliament to amend paragraph 74 on CSR by making it compulsory for companies in the natural resources sectors only

REACTION to the APPROVED CORPORATE LAW

- CSR has entered into the Indonesian law, but laws require implementing regulations within 3 months to make them operable.
- The business sectors through KADIN and other business associations had decided to form a working group to guide the Government in developing the Government regulation by providing inputs needed.

EXTENT TO WHICH CSR in INDONESIA HAS BEEN TAKEN AT THE STRATEGIC LEVEL of BUSINESS

Based on Simon Zadek's Model

- Stage 1 : DEFENSIVE
- Stage 2 : COMPLIANCE
- Stage 3 : MANAGERIAL
- Stage 4 : STRATEGIC
- Stage 5 : CIVIL

EXTENT TO WHICH CSR in INDONESIA HAS BEEN TAKEN at the STRATEGIC LEVEL of BUSINESS

Based on Simon Zadek's Model

- **Most** of Indonesian companies are in the **COMPLIANCE** stage, where they adopt a policy-based compliance as a cost of doing business
- **Some** are already in the **MANAGERIAL** stage, where they embed the societal issue in their core management process
- **A few** have reached the **STRATEGIC** stage, where they integrate the societal issue into their core business strategies

CHALLENGES

- The varied perception of CSR among different players and Government officials
- Regulatory inconsistencies and conflict between pieces of legislations and weak law enforcement
- Lack of incentives to conduct business responsibly as manifestation of CSR
- Issues of CSR and SMEs