Exploring Sustainable CSR for Indonesia by Forming Strategic Partnerships between Industry Sectors

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Abstract: Indonesia is a country that regulates corporate social responsibility (CSR). The government’s intervention in CSR aims to boost the country’s development, through corporate contributions. A number of studies have found that CSR is often viewed as an activity which uses corporate profits for social and environmental advancement, and/or an attempt to maintain the corporate image. This paper aims to explore how CSR and strategic partnerships in the energy, banking and education sectors can contribute to both corporate economic sustainability and community development. It is compulsory for energy companies and banks to conduct CSR in Indonesia but linking CSR efforts between sectors is non-existent. To explore how partnerships in CSR can be developed, a model used by Genesis Energy Ltd in New Zealand called Schoolgen is used. Schoolgen is a CSR model that focuses on a partnership between the energy and education sectors, and shows how a partnership can respond to development needs, while balancing the economic, social and environmental values of the company and its business partners.

Keywords: Sustainable CSR, Strategic industry partnerships, Banking, Energy, Education, Indonesia

I. Introduction

This paper offers a discussion about how corporate social responsibility (CSR) can be leveraged to provide sustainable social outcomes in a developing country setting such as Indonesia. CSR has evolved from pure philanthropy to being strategic for most sustainable business models. Seeking a common definition of CSR is complex (Sheehy, 2015), as the roots of knowledge emerge from a range of perspectives. These roots include stakeholder theory (O’Riordan and Fairbrass, 2014; Perez and del Bosque, 2015), sustainable development model (Moyeen and West, 2014), and political economy theory (Midttun et al., 2006). Each highlight different aspects of CSR but stakeholder theory is commonly adopted because it covers perspectives from the various actors.

Perez and del Bosque (2015) list the various stakeholders of a company being customers, employees, shareholders, environmental watch, and legal institutions related to the operation of the company. In the banking sector, Perez and Rodriguez (2014) studied customers from savings and commercial banks and found, in general, customers expect companies to focus on customer concerns when conducting CSR activities. However, savings bank customers expectations are higher than commercial bank’ customers’. Furthermore, savings bank customers require the company to consider issues that were linked to their communities. This study indicates that introducing CSR activities that endeavour to respond to various stakeholder demands is challenging.

Golebiowski and Lewandowska (2015) suggest that strategic CSR can meet both the corporate objectives of competitive advantage and sustainable growth. This study aims to demonstrate how strategic CSR partnerships within the banking, energy and education sectors can be developed to meet both corporate economic sustainability and community development needs.

II. Literature Review

2.1. CSR in Indonesia

Indonesia is a country that regulates CSR therefore providing businesses with an incentive to have a direct impact on the development agenda. The government’s policy covers limited liability companies and state-owned enterprises, with state-owned enterprises having a higher obligation to CSR.

Indonesian law number 25/2007 covers the regulation of investment within the country while law number 40/2007 spells out specifically how limited liability and state-owned companies operate in Indonesia with regards to social obligation, especially in sectors related to natural resources (Gunawan and Fraser, 2013).
Organisations with CSR obligations need to budget and report activities, and companies found to be not complying with the law face penalties. The above laws are operationalised by Indonesia government regulation number 47/2012, and the regulation lists compulsory companies, including non-renewable and renewable energy companies.

For state-owned enterprises, who have higher CSR obligations than limited liability firms, CSR is guided by the Ministry of State-owned Enterprise regulation number PER-09/MBU/07/2015. For these organisations four percent (4%) of their corporate net profit needs to be allocated for CSR activities, and these funds are generally disbursed to community partners to be used as capital investment loans, short-term loans or grants for development programs in education, natural disaster, health service improvement, religious activities, conservation, and poverty reduction activities (Gunawan and Fraser, 2012).

The Ministry of Human Development and Culture develops and coordinates programs to account for the needs of various institutions and communities across sectors and government levels. Importantly, CSR is intended to respond to local needs. However, Mustofa (2012) questions the effectiveness of coordination across multi-stakeholders, especially when it includes three levels of government (national, provincial and local). In Indonesia, capacity of government can vary greatly from one district to another. Mustofa goes on to argue that CSR governance in Indonesia needs improvement, such as transparent target selection, fund allocation, and project evaluation. Some of the real challenges include different development priorities and the relationship between businesses and government at the district level.

Like other developing countries, Indonesia faces several development challenges, covering areas such as education, health, infrastructure, poverty, energy, including geographical problems. A major geographical issue for Indonesia is the fact its large population, of around 247 million, live in 514 districts spread over about 6000 inhabitable islands (Fraser, 2013). Ongoing development, geographical, institutional challenges has further highlighted the need for a new approach to CSR in Indonesia, notwithstanding the fact that the current approach is considered complex and problematic.

2.2. Energy Sector: Potential and Challenges

The energy sector in Indonesia is a sector with enormous potential but also many challenges. Within ASEAN, Indonesia is the largest producer of energy with 55.5% of ASEANs energy production (Gunawan and Fraser, 2012). Indonesia’s coal resources is around 120.5 billion tons, proven oil resources around 3.69 billion barrels, proven natural gas reserves around 101.54 trillion cubic feet. These resources translate into 23 remaining years of oil reserves, 59 years of gas, and 146 years of coal at current production levels. In addition to its unused proven resources, Indonesia has significant potential for hydropower (75,000 MW), micro/m mini hydropower (1,013 MW), solar (4.8 KWh/day), biomass (62,654 MW) and wind (3-6m/s), and holds 40% of the world’s geothermal reserves at 28,000 (ADB, 2015). However, up to 2013, 98 percent of the population relied on non-renewable energy supplies, while the national reserve for non-renewable energy is depleting (Dewan Energi Nasional, 2014). Current supplies cannot meet current demands therefore additional investment is needed along with improved management of the energy sector.

In 2014, the Indonesian Government revisited the national energy policy. Figure 1 shows the projected energy comparison between business-as-usual or implementing a new National Energy policy. The new policy shifts the reliance from non-renewable to renewable energy resources and changes the energy consumption behaviour toward more energy use awareness while combating the waste of energy. Clearly, implementing a national energy policy can save significant amount of resources. PLN, an Indonesian state-owned enterprise and de facto monopoly over distribution of electricity, predicts an investment value of USD 83.5 billion is needed (ADB, 2015, p.18).

![Figure 1: Indonesia Energy Projection 2013-2050](image)
Data shows that from 2007 to 2014, in general terms Indonesia’s energy production grew at around 5.8% per annum but the share of renewable energy was lower than the growth of other energy sources (see Figure 2). This is due in some part to a lack of a financing scheme to mobilise the investment requirement, not only in renewable, but also in power generation and distribution infrastructure, therefore limiting Indonesia’s ability to meet its energy demands (ADB, 2015).

**Fig 2: Indonesia Energy Mix 2007 - 2014**

In 2009 Indonesia introduced Electricity Law number 30/2009, which was designed to end the monopoly of PLN and allow private investment into power generation, transmission and distribution. However, uncertainties remain in the implementation of the national energy policy, especially over land acquisition, access to the grid, tariff charges, labelling, local content requirements, and compliance with local government regulations (Gunawan and Fraser, 2013). If the energy sector is to overcome many of the hurdles it face it will need to form closer ties with the financial sector. The following section attempts to illustrate the contribution that finance institutions can make to the development of the energy sector.

2.3. The role of financial institution in the energy and development area: green banking and financial literacy

Biswas (2016) argues that one of the major economic agents of change is financial institutions. The role of financial institutions in sustainable development is guided by the United Nation Environmental Program Finance Initiative (UNEP-FI, 2015), which states that “... sustainable banks considers the effects of its services and operations in meeting the needs of current as well as future generation...”. Supporting this position, Tara et al. (2015) explained that sustainable or green banking is the banking practice of sustainability principles, including the impact of their various operational activities, products and services. Renewable energy is one of the areas within green banking. UNEP FI regularly calls for active participation of both public and private financial institutions around the world to commit to its sustainability mission. Two Indonesian public banks, PT Bank Negara Indonesia (Bank BNI) and PT Bank Pembangunan Daerah Jawa Barat dan Banten (Bank BJB) are members of UNEP FI.

Beside the UNEP, the International Finance Corporation (IFC, 2015) advocates the Equator principle, a risk management framework to assist in the operation of green banking, and used to evaluate the level of environmental and social risk in projects. It is suggested that green banking operations should, firstly, reflect the risk management capacity for screening and managing environmental and social (E&S) risks, and secondly, green loan originations should supports businesses and industries which have a positive impact on the environment and society (Bihari and Pandey, 2015; Ramila and Gurusamy, 2015).

By 2016 there were 84 institutions in 35 countries who had adopted the Equator principle (see http://www.equator-principles.com/index.php/members-reporting). However, Indonesia and other ASEAN countries have not officially adopted the principle. An IFC (2015) study found that the majority of banks and non-banks in Indonesia do not consider E&S factors in their investment and lending processes. In general, the IFC study of 21 emerging economies financial institutions found that banks have a lack of understanding and awareness of E&S, and there was a lack of capacity among regulators and the banks’ strategic and operational team to integrate sustainable banking into the banks’ business. Moreover, IFC found that most institutions took a micro view due to localised challenges and local priorities (IFC, 2015).

With low awareness and capacity to support the growth of renewable energy in Indonesia, how can the development of renewable energy be supported by financial institutions? An initiatives was undertaken by Otoritas Jasa Keuangan (OJK - The Indonesia Financial Service Authority), who launched a Sustainable Finance...
Roadmap in December 2014. This road map is expected to improve the awareness and competitiveness of financial services institutions in Indonesia, including banks, capital markets, and non-financial institutions, into providing greater support for sector development (OJK, 2015).

In fact, it could be argued, that in relative terms, Indonesia has policies in place to support and implement sustainable financial institutions, but there is a lack of business involvement (see Figure 3, rows 8 and 9). This outcome adds weight to the strategic partnerships theme being advocated in this paper.

**Figure 3:** Comparison of country initiatives to implement sustainable banking

<table>
<thead>
<tr>
<th>Country</th>
<th>Bangladesh</th>
<th>Peru</th>
<th>Turkey</th>
<th>Vietnam</th>
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<tr>
<td>Bank</td>
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<tr>
<td>Awareness raising</td>
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<td>National sustainable development roadmap</td>
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<td>Sector-specific guidelines or checklist</td>
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<tr>
<td>Inter-agency collaboration</td>
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<td>Capacity building of regulator</td>
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<td>Disclosure requirements for Fi</td>
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<td>Supervision by regulator</td>
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<td>Monitoring &amp; evaluation</td>
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<td>Market incentives</td>
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Source: IF, 2015

The role of OJK is critical to monitor and guide financial institutions to implement good governance and build expertise of various sector development needs. Memorandums of Understanding have been signed between OJK and the Ministry of Energy and Mineral Resources, Ministry of Environment, and Ministry of Education, to promote the role of financial institutions in renewable energy and environmental related projects, including financial literacy in the education sector (OJK, 2016).

Two programs have been launched: Credit for food security and energy (Kredit Ketahanan Pangan and Energy) and student saving account (SIMPEL = Simpananpelajar). The credit for food security and energy is designed for micro and small enterprises, with relatively lower interest rates than normal lending rates. The appointed regions include Sumatera, Riau, Java, Bali, South Sulawesi, South Borneo and Papua, and distribution is through public banks (BRI, BNI, Mandiri, Bukopin and State Bank) and private banks (BCA, BII, CIMB Niaga, ArthaGraha). However, the Indonesian central bank reports that banks face difficulties to disburse the loans due to three factors. Firstly, banks inability to screen debtor as banks have no technical expertise. Secondly, the majority of small enterprises face difficulties to provide collateral, and lastly, strict lending criteria is applied (e.g. lists of acceptable investment within food security and energy is limited, based on previous types of investment) (Bank Indonesia, 2016a).

The second program, SIMPEL, was launched by OJK to introduce financial literacy for students from primary to secondary levels. It is offered by 50 banks in Indonesia and hopes to accelerate the implementation of financial literacy and financial inclusion in Indonesia. The product is an extension of the Indonesian central bank’s program, Tabungan Ku, which focuses on inclusive financing (Bank Indonesia, 2016b). There were around 80 million people (58% of Indonesian adults) who have no bank accounts (OJK, 2015). One of the challenges for financial literacy and financial inclusion in Indonesia is geography, with many people living in rural and remote areas having little or no access to finance.

As discussed in this literature review, financial institutions in Indonesia have the potential to support the growth of the economy, such as sustainable investment in the energy sector. Having said that, government policy, corporate strategy, operational management, and customer awareness is still in the developing stage. Considering the limitations for the various stakeholders, this study attempts to find a model that can bridge the gap of development in the energy, finance and educational sectors.
III. Schoolgen Case Model

This paper represents exploratory research, where the authors would like to trial a model based on a partnership model developed in a western setting which integrated the sectors being discussed in this paper, energy, finance and education. To increase the success rate of the model, adjustments will be needed for adoption in Indonesia and other ASEAN countries.

Seawright and Gerring (2008) argue that the selection of an influential case model can be an effective method to use in explorative case research and where the study is not proposing a new theoretical formulation. This method can be driven by one or a few cases, and the case should reflect as close as possible to the observed larger population. To satisfy this criteria a case known as Schoolgen was selected, an energy company initiative in the field of education, targeting low social-economic schools, jointly funded and adopting a participatory approach. The model fits well with the issues being faced in Indonesia.

Schoolgen is a program developed by Genesis Energy (one of New Zealand’s largest power companies) to deliver solar energy and energy efficiency to primary and secondary schools across New Zealand (www.schoolgen.co.nz). The initiative was motivated by the company’s vision to secure renewable electricity supply for New Zealand, and by targeting schools, it hoped to build awareness and understanding of renewable energy in students from an early age.

Photovoltaic technology was chosen for Schoolgen as solar energy is a very accessible form of renewable energy for all of New Zealand. In addition, PV panels are ideally suited for a school environment as they are virtually maintenance free, reasonably unobtrusive, work silently, produces no pollution, and its installation and operation can be used as school subjects, such as maths, statistics, science, environment to name a few.

Genesis Energy dedicates resources for the program, including free installation of a 2kW solar system for a number of schools per year, providing specialised environmental educators to help schools learn about renewable energy and energy efficiency, and a web-based solar energy learning platform with real time data for school teachers, students and the community. The website is designed to be a learning tool and schools have free access to solar energy information.

Low social-economic schools are targeted and an expression of interest is needed to be submitted by students of the school to ensure ownership of the project. Buildings from selected schools are assessed by installers and legal documents are signed between the school and Genesis Energy including the provision to provide the school with educators on renewable energy. In fact, the Schoolgen program has been so successful that it is now linked to the New Zealand school curriculum. Also adding to the success, in the last few years the Ministry of Education has taken a greater partnership role by contributing funds to install more solar panels at schools.

The benefits of a program such as Schoolgen allows schools to save on energy costs, utilise the technology and data for enhanced student learning, align the message to reduce the carbon global footprint with local school action, and helps schools use the saving from energy costs to buy computers and other learning materials for students.

IV. Discussion: Schoolgen In Indonesia

The Schoolgen program is an example of how an energy company can take a proactive role in implementation and education of renewable energy. By forming strategic partnerships with government and education bodies, the company is able to provide positive economic outcomes while balancing E&S concerns. The commitment of all stakeholders, including the company’s financial backers, schools, students, parents, installers, Ministry of Education worked together to make this initiative a success.

The requirements to install photovoltaic systems is possible in New Zealand because school buildings and roofs meet building standards. In addition, efficient installation and maintenance are possible due to the availability of local installers and materials. Moreover, high environmental awareness within the New Zealand society and a willingness of stakeholders to participate makes the success of programs, such as Schoolgen, more likely.

With respect to Indonesia the issue of forming strategic partnerships is more complex. It is still within the learning phase of the country’s development therefore building knowledge capacity towards greater environmental and educational awareness is ongoing, and aligning the country’s key development sectors with financial institutions problematic. Adopting a successful model such as the one developed in New Zealand would no doubt provide benefits to Indonesia. Previous studies indicate that the success and sustainability of such projects can be increased if knowledge is jointly shared and the partners have common interests.

As shown in this study, energy companies, financial institutions and Ministry of education have common challenges in Indonesia to providing the necessary services for remote communities due to the vast geographical nature of Indonesia. Using the current funds available from CSR, and forming strategic partnerships between key sectors such as energy, education and financial, a Schoolgen such project could be implemented in the first steps to overcoming many of the challenges faced.
Private and state-owned banks could use their networks and legislated CSR budgets to drive partnerships with the energy and education sectors, with the risk of knowledge and financing unknown investment into renewable energy being shared. While the benefits for remote communities is high with increased access to sustainable energy, education and finance, the direct CSR benefits for the sector players could also be enormous, as they are seen as playing an active role in the development of the country. There are positive flow-on effects from schools having access to a sustainable power source, leading to educational outcomes from computer and internet use, while banks can market the benefit of students setting up their own saving accounts.

In Indonesia the number of renewable focused companies is limited, while the demand for such products/services is rising. If a renewable energy company independently chooses to invest its CSR funds into a schools solar system then only a limited number of schools can benefit. On the other hand, if partnerships can be formed between company, banks, and the education sector then the CSR funds available can be greatly increased, while the human capital from the three organisations involved can be leveraged to provide knowledge and expertise. Adding to this is the opportunity for local from the remote areas to be employed in the installation of solar system and on-going maintenance.

For remote schools, the energy and education program can help schools to improve its sustainability and infrastructure while adding areas such as energy, finance, environment, sustainability etc. to its school curriculum. The experience is likely to foster student learning and understanding in future environmental and sustainable systems.

V. Conclusions

While Indonesia struggles with many challenges, the model proposed in this paper offers an opportunity to use CSR in conjunction with strategic partnerships as a platform to improving economic, social and environmental outcomes in many of Indonesia’s remote areas. Adding to this is an increased educational awareness in important areas such as energy, sustainability, banking, and industry sector cooperation.

References


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