

# Corporate Social Responsibility (CSR) in Developing Countries

## Case Study: Indonesia, Sukabumi Regency

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### Background

The phenomenon of corporate social responsibility (CSR) in developing countries is different from that in developed countries.

Developing countries are typically characterized by weak government systems in terms of capacity to implement the delivery of services for social well-being.

In the countries, there are government's intermediary role in the delivery mechanism of company's CSR activities, especially for overcoming poverty and poor public service issues.

Overcoming the issues **are the responsibility and the function of the governments.**

The inclusion of such corporate practices extends beyond the initial recognition of CSR.

### Driver of CSR in Developing Countries

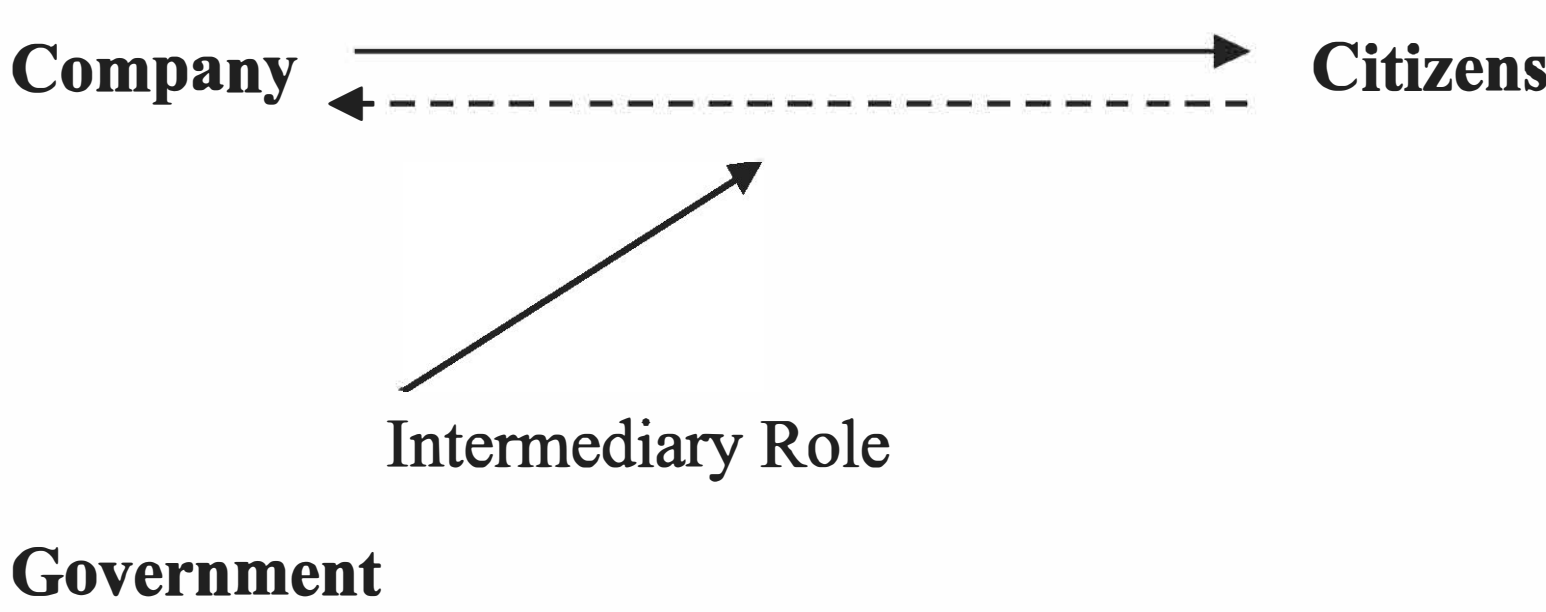
By extracting Polanyi's general principles of behaviour regarding resource allocation, the distinctive CSR phenomenon in developing countries could be explained by the concept of quasi-redistribution.

**Derived from the concept of redistribution, quasi-redistribution** is company's CSR activities driven by government's intermediary mechanism towards activities intersecting the government's redistributive function e.g. for poverty alleviation and basic public services provision for citizens.

A company's CSR activities for poverty alleviation and basic public services provision are basically its independent and voluntary initiatives. How then can government intervene the delivery mechanism of such activities?

The difference from its redistributive function where there are strict sanctions for non-compliance, to carry out its quasi redistributive function, government of developing countries only urges (not forcefully imposes its power) the company to carry out the activities.

### Concept of Quasi-redistribution in Developing Countries



**Why Indonesia?**

The intermediary role of the governments in Indonesia is noticeable due to the issuance of **"CSR regulations"** at the national and local government levels.

### National Government Role on CSR

- Law 25/2007 on Capital Investment**
  - Article 15 (b): company has responsibility to establish harmonious relationships with the values, norms, and culture of the local community
- Law 40/2007 on Limited Liability Companies (LLCs)**
  - Article 1 (3): CSR to improve the quality of life of local community is an obligation
  - Article 74 (1) and (2): CSR fund based on decency and fairness
  - There is no strict sanction stipulated in the law
- Government Regulation 47/2012 on Social and Environmental Responsibility of LLCs**
  - Article 3 (1) and (2): CSR both inside and outside the company
- The Ministry of State-Owned Enterprises regulation, PER-09/MBU/07/2015 on Partnership Program with Small Businesses and Community Development Programs**
  - Article 3 (1) g: SOEs must allocate up to 4% of their previous year's net profits for CSR
  - Article 8 (1) a and Article 9 (3): Activities include small business incubation, education and training, health, development of public infrastructure and religious facilities, natural disaster relief, and nature conservation.
- The Ministry of Energy and Mineral Resource Regulation 41/2016 on Community Development around the Area of Mining Activities**
  - Article 5 (1): mining companies must formulate community development masterplans
  - Article 6 (2): to promote the improvement of the lives of people around their mining sites in education, health, income, and public infrastructure
  - Article 25 (2): strict sanction e.g. revocation of business license
  - Amount of fund is not determined.
- The Ministry of Social Affairs Regulation 6/2016 on CSR for social welfare**
  - Article 4: CSR for the poor, neglected, disabled, or disaster victims
  - Article 24: Reward in the form of government recognition (CSR award)

### Local Government Role on CSR

- At least **21 of 34 provinces and 108 of 514 districts have issued CSR regulations (per November 20, 2018).**
- Almost all local government CSR regulations do not stipulate strict sanctions. In addition, the regulations also do not specify the amount of fund for CSR activities.
- Several local government CSR regulations (2 provinces and 10 districts), in which the regulations have substantial controversy, were revoked by The Ministry of Internal Affairs.

Although by its terminology, regulation usually has the element of power imposition, all CSR regulations in the country rely on a company's voluntariness and initiatives on the implementation. It seems to have merely a promoting function to increase companies' awareness in addressing the poverty and poor basic public services issues affecting local communities.

The phenomena have conformed the concept of quasi-redistribution as the function of governments in developing countries promoting CSR activities for poverty and poor basic public services issues.

### Overview of Government Role on CSR

#### The Case of Sukabumi Regency

To further illuminate how the concept of quasi-redistribution embedded in the implementation of company's CSR activities, CSR activities in Sukabumi Regency are examined considering

- the poverty and poor basic public services issues in the region,
- the local government role on promoting CSR for overcoming the issues,
- CSR practices in the region addressing those issues.



#### Social Condition of Sukabumi Regency

- Sukabumi regency is characterized by a relatively strong industrial base, indicated by the existence of 312 large and medium national enterprises dominated by manufacturing business (BPS, 2016).
- Study of PIRAC (Public Interest Research and Advocacy Center) and Dompot Dhuafa, two Non-Government Organizations (NGOs) which examined CSR trends in Indonesia during 2013 by compiling 455 companies' CSR activities published in mass media, the companies channel their CSR activities to education programs (21%), health (20%), environment (16%), social services (17%), disaster relief (9%) and others (17%). Those companies tend to carry out CSR activities around the company's location/local citizens.
- Considering the tendency that companies carry out CSR activities focusing on local citizens, the local government of Sukabumi Regency has initiative to promote company's CSR activities for poverty and poor basic public services in the region.

#### Role of Sukabumi Regency's Government on Promoting CSR for Poverty and Poor Basic Public Services

There are 4 intermediary roles that influence and enhance the development of CSR promotion for poverty and poor basic public services issues in the region:

- CSR forum,
- CSR regulation,
- The local government CSR award,
- Technical support for companies which address the issues.

**39 companies' CSR reports within 5 years (2014-2018) are examined to illuminate how these instruments influence the companies' CSR activities**

### CSR Forum

- As an intermediary to facilitate communication between local government and companies.
- It enhances communication between companies and the local government regarding how CSR activities in the region could be implemented.
- Through the forum, agreements were made.
- At initial stage, 7 companies signed agreement and realized their commitments in the following years.

### CSR Regulation

As a guideline especially for companies that have not developed CSR activities related to poverty alleviation and poor basic public services provision.

As stipulated in article 4 (1) of the Local Regulation of Sukabumi Regency 6/2014 on Corporate Social Responsibility, Partnership and Community Development that **"CSR activities should relate to education, health, income generation, and rural infrastructure"**

Usually, some companies carry out CSR activities spontaneously based on proposals from local resident such as donations for commemorating national holidays or religious celebrations. With the regulation, these companies develop CSR activities based on the regulatory guidelines.

For example, in 2014, PT. Gunung Salak Sukabumi conducts merely donations for religious ceremonies and youth activities. In the following years, the company developed its CSR activities by carrying out other activities namely road maintenance, drainage improvement, building bridges, and reconstruction of worship facilities.

### Sukabumi Regency's Government CSR Award

The local government has been delivering annual awards for companies in the region which address poverty and poor basic public services issues by their CSR activities.

This recognition can be considered as important effort to encourage those companies to adopt CSR activities addressing poverty and poor basic public services issues.

As an official of Perum Perhutani KPH Sukabumi, a State-Owned Enterprise (SOE), states that *"the award we received will increase our motivation and enthusiasm in conducting CSR activities in Sukabumi Regency"*.

The motivation and enthusiasm can be seen from the company's CSR report. This company usually implements CSR activities in the region in accordance to the standard of CSR of SOE in the form of soft loans for community business incubation. However, since 2015, the company's CSR activities have become more diverse in accordance to the local issues such as schools and religious facilities reconstruction and providing clean water in dry season.

### Sukabumi Regency's Government Technical Supports for CSR Activities

As the role of the local government which is to provide technical support for company's CSR activities including planning process, implementation of the activities, and evaluation, CSR activities are conducted with the supports from the local government.

For instance, in its effort to increase income of the poor near the company's location, PT. Amerta Indah Otsuka (Sukabumi Factory) conducts CSR activities including honey-bee cultivation, waste processing/recycling, and organic farming. The company obtained technical supports from the local government agencies to deliver the activities.

There are about 44% or 17 out of the 39 companies that have collaborated on CSR activities to get technical support from local government agencies of Sukabumi Regency.

### Performance of CSR Activities in Sukabumi Regency

Companies in Sukabumi Regency are adopting CSR promotion for poverty alleviation and basic public service provision that the local government is doing.

The intermediary role of the local government through CSR forum, CSR regulation, CSR award, and technical support for CSR activities have shown their influence on developing and increasing companies' CSR activities related to poverty alleviation and basic public service provision. These have illuminated how the concept of quasi-redistribution embedded in the implementation of company's CSR activities

### Limit of CSR Activities in Sukabumi Regency

However, CSR activities in Sukabumi Regency tend to be centralized near the company's location with the territorial limit within a sub-district where the company resides. Of the 39 companies, only two carried out their CSR activities beyond their locations.

Sukabumi Regency consists of 47 sub-districts. The fact that distribution of the companies is concentrated in the northern part of the region especially in 9 sub-districts. This means the companies' CSR activities also concentrate in the northern part of the region within the 9 sub-districts.

At the current phase, the local government could not merely rely on companies' contributions to support its responsibility in poverty alleviation and providing equal basic public services for all citizens within the region.