



**Asia-Pacific
Economic Cooperation**

Corporate Social Responsibility in the APEC Region

Current Status and Implications

**Economy Paper:
Indonesia**

Economy Paper

Corporate Social Responsibility (CSR) in INDONESIA

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INTRODUCTION

Background

The study basically is an assessment of the state of CSR in Indonesia, as part of a bigger study across 14 economies amongst APEC members which results will be synthesized to be an effective document, from which some APEC relevant recommendations on CSR will be drawn. Primary focus of the study is business practice around CSR and related issues, including relations with stakeholders and environment around CSR in Indonesia.

Purpose and Objectives

The purpose of this study is to assess the state of CSR in Indonesia.

Specific objectives of this study is to gather information on:

- root of CSR in Indonesia
- the Indonesian perception on CSR
- environment around CSR
- scope of CSR practices
- extent to which CSR has been taken at the strategic level of business
- challenges for the corporations and the economy

Methodology

Methodology used in the study is secondary research, drawing on previous studies and available materials on the subject. To compliment those, interviews with some corporations and the stakeholders have been conducted, as well as field observations of a few CSR projects of different companies (from varying industries and status) considered to be best practices. The study is not comprehensive and the result is indicative in nature, but care is taken to ensure the indication resulted is representative.

DEVELOPMENT OF CSR IN INDONESIA

Origins of CSR Thinking and Practice

In the Indonesian culture there is an ancient concept called “*gotong royong*”, which means joint/shared responsibility. The root of “*gotong royong*” goes back a long way into traditional custom, and it is still an all-important institution in Indonesia's village life. Wherever fire, flood, earthquake or volcanic eruption strikes, when pipelines break or a dam needs rebuilding or repairing, the principle of “*gotong royong*” goes into effect. If a rice field must be harvested, all have a right and duty to help, receiving a share of the crop as compensation. If a temple is to be built, all villagers will join in building it. If a family is marrying off the daughter, neighbours will lend helping hands in preparation for the wedding party, decorating the house, cooking the delicacies, and the like with no payment mentioned. Thus social responsibility is relevant to all stakeholders in the community or any entity, and it follows that the stakeholder concept is actually nothing new in the Indonesian culture.

The Indonesian Perception on CSR

A non profit organization, PIRAC (Public Interest Research and Advocacy Center) with funding support from the Ford Foundation, has conducted a survey on Corporate Giving in the second half of 2002, among 226 corporations in 10 major cities in Indonesia. Amongst the questions asked was on the respondents perception on CSR. The results indicated that 57% recognized that corporations do have social responsibility, with MNCs, and Indonesian companies with nationwide coverage showing higher level of recognition as compared to local companies and likewise higher level of recognition among public companies than among privately owned corporations.

However, the study result also reflected there has been lack of understanding on what CSR is. The majority of the corporations perceived CSR as: 'giving for social activities' (86%) 'improving welfare of the employees' (77%),

'paying tax to the government' (70%), and 'making profit' (55%).

In spite of the above-mentioned fact, 93% of the corporations surveyed had been giving donations in the past 3 years, though only 18% of them had written policies on donations, and only one out of five do set up target for their donations at the beginning of their fiscal years. When asked if they would increase the amount of their donation if there is a policy that donations are tax deductible, 37% of the respondents firmly stated they would, even if 50% said they do not know yet.

Motivations underlying corporations to give donations were not purely as a manifestation of its CSR; some companies give donations for business reasons. While the most common motivation mentioned was "In line with company policy" (68%), the survey also indicate that one out of five companies surveyed do it as part of the company or their products' promotion activities. This kind of motivation was mentioned by more Indonesian companies operating only in local areas as well at national level as compared to MNCs, and more in privately owned than other types of companies.

Three types of activities have been found to be the ones most popular among the corporations to give their donations to, and those were : social activities (82%), religious activities (61%) and education (57%) Following in decreasing order were :environment (38%), health (33%), art and culture (30%), economy (27%) and infrastructure building (12%). The area of law and advocacy was the least attractive, mentioned by only 3% of respondents

A newer quantitative piece of research conducted in Indonesia as part of the global "Corporate Social Responsibility Monitor 2005", has revealed that 'Things considered as part of the responsibilities of large companies' mainly centered around environment issues, product safety and quality, and fairness in employment, as follow:

- Ensuring its products and operations do not harm the environment (mentioned by 98%; of which 77% said 'held completely responsible', 11% 'partially responsible'; MS = 4.64)

- Ensuring that their products are safe and healthy (by 98%; 79% and 12% respectively; MS = 4.63)
- Treating all employees and job applicants fairly, regardless of gender, race, religion orientation (by 98%; 76% and 15% respectively; MS = 4.56)
- Ensuring that all materials it uses to make its products have been produced in a socially and environmentally responsible manner (by 97%; 73% and 15% respectively, MS = 4.54)
- Providing good quality products and services at the lowest possible price (by 96%; 81% and 21% respectively; MS = 4.35)

The same study also shows that 'Important things considered as being responsible to society of large companies' are : treat employees well/fairly (34%), protect the environment/not pollute (27%), give money/donate to charities or philanthropy (19%), and employ people/create jobs (9%).

And a very interesting finding is, in response to a question whether the respondent had considered punishing a company which is not socially responsible by either refusing to buy their products or speaking critically about it, 57% replied No, 26% stated they had considered but not really doing it, only 5% had done so, and 14% said 'Don't know' ! Unlike findings in other countries, the Indonesians seem to be very forgiving consumers.

Environment Around CSR in the Economy

The inevitable impact of the globalization has undeniably been felt in Indonesia as well. Most believe that globalization has created an interrelated and interdependent world. Some are of the opinion that economic liberalization especially in the third World is a forced one and only benefits the private sector, especially MNCs. As a consequence, the last two decades has witnessed massive opposition to this kind of globalization. NGOs and those suffering from the impact of globalization have worked hand in hand to oppose business practices of MNCs that they consider unethical and keep prying eyes on such practices.

That kind of pressures toward MNCs, in conjunction with other factors like market forces, have in a way been impacting the development of CSR in Indonesia positively. While awareness about CSR in the economy has been low and increasing at a relatively low level – until very recently – it is worth noting that more and more business are accepting the view that creating wealth is not their sole goal, and that they also exist to create value for the society. Hence the positive attitude that a company is accountable not only to its shareholders (as traditionally believed), but to all their stakeholders – the owner, employees, consumer, communities, government and the environment has been prevalent.

Besides the corporations themselves, certain parties in Indonesia have lately also taken the issues of CSR seriously and some initiatives taken thereof, among the Government, the private sector and the civil society.

The Government

The Coordinating Minister for Economic Affairs recognized that fundamental problems of the world's nation are centered on keeping the balance between economic development activities and using natural resources with limited carrying capacity. Indonesia's National Developments is aimed to improve people's welfare. However, some by-products of the process of development are also the causes of pollution, such as air pollution in big cities, river pollution, environmental damage and bio diversity loss, which eventually will hamper people's lives. The problems certainly pose certain questions to answer about the relationship between the economy and the environment, about the nature of corporate profits and growth and the need to preserve the quality of life.

Following is a quotation of the Minister's keynote address in a seminar : "CSR: A New Business Mainstream towards Sustainable Development", March 2005.

"For me, as a former businessman, the first and foremost responsibility for any corporation is to grow and to seek profit.

Only by growing and pursuing profit-making activities seriously and creatively that corporations can pay their workers well, and hence improve their lives. Then the government is able to collect more taxes from the corporate sector, which in turn is going to be used to improve public facilities, schools, hospitals, and so on. A vibrant corporate sector is one of the keys for any economy to grow. Without it, countries will suffer and their resources shrink. And this, in turn, is very bad for the social as well as natural environment: a declining economy often forces the government to use any resources available, including illegal activities like illegal logging to pay for its bills, which of course tend to destroy the forests.

However, it does not mean that it is only profit and growth that we care about. There are some by-product of economic activities which are detrimental to the interest of preserving good life and healthy natural environment. It is this problem that we have to tackle, without jeopardizing the prospect of profit and growth. One of the formulas in solving the problem is to establish a system based on CSR."

Currently a number of legal and regulatory reforms are underway through various ministries and organizations. The Ministry attempts to accommodate inputs coming from the Indonesian Chamber of Commerce and Industry together with the international Business Chambers, and put their inputs into a framework that sets a roadmap to initiate fundamental changes in the regulations, including legislation on investment and taxation and numerous regulatory changes in other areas.

The Ministry of Environment is another institution which has shown genuine concern on CSR development in Indonesia, particularly those related to environmental issues. In Indonesia, the Ministry of Environment's mission is to encourage the application of sustainable development principles, consistently and continuously through policies, coordination, monitoring, as well as participation at the global level.

To achieve the vision and mission, a National Policy on the Environment is established as the foundation of an environmental management activity, i.e.:

- Environmental conservation based on sustainable development concept
- Environmental function conservation for human interest for the short, medium and long term
- The utilization of non-renewable natural resources based on future generation's needs and maintain its rehabilitation
- Recognition of every citizen right to enjoy a good and healthy environment and their obligation to conserve the environment
- Preference on prevention rather than rehabilitation in environmental conservation
- Environmental quality is established according to its function
- Environmental conservation is carried out based on conservation principles through a proper management approach including an accountability system

To realize its policies The Ministry of Environment has set up strategic programs as follow:

- Implementation of Environmental Governance that covers the Ministry of Environment's capacity development to support regional environmental management, regional government capacity building in sustainable development and awarding regional government in the success in managing the environment
- Empowering the public in sustainable development and joint cooperation with regional legislative bodies in sustainable development.
- Development of compliance system that consist of law compliance system and law enforcement as well as alternative compliance system
- Conservation of environment under the framework of national, regional and global sustainable development

As supporting programs, the Government of Indonesia since 1995 has taken the initiative to introduce a program called PROPER (Industrial

Performance Rating Program) which objectives are:

- To encourage the principles of sustainable development
- To step up commitments of stakeholders in the effort to conserve the environment
- To promote awareness and compliance among industries to environmental laws and regulations
- To step up compliance in environmental impact management through active public participation
- To reduce environmental impact from industrial activities

In the past 3 years, the implementation of PROPER has given positive impact especially in raising the commitment and awareness of the industries to the environmental laws and regulations. As an illustration, for the period of 2002 – February 2004 when the government gave 3-6 month time to improve their facilities, there was a significant improvement from 35% to 69% that comply with the regulations. Hence it is expected that all companies will realize that meeting the regulations is possible if they have high commitment and awareness.

Private Sector

Indonesia Business Links (IBL)

Indonesia Business Links (IBL) is a not for profit organization that promotes Corporate Citizenship among Indonesian and international companies operating in Indonesia, born out of a multi sector discussion held in October 1998 in response to the economic crisis in Indonesia. Founded by prominent business leaders in Indonesia, IBL was formally launched in Jakarta on 9th December 1999. IBL and registered as Foundation under the law of Republic Indonesia since 1st August 2001.

Vision of IBL is to be a leading advocate of good Corporate Citizenship in Indonesia and be recognized for it and the **Mission is** to develop programs to contribute towards the creation of good corporate social responsibility and to act as an information and campaign centre for corporate citizenship

Objectives of IBL are:

- Encourage and assist corporations in Indonesia in implementing CSR strategies and programs.
- Facilitate the development of viable CSR models, including to assist members in formulating or implementing their own CSR strategy and programs.
- Function as Resource Center for Corporate Citizenship

IBL's Core Programs include:

a) Awareness Raising on Corporate Citizenship (CC)

▪ *Business Ethics Workshop*

Based on code of conducts and materials from its supporting companies/ organizations, IBL has designed a workshop module on ethical business management for corporate directors and senior managers. It is a forum for business practitioners to share issues and real-life ethical dilemmas in business and to seek resolutions through experience sharing

▪ *CSR for a Better Life*

An initiative funded by the Ford Foundation to study CSR practices among selected natural resource based companies in Indonesia. The

program commenced in 2003 under a title of CSR for Sustainable Natural Resources. It features field study, in-depth interview, roundtable discussions, and corporate workshops in Jakarta, Kalimantan, and Sumatera

b) Corporate Social Responsibility Pilot Projects

▪ *Young Entrepreneurs Start-Up (YES)*

This program helps young people in Indonesia to start their own business. It is jointly implemented by IBL, Shell Companies in Indonesia, McKinsey, Standard Chartered Bank and Progressio Indonesia. It adopts the methodologies of LiveWire International and Youth Business International and is supported by ILO. The program is implemented through an integrated mechanism of business plan development, mentoring and access to finance.

▪ *Entrepreneurs Enabling Network - WARBISNET*

An initiative to help small enterprises in getting access to information, mentoring/capacity-building and finance, through on-line & off-line services on business aspects. It aims at developing doable and replicable model of business linkages between large and small companies, while also bridging the digital divide issue. The initiative is primarily supported by PSN (Pasifik Satelit Nusantara), D-NET and The Prince of Wales International Business Leaders Forum.

- *Tools for CC Benchmarking* These self-assessment tools have been tested since 2004 in collaboration with the Philippines Business for Social Progress (PBSP). IBL is given the copyright of the tools and software for use in Indonesia, for individual corporate management review as well as for industry benchmarking.

Corporate Forum for Community Development (CFCD)

This forum was initially declared in 24 September 2002 in Jakarta, by 15 corporate

managers from companies which had been actively conducting Community Development (CD) programs. Currently CFCD members have increased considerably to around 100 (note: up to now the term "members" are still very loose, because there is no membership fee or any other binding obligation yet; any company which had participated in any of the CFCD workshop or gathering are considered as members). The majority of the members are state-owned companies (SOE) and private enterprises located in various parts of Indonesia, and grouped into 8 chapters in different cities.

Vision of CFCD is to be a centre for stakeholder networking and leading learning centre on CSR/CD in Indonesia and the **Mission is** to develop competence and skills of human resources and information network in the field of CSR/CD. As such CFCD functions as a forum of communications to exchange information, experience, knowledge, best practices, and consultation among members.

To achieve the mission, CFCD has developed work program which include:

- Participatory CD training amongst corporations, governments and NGOs
- Discussions and studies on CD
- In house training on CD
- Consulting in designing, developing and evaluating CD program
- Publishing books and magazines on CD

NON GOVERNMENTAL ORGANIZATION

PIRAC

(Public Interest Research and Advocacy Center)

PIRAC is an independent, non-profit resource organization, which offers services in research, training, advocacy, and information dissemination in the fields of philanthropy and enhancement of civil society organization in Indonesia, financially supported by donor institutions, social donations, and independent businesses. PIRAC is a foundation which has been active since 1998.

PIRAC Vision is : A forceful, prosperous, and caring society and the **Mission is** : To foster caring society and it has the following **goals**

- to foster awareness of the making donation in an organized way
- to enhance capacity of civil society organization in resource management
- to encourage the realization of conducive policies and law systems for philanthropic activities and non-profit sectors.
- to encourage the improvement of social responsibilities among both public and private institutions to develop new knowledge in the fields of philanthropy and civil society organization.

Programs and activities

1. Researches and Case Studies

which are focussed on social generosity, fundraising, capacity development of NGOs, and corporate social responsibility, a.o.:

- Case Study of *The Strategy of Fundraising in Indonesia* (2000 and 2004)
- Survey of *The Role of Media in Social Fundraising* (2003)
- Survey of *The Pattern and Potentials of Companies in Making Donations*

2. Training

PIRAC conducts training for capacity building of fund management of non-profit organizations in Indonesia., namely::

- *Fundraising Basic Training*
- *Strategic Planning for Fundraising*
- *Successful Project Development: Donor-based Fundraising Training*

3. Public Discussions

PIRAC conducts public discussions in order to get some input and criticism to complete the analysis of the research and the case studies. In addition, this also functions as a way sharing and disseminating the latest issues in social donation-making. The themes of the discussions already conducted are a.o.:

- *Corporate Generosity: The Potentials and Fundraising Efforts*
- *Building Conducive Taxation Policies for Non-profit Sectors*
- *Generosity for Social Welfare: Challenges and Opportunities for Non-profit Sectors in Indonesia*

4. Publications

In order to achieve the mission, PIRAC has set up PIRAMEDIA to publish books of non-profit sectors, NGOs, and fundraising.

5. Advocacy

PIRAC gives advocacy in order to develop conducive environment for non-profit sectors and to improve the accountability of NGOs

PIRAC has been involved in some nation-wide initiatives, such as:

- Working-group of Civil Society Organizations; to strengthen and improve the quality of governance and public accountability in civil organizations
- Coalition of NGOs for the draft of law of foundation and tax advocacy; a forum set up for advocacy purposes of the bill so as not to limit NGOs, but to give incentives, such as tax incentives.

The Business Watch Indonesia

The Business Watch Indonesia (BWI) is a research-based NGO established in September 2002 as a crystallization of idea that had been discoursed over some years. BWI is supported by young and idealist people who are trying to introduce a new way of rethinking democracy - particularly, in its relation to business practice.

Driven by an understanding that the societal power has shifted from the state apparatus authority to the economic groups and business communities both in local and global level, BWI is established and aimed at mainly cultivating possibilities of steps to democratise the exercise of economic power (in terms of corporations and business practices) and governance. BWI focuses on creating and promoting efforts

towards democratic economic governance in general, and good corporate governance in particular.

Vision of BWI is towards democratic economic governance and the

Mission is Promoting democratic economic governance is to be done through:

- Building accountability of the business power
- Facilitating public participation towards democratic economic governance
- Promoting fair business practices

Objectives

- To monitor and disseminate the impacts of economic globalization through the WTO agreements and their implications in Indonesian contexts
- To monitor and disseminate the impacts of malpractices of business both in local and global level
- To promote fair and accountable business practice
- To foster people's awareness on business' accountability and social responsibility
- To facilitate people's movement in challenging the malpractices of business

Main Activities

- Research, consisting of **Policy research** on economic globalisation and its implications towards the society through WTO and newly-made-rules, and **Empirical research** on the implication of business (mal)practices, including TNC/MNC practices
- Publication, public seminars, workshops
- .Networking & Advocacy, by conducting conferences at local/national/regional level with other NGOs to establish policy-advocacy on politics of business and gender awareness in business practices

Future Plan

For the coming years, BWI plans to undertake following activities/projects, among others:

- **On the issue of Corporate Social Responsibility (CSR)**, BWI has scheduled

to further the initiative of CSR involvement with other groups in Indonesia. As a starting point, BWI also conducts some qualitative observations on the response of civil-society organisations to the CSR issue.

- **On the issue of monitoring TransNational Corporation**, BWI plans to undertake empirical researches and campaigns on TNC and MNC practices in Indonesia
- **On the issue of 'Democratising the Global Governance'**, BWI intends a desk study and networking with international NGO on the possibility to campaign issues of **democratising transnational institution** (thus becomes a global governance institution) like World Bank, IMF and WTO.

YPB

(Yayasan Pembangunan Berkelanjutan or the Foundation for Sustainable Development) 's LEAD Program

LEAD (Leadership for Environment and Development) is an international NGO with a fast growing network of 1400 leaders in over 80 countries. The shared mission is to inspire leadership for a sustainable world, and it is done by searching worldwide for outstanding people, developing their leadership potential through its innovative training programs and working with them to mobilize others to make a real difference to the future of this planet.

LEAD Indonesia is hosted by *Yayasan Pembangunan Berkelanjutan (YPB) – Foundation for Sustainable Development* - a foundation set up in the year 1990 which Vision is: To be a resource centre for all interested and concerned parties that promote changes towards sustainable development, and the Mission is : To learn, to develop and to share knowledge and skills to promote development that is economically viable, socially equitable and environmentally sustainable through its products and services.

LEAD Indonesia has been conducting LEAD Associate Training program since 1992. The program offers a unique, 12-month international training program on leadership for sustainable development. Graduates of the program are

called LEAD Fellows and join one of the world's most diverse networks of professionals.

Starting this year, "CSR for Sustainable Development" is the major theme of the training worldwide. In Indonesia, the training began in March 2005. It is held in Jakarta for 30 face-to-face training days, organized in six sessions over 9 months, and supported by distance learning for selected session as a joint undertaking of YPB, IBL PBSP and AIM Mirant. Center for Bridging Divides. Afterwards, participants may go to optional training in Bangkok, Thailand held in cooperation with LEAD other Asian Countries and Asian Institute of Technology and Bhopal, India, held in cooperation with LEAD International and other LEAD offices worldwide. .

Despite the high price of the training (USD 5000, with partial scholarship for those deserving) the first batch has attracted 20 Participants, coming from the corporations, from the Ministry of Environment, and NGOs, besides participants who came only for certain workshops and seminars offered. In a way, this can be considered as a good indication that corporations and other stakeholders are beginning to consider CSR as a serious issue.

Multi Stakeholder Initiative

An initiative to organize "**National Round Table on CSR**" has been taken by the KADIN (Indonesian National Chamber of Commerce), Indonesian Textile Manufacturer's Association (API), Ministry of Trade and Industry, with the cooperation of some German organization like GTZ (Program Office for Social and Ecological Standard), AVE (the Foreign Trade Association of German Retailers) and a few others. From the Indonesian side, driver of the initiative basically is the problems faced by the Indonesian textile industry, due to the new quota regulations by the importers, and the more stringent requirements imposed to the exporters. From the German side a project has been launched, aiming at introducing uniform standards to improve working conditions in the import markets in selected economies, Indonesia being one.

The first National Round Table on CSR was conducted in August 2004, and over 100 participants were present representing the private sector, associations, labour unions, NGOs, foundations, international agencies and government. The minute of the meeting stated there had been obvious interests in CSR concept as a critical element required for the textile and garment industry players to stay in the global market. The forum had declared a basic objective of improving social standards in Indonesia. This is to be achieved through voluntary corporate codes of conducts and some models like AVE Sector Model, SA8000, WRAP and others. The overriding goal is securing the economy's actual long term acceptance and implementation of social standards in line with Indonesian national legislation. In terms of thematic content, the Round Table is guided by the Universal Declaration of Human Rights, international human rights accord and conventions, the ILO's Declaration on Fundamental Principles and Rights at work 1998, and the UN Secretary General's Global Compact Initiative.

The National Round Table on CSR had been planned to be held quarterly, and a second one had been conducted in December 2004, with less participants (around 30) but more intensive discussions and sharing among the members and signing of MOU on further cooperation within the National Round Table. A third one was held only last month (September 2005) and no minutes of it is available yet.

However, while the initiative is very good, no follow up is in place so far.

SCOPE OF CSR PRACTICES IN INDONESIA

The issues of responsible business practice is one of the most dynamic and challenging subjects corporate leaders face today. Indonesian companies, especially those operating in global markets have been increasingly aware that they are required to balance the social, economic and environmental components of their business, while building shareholder value. For different industries, responsible business practice can involve different issues and therefore manifested in different programs. The key issues identified and the programs developed are covered over the following paragraphs .

Education

Education is central to the pursuit of sustainable development. By raising living standards and improving the quality of life, it opens the door to new opportunities for equality and prosperity in every community. In a rapidly changing world marked by globalization, innovation and communication, the skills that an education provides have become essential for success in the 'knowledge age'.

In Indonesia those who have access to an education may receive low quality instruction in crumbling facilities as a large number of schools struggle to provide basic books and buildings. This latter is unfortunately the case in many parts of Indonesia. In addition, all too often many children do not remain in the system: dropout rates are high and rising in some regions.

The challenge of providing access to quality education for all is one of the most daunting and important issues facing Indonesia today. Education is the key to achieving sustainable development, expanding opportunities as well as promoting equality and prosperity in all societies. Businesses have a major role to play in the education sector. Many companies in the natural resource based industries operating in remote areas had CSR programs covering provision of basic education facilities such as schools and teachers, so that children do not have to move away from their local areas. Other companies operating in urban areas coming from different

industries like banking, manufacturing, fast moving consumer goods, etc. have a wide range of programs, from the traditional ones like giving scholarships, educational equipments and school building, to the provision and development of mobile libraries, learning centers and the like. The implementation of these programs also varied. One company has set up a foundation specifically administering all the necessary steps to provide scholarships up to the placement. Another had the employees

work certain hours (during working hours, which is counted as a donation of the company's time to the program) in turns to teach the street children . But the majority engage other parties like selected NGOs and even the local district government offices in the programs.

One example of Education CSR project is featured underneath.

Jogjakarta Study Center - where Modern and Traditional Learning Meets

Since entering Indonesia in 1927, **Coca-Cola Indonesia (CCI)** has always been an active and caring corporate citizen in the community, supporting all types of health, education, and community activities. In line with the growth of the company and the company's increased commitment on its social responsibility, CCI together with Coca-Cola Bottling Indonesia founded the Coca-Cola Foundation Indonesia (CCFI) in 2000 to establish a sense of permanence to its role as a community citizen.

In the early stage, CCFI chose the Learning Center Program as a focus, aims to provide alternative learning resources for the community by developing local libraries into active learning centers. CCFI's successful experience in transforming public libraries into modern LCs has gained strong recognition from Government, NGOs and communities. In 2004, CCFI decided to also focus on programs for specific local libraries with unique or strong cultural ties that would meet more the need of the communities. One such program, Jogjakarta SC, is elaborated here.

Jogjakarta is located in the island of Java and in the heart of Javanese culture that traces its history to the old Javanese kingdoms, in which lies the roots of the Javanese cultural richness we see today. The art of making *batik*, the world renowned *gamelan* instruments and the Javanese shadow puppet, or the *Wayangs*, are only a few examples of such cultural richness that has been preserved by its people. Jogjakarta is also a center of excellence, home to one of the Indonesia's oldest university, as well as numerous education institutes. It is also a point of entry for international communities to come and learn the local traditions of Javanese culture.

Program Implementation

In the beginning, CCFI focused on the basic transformation of a local library into a learning center. Necessary education facilities and learning materials were provided as well as necessary staff training for capacity building. CCFI resource persons serve as technical program consultants or mentors for JSC. In the beginning, CCFI support was allocated for:

- Improving children activity room with educational and traditional games
- Adding more reading collections including those for children and youth
- Expanding advanced computer facility including internet
- Extending various learning service including those for children and youth such as storytelling, discussions, children drawing lessons and movie presentations

JSC learnt to develop networking with the community and also started to invite public to not only become the program beneficiaries, but also the 'active players' for community learning. Many events are planned and done by community, at minimal or even no cost at all. People therefore become comfortable in contributing themselves to many of JSC's activities and also to volunteer program.

JSC also gains trust from many organizations as a learning center. A set of highly valued *gamelan*, is donated for public use. This enables people to learn Javanese music in group setting, thus providing great opportunity for social interaction for children and adult. JSC takes advantage of the *Wayangs* facility from CCFI and has been able to invite community to provide *Wayangs* lessons and demonstrations for children. In addition, JSC houses courses of Javanese language and traditional Master of Ceremonies, enabling community to preserve their rich traditions.

At the end of 2004, the cooperation between JSC and CCFI ends but CCFI has confidence the seed planted has grown JSC to unleash its potentials. JSC has become very active, and gaining huge support from public benefiting from the program. But the support does not end. From early 2005 CCFI started extended support for JSC to hold batik painting training program for public, to provide new skills. Taking advantage of computer and internet facility in JSC, they do not only have better opportunity for job creating, but also a chance to preserve traditions.

The work accomplished by JSC has gained the center enough recognition and attracted much contribution. Having remarkable facility improvement and extended beneficiaries, JSC is now getting extensive support from the community and the local government. Further, JSC has been able to develop networks with community and developing new activities at minimal or even no cost at all. JSC also has become a 'model' for benchmarking for other organizations thus making it a center of studies. The government recognizes this learning center as a 'cultural asset' and has guaranteed yearly funding and even increased its yearly entitlement, allowing it not only future expectations of sustainability but expectations of expansion. Hence the program's sustainability grade is outstanding.

Environment

The environmental challenge has been changing. Once considered purely a bottom line cost, environment is fast becoming a commercial opportunity, as this aspect of corporate performance becomes a core competitive issue at the heart of reputation management. A critical component of the enabling framework to economic sustainability is a sound environment that underpins corporate efforts to promote high environmental, health and safety standards in its own operations while playing a contributory role in fostering community health and well-being in broadest sense.

Such issues include eco-labeling demands and green premiums for environmentally supportive companies, and is very relevant for certain industries, like the pulp and paper, resulting in reforestation programs and the like. However, other industries have also taken initiatives to foster awareness of environmental issues. This include donation to various NGOs working in the environmental areas, working with authors and publishers to produce books on environmental education for children adopting a village to change the inhabitants' paradigm about environment. An example is featured in the box underneath.

“Surabaya Environmental Program : Community Activation”

Program Description

In big cities in Indonesia, rivers are treated like big dumping sites. People living on the riverbanks tend to dispose of their garbage into the river while raw effluent is discharged from homes and industries. This situation is even worse when the final dumping area of the city is almost overloaded due to unwell-planned of the city waste management.

As the second largest city in Indonesia, Surabaya with its 3 million inhabitants produces 8,700-m³ garbage per day. Currently, Surabaya is facing garbage problem. Around 80% of those garbage is transported to the final dumping area which will be overloaded in the next two or three years; and other 20% is scattered everywhere in the environment, mostly in the water bodies such as rivers.

Unilever Indonesia plays a key role in collaborating many stakeholders (community, government, university, NGOs) to develop the new concept of integrated waste management in Surabaya through introducing a community based waste management. Around 70% of the domestic garbage are organic and 30% others are non-organic. Communities as the most important key player are taught on how to process their organic garbage into compost in their own houses. They are also encouraged in collecting the non-organic garbage to be reselling to the scavengers. Most of them spend the money to buy medicine trees for family needs as well to promote the greening activity in their surrounding area.

Program Objectives and Implementation

The objective of this program is to improve the environmental condition, by changing community's paradigm on the environmental issues, especially waste management and greening, using bottom up approach.

Potential informal leader were selected among the community to be trained as an environmental cadre, who were expected to be the agent of change on his or her neighbourhood. These cadres have a role to encourage, educate his/her neighbours to improve their environmental condition, by managing their own waste and greening.

Unilever Indonesia partnering with a local university was introducing a simple technology of processing garbage into compost. A plastic drum of 200-litter capacity is specially designed with PVC pipe as aeration and stack. The bottom of the unit is holed to allow garbage contact with soil (the picture of the unit is enclosed). Garbage from kitchen and garden are dumping into this unit everyday. One unit is installed for every 5 houses and will be full after 6 to 8 months. After another 1-month maturation period the compost is ready to be harvested.

Waste segregation has been successfully implemented, where non organic waste is separated from the organic ones. The organic wastes were composted using a simple composting technology that is composters bin. On the other hand, the non organic waste were collected and sold to waste collector. The compost produced from this process is used for fertiliser, while the income generated from selling non organic waste was used as an additional income generation.

Program Location

Thirteen villages in Surabaya, East Java.

Parties involved in the Program

This program has engaged various parties from various institutions, as follows:

From Unilever, by a dedicated Environmental Manager and supported by General Manager of Unilever Peduli Foundation

From Sanitation Office by The head of Sanitation Office (Ismanu)

From UNESA (State Own University of Surabaya) by The Senior Lecturers

From NGOs. (Sahabat Lingkungan, Ecoton, Tunas Hijau) by the Head of each organization From Media (2 leading newspapers) by the owner of Jawa Pos and Chief Editor of Radar Surabaya

Health Promotion

The workplace is now recognized as an important setting for health promotion in industrialized economies and interest is growing in the wider role that business can play as a partner in health development in both developing and more developed economies, Indonesia included.

Investment in human resources is the primary success factor and highest cost of business. Illness diminishes productivity and functioning as well as adds to direct and indirect costs that undermine competitiveness. Employee well-being in the workforce and amongst business partners is crucial to sustainable businesses. For most of the Indonesian companies CSR programs in this area involved the building of health facilities, the employment of health professionals and the provision of health services to both company staff and their families. For those operating in remote areas the companies will usually provide mobile clinic with full medical service. In addition, companies were also involved in “environmental” health i.e. information gathering and dissemination of information on epidemics and alerts to any potential outbreaks of viruses, etc.

A noteworthy phenomenon in Indonesia related to this is the "Coalition for a Healthy Indonesia" (Koalisi Untuk Indonesia Sehat or "KUIS") which has involved companies which are very concerned about health issues, to facilitate cooperation on the health related activities, for a better impact to the target groups.

Enterprise and Economic Development

By working to improve the business environment in developing economies, such as Indonesia, MNCs or foreign companies in general stand to benefit greatly. When they make significant, long-term investment in a developing economy, the overall health of the local business environment will be important

factor in determining the success or otherwise of the venture.

Large companies depend on the health of the domestic business environment for their staff, goods and services, sub-contracted works, etc. Efficient SMEs operating to international quality and management standards, can contribute to the overall success of an MNC or other foreign company. All too often, however, the absence of an enabling framework frustrates and undermines the efforts of entrepreneurs in developing economies and economies in transition so that many businesses either fail to flourish or never make it past the start-up phase.

Those companies, with their wealth of technical, managerial and financial expertise, can play a proactive role in developing economies like Indonesia to support new, commercially viable businesses. Many of them are involved in education and entrepreneurship programs that provide not only the education and training required for community based enterprises but also the tools (for agriculture), facilities (fields in which to grow produce, plantation areas for pineapple or soyabean farming, etc) and even loan finance to enable the establishment of such local projects and businesses. Some companies are actively involved in agricultural research (on its own or in collaboration with local universities), both as to products and factors in production that in turn benefited the local community, agricultural businesses as well as the respective companies' businesses. Some forms of program involved partnership between local community business and companies engaged in CSR whereby some business processes were outsourced. However, other companies chose to develop SMEs in fields which are totally unrelated to their core business, for instance in handicrafts or garments production, and help to facilitate the marketing as well as the production, beside the classic financial aid.

An example of economic empowerment program is featured in the box.

**RIAU COMMUNITY EMPOWERMENT PROGRAM
(Program Pengembangan Masyarakat Riau or PPMR)**

PT Riau Andalan Pulp and Paper (RAPP) is the biggest pulp and paper producer in Asia with annual production capacity of 1,800,000 tonnes pulp and 350,000 tonnes paper, located on an area of 1,750 hectares in Pangkalan Kerinci-Pelalawan region, a part of Riau province. Its integrated pulp and paper mills are equipped with best available technology, and ISO 9001 and ISO 14001 certified. RAPP doesn't receive logs from third parties and maintains a firm drive against illegal logging. The company was founded in 1992 and started production in early 1995.

As a company operating in natural resource based industry, since the operation started there has been a lot of criticism from the community as well as NGOs, which mainly brought the issue that the existence of RAPP in the area hardly had any impact on the welfare of the community in the surroundings. There was a CD program, but it was regarded as not clear in concept, top down in nature and not sustainable.

Those criticism has prompted the company to recruit a professional who has a wealth of experience in community empowerment, particularly in agriculture sector, in early 1999. Henceforth major restructuring in the CD program organization has taken place, and the basic thinking that "RAPP has made good business from the resources where the community is and therefore should return part of its profit to them" and "RAPP will grow together with the community" has been made operational.

Vision statement of Riau Community Empowerment Program (PPMR) is to develop self-sufficient communities through partnership between the company and the Local Government, Universities and NGOs and its mission statement is " PPMR exists to promote community empowerment by transferring skills to local people to enable them to be self-sufficient and develop economically at a pace they can handle; contribute to public infrastructure development; and participate in fostering good governance in the newly formed local district government".

The empowerment program consists of four main components, namely:

- Integrated Farming system - economic empowerment for rural communities
- Social and Infrastructure program - providing social and public infrastructure
- Small and Medium Enterprise Program - fostering partnership between RAPP and SMEs
- Vocational Training Program - Equipping local youth with entrepreneurial skills

The Integrated Farming System (only this component will be elaborated here), which major target group is the marginalized farmers, combines cattle raising, fisheries and small scale industry activities into a self supporting chain in which the waste products of one link support the others. PPMR has established three training centers where the latest techniques in cattle breeding and rearing, fruit and vegetable growing, and fish farming are taught. PPMR's researchers have also been working to develop further technology that would help small farming units to be even more cost/energy efficient.

The program adopts the grassroot approach based on the participatory rural appraisal method. Through this approach, information has been obtained from the villagers on their need and capability and willingness to participate in the program. Selected villagers are trained in theory and practice. They learn how to raise and breed cattle and to use the manure as compost for organic gardening. When they return to the village, the trainees are provided with start up resources. PPMR's field officers live in the villages and assist the trainees to practice what they've learnt. They also act as facilitators in helping the trainees teach others. Harvests of the fruit, vegetables and feed crops can be sold at the local market as well as providing food for the family.

The vocational courses are offered in practical skills such as carpentry, dressmaking, hair dressing, food production and pallet making. And the SME program helps in obtaining financial assistance through local Banks, provide tools and equipment to support the start up effort, and help identify market opportunities.

The implementation strategy consists of three stages, which is:

- Restoring self confidence
- Providing livelihood sources
- Improving Family Welfare

Once the participants have completed all three stages, it is expected that they would be empowered with the economic means to improve their family's living standards and provide better life, health and education for their children.

Since 1999 up to 2004, the Integrated Farming System has conducted 75 batches of training with 1842 participants coming from 220 villages, 665 has participated in the vocational schools and the SME program has developed 223 entrepreneurs, and still ongoing.

Human Disaster Relief

Depending on the location and nature of their operations, different industry sectors and companies can play a role in supporting humanitarian relief operations both in the wake of 'natural' disasters as well as during or after periods of conflict. This role may take the form of commercial or philanthropic solutions or a more development oriented approach aimed at reducing the vulnerability of individuals and communities. This aspect of CSR can often be similar to that described in the previous sections: support for the development of local communities such they are not so much at risk from disasters both natural and as a result of loss of employment.

Apart from the above mentioned, the Tsunami case in Aceh toward the end of 2004 (and later Nias) has shown that many companies - whether those actively engaged in this type of program or not - had got involved in the relief program of the worst natural disaster ever, in varying degrees of involvement.

The Tsunami is indeed a phenomenal case resulting in phenomenal reaction from all over the world. Donation from all over the world to rebuild the disaster area is estimated to reach as much as IDR60 trillion or approximately USD6 billion in 6 years, of which around USD700 million will be disbursed in 2005. A body called Aceh "Reconstruction and Rehabilitation Body" (Badan Rekonstruksi dan Rehabilitasi or "BRR") has been formed by the Government of Indonesia to manage the donation and the massive armies of NGOs working there (over 400 in total, some of which operate locally in Aceh, some at national level, as well as international NGOs!), which has a tough tasks of managing the project, but also to ensure that good governance (transparency and accountability in particular) is exercised in the dealings by all related parties.

An example of what a corporation operating in Indonesia is doing for the Tsunami project in Aceh is featured in the box, taken from a recent press release.

Volunteer Work Complements Help for Tsunami-stricken Region

Jakarta, 26 September 2005 – **GE volunteers** are back in the field to support the rehabilitation program of the tsunami region. In cooperation with the volunteers network of Nurani Dunia, GE volunteers help build the foundation of the Community Training Center at the Meunasah Manyang on September 25 and 26, 2005. This building and also the boarding home for orphans are supported by the donation from GE and GE Foundation. The volunteer works in Aceh, which also involves the participation of Aceh community, is the third time for GE Volunteers who have helped build homes for tsunami survivors back in March and June 2005. Now the 147 homes financed by the donation from GE Family through "Habitat for Humanity" have almost reached completion.

“In total the donation from GE Family, which includes GE, GE Foundation and GE employees, for tsunami-stricken economies reached US\$19 Million. But our commitment to help doesn’t stop at giving donation,” Stuart L. Dean, President of GE Southeast Asia said. “Our employees also helped by doing volunteer work and involving the local community’s participation; and we have done this volunteer work in Indonesia working since 1997. We are pleased to partner with Nurani Dunia because it embraces the same principles in rebuilding the disaster-hit areas.”

With “Matching Gift” scheme where GE matches the sum donated by its employees, reaching US\$4 million, the total donated sum doubled.

“We are also happy to know that the donated GE products can help, such as power generators, Ultrasound (USG) and X-ray, also water purification system,” Stu Dean added. Two of the ten modalities donated, such as GE portable Ultrasound distributed through Nurani Dunia have been operated in Aceh, and so have the 2 units of GE water purification system with the capacity of 1.6 M liters of drinkable water each day. Three of the GE power generators have been in operation in Simeulue Island, Sabang Island, and Meulaboh.

GE Volunteers are GE employees who donated their time and energy to run volunteer programs in education or other social programs. Currently there are over 50,000 (fifty thousand) GE volunteers in 50 countries worldwide.

Human Rights, Labour and Security

Human rights are fundamental principles allowing an individual the freedom to lead a dignified life; freedom from abuse and violations; and freedom to express independent beliefs. Human rights are based on rules of human behaviour common across diverse cultures and aimed at achieving stable, peaceful and equitable societies. Even simple things such as payment of salary on a timely basis can be crucial to both the right and capacity of the individual to live a dignified life as well as the absence of such things potentially impacting upon the security of the employer’s business.

Pressure from the local communities in which companies operate in Indonesia can be a major factor in driving particular CSR activities. For example, social issues may be tackled by companies more quickly as a result of the pressure from NGOs and others than would happen automatically by the companies themselves. Some Indonesian companies provide as a matter of course, assistance in both infrastructure (roads, mosques, schools etc) and the general improvement of the life and well being of local communities within their companies’ areas of operation. This means these companies consider that they focused on both environmental (society as well as ecological) as well as social (educational, human

rights, self sustainability) rights. In other words, if the ecology is damaged then the rights of the local community may also be damaged. Therefore, ecological and human rights were interconnected.

A company, which claims a commitment to corporate social responsibility, cannot avoid addressing the question of human rights. Companies have a direct self-interest in using their legitimate influence to protect and promote the human rights of their employees and of the communities within which they are investing and/or operating.

The increasing scrutiny of corporate behaviour in Indonesia by the media, consumer groups, community organizations, local and international NGOs and the immediacy of global communication leave companies with little, if any, hiding place. Corporate reputation, license to operate, brand image, employee recruitment and retention, share value – all these key commercial concerns are affected by society's perception of a company's behaviour with regard to human rights. And those issues have been taken seriously by companies operating in Indonesia, especially those in the natural resource based industries which have been in the limelight. A certain company which learnt about the massive damage to its sister company due to such issues, which had resulted in the host community severe protests and even sabotage to its operations, had wisely undertaken an integrated community development as part of its CSR program, and claims that its corporate-community relationship had been harmonious thereafter.

EXTENT TO WHICH CSR HAS BEEN TAKEN UP AT THE STRATEGIC LEVEL OF BUSINESS

According to Simon Zadek - the CEO of AccountAbility, a London based institute that promotes accountability for sustainable development - in his article "The Path to Corporate Responsibility" at the Harvard Business Review December 2004 : when it comes to developing a sense of corporate responsibility, organizations typically go

through five stages as they move along the learning curve.

- **Stage one : Defensive**, where they'll deny practices, outcomes or responsibilities. They do it to defend against attack to their reputation that in the short term could affect sales, recruitment, productivity and the brand
- **Stage two: Compliance**, where they adopt a policy-based compliance approach as a cost of doing business . They do it to mitigate the erosion of economic value in the medium term because of ongoing reputation and litigation risks
- **Stage three: Managerial**, where they embed the societal issue in their core management process. They do it to mitigate the erosion of economic value in the medium term and to achieve longer term gains by integrating responsible practices into their daily operations
- **Stage four: Strategic**, where they integrate the societal issue into their core business strategies. They do it to enhance economic value in the long term and to gain first mover advantage by aligning strategy and process innovations with the societal issue
- **Stage five: Civil**, where they promote broad industry participation in corporate responsibility. They do it to enhance long term economic value by overcoming any first mover disadvantages and to realize gains through collective action

From the information gathered in the secondary research, coupled with observation and limited number of interviews conducted, we can say that currently most CSR-conscious Indonesian companies' organizational learning stage in the learning curve most probably are in the 'compliance stage' where they adopt a policy-based compliance as a cost of doing business. The following statement of Mr. Theodore Permadi Rachmat, the President Commissioner of Astra International, one of the major holding company in Indonesia in the "Astra's Corporate Social Responsibility" publication may reflect it:

"..... According to these values, the purpose of Astra's existence is not simply to earn a profit. Once the profit has been earned, the management must decide what proportion of it will be set aside to fully realize Astra's corporate commitment to social responsibility. In my personal view, the commitment must be carried out with heartfelt sincerity, and not as a means to self-promotion or a way to obtain incentives from the government....."

However, some are already in the next stage, such as Bogasari, which is already in the 'managerial stage'. where they embed the societal issue in their core management processes, as expressed by Mr. Franciscus Welirang, CEO of Bogasari:

"CSR needs to be socialized among all executives of the corporation. Awareness of its importance for sustainability and acceptance within the society should be part of corporate policy. Implementation of CSR must be inherent in the corporate organization.

Finally, very few have also reached the 'strategic state', where they integrate the societal issue into their core business strategies. Following are the statements of Mr. A. J. Devanesan, President of APRIL (the holding company where RAPP belongs), and Mr. Maurits Lalisang, the Chairman of Unilever Indonesia, which indicate the stage of their companies in the learning curve:

"When we first started to discuss the importance of sustainability within APRIL, I found it meant different things to different people. To me it has always been founded on the triple bottom line of people, planet and profit. I believe the three are inseparable. In fact I believe our contribution to Indonesia's skills base, wealth and environmental sustainability are measures of our commitment. If we have operated as an island rather than a member of the community this would also have led to failure. Instead we knew we should build our business through partnerships and that by creating viable environmental practices ourselves, we could also influence others".

"To us at, working on the 'CSR issues' is an integral part of doing our business and a completely natural thing to do. This implies that we commit to do everything in a responsible way and to make a positive impact on the community in every aspect of doing business. In short, CSR is a pillar of our business. As our corporate purpose states, 'To succeed requires the highest standard of corporate behaviour towards our employees, consumers and the societies and world we live in'. Unilever Indonesia recognizes the need to give and to share, not because it helps maintain our good reputation, but because it helps us to go. Continuously, we consider corporate social responsibility as an integral part of our business"

From discussions with CSR practitioners and scholars alike, it is believed that no corporations in Indonesia has reached stage five: Civil, in their CSR learning curve.

CHALLENGES FOR CORPORATIONS UNDERTAKING CSR AND FOR THE ECONOMY

A study conducted by the PPM Institute of Management and Indonesia Business Links among natural resource based industries has revealed findings on the challenges for corporations in undertaking CSR, which were found to have come from both within a company itself, from the community within which it operates and from the government rules under which a company operates. In most-if not all-cases the findings also give indication of challenges faced by other industries.

From within the Company

In dealing with CSR, companies face many challenges. Lack of skill and knowledge among employees may mean that companies operate inefficiently and unproductively and either do not or cannot sustain CSR programs. Lack of understanding and or communication regarding the programs themselves may mean that employees do not support the programs to work as effectively as intended. In some cases, Community Development Departments (so called) in companies do not properly understand how to empower employees, local communities or even its own people. This can result in a failure to understand how the management cycle works, how to liaise with the local community and how to empower the people involved in community programs.

From within the Community

Whether companies operate in rural or urban areas, the outcome of CSR programs may not run as expected as resistance from the community may be more than a company wishes to deal with and result in communities either opting out of potential assistance or companies declining to offer such assistance. Four categories were provided for such forms of resistance to CSR programs.

- **Community Resistance**

Companies located in certain areas may need to allow time and information for the local communities to better understand the programs planned and the community in

turn provide feed back to the companies on their needs and concerns generally. Without appropriate background information on the local community itself a company could plan and implement programs which are completely inappropriate. In addition, due to inadequate information local communities may not trust the company and/or the programs it is planning. As a result, the local community feels disturbed by the presence of the companies operating in their area, leading in turn to further lack of trust, resistance, disturbance, half-hearted participation in the program and many other problems when implementing the CSR program for the community.

- **The Problem of Charity**

Serious problems have arisen when companies provided pure “charity” (i.e. no long term, self sustaining benefit) to the surrounding community simply because the company felt pressured to do so rather than because it was self-driven. Later such “charity” was withdrawn and the community reacted with anger. In Indonesia, not unlike many other countries, pure charity breeds dependency and communities learn to rely on its continuity and get very upset when it stops.

- **Cultural Conflict**

Sometimes a company may be operating in a conflict zone or an area of cultural conflict. It is crucial that any CSR programs carefully consider all relevant cultural aspects prior to any attempted implementation otherwise, as experienced by some respondents, the programs may be doomed to failure. Simple examples would be in areas where local religious differences are such that to offer a building facility of the wrong religious determination could have serious consequences. Tribal considerations, religious and local cultural variations all need to be carefully considered and integrated into any CSR programs to be planned. Ignoring local community cultural differences can mean the difference between success and failure in CSR projects.

- **Illegal Acts**

In the case of natural resource based industries, they are faced with a number of illegal acts committed in their industries, such as illegal logging and illegal mining. Often when a natural environment was destroyed, the company was blamed. This may have been justifiable if the company was in fact at fault. However, increasingly the guilty parties are local communities themselves and not the corporation operating there. Worse, in some cases not only were illegal acts performed but company employees died as a result (illegal mining) and or communities suffered (roads swept away with resultant loss of life in flooding as a result of illegal logging). Furthermore, allegations of involvement of government and related agencies themselves in such illegal activities have meant that preventing or penalizing those attempting such activities is often fruitless. Attempting to undertake CSR projects in these environments is very challenging, as often the reparation work is being undermined by continuing illegal acts. In addition, local community perception of what is right and wrong is coloured by basic needs such as a livelihood, food and access to facilities.

From within the Government

Challenges in implementing CSR were also seen at the government level. This mainly related to effectively implementing laws and regulations, providing police/armed forces to monitor and enforce compliance as well as sanctions for non-compliance. In addition, it was noted that there were little or no incentives from government to encourage companies to engage in CSR practices, only penalties if caught out in non-compliance.

- **Law and Regulations**

With weak law enforcement across regulations, whether in labour laws, environmental protection or generally with increased regional autonomy in Indonesia, increasingly conflict, bribery and corruption has haunted the natural resource based industries. Regulatory inconsistencies and

conflicts between pieces of legislation (and forestry regulations in conflict with mining regulations) add to this problem while continually loopholes in legislation mean people are both searching for ways to avoid compliance or argue that compliance has been effected when such is not in fact the case. In some cases companies that profited from non-compliance shared their ill-gotten gains with the local communities and thus ensured their support for future activities even when they were illegal. This combined with poor law enforcement against criminal acts means that it is even more difficult for good companies to persuade local communities that they will benefit more from their activities than from the illegal ones.

- **Lack of Incentives**

As mentioned above, Indonesia has few incentives for corporations to conduct businesses responsibly as manifestation of the CSR. A very clear example is a tax incentive which is very effective in the developed economies and even in the neighbouring economies does not apply in Indonesia (*note: at the end of 2004 the Ministry of Finance issued a special decree which stated that donations for the Tsunami in Aceh and Nias would be tax deductible*).

Other regulations previously mentioned in this report as underway according to the Coordinating Minister for Economy and Finance, do not exist so far.

Overall, one key challenge for the Indonesian economy basically is to develop a conducive environment for corporations to perform their roles as good corporate citizen, which would include good public governance and tax system which will give incentives to the socially responsible companies.

Another challenge for Indonesia as an economy is to increase further awareness among corporations on CSR as a critical element of a company's strategy, and that for those wishing to enter the global market it has become the new license to operate. Basically Indonesian companies need to understand that CSR will bring significant business benefits if strategically integrated into the way to do business. And it

will be an extra challenge in Indonesia to engage the SMEs to practice CSR, as obviously survival is the name of their games.

Related to those challenges, from observation something which is a bit worrying has come up. While CSR has lately been gaining relatively higher awareness, there has also been more and more scrutiny by some civil society organization and NGOs on CSR projects, resulting in a conclusion (rightly or wrongly) that many corporations have been doing CSR projects as window dressing or public relations only, or have various hidden agenda that will actually reinforce company dominance as economy institutions. This group are of the opinion that the voluntary basis on CSR approach is a problem and they believe that there is a pressing need for a Legislation that will drive all companies to carry out CSR, thus creating a level playing field for all. While this sounds very ideal, with the current level of awareness on CSR in the economy and the natural resistance of the private sector to Government excessive interference, there have been concerns that this kind of legislation may beat the purpose and backfire.

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