Accelerating the Achievement of Millennium Development Goals (MDGs) through Corporate Social Responsibility (CSR)

An Actual Discussion in Indonesia and Germany

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Foto Title: "Learning to solve the complex problems of MDGs"

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Abstract

The government of Indonesian is committed to achieve the Millennium Development Goals (MDGs). Deadline for the achievement of MDGs in 2015 is in sight. Many of the targets had been reached by Indonesia, but there are also some homeworks remain to be done to meet all the MDGs. Aspect of limited government funding is seen to be an obstacle in achieving this. Therefore it is necessary to build synergy to implement development programs between the government and the private sector (private companies) that implement the Corporate Social Responsibility (CSR).

By conducting literature study and content analysis, the indicators of CSR which are compiled from various CSR Guidelines (GRI, ISO 26000, Global Compact, OECD Guidelines for Multinational Corporation, Equator Principles, Global Sullivan Principles, Caux Round Table Discussion) show that indeed the MDGs and CSR have the same motives and goals relating to economic, social, and environment. Thus, this indicates that CSR can be harmonised with government programs to achieve the MDGs.

However, implementing CSR cannot be said as a simple matter since there are some things that can be drivers/barriers for companies to implement CSR, namely: individual, institutional, and external environmental aspect. The individual aspect has very less significant effect in this study. This is slightly different from the external environmental aspect. If viewed from the perspective of external environmental aspect, government regulations may be the driver for companies to implement CSR. The government of Indonesia also encourages companies to do CSR by providing tax exemption and deduction through a few government regulations related to Income Tax and Value Added Tax. What becomes the center of attention in this study is indeed the institutional aspect (who is doing what).

Harmonisation mechanism between government and private sectors to accelerate the achievement of MDGs in Indonesia can be schemed as follows:

1. *The central government set the Roadmap of Achievement Acceleration of MDGs which will be used as a reference for private parties to participate in implementing the acceleration of the achievement of MDGs in Indonesia. The central government passes the strategy to the local government through the Provincial Agency for Development Planning who plays a role as coordinator in the local level. The provincial government set up "Regional Action Plan in Accelerating the Achievement of MDGs".*
2. *The government identifies programs and activities in "Regional Action Plan in Accelerating the Achievement of MDGs" whose implementation can be harmonised with the activities of CSR and which are not.*
3. *Government identifies companies that have implemented CSR. The output of this step is a list (long-list) of companies implementing CSR programs, and also list of companies that do not regularly carry out CSR programs but have the concern of CSR and can be asked to work together. This document is used as a base to communicate to the companies in which the government program for MDGs and activities of CSR can be harmonised.*
4. *The government makes an approach to the companies running CSR (socialisation and communication). Here the communication strategy and professional mediation is needed in order to realise the synergies of CSR activities and to avoid the negative concern from the companies that CSR is only used as a tool by the government to make the private sector as cash cow to fund government programs.*

5. *Government and private sector collaborate on an ongoing basis. The coordination of government and corporation in the framework of this harmonisation is very important to avoid the overlapping agenda of CSR implementation. Furthermore, such harmonisation can also reduce the blankspot of CSR implementation. It means that by conducting the coordination (between government and corporations) and harmonisation of the program/activities of CSR, the coverage area of CSR can be widen and more Indonesian people can take the benefits of CSR.*

In addition to harmonisation within the country (between Indonesian government programs with Indonesian private companies), Indonesia also requires synergy with foreign parties in accelerating the achievement of the MDGs as Jeffrey D. Sachs says "achieving the MDGs require a global partnership suitable for an interconnected world". If Indonesia wants to cooperate with donor countries such as Germany, then the thing to note is that the development programs designed by the government of Indonesia must comply with the principles as has been stated by German government in AP 2015 for helping developing countries in achieving the MDGs. The designed programs should be: (1) Based on the Principle of Partnership and Shared Responsibility, (2) Result-oriented (Efficiency), and (3) Promoting coherence the between institutions. That way, Germany and other donor countries would be easier to provide assistance, not only in a material form but also technical and personal improvements as well as institutional capacity building.

LIST OF CONTENTS

LIST OF FIGURES AND TABLES

GLOSSARY

ACP	: African, Caribbean and Pacific region (EU partner) states
AfD	: *Agence Française de Développement* (French Development Agency)
AGM	: Annual General Meeting
AMCOW	: African Ministerial Conference on Water
AP 2015	: Programme of Action 2015
APBN	: *Anggaran Pendapatan dan Belanja Negara* (state budget)
APM	: *Angka Partisipasi Murni* (Enrollment Ratio)
Bappeda	: *Badan Perencanaan Pembangunan Daerah* (Local Agency for Development Planning in the Provincial Level Indonesia)
Bappenas	: *Badan Perencanaan Pembangunan Nasional* (National Agency for Development Planning of the Republic of Indonesia)
BDA	: *Bundesvereinigung der Deutschen Arbeitgeberverbände* (Confederation of German Employers' Association)
BDI	: *Bundes Deutschen Industrie* (Federation of German Industries)
BMZ	: *Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung* (German Federal Ministry for Economic Cooperation and Development)
CBD	: Convention on Biological Diversity
CC	: Corporate Citizenship
CDM	: Clean Development Mechanism
CEO	: Chief Executive Officer
CR	: Corporate Responsibility
CSR	: Corporate Social Responsibility
CSW	: Commission on the Status of Women United Nations
DAC	: Development Assistance Committee of the OECD
DfID	: Department for International Development UK
DIHK	: *Deutscher Industrie- und Handelskammertag* (Association of German Chambers of Industry and Commerce)
DMA	: Disclosure on Management Approach
EC	: European Commission
EPFIs	: Equator Principles Financial Institutions
ESG	: Environmental, Social and Governance
ETF	: Eka Tjipta Foundation
EU	: European Union
FLEGT	: Forest Law Enforcement, Governance and Trade
FTI	: Fast Track Initiative
GATT	: General Agreement on Tariff and Trade
GDP	: Gross Domestic Product
GEF	: Global Environmental Facility
GFATM	: Global Fund to Fight AIDS, Tuberculosis and Malaria
GMS	: General Meeting of Shareholders
GRI	: Global Reporting Initiative
GTZ	: *Gesellschaft für Technische Zusammenarbeit* (German Technical Cooperation)
HIPC	: Heavily Indebted Poor Countries
HIV / AIDS	: Human Immunodeficiency Virus / Acquired Immune Deficiency Syndrome
ICT	: Information and Communication Technology
IFPRI	: International Food Policy Research Institute
ILO	: International Labour Organization

IMCI	: Integrated Management of Childhood Illnesses
IPPF	: International Planned Parenthood Federation
ISO	: International Standard Organisation
JI	: Joint Implementation
KfW	: *Kreditanstalt für Wiederaufbau* (Bank/Credit Institution for Reconstruction)
LDC	: Least Developed Countries
MBO	: Management by Objectives
MDGs	: Millennium Development Goals
MFMP	: Multilateral Fund for the Implementation of the Montreal Protocol
MMR	: Maternal Mortality Rate
MSMEs	: Micro, Small and Medium Enterprises
NGO	: Non-Governmental Organization
OECD	: Organisation for Economic Cooperation and Development
PIRAC	: Public Interest Reseacrh and Advocay Center
PKBL	: Partnership and Community Development Program
PPP	: Public Private Partnership
PRSP	: Poverty Reduction Strategy Papers
PSTN	: Public Switsched Telephone Network
PT	: *Perseroan Terbatas* (Public-listed Corporation)
RAD	: *Rencana Aksi Daerah* (Regional Action Plan)
RKP	: *Rencana Kerja Pemerintah* (National Annual Development Plan)
RPJMN	: *Rencana Pembangunan Jangka Menengah Nasional* (National Medium Term Development Plan)
RPJPN	: *Rencana Pembangunan Jangka Panjang Nasional* (National Long-Term Development Plan)
SOEs	: State-Owned Enterprises
UN	: United Nations
UNAIDS	: United Nations Programme on HIV/AIDS
UNDP	: United Nation Development Programme
UNFPA	: United Nations Population Fund
UNICEF	: United Nations Children's Fund
UNIFEM	: United Nations Development Fund for Women
WBCSD	: World Business Council for Development Suistanable
WHO	: World Health Organization)
WTO TRIPS	: World Trade Organization Agreement on Trade-Related Aspects of Intellectual Property Rights
YEN	: Youth Employment Network
ZDH	: *Zentralverband des Deutschen Handwerks* (German Confederation of Skilled Crafts)
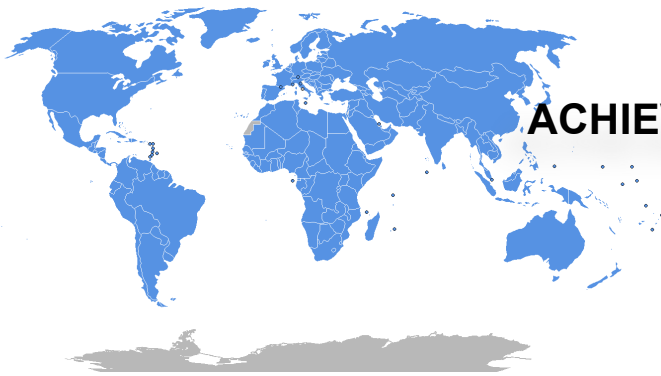
Chapter 1

ACHIEVEMENT OF MDGs IN 2015: A-DAY DREAM?

1.1 Background

Millennium Development Goals (MDGs) is the global development paradigm agreed by 189 member states of the United Nations (UN) in UN Millennium Summit in September 2000. UN General Assembly has legalised it in the Resolution of General Assembly of the United Nations No. 55/2 dated 18 September 2000 on the Millennium Declaration of the United Nations (A/RES/55/2. United Nations Millennium Declaration).

This Declaration brings together the commitment of world leaders to address issues of peace, poverty, hunger, security, development, human rights, environment, and global cooperation in one package. UN member states adopted this MDGs Declaration later which consists of 8 goals where each goal has one or more of the further target indicators. MDGs place human development as the main focus of development and have deadlines and measurable progress.

This Millennium Declaration recommends concrete action plan for the world to overcome poverty, hunger and disease affecting billions of people with the time limit of 2015. As one member of the UN states, Indonesia participated in the effort to implement the MDGs commitment to community welfare. The Government of Indonesia has made great efforts to achieve the national development objectives, which are in line with the MDGs.

However, achievement of the MDGs targets are faced with the reality of the limited ability of government funding, both at central and regional levels, thus achieving the MDGs is still difficult to implement if only rely on public funds alone. The commitment to meet both the MDGs and national development goals require further funding and involvement of a range of stakeholders, and efforts are required to enhance the participation of stakeholders. Therefore, the government, private sector and communities should sustain and support each other in accordance with their respective duties and functions.

Strategies are needed to harmonise the efforts of various parties to accelerate the achievement of the MDGs. One of the high potential schemes for synergy with government programs for the MDGs is the Corporate Social Responsibility (CSR)

organised by the business entity (corporation). CSR has a potential to support the achievement of MDGs due to its similar goals and benefits with those of MDGs' program.

1.2 Issues

One of the problems of achieving the MDGs is funding. Funds required to achieve all the MDGs' targets up to 2015 are so large that they cannot be met entirely by the developing countries including Indonesia with their limited capabilities. Until 2009 the government still faced the condition of the deficit state budget with the quite high interest payments and principal government loans every year. Payment for government loan for both domestic and overseas loan is nearly 25-30% of total state expenditure. Therefore, it needs a comprehensive strategy to finance the achievement of the MDGs in the future.

From the form of activities and benefits that are expected to be taken from it, CSR has the potential to be harmonised with the MDGs' government programs in an effort to accelerate the achievement of the MDGs. However, the issues raised to-date is how the harmonisation mechanism of CSR implementation in accelerating the achievement of MDGs is. It is not an easy task because the issue of harmonisation is not only related to the financing aspects but also to the institutional, individual and external environmental aspects which involve various parties. Harmonisation mechanism should be simple and can be carried out in such a quick time to pursue the achievement of the MDGs targets by 2015.

However, the achievement of MDGs in Indonesia can apparently be faster achieved if Indonesia pursues its efforts not only with all resources it has, but also with cooperation with other countries. Germany, as one of developed countries, was one of the first donors to adopt a strategy to implement the development-relevant goals of the Millennium Declaration. To help developing countries attaining their MDGs, in April 2001 Germany developed the Action Program towards 2015 (AP 2015). Through AP 2015, assistance provided by Germany is not only limited to financial aid, but moreover also in the form of tactical assistance. That is why Germany is selected in this study as a sample from donor countries in order to explore what should be adapted from the AP 2015 so that Indonesia can cooperate with Germany in pursuing the MDGs.

Regardless of the assistance provided by German government to the Indonesian government, German industries (particularly those who have affiliation or subsidiary in Indonesia) surely have a role in contributing themselves in the development process in Indonesia. The scheme of how firms in foreign countries (in this case Germany) take part in accelerating the attainment of MDGs in developing countries (in this case Indonesia) through the CSR scheme is interesting to examine.

1.3 Objectives

The purpose of this study is to develop the recommendation of harmonisation mechanism to accelerate the achievement of MDGs through CSR in Indonesia. It is expected that the private sector not only in Indonesia but also from foreign countries (i.e. German industries) can harmonise the implementation of CSR in line with government programs that can help accelerate the attainment of MDGs by 2015. Therefore, there are some research questions appear in this study:

1. Is CSR generally feasible to be harmonised with MDGs from the theoretical point of view?
2. Who are the actors of CSR in Indonesia from the business responsibility point of view?
3. How should the harmonsation mechanism between Indonesian government and private sectors look like?
4. What should be done by the Indonesian government if they want to cooperate with developing country to accelerate the achievement of MDGs in Indonesia?

1.4 Scope

The scope of this study consists of:

- Review of concept and indicators of MDGs, business ethics, and corporate responsibility, including Germany's and Indonesia's perspective on MDGs and CSR.
- Review of achievements and challenges of MDGs in Indonesia.
- Review of company's activities in implementing CSR which are consistent with the achievement of MDGs.
- Review of the possibility of combining CSR and MDGs.
- Recommendation of harmonisation mechanism of CSR and MDGs.

The structure of the study is illustrated in the figure below.

Figure 1: Structure of Writing

Ch 1: ACHIEVEMENT OF MDGs IN 2015: ONLY A DAY-DREAM?

Ch 2: MILLENNIUM DEVELOPMENT GOALS (MDGs) IN GERMANY AND INDONESIA
- The concept & indicators of MDGS
- MDGs from the perspective of developed countries (Germany) and developing countries (Indonesia)
- Status and Achievements of MDGs in Indonesia

Ch 3: BUSINESS ETHIC AND RESPONSIBILITY
- The concept of Business Ethics and Responsibility
- The concept of Corporate Responsibility

Ch 4: CORPORATE SOCIAL RESPONSIBILITY (CSR) IN GERMANY AND INDONESIA
- The concept, guidelines, and indicators of CSR
- Perspective and Implementation of CSR in Germany and Indonesia (by state-owned enterprises and private companies)

Ch 5: HARMONISATION OF CSR & MDGs TO ACCELERATE THE ACHIEVEMENT OF MDGs
- Harmonisation among actors in Indonesia (government and state/private enterprises)
- Contribution of Germany to support the achievement of MDGs in Indonesia

Ch 6: CONCLUDING REMARKS

Chapter 2

MILLENNIUM DEVELOPMENT GOALS (MDGs) IN GERMANY AND INDONESIA
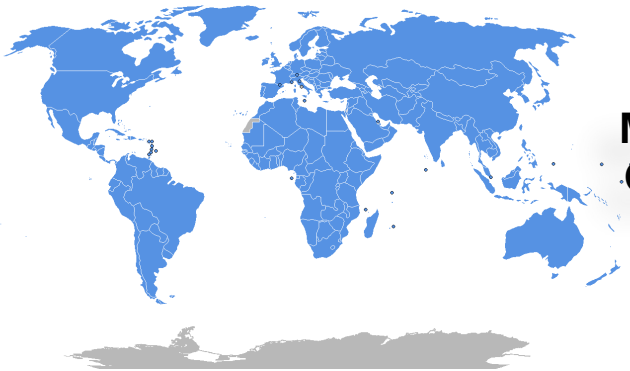
2.1. The Concept and Indicators of Millennium Development Goals (MDGs)

The Millennium Declaration formulates the future challenges facing the international community in four fields of action for international cooperation: (1) peace, security and disarmament, (2) development and poverty eradication, (3) protecting our common environment, and (4) human rights, democracy and good governance (BMZ 2005b).

The MDGs define, on a global scale, development results to be achieved by 2015 in the areas of poverty reduction and environmental protection. However, they make no statement about how to achieve them. The paths leading to these results may vary a great deal from one country to the next, in line with the specific situation on the ground. This means that the MDGs do not limit partners' and donors' programs to the areas explicitly mentioned in MDGs 1-7 (BMZ 2005b).

Eight MDGs have been translated into targets whose progress can be monitored and reported using indicators that can be verified and compared internationally.

Table 1: Millennium Development Goals

No	Goals	Targets
1	Eradicating poverty and hunger	1. Reduce the proportion of people whose income is below US $ 1 per day by half between 1990 and 2015. 2. Reduce the proportion of people suffering from hunger by half between 1990 and 2015.
2	Basic education for all	3. Ensure by 2015 all children everywhere, boys and girls, can complete primary education.
3	Encouraging gender equality and empowerment of women	4. Eliminate gender inequality in basic and advanced level education in 2005 and at all levels of education no later than 2015.
4	Reduce child mortality	5. Reduce mortality by two-third, between 1990-2015.
5	Improve maternal health	6. Lowering the maternal mortality rate by three-fourth between 1990 and 2015.

6	Combat HIV / AIDS, malaria and other infectious diseases	7. Controlling the spread of HIV / AIDS and begin to decline in the number of new cases in 2015. 8. Controlling malaria and began to decline in the number of cases of malaria and other diseases by 2015.
7	Ensure environmental sustainability	9. Integrate the principles of sustainable development into country policies and programs and reverse loss of environmental resources. 10. Decreased by half, the proportion of people without access to safe drinking water and basic sanitation facilities and sustained in 2015. 11. Achieve significant improvement in the lives of poor people in slum settlements in 2020.
8	Building a global partnership for development	12. Develop further the financial and trading systems that are open, rule-based, predictable, and not discriminatory. 13. Combating the problem of foreign loans through national and international efforts in order to manage foreign debt sustainable in the long term. 14. In cooperation with developing countries in developing and implementing strategies to create decent and productive work for youth. 15. In cooperation with the private sector in utilising new technologies, especially information and communications technology.

Source: UN Millennium Project 2005: xviii.

Progress in the other areas of action covered by the Millennium Declaration is indispensable to achieving the goals. Without peace and security, without democracy and good governance, without gender equality, without reliable equal rights for all with a view to political participation and access to resources, infrastructure and public services, it will not be possible to achieve development that facilitates decent living conditions (BMZ 2005b).

As can be seen from the table above, it is such a tremendous target. It is surely not an easy mission at all. But how will the world look in 2015 if the Goals are achieved? More than 500 million people will be lifted out of extreme poverty. More than 300 million will no longer suffer from hunger. There will also be dramatic progress in child health. Rather than die before reaching their fifth birthdays, 30 million children will be saved. So will the lives of more than 2 million mothers. Achieving the goals will mean safe drinking water for another 350 million people, and the benefits of basic sanitation for 650 million, allowing them to lead healthier and more dignified lives. Hundreds of millions more women and girls will lead their lives in freedom, with more security and more opportunity (UN Millennium Project, 2005:1-2).

Because of the difficulty of the struggle to achieve MDGs, Jeffrey D. Sachs expresses *"…achieving the Millennium Development Goals will require a global partnership suitable for an interconnected world"* (UN Millennium Project 2005:x).

2.2 MDGs from the Perspective of Donor Countries and German Industries

2.2.1 Alignment of Germany's Development Cooperation Program on MDGs

Developed countries (i.e. Australia, Belgium, Denmark, European Community, Finland, France, Germany, Japan, Netherlands, Norway, Sweden, Switzerland, Thailand, United Kingdom) play a crucial role in developing a global economy that contributes to the advancement of trade and industry of developing countries, thus empowering them to help attain the MDGs. UNDP (United Nation Development Programme) works closely with developed countries to help achieve the goals (UNDP 2011).

According to BDI (*Bundes Deutschen Industrie* or Federation of German Industries) which is the umbrella organisation of German industry, achieving the MDGs is only possible through economic growth backed by private engagement. Nevertheless, creating the required framework is the key concern of the BDI.

To achieve progress in the fields of healthcare, education, environmental protection and eradication of poverty as agreed internationally with the MDGs under the aegis of the United Nations a worldwide development partnership is required. Here industry plays a key role.

With more than EUR 100 billion investment in developing countries and emerging markets German companies have already created more than 1.4 million jobs for the people of these regions, providing incomes and livelihoods for millions of people employed by local supplier and service-provider businesses. Within the framework of economic cooperation German companies bring their technical and business expertise to enhance the lives of the local people by the spirit "helping for self-helping". The taxes paid by German businesses also boost investment in infrastructure, education, healthcare and social security systems, thus promoting development.

In development policy, cooperation with business should be put on an equal basis with cooperation among state actors. To integrate foreign trade and development policy effectively, institutions should cooperate efficiently, as well as more intensively at political and implementation level.

There are many ways and types of Germany's involvement in achieving the goals and indicates how the development policy commitments undertaken are being honored.

The international community – donors as well as developing countries – have recognised their common responsibility and have laid down eight binding MDGs. Achieving these goals poses a tremendous challenge, no doubt; at the same time, however, it offers a chance for finally achieving the crucial break-through in the field of poverty reduction. The German government has responded very swiftly to these challenges and, being one of the first governments to do so, has adopted a concrete strategy for the implementation of the Millennium Declaration and the MDGs with its Programme of Action 2015 or AP 2015 (BMZ, 2005a).

The German Chancellor Gerhard Schröder has stated in the year 2001 for Program of Action 2015:

> *"Extreme poverty, growing inequality between countries, but also within countries themselves, are great challenges of our times, because they are a breeding ground for instability and conflict. So reducing worldwide poverty is, not least, essential to safeguarding peace and security"*

Source: UN Millennium Project 2005:10

As early as in spring 2001, the German government was one of the first donors to publish a strategy for implementing the Millennium Declaration – its AP 2015. All agendas and policies made in the program are directed at poverty reduction. The program is considered as 'cross-cutting' because it is believed that by directing all of the agenda on poverty reduction, all the problems of development will be resolved by itself because all starts at the root of the problem of poverty. All development activities should make a direct or indirect contribution towards poverty reduction in developing countries.

In order to successfully implement the Millennium Declaration and the MDGs, Germany also seeks cooperation with other donor countries, where the focus of cooperation is directed on shaping global structures, which is cooperation with poor countries that have good governance and concentrating very much on the implementation of strategies for poverty reduction and sustainable development.

In doing this, German development cooperation refers to three principles for guidance, which has led to the adoption of the Millennium Declaration and of the MDGs as well as the Paris Declaration[1] as follows (OECD 2008):

(1) Partnership / Shared Responsibility

In many countries, strategies to alleviate poverty are still poor. This deficit does not only relate to quality in terms of substance but also to the drafting procedures and subsequent implementation. That is why the defined strategies fail to thoroughly analyse structural causes of poverty, set clear priorities, specify activities and budget, provide for appropriate participation by parliaments and civil societies, and embed processes at the local level.

This is what underlies Germany, together with other donors, provides special advisory services and assistance to support partner governments from developing countries in drawing up policies. These policies can then serve as a binding frame of reference for donors. German support in the area of capacity development comprises mainly training and advisory activities in various areas and at various levels: from the central government, to regional, district and municipal authorities, to civil society organisations and private enterprises.

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[1] Paris Declaration is the Declaration signed by hundreds of Ministers of developed and developing countries responsible for promoting development and Heads of multilateral and bilateral development institutions in Paris on 2 March 2005, resolve to take far-reaching and monitorable actions to reform the ways they deliver and manage aid as they look ahead to the UN five-year review of the Millennium Declaration and the MDGs (OECD 2008).

It is surely undeniable that private sector plays a decisive role for achieving the MDGs. It is the engine of the growth process. To further spur the spirit of the private sector to participate actively to succeed the development in alleviating poverty, an essential issue in this regard is the design of national tax systems. German development cooperation will continuously expand its cooperation with the private sector, which it already stepped up a great deal in the past few years.

German development cooperation will increasingly work with other donors as it plans and implements its activities, in other words, it will integrate even more into multilateral and bilateral cooperation. Germany and other donor countries are together in cooperation to provide assistance program.

(2) Results Orientation / Efficiency

In the context of the international efforts for enhanced effectiveness and efficiency of development cooperation, partners and donors must gear their policies, strategies and implementation activities consistently towards development results. Moreover, all players must optimise their procedures in order to use available resources as efficiently as possible.

German strategies to handle this issue are by:

- integrating the MDGs and the prerequisites for their achievement (such as human rights and good governance) into its goals and planning procedures, and
- gearing its procedures and instruments for planning, implementation, monitoring and evaluation, and reporting consistently towards development results.

In 2004, the BMZ (*Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung*/German Federal Ministry for Economic Cooperation and Development) introduced a management by objectives (MBO) process. It is kind of helping tool for making headway on innovations and translating changed priorities into practice. This is why the commitments and activities arising from the Millennium Declaration are being incorporated into the MBO process.

New policy and strategy papers must include substantive links to the MDGs. Country strategies and priority area strategy papers must be derived from national poverty reduction policies and strategies and must describe the chains of cause and effect through which German development cooperation will contribute towards the achievement of the MDGs.

Furthermore, monitoring the MDGs is the task of national governments and multilateral organisations. One important task of development cooperation is to support partner countries as they develop, or expand, statistical capacity and monitoring systems. This also means that analyses of development results must be designed in a participatory manner. Responsibility must increasingly pass on to the partners, not only with regard to planning but also with regard to assessing donor contributions. The national indicators must also be made more precise so

they can really function as a yardstick for global poverty reduction.

(3) Imperative of Coherence / MDG 8

With its Program of Action 2015, the German government has underlined its determination to work across ministries to achieve change that is conducive to development. At the international level, the German government will continue to be a strong advocate for the realisation of the goals of a global development partnership mentioned in MDG 8. In support of financial system development, German development cooperation has been combining activities for the creation of central banks, banking supervisory authorities, etc., with efforts to open the financial sector and foster financial services for the poor. The German government also supports the dissemination of information and communication technology (ICT) in developing countries because the importance of ICT for the achievement of the MDGs is constantly growing as globalisation advances (OECD 2008).

2.2.2. Germany's Contribution to Developing Countries in realising the MDGs
(Source: BMZ, 2005a:25-38).

The German government is implementing concrete measures in developing countries to help them achieve the MDGs, and is supporting initiatives to improve the parameters for development, as called for under the terms of the Millennium Declaration. The initiatives and measures taken by Germany are shown below. It indicates how the development policy commitments undertaken are being honored.

MDG 1: Eradicate extreme poverty and hunger

MDG 1 cannot be achieved purely with measures to reduce poverty directly. More importantly, the structures that are the cause of poverty must be changed. This is the starting point for German development cooperation as has been mentioned above. The most important planning and steering instruments in poverty reduction are the so-called Poverty Reduction Strategy Papers (PRSP) or comparable national poverty reduction strategies. The BMZ gears its internal planning procedures such as country concepts and priority area strategy papers to these strategies, and has reviewed its guidelines and procedures accordingly.

However, the following examples illustrate German commitment:

- Germany has provided significant resources to support the OECD/DAC Poverty Network working group on infrastructure and poverty reduction and is incorporating the results of this group in its own work. In conjunction with other governments, the German government managed to have the link between poverty and the environment accepted as the priority issue of the World Summit on Sustainable Development held in Johannesburg in 2002.
- German development cooperation is financing jointly with the World Bank, DfID (UK Department for International Development) and AfD (Agence Française de Développement/French Development Agency) an international

research programme on pro-poor economic growth. The programme aims to draw up economic-policy recommendations, which would provide an enabling environment for broad-impact growth strategies. These include, for instance, the introduction of poverty-oriented government revenue and spending policies, in order to facilitate access by poorer sections of the population to resources such as land, capital and education.

- The German government is helping Brazil, Ethiopia, Mozambique and Cambodia to realise their national food security strategies.
- Ethiopian members of parliament have received professional development with German support in order to help them implement the PRSP in Ethiopia in an objective manner.
- A technical cooperation project is helping implement the Mozambican PRSP at provincial level. This should improve both planning and monitoring and the dialogue with and involvement of civil society organisations.
- The German government is actively involved in the financing and implementation of a training programme in which members of donor governments and organisations are trained to work with PRSPs.
- At the World Bank a fund has been set up, co-financed by the German side in order to conduct studies in partner countries on the likely social impacts of measures taken within the scope of implementation of PRSPs, thus helping further develop the concept of the instrument. These analyses should make it possible to review policy recommendations and programmes at an early stage for their poverty impacts, which in turn will help gear policy as a whole more to the imperatives of eradicating poverty.
- Some partner countries, such as Peru, Honduras, Vietnam and Tunisia are being advised on the implementation of integrated strategies for sustainable development and poverty reduction. The target group consisted of decision-makers in various ministries and staff members of state and non-governmental institutions working in the fields of environmental protection and natural resources management.
- The Philippines, Cambodia, Lesotho and Namibia are receiving support for national agricultural reform processes.
- The German government is involved in terms of substance and finance in an international working group of the FAO, which is elaborating voluntary guidelines to realise the right to appropriate food.
- In September 2001, the BMZ, along with the International Food Policy Research Institute (IFPRI) held an international conference on food security in Bonn. At this event, recommendations for international and national policy in the field of food security were discussed.
- In September 2003 and in October 2004 the German government held two international conferences in Berlin in the series "Policies against Hunger". The "Berlin Statement on Food Aid", calls for improvements in the way food aid, is used as an instrument to fight hunger. With a view to promoting the local and regional purchase of food, Germany is working within the European Union, the World Food Programme and the Food Aid Convention for food aid to be provided in the form of monetary inputs rather than cereal deliveries, and for an end to tied food aid.

MDG 2: Achieve universal primary education

The German government supports developing countries, helping them to expand the access to education while simultaneously improving the quality of that education. The promotion of basic education in German development cooperation concentrates – in particular within the framework of the so-called Education for All Fast Track Initiative (FTI) – more than has hitherto been the case on changing the structural framework and promoting sector-wide approaches.

In order to promote primary education in particular, the BMZ pledged in 2002 to raise the annual volume of funding for basic education programmes implemented by official bilateral development cooperation to 120 million euros within five years. Activities in the field of basic education promotion are linked to other inputs in the education sector. Vocational training gives many young people having completed primary education the chance to acquire or enhance skills and knowledge, which will help them earn their living and obtain work. In addition, Germany is supporting the reform of education systems (including decentralisation and education planning).

Within the scope of the FTI, German promotion is focusing on those countries in which basic education is already an agreed priority of bilateral development-policy cooperation: Mozambique, Guinea, Honduras and Yemen. Outside the FTI, basic education is also a priority of German cooperation with Malawi, Pakistan, Tajikistan and Afghanistan.

MDG 3: Promote gender equality and empower women

Germany is working in particular to improve the legal status of women. The BMZ works within the United Nations Commission on the Status of Women (CSW), with its annual sessions. Germany also supports the United Nations Development Fund for Women, UNIFEM.

At times of armed conflict, German development cooperation helps women who have been victims of violence, and also helps women assume an active part in peace processes. Germany is working to ensure that some of the funds liberated thanks to the HIPC (Heavily Indebted Poor Countries) debt relief initiative benefits women, and is invested in ensuring primary education for girls or in improving the health situation of women.

The German government has made available special funds to "Take into Consideration the Gender Dimension in PRSP". In December 2003 a conference was held in Nairobi on "Engendering PRSPs in Africa". Building on this, further training courses on pro-poor economic growth and gender are planned for 2004/2005 in several African countries.

To improve access to education for girls, bilateral German development cooperation is supporting the following measures:

- The creation of incentives systems (safe schools, medical care for boys and girls, school meals, education subsidies such as independent school funds, education voucher systems, grants and scholarships for pupils);

- The promotion of the involvement of parents and the community in school development and the legal reform of the school (community or state schools);
- The construction, rehabilitation and outfitting of gender-appropriate schools and teacher training centers, support for cooperation countries in the creation of sustainable structures in the education system.

MDG 4: Reduce child mortality

Through its contributions to multilateral organisations such as the WHO (World Health Organisation) and UNICEF (United Nations Children's Fund), the German government supports, for instance, national measles and polio vaccination campaigns, as well as programmes to treat diarrheal diseases, malaria and respiratory diseases at an early stage. Within the scope of the Integrated Management of Childhood Illnesses (IMCI), prevention and treatment are promoted, and delivered by health services, communities and families.

The following examples illustrate the wide spectrum of German development-policy commitments in this field:

- In Malawi, India and the Philippines, German development cooperation is financing the implementation of national measles and polio vaccination campaigns.
- In the Central Asian republics of Kyrgyzstan and Uzbekistan, support has been provided since the mid-90s in the form of equipment and training measures, to help rebuild the collapsed maternal and child health service, which offers IMCI and newborn care.
- In specific malaria control programmes, early diagnosis and treatment is being supported through community-based services and education work. The use of impregnated mosquito nets helps reduce the incidence of the disease.
- In Pakistan, community-funded health services have been set up in close cooperation with a rural development programme initiated by an NGO (non-governmental organisation). It targets, in particular, children and mothers and is helping reduce child mortality on a sustainable basis in isolated mountainous regions.
- The range of consultancy services offered in the health sector is increasingly targeting traditional ideas and practices that are harmful to the health of children and stunt their development. Examples of this include disadvantaging of girls as compared to boys (e.g. in South Asia), female genital mutilation (in Africa), food taboos and behavioral rules.
- Better education for mothers does much to reduce child mortality: the spectrum of measures promoted by the German government goes from basic education for girls to education work in the field of sexual and reproductive health and specific further training courses on health, human rights and management skills in conjunction with income-generating measures.

MDG 5: Improve maternal health

Alongside children's health, maternal health is a focus of programmes in the field of primary health care and reproductive health. Worldwide, measures are currently

ongoing in more than 60 health projects, which comply with the international agreements entered into at the International Conference on Population and Development held in Cairo in 1994.

Within the framework of multilateral development cooperation, the German government is promoting the United Nations Population Fund (UNFPA) and the International Planned Parenthood Federation (IPPF), the umbrella organisation for NGOs working in the field of family planning. Part of that support takes the form of funding sex education and health education for young people.

In July 2003, the BMZ published a *"Positionspapier Sexuelle und Reproduktive Gesundheit"* (Position Paper on Sexual and Reproductive Health), which lays out the framework for action on the part of German development cooperation with a view to achieving the health-related MDGs. This provides for strengthening health and community structures and building an appropriate range of reproductive health services, for instance assisted childbirth.

In particular, Germany is promoting training and upgrading for health staff and quality assurance in health services. The German government supports so-called Social Marketing projects, which promote the distribution of condoms thus avoiding unwanted pregnancies and preventing the spread of sexually transmitted diseases such as HIV/AIDS.

The following examples illustrate the wide spectrum of Germany development-policy commitment in this field:

- In Mongolia special rooms have been set up for expectant mothers to allow them to live on the grounds of the hospital for the period immediately before they give birth. Medical assistance is then available in time when they do give birth. Between 1999 and 2004 complications in pregnancy dropped by 30%, to 10-12% of pregnancies. Maternal mortality declined.
- In the Philippines, where the risk of death during pregnancy and childbirth is 200 times higher than in Germany, the infrastructure of the family planning and health care facilities were expanded and a pertinent logistics system set up in conjunction with several other international donors. Health service staff, midwives and lay birth attendants were trained in particular in obstetrics and caring for women and newborn infants.
- In Nepal, where unsafe abortions had hitherto accounted for 20% of maternal mortality figures, abortion was legalised by parliament in 2002. With German support, the Ministry of Health elaborated directives for the services to be offered, the clinical procedures, the strategy and the implementation plan as well as training courses. This created the framework for safe abortions and for reducing the rate of maternal mortality.

MDG 6: Combat HIV/AIDS, malaria and other diseases

The German government is supporting the goal of reversing the spread of HIV/AIDS by 2015. As in previous years, the German government provided some 300 million Euros in 2003 for measures to fight AIDS alone in developing

countries. UN organisations such as UNAIDS (Joint United Nations Programme on HIV/AIDS), the WHO and the ILO (International Labour Organisation) also receive technical support. In addition to this, the German government makes available to the WHO funds for its global tuberculosis and malaria programmes.

The "Global Fund to Fight AIDS, Tuberculosis and Malaria" (GFATM) supports 124 needy countries worldwide in the fight against the communicable diseases HIV/AIDS, tuberculosis and malaria. The German government provided 300 million euros for the GFATM between 2002 and 2007.

At global level, the German government is endeavouring to improve the access of developing countries to drugs to prevent and treat major diseases such as HIV/AIDS and malaria at realistic prices. To this end, the German government has successfully worked to ensure that the provisions of the WTO TRIPS agreement (World Trade Organisation Agreement on Trade-Related Aspects of Intellectual Property Rights) are favourable to developing countries. Germany is also promoting research into drugs that are of special interest to developing countries, in particular anti-malarial drugs.

At bilateral level, the German government supports the fight against tuberculosis (with funding to date totaling 45 million euros) and malaria (funding to date of 3 million euros) in addition to anti-AIDS measures.

The following examples illustrate the wide spectrum of German development-policy commitment in this field:

- Through the "GTZ (*Gesellschaft für Technische Zusammenarbeit*/German Technical Cooperation) BACKUP Initiative", German development cooperation is advising partner countries and organisations on the planning and implementation of GFATM-assisted projects. In conjunction with UNAIDS, the WHO, the ILO and other organisations, it is involved in the establishment of groups and networks of stakeholders, in upgrading measures and in health and AIDS policy advisory services.
- In social marketing projects, condoms are distributed through the private sector at subsidised prices. Experiences in some of the African states worst hit by AIDS, but also on other continents (e.g. in Cambodia, Thailand, the Philippines and Brazil), have proved how successful this approach can be.
- The German government is supporting projects in Kenya, Tanzania, Mozambique and Uganda with a view to reducing mother-to-child transmission of AIDS. The projects address some 35,000 women every year, who attend antenatal clinics for the first time.
- A German-assisted pilot Public Private Partnership (PPP) project in the east of the Democratic Republic of the Congo is aiming to introduce local production of anti-retroviral drugs and to introduce these gradually along with parallel therapy for HIV-positive patients from poor population groups.
- HIV/AIDS puts a strain on both private businesses and public institutions in sub-Saharan Africa. HIV/AIDS workplace programmes can help reduce the rate of infection and cushion the impacts of the epidemic. German development cooperation thus works directly with businesses or cooperates

with intermediary structures such as business associations or chambers. To date, cooperation arrangements have been launched with multinational businesses in South Africa (including DaimlerChrysler, Volkswagen, Roche, T-Systems and Bosch) and with national businesses and associations in Tanzania, Zambia, Côte d'Ivoire, Mozambique, Nigeria and Namibia.

MDG 7: Ensure environmental sustainability

Environmental problems are always development problems. Environmental sustainability is the basis for all value added. Germany is thus playing a leading role in the international debate on the protection and sustainable utilisation of natural resources, on which many people in developing countries depend for their survival. This embraces protection of biodiversity, forest protection (especially tropical forests), soil conservation and the protection of water resources. Germany is at the forefront of international processes to further develop pertinent regulations at global and regional level. It is crucial to integrate environmental factors in national development strategies, to better pinpoint the mutual influences and inter-play, and to incorporate these in policy-making.

Poverty can be both a cause and a consequence of environmental destruction. Poor population groups are worst affected by the impacts of environmental degradation and natural disasters. Their resource base is destroyed, their health impaired, their ability to work diminished, and sources of natural remedies wiped out.

The commitment of Germany to ensuring ecological sustainability can be seen at multilateral level: Germany is the third largest contributor to the Global Environmental Facility (GEF) and the Multilateral Fund for the Implementation of the Montreal Protocol (MFMP), and the single largest donor to the Least Developed Countries (LDC) Fund set up by the "Bonn Decision" on the Framework Convention on Climate Change.

Some measurements, which have been taken by Germany, are for instance:

1. Forest protection
   With a target-funding framework of some 125 million euros per annum for bilateral projects and programmes, Germany is one of the world's largest donors in the forestry sector. Currently, Germany is involved in 234 bilateral forestry projects with pledged funds totaling 930 million euros. Experience gained in supporting National Forest Programmes in more than 20 partner countries has now been processed and presented by the German government at the United Nations Forum on Forests. The German government supports the overarching EU (European Union) Action Plan for Forest Law Enforcement, Governance and Trade (FLEGT) and is playing an active part in regional FLEGT processes in Africa, Asia and other regions. In addition, the German government is involved in the international forest policy dialogue within the framework of the United Nations. It supports all relevant negotiating processes, which serve to improve the protection and more sustainable utilisation of forests.
2. Protecting biodiversity

The preservation of global biodiversity is an important goal of the German government. It thus plays an active part in the international process to further develop and realise the Convention on Biological Diversity (CBD) and the Cartagena Protocol on Biosafety as well as other international agreements related to this topic. It is active in the negotiation process under the auspices of the World Trade Organisation (WTO/TRIPS). Since 2002, Germany has been a member of the Equator Initiative, which brings together the United Nations Development Programme (UNDP), governments, NGOs and the media, with a view to publicising and promoting the role of indigenous and local communities with respect to the preservation of biological diversity and poverty reduction. Within the framework of bilateral development cooperation, the German government is currently implementing about 180 projects to support the efforts of partner countries to ensure the conservation and sustainable use of biological diversity.

3. Climate protection in development cooperation
   Numerous bilateral projects of German development cooperation serve directly or indirectly to protect the global climate. The project-related mechanisms of the Kyoto Protocol (Clean Development Mechanism/CDM, and Joint Implementation/JI), which allow signatory states to meet part of their commitment to reduce emissions by funding climate protection projects in other countries, offer developing countries additional opportunities. The BMZ and the *Kreditanstalt für Wiederaufbau* (KfW) are currently developing a fund to use the CDM and JI in developing countries and transition states. These new financing instruments make projects more economically attractive to both developing countries and investors.

4. Water and basic sanitation
   With average funding of 350 million euros per annum, Germany is the world's second largest donor in the water sector. The German government intends to maintain this high level of funding in the water sector. Development cooperation in this sector today concentrates on 23 priority partner countries. The regional focus of German support is Africa, which receives some 42% of total water-sector funding, followed by Asia (28%), Latin America (15%) and Europe (15%).

In addition to this, Germany has been involved in organising several conferences and initiatives to realise the MDGs in the field of access to water and basic sanitation:

- The International Conference on Freshwater organised by Germany in 2001 paved the way for expanding the goal of ensuring access to safe drinking water, to incorporate the goal of ensuring basic sanitation.
- One major result of the G8 summit in Evian in 2003 was the G8 Action Plan on Water. The German government was the leading proponent of a G8 initiative focusing on transboundary water management, with a view to strengthening existing river basin organisations and networking existing knowledge in Africa. At the level of the African continent as a whole, regional measures in transboundary water management are to be compiled and made available to

the African Ministerial Conference on Water (AMCOW) in the form of good practices.

- The German government is supporting an initiative to coordinate and further develop monitoring of progress on the MDGs in the field of water and basic sanitation. Along with experts from Norway, France and the Netherlands, a report has been produced on the topic of progress reviews in the water sector, and has been presented to the international community.
- The German government works in several working groups of the EU water initiative "Water for Life" (2002). Within the scope of the working group on water and basic sanitation in Africa, Germany conducted a country dialogue in Zambia, in which the water sector was assessed, and obstacles and progress in achieving the MDGs identified.
- The African, Caribbean and Pacific region (EU partner) states/ACP-EU Water Facility officially launched in May 2004 is intended to finance water projects, in particular in Africa, on the basis of the quality of project proposals submitted, or to co-finance these with the help of other sources and other donors. Germany is contributing 23.36% of the total funding for this line of credit.

MDG 8: Develop a global partnership for development

The German government has long attached great importance to youth employment – not merely since the Millennium Summit. This was re-confirmed by the evaluation concluded in 2004 on the contribution made by projects of German official and non-governmental development cooperation to fighting youth poverty. Bilateral technical cooperation alone is currently implementing 36 projects with a youth employment component, with a total funding volume of 169 million euros. Within the scope of international conferences, children- and youth-specific projects as well as sector-specific projects, German development cooperation is fostering the mainstreaming and integration of youth work in national policies (e.g. labour market policies, national youth policies), poverty reduction strategies and national budgets.

At international level, and in German development cooperation, a series of initiatives has been launched in order to scale back unemployment and under-employment among young people:

- On the initiative of the UN Secretary-General, a Youth Employment Network (YEN) has been established, in which the World Bank and the ILO are also involved. The network supports interested developing countries in the elaboration and realisation of national action plans on youth employment. The German government supports this network financially, with a special focus on activities in Sri Lanka and Senegal.
- The German government supports the World Bank in its analysis of the links between employment creation, compliance with core labour standards, and successful poverty reduction in selected African states (Ghana, Burkina Faso, and Zambia).
- The German government's project, "Employment-oriented strategies and projects" serves to identify and further develop successful strategies to generate employment, in particular youth employment. Based on the finding

that economic growth does not automatically lead to more employment, but that the latter is essential for broad-based growth which benefits the poor, productive employment is increasingly to be established as the objective and an indicator of the success of national and international development strategies and projects.

2.3 MDGs from the Perspective of Indonesia

The MDGs are not new for Indonesia, because Indonesia has long been carrying out development programs in the food sector, health and family planning, etc. packaged in the Five-Year Development Programs Plan (Rencana Pembangunan Lima Tahun/REPELITA). This program contains intensive efforts to balance between economic and social program. Since then, significant progresses are achieved, but the financial crisis in the late 90s was a downturn in the economic and social status. In 2000, the Indonesian government started to take shape on various basic policies in the national development, which is also related to MDGs (Murniningtyas and Widyono, 2008).

Indonesia's commitment to achieving the MDGs in improving the welfare of its citizens and contributing to the increase in world welfare, placing MDGs as an important reference document for preparing the National Development Planning. Government of Indonesia has emphasised the importance of the MDGs in the National Long Term Development Plan (Rencana Pembangunan Jangka Panjang Nasional/RPJPN 2005-2025), the National Medium Term Development Plan (Rencana Pembangunan Jangka Menengah Nasional/RPJMN 2005-2009 and 2010-2014), National Annual Development Plan (Rencana Kerja Pemerintah/RKP), as well as in the documents of state budget (Anggaran Pendapatan dan Belanja Negara/APBN).

2.3.1 Summary of Status of MDGs' Achievement in Indonesia
(Source: Bappenas 2010, Jalal 2011)

MDG 1: Eradicate Extreme Poverty and Hunger

Indonesia has succeeded in reducing poverty, as measured by indicators of USD 1.00 per capita per day, in half. Progress has also been achieved in efforts to further reduce the level of poverty, as measured by the national poverty line from its current level of 13.33% (2010) towards its target of 8-10% in 2014. Prevalence of malnutrition among children under five has declined from 31% in 1989 to 18.4% in 2007, so that Indonesia is expected to reach the MDG target of 15.5% in 2015. Future priority to reduce poverty and hunger is by expanding employment opportunities, improve the supporting infrastructure, and strengthen the agricultural sector. Special attention should be given to:

- Expansion of credit facilities for micro, small and medium enterprises (MSMEs);
- Empowerment of the poor by improving access to and use of resources to improve their welfare;

- Improved access for the poor to social services; and
- Improved provision of social protection for the poorest among the poor.

MDG 2: Achieve Primary Education for All

Indonesia's efforts to achieve the MDGs on primary education and literacy have led to the achievement of 2015 (on-track). Even Indonesia has set a target of primary education exceed the MDGs by adding a junior high school as the target of universal primary education. In 2008/09 gross enrollment rate of primary school *(Sekolah Dasar/SD or Madrasah Ibtidaiyah/MI)* including *Package A*[2] has achieved 116.77% and the net enrollment rate (APM) of about 95.23%. At primary school level in general education participation disparity between provinces narrowed by APM in almost all provinces has reached more than 90.0%. The main challenge in accelerating the achievement of the MDGs target of education is to improve equitable access equally to all children, whether male or female, to get a quality basic education in all areas. Various government policies and programs to address these challenges are:

- The expansion of equitable access to basic education especially for the poor;
- Improved quality and relevance of education;
- Strengthening governance and accountability of educational services.

MDG 3: Promote Gender Equality and Empowerment of Women

Some progress has been made in efforts to promote gender equality at all levels and types of education. Enrollment ratio *(APM/Angka Partisipasi Murni)* of women to men in primary and secondary schools respectively at 99.73 and 101.99 in 2009, and the ratio of literate women to men in the age group 15 to 24 years has reached 99.35. Therefore, Indonesia has effectively toward (on-track) achieving gender equality related to education in 2015. In the field of employment, there is an increase in the contribution of women in part-time employment in non-agricultural sector. In addition, the proportion of women in parliament at the last election also increased, to 17.9%. Priority ahead in realising gender equality includes:

- Improved quality of life and the role of women in development;
- Protection of women against acts of violence; and
- Improved institutional capacity on gender equality and empowerment of women.

MDG 4: Reduce Child Mortality

The infant mortality rate in Indonesia showed a significant decline from 68 in 1991 to 34 per 1,000 live births in 2007, so that the target of 23 per 1,000 live births in 2015 is expected to be achieved. Similarly, the child mortality target is expected to

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[2] Package A is kind of non formal education in Indonesia which is equal to elementary school and is intended for people between the ages of 15-44 years who haven't entered elementary school, with the aim to help students increase their basic literacy skill.

be achieved. However, regional disparities still occur in the attainment of targets, which reflect differences in access to health services, especially in poor areas and remote. Priorities for the future are to strengthen health systems and improve access to health services especially for the poor and remote areas.

MDG 5: Improve Maternal Health

Of all the MDG targets, the performance to decline the global maternal mortality rate is still low. In Indonesia, maternal mortality rate (MMR/Maternal Mortality Rate) fell from 390 in 1991 to 228 per 100,000 live births in 2007. Target achievement of the MDGs in 2015 amounted to 102 per 100,000 live births, so the hard work is necessarily needed to achieve those targets. Although *antenatal* care and delivery assistance by trained health personnel is high, several factors such as high risk during pregnancy and abortions require attention. Efforts to reduce maternal mortality rate is also supported by increasing numbers of contraceptive use and reduce the unmet need that is done through increased access and quality of family planning services and reproductive health. In the future, efforts to improve maternal health will be prioritised on expanding health care quality, comprehensive obstetric care, increased family planning services and dissemination of communication, information and education to the community.

MDG 6: Combat HIV/AIDS, Malaria and Other Diseases

The prevalence rate of HIV/AIDS tends to increase in Indonesia, especially in high risk groups, namely injecting drug users and sex workers. The number of HIV/AIDS cases reported in Indonesia is doubled between 2004 and 2005. The incidence of malaria per 1,000 populations decreased from 4.68 in 1990 to 1.85 in 2009. In the meantime, control of diseases, including tuberculosis case detection and treatment has reached the target. Approaches to controlling the spread of this disease are primarily directed at the prevention and mainstreaming into the national health care system. In addition, disease control must involve all stakeholders and strengthen health promotion activities to raise public awareness.

MDG 7: Supporting Environmental Sustainability

The level of greenhouse gas emissions in Indonesia is quite high, despite efforts to increase forest area, the eradication of illegal logging, and a commitment to implement a policy framework for reduction in carbon dioxide emissions in the next 20 years has been done. Proportion of households with access to decent drinking water increased from 37.73% in 1993 to 47.71% in 2009. Meanwhile, the proportion of households with access to decent sanitation increased from 24.81% (1993) to 51.19% (2009). Efforts to accelerate the achievement of targets for drinking water and sanitation are conducted through investment in water supply and sanitation, especially to serve the urban population. For rural areas, drinking water supply and sanitation is done through community empowerment so that they will have the responsibility in the management of infrastructure and facilities development. In addition, efforts need to be done to clarify the roles and responsibilities of local governments in the management of water resources and management systems of drinking water and proper sanitation. The proportion of urban slum households declined from 20.75% in 1993 to 12.12% in 2009. Efforts

to decrease the proportion of slum households are done through the handling of the slums.

MDG 8: Developing Global Partnership for Development

Indonesia is an active participant in various international forums and has a commitment to continue to develop beneficial partnerships with multilateral organisations, bilateral partners and the private sector to achieve economic growth patterns that has impact on poverty reduction (pro-poor). To improve the effectiveness of cooperation and management of development assistance in Indonesia, Jakarta Commitment has been signed with 26 development partners in 2009. Along with this, Indonesia has committed to reduce the government's foreign debt to GDP. This is shown by the lower ratio of government foreign debt to GDP from 24.6% in 1996 to 10.9% in 2009. Meanwhile, the Debt Service Ratio Indonesia has also declined from 51% in 1996 to 22% in 2009. To improve communication and information access, the private sector has made large investments in information and communication technology, and access on mobile phones, PSTN (public switched telephone network), and Internet communications has increased rapidly over the last five years. In 2009, approximately 82.41% of Indonesia's population had access to cell phones.

2.3.2 Challenges

Currently, Indonesia has been able to improve their economic status to be middle-income countries. Indonesia also has worked consistently for the last decade to achieve the MDGs targets. Although there are still many challenges and problems faced in the implementation of development in Indonesia, the government remains determined to fulfill the commitments and targets of the MDGs targets on time.

Allocation of funds in national and regional as an effort to support the achievement of MDGs in Indonesia has increased from year to year. By paying attention to trends and achievements of MDGs targets, the achievement of the MDGs so far can be grouped into three categories of achievement, including: (a) Targets have been accomplished, (b) Targets have shown significant progress, and (c) Targets still need much effort to be achieved.

The MDG targets that *have already been achieved* include (Bappenas 2010):

- **MDG 1** - The level of extreme poverty, that is the proportion of people living with per capita income of less than USD 1 per day, has declined from 20.6% in 1990 to 5.9% in 2008.
- **MDG 3** - The targets for gender equality in all levels of education are expected to achieve. In 2009, the Gender Parity Index (GPI) at primary schools including *madrasah ibtidaiyah* (*SD/MI*) was 99.7% while at the junior secondary schools including *madrasah tsanawiyah* (*SMP/MTs*) and senior secondary education including *madrasah aliyah* (*SM/MA*) the GPI was 101.99%. The ratio of literate women to men in the age group of 15-24 years has reached 99.85%.

- **MDG 6** - An increase in detection of tuberculosis cases has been achieved, from 20.0% in 2000 to 73.1% in 2009 as compared to the MDG target of 70.0%. There has also been a decrease the prevalence of tuberculosis from 443 cases per 100,000 populations in 1990 to 244 cases per 100,000 populations in 2009.

The MDG targets for which *significant progress has been demonstrated* include (Bappenas 2010):

- **MDG 1** - The prevalence of infant malnutrition has been reduced by nearly half, from 31% in 1989 to 18.4% in 2007. It is expected that the MDG target of 15.5% will be achieved by 2015.
- **MDG 2** – The participation rate for primary education is close to 100% and the literacy rate of the population was more than 99.47% in 2009.
- **MDG 3** –The participation ratio of females to males in *SMA / MA / Paket C* and higher education in 2009 was 96.16 and 102.95. Thus it is expected that the target of 100 will be achieved by 2015.
- **MDG 4** – The number of deaths in children under the age of five years has decreased from 97 per 1,000 births in 1991 to 44 per 1,000 births in 2007. It is expected that the target of 32 per 1,000 births will be achieved by 2015.
- **MDG 8** - Indonesia has been successful in developing trade and financial systems that are open, rule-based, predictable and non-discriminatory - as evidenced by the positive trends in indicators related to trade and the national banking system. At the same time, significant progress has been made in reducing the foreign debt ratio to GDP from 24.6% in 1996 to 10.9% in 2009. The Debt Service Ratio has also been reduced from 51% in 1996 to 22% in 2009.

The MDG targets where a positive trend has been demonstrated but which *still require special efforts to achieve* the targets by 2015 include the following (Bappenas 2010):

- **MDG 1** - Indonesia has raised its targets for poverty reduction and will give special attention to reducing poverty levels as measured against the national poverty line from 13.33% (2010).
- **MDG 5** - Maternal mortality has been reduced from 390 in 1991 to 228 per 100,000 live births in 2007. Special efforts are required to achieve the target of 102 per 100,000 live births by 2015.
- **MDG 6** – The number of people living with HIV / AIDS has increased, particularly in high-risk groups, including injecting drug users and sex workers. The rate of increase is also high in some areas where awareness about this disease is low.
- **MDG 7** - Indonesia has high levels of greenhouse gas emissions, but is committed to increasing forest cover, eliminating illegal logging and implementing a policy framework to reduce carbon dioxide emissions by at least 26% over the next 20 years. At present, only 47.73% of households have sustainable access to improved water supply, and 51.19% of households have access to improved sanitation. Special attention is required to achieve the MDG targets for Goal 7 by 2015.

2.3.3 New Initiative in Moving Forward

Success in achieving the MDGs in Indonesia depends on the achievement of good governance, productive partnerships at all levels of society and the implementation of a comprehensive approach to achieving growth for pro-poor, improve public services, improve coordination among stakeholders, improving resource allocation, and decentralised approach to reducing disparities and empowering people throughout Indonesia (Bappenas 2010).

At the time of the Millennium Declaration was signed in 2000, it was realised that the target achievement of the MDGs in poor and developing countries is not an easy thing. To achieve the MDGs the joint efforts of all parties are required, both nationally, regionally and globally to synergise with each other. Unfortunately, in the practice, there is still no systematic and ongoing synergy between government and non-governmental organisations in supporting the efforts to achieve the MDGs in Indonesia.

The role of community and business is very big in the process of development. The contribution of government in the process of development is only about 20% from the total Gross Domestic Product (GDP), the rest is the contribution of stakeholders. Thus the division of roles between the government and the public/private sector became an integral part in the financing strategy for achieving the MDGs in Indonesia. Furthermore, optimisation of internal role in the government also needs to be improved.

Global development paradigm is experiencing significant changes at this time compared to 15-20 years ago. The role of governments and international funding agencies is increasingly followed by the participation of the business/private sector. Private roles are no longer just overseeing the implementation of development, but participate actively in its implementation.

Many national Indonesian companies have been carrying out measures related to CSR and tangible support to the sector of small and medium enterprises (SMEs). This is consistent with government's desire for corporations to support the development of SME through the disbursement of funds of Corporate Social Responsibility (CSR). Support to SMEs who need a helping hand not only expected to be given by the government, but also done by the private sector and State-owned enterprises. To support the development of SME is certainly the opportunity for corporations to participate in an effort to accelerate the achievement of the MDGs.

In Indonesia, the hopes for SMEs to continue to grow and develop is based on the experience that when there is a multidimensional crisis of 1997-1998, it was actually the small businesses that was proven to be able to maintain the continuity of their businesses, even the have a big role in playing the rescue function in some sub-sectors of activity. SMEs can become an engine of growth and serve as an instrument for real economic recovery of Indonesia.

Another scheme to be harmonised with the government program is Public Private Partnership, where Britain is the good example for this. In contrast to CSR, PPP is

more likely profit-oriented. The government must invite private sector to tender and for the time being it is implemented mostly on infrastructure and health. The funding of PPP instruments requires more innovative forms of co-financing. Public procurement regulations should also be made as transparent as possible and applied as uniformly as possible at international level.

2.4 Synopsis

There are 8 goals (with each own targets) of the MDGs that must be fulfilled by countries in the world in 2015, which are:

- Eradicating poverty and hunger
- Basic education for all
- Encouraging gender equality and empowerment of women
- Reduce child mortality
- Improve maternal health
- Combat HIV/AIDS, malaria and other infectious diseases
- Ensure environmental sustainability
- Building a global partnership for development

To achieve all 8 goals of MDGs is surely not an easy task for developing countries. Therefore, achieving them require a global partnership suitable for an interconnected world (Jeffrey D. Sachs). Here, developed countries such as Germany, Japan, Australia, France, Belgium, etc. play a crucial role to empower developing countries attaining the MDGs.

German government responded to this quickly and decisively to become the first donor country to create strategies to achieve the MDGs to help developing countries with the Programme of Action 2015 (AP 2015). AP 2015 is considered as crosscutting strategy, because all created agenda and programs are directed toward the alleviation of poverty (MDG Goal 1). By alleviating poverty, it is expected that automatically all the other MDGs will be resolved gradually.

To succeed the AP 2015 the German government prepared a guideline so that the cooperation conducted between Germany and other donor countries with developing countries can be effectively implemented, namely that cooperation should be undertaken: (1) Based on the principle of Partnership and Shared responsibility, (2) Result oriented (Efficiency), and (3) Promoting coherence between institutions. German Federal Ministry for Economic Cooperation and Development plays an important role in this sense. The description of what has been done by German government to support the achievement of the MDGs in the eighth MDG targets in many developing (poor) countries is then explained in great detail (see page 10).

Furthermore, the status of achievement of MDGs in Indonesia is described (see page 20). Actually, the MDGs are not new for Indonesia, because Indonesia has long been carrying out development programs in the food sector, health and family planning, etc. packaged in the Five-Year Development Programs Plan

(REPELITA). This program contains intensive efforts to balance between economic and social program. Since then, significant progresses are achieved, but the financial crisis in the late 90s was a downturn in the economic and social status. In 2000, the Indonesian government started to take shape on various basic policies in the national development, which is also related to MDGs.

Indeed, there are some targets of MDGs which have experienced a significant increase, and which has been reached, but there are also several targets of MDGs which still have to work hard to achieve it such as poverty reduction (MDG 1), reduction of maternal mortality (MDG 5), and reduction of greenhouse gas and carbon dioxide emission, eliminating illegal logging, as well as improvement of sanitation and access to water supply.

Therefore an idea appears that there must be a breakthrough for efforts to accelerate the achievement of the MDGs in this remaining 4 years. The idea is the harmonisation of government program with the CSR from private sector to accelerate the attainment of MDGs, not only internally in Indonesia but also externally with Germany. This is because there was a statement from the Federation of German Industries (BDI) that achieving the MDGs is only possible through economic growth backed by private engagement and BDI has a big concern on it. So, here it can be seen that the German industry recognises that the participation of the private sector in helping the government to achieve the MDGs is very large.
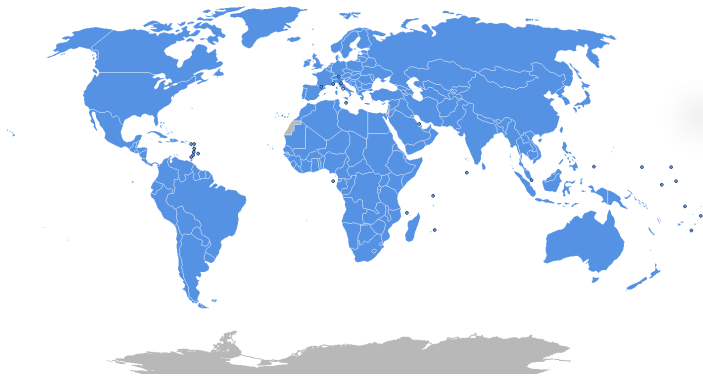
Chapter 3

BUSINESS ETHICS AND RESPONSIBILITY

3.1 Business Ethics

"Ethics" can be defined as the critical, structured examination of how we should behave — in particular, how we should constrain the pursuit of self-interest when our actions affect others. "Business ethics" can be defined as the critical, structured examination of how people & institutions should behave in the world of commerce. In particular, it involves examining appropriate constraints on the pursuit of self-interest, or (for firms) profits, when the actions of individuals or firms affect others (MacDonald 2010).

The breadth of the topic "business ethics", as defined above, means that other related ideas like Corporate Social Responsibility (CSR) and corporate citizenship (CC) and sustainability are in fact sub-topics within the broader topic of business ethics (MacDonald 2010).

A company can approach a definition for business ethics in two perspectives—that of the shareholders and those of the stakeholders. A shareholder's perspective of business ethics focuses on making decisions for the best interest of the owner such as a company's investors. Their main interest is solely on maximising the company's profit. Those who look at business ethics in this way may be able to make the most money but it is with tragic results (Gruble 2010).

On the other side of the spectrum, the stakeholder's perspective holds the belief that companies have certain duties to groups outside its financial operations whose needs should be taken into consideration. A phrase that is mostly associated with this type of thinking is that of corporate social responsibility. Decisions are made with an evaluation of its impact to those of people and groups within the organisation and those outside of it. Stakeholders are the company's employees, customers, suppliers, community residents, government agencies and competitors of the same industry. Shareholders are also among the stakeholders. Companies who behave in socially acceptable manners are more likely to enjoy long-term success against those who do business for profit only (Gruble 2010).

In particular, within academic research and teaching the term 'business ethics' has often been used as an umbrella term to discuss CSR (Carrol 1999:291).

Historically, in most universities, CSR issues are taught by professor of business ethics or in a business ethic course, and in many business schools this is still the case today. Therefore, many issues in the relationship between business and society have been studied initially from an ethical perspective, and some of the leading academic voices in CSR today have a background in philosophy. Business ethics may be defined as 'the study of business situations, activities and decisions where issues of right and wrong are addressed' (Crane and Matten 2007:5) – and as such is concerned mainly with the rights and wrongs, or the morality, of different business practices (Crane *et al*. 2008).

3.2 The Term of Responsibility as a Core Concept of Business Ethics

To better describe the concept of responsibility, some authors used different classifications and approaches from the philosophical literatures (Lenk 1993:115-125, Lenk/Marink 1992:153-164, Ropohl 1996:69-82, Bayertz 1994:187-184). According to Walter Ch. Zimmerli, the concept of responsibility is at least conceived by three forms of relation, which are: (1) A person *(responsible subject)* is responsible for (2) something *(responsible object)* with regard to (3) someone or something *(responsible authority)* (Zimmerli 1993a:102, Zimmerli and Assländer 2005:314). Otfried Höffe supplemented this classification by the question of the (4) *"norms background"*, i.e. to the question under what rule the responsibility usually is (Höffe 1993:23).

(1) The *responsible subject* is designated to the person who is responsible for something. It may be principally in a case for a single individual person, a group of individuals or an institution. However, based on the idea of classical ethics, it is a matter of a man's own will for taking a responsibility in regard to a subject, and that this decision is free from the friction to implement, and that he is alone responsible for what he implements, in the face of complex organisation and decision structure within the company. In general, this ascription of responsibility comes from a certain responsible subject, for example, when we speak to express about "individual" or "corporate" responsibility.

(2) The *responsible object* or responsible area refers to what will be in charge, and includes the act and the intended and unintended consequences and side effects. Action in this sense refers to any "dedicated transformation from an initial situation into a final situation" and closes it as "pure speech acts and omissions" with in (Ropohl 1993:156). We can also refer to the responsible object for example if we speak of a "social" or "ecological" responsibility (Jonas 1984:28).

(3) The *responsible authority* refers to those "institutions" that have to take responsibility over the subject of responsibility. In addition to formal institutions such as courts, tribunals or professional organisations, informal institutions can also act as a responsible authority, such as public opinion, the verdict from colleagues or one owns conscience. Here, the relationship of responsible subject between responsible authority is always asymmetrical:

> *"Taking responsibility always refers to an institution that questions on a carrier's responsibility and the authority itself is not in question"*

(Müller 1992:105)

Since business is not only happening in the world of today, but it also affects the lives of future generations, the concept of responsible authority must be expanded over the responsibility of future living human (Zimmerli and Assländer 2005:315). To interpret the "competent" responsible authority, for example, we speak of "moral" or "legal" responsibility.

(4) The *norm background* refers to norms and rules that allow ascribing the agent responsible for something and against someone. Höffe distinguishes between a "potential", a "factual" and a "necessary" responsibility. A potential responsibility is related to the righteous, but not taking over of a necessary obligations, while a factual responsibility is for example the proper fulfillment of incoming contracts. The term of necessary responsibility is devoted to the responsibility for the strict adherence to universal moral principles such as respect of universal human rights (Höffe 1989:24, Höffe 1993:30). Similarly Hans Lenk distincts between "Able to (can), Supposed to (should), Have to (must)" standard (Lenk 1992:82). The "can-norm" refers to a potential but not "complete" or "incomplete" acceptance of responsibility. Meanwhile the "should-norm" on Kant's idea of the incomplete, and the "must-norm" refers to Kant's idea of complete obligations (Lenk 1992:102). To reveal the norms background of the taking over of responsibility, for example, we speak of "universal responsibility" or "voluntary responsibility."

Table 2: Concept of Responsibility in Business Ethics

Responsible Subject	Responsible Object	Responsible Authority	Normative Background
• Can be an individual, group or institution. • Acceptance, decisions would be implemented without friction in action, is no longer stoppable. • Distribution of competencies makes a clear accountability no longer possible.	• Includes actions and their intended and unintended consequences. • Subject omission and speech acts. • Separation from the power to act and power to control as a problem.	• Institutions that are perceived to have responsibility over. • Can be formal institutions (courts, commissions) or informal institutions (public opinion, conscience). • To expand future generations.	• Refers to rule, on that responsibility must be assumed. • Distinction between possible, actual and necessary responsibility • Rules can be based on convention, legal, or ethical standards.

Source: Assländer 2011:125.

3.3 Corporate Citizenship as a Responsible Business Citizen

In the 1990s, the concept of 'good corporate citizenship' has been discussed from the perspective of the social commitment of companies. Usually it is very difficult to clearly delineate the similar concepts of corporate citizenship, such as corporate

social responsibility, corporate responsiveness, or sustainable business (Schrader 2003:36-83)[3]. Social responsibility of a firm is frequently equated with the concepts Corporate Social Responsibility (CSR), Corporate Responsibility (CR) and Corporate Citizenship (CC) (Schwalbach, 2008). These terms have been used especially in the practice since the 1990s (cf. Crane & Matten 2004:61, 2003:1 Crane & Matten, Moon *et al.*, 2003:1). Ulrich Kaiser looks at the concept of the holistic orientation of the company to the principles of civil society in which every citizen "feels obliged to the good of society as a whole" (Ulrich & Kaiser 2001:29).

In this sense, CC comprises the company's core business and refers, for example, to the respectful treatment of the company and its stakeholders, or a socially- and environmental-friendly business policies (Ulrich 2008:95). The concept of CC comprises the 'civic responsibility' of an enterprise. What it means is that companies are a part of society and should behave as one, as would be expected from a good citizen of a country (Assländer 2011:139).

When one is using the term 'corporate citizenship', genuinely it is an attempt to transfer the concept of citizens into the business and to reshape the political dimension of business activities using the perspective of society (Assländer 2011:147-148). The first application of the concept of 'Good Corporate Citizens' began in the mid-1970s in the context of multinational companies. Using the behavioral approach, the International Industry and Commerce advises transnational companies to perform themselves as a good citizen of the host country and to respect the domestic laws, policies and economic and social objectives of the host country (Kumar and Sjurts 1991:176). Another view of today's standing closer connotation of that term is coming from of the US discussion on good corporate citizenship. In 1980s, despite of the scarce financial resources of government, a social responsibility of businesses in the areas of education and social services was demanded. The aim was to initiate collaborative networks that will help to solve social problems in cooperation between civil society and business (Habisch 2003:42, Backhaus-Maul *et al.* 2008:15).

If the CSR approach is described as "categories or levels of economic, legal, ethical and discretionary activities of business entity as adapted to the values and expectations of society" (Joyner and Payne 2002:300), this means that social issues are integrated on a voluntary basis in the business operations and in their interaction with stakeholders (Schaltegger and Müller 2008:18, see also European Commission 2001:8).

CC describes the role of business to behave like "good, embedded social citizens". CC is often understood as an aspect of and operasionalisation of CSR. The approach includes: Corporate Giving (e.g. sponsorship, company provides its products free of charge for disaster relief), corporate volunteering (e.g. promotion of voluntary involvement of employees), commercial support of NGOs and

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[3] One comprehensive view of Schrader about corporate citizenship is coming for example from 34 CEOs of leading companies at the World Economic Forum 2002 in New York where the Declaration on Corporate Citizenship is signed. Corporate citizenship is defined here as any contribution by the companies' core business, through social investment, by making philanthropic programs and through their social commitment to the community (see also Melé 2009:70).

corporate community investment (e.g. regional engagement at company locations) (Schaltegger and Müller 2008:18).

Dubielzig and Schaltegger (2005a) distinguish two groups of CC definitions. Definitions of the *first group* are mainly understood by CC philanthropic actions of the company such as employee volunteering and donations (see Crane & Matten 2004:63, Hansen & Schrader 2005:376, Maass 2002:41, Matten & Crane 2003:4, Schaefer *et al.* 2004:5). Ringlstetter and Schuster explain this as the first phase of development of the concept, by which there is expectation to the successful companies that "they give back a portion of its assets in the sense of a social fund to the society" (Ringlstetter & Schuster 2003:173). In this sense, CC is "a part of CSR and understood as the social commitment in the local communities" (Rat für nachhaltige Entwicklung 2006:19; see also Habisch 2003:58, Habisch 2006:36). This definition is practised not only in the German discussion (cf. Schrader 2006:14, Ulrich & Kaiser 2001:28) but also in other countries (see e.g. Birch & Batten 2005 on the use of CC-definition in Australia). (Weber 2008 in Müller and Schaltegger 2008:39-51).

Definition of the *second group* acknowledges that CC is congruent with the current understanding of CSR (cf. Crane & Matten 2004:63, Dubielzig & Schaltegger 2005, Matten & Crane 2003:4). Crane and Matten determined CC in this definition as a kind of updated "label" for CSR, without any additional knowledge. They explain the name change with the wider acceptance of CC concept in practice and that the concept is receiving the more acceptances in the use in science (cf. Crane & Matten 2004:67) (Weber 2008 in Müller and Schaltegger 2008:39-51).

In addition, a *third group* of CC-definitions are identified, where the company concedes an expanded political role (cf. Crane & Matten 2004:63, Schneider 2004:30-35). Weiss describes CC in this sense as a concept whereby companies according to their rights and obligations plays its role just like being as citizens to participate actively in shaping society and its environment and act like this not only within the concept of CSR (cf. Weiss 2005:591-593, Matten & Crane 2003, Schäfer *et al.* 2004:5). Wieland sees CSR as a necessary but not as exhaustive part of CC. He distinguishes the two concepts as follows: "CSR is a value- and norm-guided management of social and environmental problem solving systems. CC, in contrast, is set in a side of democratic theory, namely as the rights and obligations of the company as morally proactive collective citizens" (Wieland 2003:17). In this sense, CC can be viewed as a generic term for CSR (see Kaiser and Schuster 2004:669) (Weber 2008 in Müller and Schaltegger 2008:39-51).

Thus, in Germany, CC definition of the first group dominates. In this sense, CC can be viewed in Germany as the aspect of CSR (Weber 2008:47). The understanding of CSR is gaining many responses as an umbrella of the CC concept in the German debate (Wieser 2005:86).

3.4 Synopsis

Business ethics can be defined as the critical, structured examination of how people & institutions should behave in the world of commerce. In line with the

development of stakeholder theory, business ethics also use stakeholder's perspective, where companies have certain duties not only to the best interest of the owner (including company's investors) on maximising company's profit but also to groups outside its financial operations whose needs should be taken into consideration.

From a philosophical standpoint, business ethics contains several responsibilities that are formed from the three forms of relationships, namely

1. The responsible subject is designated to the person who is responsible for something.
2. The responsible object or responsible area refers to what will be in charge, and includes the act and the intended and unintended consequences and side effects.
3. The responsible authority refers to those "institutions" that have to take responsibility over the subject of responsibility
4. The "norm background" refers to norms and rules that allow to ascribe the agent responsible for something and against someone

The breadth of scope of business ethics definition, as defined above, makes other related ideas like Corporate Social Responsibility (CSR) and corporate citizenship (CC) fall into sub-topics of business ethics. It is simply the concept of holistic orientation of the company to the principles of civil society in which every citizen "feels obliged to the good of society as a whole". What it means is that companies are a part of society and should behave as one, as would be expected from a good citizen of a country. Thus, the core business of the company has to refer to the respectful treatment of the company and its stakeholders, or a socially- and environmental-friendly business policy.

From the literature study it can be clearly described that CC can be viewed in Germany as an aspect of CSR. The understanding of CSR is gaining many responses as the umbrella of the CC concept in the German debate. Similar with Germany, the term of CSR is more popular in Indonesia among academicians, bureaucrats, and practitioners.
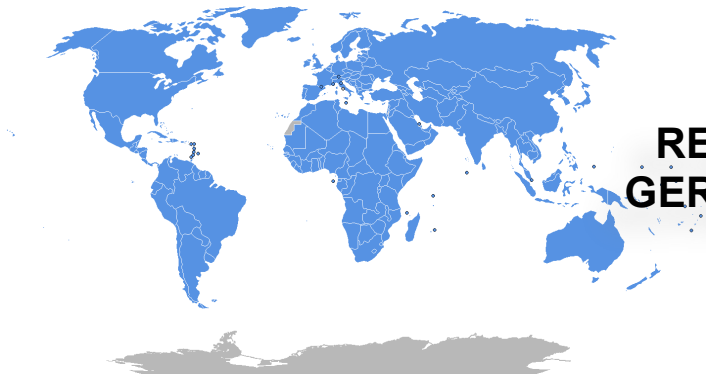
Chapter 4

CORPORATE SOCIAL RESPONSIBILITY (CSR) IN GERMANY AND INDONESIA

4.1 The Concept and Development of CSR

CSR has turned out to be one of the most persistent "management fashions" and business keywords of the last decade. CSR is considered by corporation's world wide as an increasingly necessary practice, following huge corporate (ethical) scandals and company breakdowns that have surfaced among once highly reputable firms (Keinert 2008).

Pressures to the effort to implement CSR is an important aspect, where the corporation is no longer solely engaged only for profit, but on the other hand there is an obligation to set aside a certain part of its profits to CSR activities in hopes to provide maximum benefit for the public interest, especially the stakeholders.

Schemerhorn (1993) gives the definition of CSR as a concern for business organisations to act in their own ways of serving the interests of the organisation and external public interest. Conceptually, social responsibility is an approach whereby companies integrate social concerns in their business operations and interaction with stakeholders based on the principle of voluntarism and partnership (Nuryana 2005).

In the context of CSR, corporations are expected to have a philosophy that the corporation becomes an integral part of the surrounding community, and vice versa. For that, they need to realise the harmonious and mutually beneficial relationship (mutualistic symbiosis).

Until now CSR is often seen to be synonymous with big companies, but these responsibilities inherent in all business activities regardless of their size. In fact, even small and medium businesses carry social responsibility (Iriantara 2004:47). This is a consequence of the fact that the institution or organisation has not only economic dimension but also dimension of social institution. A company has a responsibility not only economic, but also a legal responsibility, ethical, and philanthropic. This can be explained as follows:

1. Economic responsibility. The keyword is: make a profit. The company's main motive is to generate profit. Profit is the foundation of the company. Companies

must have economic value added as a prerequisite to continue to live (survive) and growing.

2. Legal liability. Keyword: Obey the law. The company must obey the law. In the process of seeking profits, the company must not violate policies and laws that have been set by the government.

3. Ethical responsibilities. The company has an obligation to run a good business practice, correct, and fair. The norms of society need to be a reference for corporate organisational behavior. The key word: be ethical.

4. Philanthropic responsibilities. Aside that the company should earn a profit, obey the law, and ethical behavior, companies can be asked for contribution that can be felt directly by the public. The aim is to improve the quality of life for all. The key word: be a good citizen. The owners and employees who worked at the company have a dual responsibility, namely to the company and to the public which is now known as nonfiduciary responsibility.

Figure 2: The Concept of Corporate Social Responsibility

Source: Archie B. Carrol 1979 in Wheelen/Hunger 2010:39

Along with Carroll, John Elkington in The Triple Bottom Line in 21st Century Business (1998) resemble the CSR into three focus: 3P (People, Planet, and Profit). Good companies are not just chasing mere economic profit (*profit*) but also have the concern for the preservation of the environment (*planet*) and social welfare (*people*). Furthermore, plus one line of *procedure* which can be defined as the process to be done correctly, proper, and professional in his field (Suharto 2007:6).

CSR is the awareness, ethic, and caress of the company that is based on three basic principles known as the triple bottom lines, namely 3P:

(1) *Planet*. The company cares for the environment and sustainability of biological diversity. Some CSR program that rests on this principle is usually in the form of greening the environment, water supply, housing improvement, development of tourism (ecotourism).

(2) *People*. Companies should have a concern for human welfare. Some companies develop CSR programs, such as scholarships for students around the company, the establishment of educational and health facilities, strengthening the capacity of the local economy, and there are even

companies that design various social protection schemes for local residents.

(3) *Profit*. Companies must always be oriented to seek economic advantage that makes it possible to continue to operate and grow.

The trend so far has shown the more academic and business practitioners who are increasingly recognising the importance of CSR. Seeking profit is important for the company. However, it did not have to break away from something other than profit, which was to develop and improve the welfare of the community.

It appears that the more notorious CSR becomes, the more misconceptions are drawn around its meaning. One may argue that these misconceptions are due to the inconsistencies in the growing academic debate around not only Corporate Social Responsibility, but also Corporate Governance, Corporate Citizenship and so on. Still the root of this problem may lay deeper (Keinert 2008).

Saidi and Abidin (2004:69) explains the three things that motivate companies to practice CSR. First is *corporate charity*, the charitable impulse on the basis of religious motivation. Second is *corporate philanthropy*, the humanitarian impulse is usually sourced from the universal norms and ethics to help others and fight for social equality. Third is *corporate citizenship*, namely citizenship motivation to realise social justice based on principles of social involvement. If mapped, it appears that this paradigm spectrum ranges from "just run the obligation" to "common interests" or the "help and do well to others" to "empowering people". Although not always automatically applied, in general, companies do CSR, driven by the motivation of charity and humanity and ultimately citizenship.

In the early 1970s there was as change in the world public awareness on the impact of corporate activity. Awareness of the impact, both positive and negative of the company resulted in pressures and demands addressed to the company for the company to expand its social responsibility. The responsibility of managing the organisation that originally only to the stockholders (owners / shareholders) shifted to stakeholders (owners, employees, government and society at large) and is known by the term *corporate social responsibility (CSR)*.

Kotler and Lee (2005:3) stated *"corporate social responsibility is a commitment to improve community well-being through discretionary business practices and contributions of corporate resources".* Furthermore, World Business Council for Development Sustainable (WBCSD) illustrates that:

> *"corporate social responsibility as 'business' commitment to contribute to suistanable economic development, working with employees, their families, the local community, and society at large to improve their quality of life"*

> (Kotler and Lee 2005)

Changes in community perceptions on the existence of an enterprise are also drawn from several research results. *Environics International* shows its research result that states that most people in 25 countries give high attention to the social behavior of firms (GlobeScan 2003). Consumers increasingly look for products and services that are more concerned with environmental issues so that the

choice of the product tends to be more subjective. Companies that neglect environmental problems will have difficulties to participate in competition. *Bankers and Investors* also understand that environmental problems that may cause this risk should be considered when deciding to lend or invest (Medley 1997).

Changes in public view, investors and governments in turn will encourage companies to demonstrate CSR which is not limited to the repair activity of the composition, quality and product safety, but also in engineering and production processes, as well as the use of human resources.

Now the CSR is increasingly a concern among business people and entrepreneurs. They are trying to implement CSR for a variety of reasons. There is a fear of losing prestige, or simply went along because the competitors do the same. Some are implementing in the framework of compliance with the provisions of legislation, as has been practiced by state-owned enterprises (SoEs) through partnership and community development program.

It must be admitted, indeed, the attention to CSR is increased. On the other hand understanding of the meaning of CSR still differs among practitioners, academics, nongovernmental organisations (NGOs) and activists of CSR itself. They have an interpretation that is different from each other. However, this is not undisputed because it shows the CSR is a dynamic domain, which continues to grow as demanded by the business itself.

4.2 Guidelines and Indicators of CSR

To help companies implementing the CSR, many institutions worldwide have developed the guidelines or principles that can be used by companies as a benchmark or to orientate themselves in conducting their CSR. Some of the guidelines/principles are below.

a) *Global Compact*

To support international commitments in the field of human security and the MDGs, UN Secretary General in 2000 had invited around 50 international companies to join, support and involve themselves in the *Global Compact* which aims to have basic principles covering human rights, labor employment, environmental protection, and anti-corruption.

Human Rights
- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

Labour
- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and

occupation.

Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

The UN Global Compact's ten principles in the areas of human rights, labour, the environment and anti-corruption enjoy universal consensus and are derived from:

- The Universal Declaration of Human Rights
- The International Labour Organisation's Declaration on Fundamental Principles and Rights at Work
- The Rio Declaration on Environment and Development
- The United Nations Convention Against Corruption

b) *Equator Principles*

The Equator Principles was launched in June 2006. It is a financial industry benchmark for determining, assessing and managing social and environmental risk in project financing. The Equator Principles Financial Institutions (EPFIs) have consequently adopted these Principles in order to ensure that the projects we finance are developed in a manner that is socially responsible and reflect sound environmental management practices. By doing so, negative impacts on project-affected ecosystems and communities should be avoided where possible, and if these impacts are unavoidable, they should be reduced, mitigated and/or compensated for appropriately. The Principles apply to all new project financings globally with total project capital costs of US$10 million or more, and across all industry sectors. Depending on the nature and scale of the project, the assessment document may comprise a full-scale social and environmental impact assessment, a limited or focused environmental or social assessment (e.g. audit), or straightforward application of environmental siting, pollution standards, design criteria, or construction standards.

The following list of the IFC Performance Standards is applicable:

- Performance Standard 1: Social & Environmental Assessment & Management System
- Performance Standard 2: Labor and Working Conditions
- Performance Standard 3: Pollution Prevention and Abatement
- Performance Standard 4: Community Health, Safety and Security
- Performance Standard 5: Land Acquisition and Involuntary Resettlement
- Performance Standard 6: Biodiversity Conservation and Sustainable Natural Resource Management
- Performance Standard 7: Indigenous Peoples

- Performance Standard 8: Cultural Heritage

The standards will be used to assess the following issues:

a) Assessment of the baseline social and environmental conditions
b) Consideration of feasible environmentally and socially preferable alternatives
c) Requirements under host country laws and regulations, applicable international treaties and agreements
d) Protection of human rights and community health, safety and security (including risks, impacts and management of project's use of security personnel)
e) Protection of cultural property and heritage
f) Protection and conservation of biodiversity, including endangered species and sensitive ecosystems in modified, natural and critical habitats, and identification of legally protected areas
g) Sustainable management and use of renewable natural resources (including sustainable resource management through appropriate independent certification systems)
h) Use and management of dangerous substances
i) Major hazards assessment and management
j) Labour issues (including the four core labour standards), and occupational health and safety
k) Fire prevention and life safety
l) Socio-economic impacts
m) Land acquisition and involuntary resettlement
n) Impacts on affected communities, and disadvantaged or vulnerable groups
o) Impacts on indigenous peoples, and their unique cultural systems and values
p) Cumulative impacts of existing projects, the proposed project, and anticipated future projects
q) Consultation and participation of affected parties in the design, review and implementation of the project
r) Efficient production, delivery and use of energy
s) Pollution prevention and waste minimisation, pollution controls (liquid effluents and air emissions) and solid and chemical waste management

c) *Global Sullivan Principles*

The Global Sullivan Principles state that businesses should:

1. Express their support for universal human rights and, particularly, those of their employees, the communities within which they operate, and parties with whom they do business.
2. Promote equal opportunity for their employees at all levels of the company with respect to issues such as color, race, gender, age, ethnicity or religious beliefs, and operate without unacceptable worker treatment such as the exploitation of children, physical punishment, female abuse, involuntary servitude, or other forms of abuse.
3. Respect their employees' voluntary freedom of association.
4. Compensate their employees to enable them to meet at least their basic needs and provide the opportunity to improve their skill and capability in order to raise their social and economic opportunities.
5. Provide a safe and healthy workplace; protect human health and the environment; and promote sustainable development.

6. Promote fair competition including respect for intellectual and other property rights, and not offer, pay or accept bribes.
7. Work with governments and communities with whom they do business to improve the quality of life in those communities – their educational, cultural, economic and social well-being – and seek to provide training and opportunities for workers from disadvantaged backgrounds.
8. Promote the application of these Principles by those with whom they do business.

Transparency plays also a vital role and the Sullivan Principles mention that businesses have to be transparent in their implementation of these Principles and provide information, which demonstrates publicly our commitment to them.

d) Caux Round Table Discussion

There are 7 Principles in the Caux Round Table Discussion, which are:

*   *Principle 1: The Responsibilities of Businesses: Beyond Shareholders toward Stakeholders*
    Businesses have a role to play in improving the lives of all their customers, employees, and shareholders by sharing with them the wealth they have created. Suppliers and competitors as well should expect businesses to honor their obligations in a spirit of honesty and fairness. As responsible citizens of the local, national, regional and global communities in which they operate, businesses share a part in shaping the future of those communities.
*   *Principle 2: The Economic and Social Impact of Business: Toward Innovation, Justice and World Community*
    Businesses established in foreign countries to develop, produce or sell should also contribute to the social advancement of those countries by creating productive employment and helping to raise the purchasing power of their citizens. Businesses also should contribute to human rights, education, welfare, and vitalisation of the countries in which they operate. Businesses should contribute to economic and social development not only in the countries in which they operate, but also in the world community at large, through effective and prudent use of resources, free and fair competition, and emphasis upon innovation in technology, production methods, marketing and communications.
*   *Principle 3: Business Behavior: Beyond the Letter of Law Toward a Spirit of Trust*
    While accepting the legitimacy of trade secrets, businesses should recognise that sincerity, candor, truthfulness, the keeping of promises, and transparency contribute not only to their own credibility and stability but also to the smoothness and efficiency of business transactions, particularly on the international level.
*   *Principle 4: Respect for Rules*
    To avoid trade frictions and to promote freer trade, equal conditions for competition, and fair and equitable treatment for all participants, businesses should respect international and domestic rules. In addition, they should recognise that some behavior, although legal, might still have adverse consequences.
*   *Principle 5: Support for Multilateral Trade*
    Businesses should support the multilateral trade systems of the GATT/World Trade Organisation and similar international agreements. They should cooperate in efforts to promote the progressive and judicious liberalisation of trade and to relax those domestic measures that unreasonably hinder global commerce, while giving due respect to national policy objectives.
*   *Principle 6: Respect for the Environment*
    A business should protect and, where possible, improve the environment, promote

sustainable development, and prevent the wasteful use of natural resources.
- *Principle 7: Avoidance of Illicit Operations*
  A business should not participate in or condone bribery, money laundering, or other corrupt practices: indeed, it should seek cooperation with others to eliminate them. It should not trade in arms or other materials used for terrorist activities, drug traffic or other organised crime.

e) OECD Principles for Multinational Corporation

The OECD Guidelines for Multinational Enterprises (the Guidelines) are recommendations addressed by governments to multinational enterprises. They provide voluntary principles and standards for responsible business conduct consistent with applicable laws. The Guidelines aim to ensure that the operations of these enterprises are in harmony with government policies, to strengthen the basis of mutual confidence between enterprises and the societies in which they operate, to help improve the foreign investment climate and to enhance the contribution to sustainable development made by multinational enterprises.

Enterprises should take fully into account the established policies in the countries in which they operate, and consider the views of other stakeholders. In this regard, enterprises should:

1. Contribute to economic, social and environmental progress with a view to achieving sustainable development.
2. Respect the human rights of those affected by their activities consistent with the host government's international obligations and commitments.
3. Encourage local capacity building through close co-operation with the local community, including business interests, as well as developing the enterprise's activities in domestic and foreign markets, consistent with the need for sound commercial practice.
4. Encourage human capital formation, in particular by creating employment opportunities and facilitating training opportunities for employees.
5. Refrain from seeking or accepting exemptions not contemplated in the statutory or regulatory framework related to environmental, health, safety, labour, taxation, financial incentives, or other issues.
6. Support and uphold good corporate governance principles and develop and apply good corporate governance practices.
7. Develop and apply effective self-regulatory practices and management systems that foster a relationship of confidence and mutual trust between enterprises and the societies in which they operate.
8. Promote employee awareness of, and compliance with, company policies through appropriate dissemination of these policies, including through training programmes.
9. Refrain from discriminatory or disciplinary action against employees who make bona fide reports to management or, as appropriate, to the competent public authorities, on practices that contravene the law, the Guidelines or the enterprise's policies.
10. Encourage, where practicable, business partners, including suppliers and sub-contractors, to apply principles of corporate conduct compatible with the Guidelines.
11. Abstain from any improper involvement in local political activities.

f) Global Reporting Initiative and ISO 26000

1. The Global Reporting Initiative

The Global Reporting Initiative (GRI) is a network-based non-governmental organisation that aims to drive sustainability and Environmental, Social and Governance (ESG) reporting. GRI produces the world's most widely used sustainability reporting framework to enable this drive towards greater transparency. The framework, incorporating the 'G3 Guidelines', sets out the principles and indicators that organisations can use to measure and report their economic, environmental, and social performance. When explaining the Performance Indicators, GRI organised them by economic, environmental, and social categories. Social indicators are further specified by Labour, Human Rights, Society, and Product Responsibility themes (GRI 2010).

2. The ISO 26000 Standard

ISO 26000 standard provides business, government and society with practical tools for all three dimensions of sustainable development: economic, environmental and social. It is intended to assist organisations in contributing to sustainable development. It is intended to encourage them to go beyond legal compliance, recognising that compliance with law is a fundamental duty of any organisation and an essential part of their social responsibility. ISO 26000 addresses seven core subjects of social responsibility defined in the standard and portrayed in the following graphic (ISO 2010).

Figure 3: Core Subjects of Social Responsibility in ISO 26000

Source: ISO 2010

It consists of human rights, labour practices, the environment, fair operating practices, consumer issues, and community involvement and development.

3. The Indicators used in Global Reporting Initiative and ISO 26000 Standard

Both ISO 26000 and the GRI Guidelines cover a very similar scope of topics. The table below shows 3-4 indicators from each theme covered by G3 GRI and ISO 26000 Standard as an example to illustrate the similarity between these two guidelines. This table can help organisations interested in using ISO guidance to implement sustainability management/CSR programs produce a sustainability report based on the GRI Guidelines more easily. The left column of this table lists GRI disclosure items, and the right columns list the topics and clauses in ISO 26000 where the content of those GRI disclosure items is mentioned.

Table 3: Indicators of GRI G3 and ISO 26000

Relevant GRI G3 Guidelines – Disclosure on Management Approach (DMA) or Performance Indicators		ISO 26000 Core Social Responsibility Subjects and Themes	ISO 26000 Clauses
Social Category (Human Rights, Labour Product Responsibility and Society)			
Human Rights DMA		**Organisational governance** **Human Rights**	**6.2** **6.3**
HR 1	Percentage and total number of significant investment agreements that include human rights clause or that have undergone human rights screening.	Human Rights Due diligence Avoidance of complicity Promoting social responsibility in the value chain	6.3 6.3.3 6.3.5 6.6.6
HR 2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	Human Rights Due diligence Avoidance of complicity Employment and employment relationships Promoting social responsibility in the value chain	6.3 6.3.3 6.3.5 6.4.3 6.6.6
HR 3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	Human Rights Avoidance of complicity	6.3 6.3.5
Labour DMA		**Organisational governance** **Labour Practices** **Fundamental principles and rights at work**	**6.2** **6.4** **6.3.10**
LA1	Total workforce by employment type, employment contract, and region.	Labour Practices Employment and employment relationships	6.4 6.4.3
LA2	Total number and rate of employee turnover by age group, gender, and region.		
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	Labour Practices Employment and employment relationships Conditions of work and social protection	6.4 6.4.3 6.4.4
Product Responsibility DMA		**Organisational governance** **Fair Operating Practices** **Consumer Issues**	**6.2** **6.6** **6.7**

PR1	Life cycle stage in which health and safety impact of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	Economic, social and cultural rights Promoting social responsibility in the value chain Consumer Issues Protecting consumers' health & safety Sustainable consumption	6.3.9 6.6.6 6.7 6.7.4 6.7.5
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.		
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	Consumer Issues Fair marketing, factual and unbiased information and fair contractual practices Protecting consumers' health & safety	6.7 6.7.3 6.7.4
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	Sustainable consumption Consumer service, support and complaint and dispute resolution Education and awareness	6.7.5 6.7.6 6.7.9
Society DMA		**Organisational governance Fair Operating Practices Community involvement and development**	**6.2 6.6 6.8**
S01	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	Economic, social and cultural rights Community involvement and development Employment creation and skills development Wealth and income creation Respect for property rights	6.3.9 6.8 6.8.5 6.8.7* 6.6.7
S02	Percentage and total number of business units analysed for risks related to corruption.	Fair Operating Practices Anti-corruption	6.6 6.6.3
S03	Percentage of employees trained in organisation's anti-corruption policies and procedures.		
S04	Actions taken in response to incidents of corruption.		
Economic Category			
Economic DMA		**Organisational governance Community involvement and development**	**6.2 6.7**
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	Community involvement and development Community involvement Wealth and income creation Social investment	6.8 6.8.3 6.8.7 6.8.9
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change.	Climate change mitigation and action	6.5.5
EC5	Range of ratios of standard entry-level wage compared to local minimum wage at significant locations of operation.	Conditions of work and social protection Community involvement and development	6.4.4 6.8
Environmental Category			
Environmental		**Organisational governance**	**6.2**

DMA		The Environment	6.5
EN1	Materials used by weight or volume.	The Environment Sustainable resource use	6.5 6.5.4
EN2	Percentage of materials used that are recycled input materials.		
EN3	Direct energy consumption by primary energy source.		

Source: Hohnen and Blackburn, 2010

*Indirectly relevant

If we take a look in detail at the indicators from various CSR guidelines described above, it is seemingly clear that those guidelines are talking about the same things with the MDGs.

4.3 Benefits of Corporate Social Responsibility Activities

Kotler and Lee (2005) stated that firm participation in various forms of CSR can provide many benefits for companies, among others:

- increase sales and market share,
- strengthen brand positioning,
- increase the company's image and influence,
- improving ability to captivate, motivate, and retain (retain) employees
- reduce operating costs, and
- increase the desire for investors to invest.

CSR will also not only bring benefits to the company, but also to economic development and regional economic communities and even nationally. CSR program can be directed to the development of community expertise through such partnership program, protection and preservation of the environment, improving health, education and poverty reduction, natural disaster, etc.. However, various parties need to formulate an effective pattern of cooperation between governments, businesses, and communities in implementing CSR programs for these programs can really help drive national economic growth.

4.4 Factors Impacting CSR Engagement

The most crucial strategic implications of implementing CSR seem not lie in the fundamental willingness of corporations and their respective key decision-makers to engage in CSR, as the huge majority of corporate managers surveyed suggest they do have CSR on their agenda (van Marrewijk 2003).

What seems to be key rather is the implementation stage, and thus the practical feasibility of such measures. A variety of factors will impact not only upon the mere decision-making itself on what the corporations is to engage in, but precisely those factors will further constitute a major influence on whether a corporation's CSR strategy will eventually succeed or fail. Factors both internal and external to the organisation may work as barriers, obstacles or, on the contrary, as drivers for

'good' CSR. They can mainly detect on three different levels: individual, institutional, and environmental level (Keinert 2008).

1. *Individual Level*
   On the individual firm level, one can distinguish between internal institutional factors and individual decision-maker factors. Individual factors include: gender influence, cultural background, minority background, religious background, ethics education, and other demographic factors such as years of work experience, career stage, age, marital status, income.

2. *Institutional Level*
   For institutional determinants for or against CSR engagement, factors like, inter alia, the firm's organisational form, corporate culture and stage of development will be the key when it comes to deciding to implement CSR policies. The same holds true for its resource availability and a very significant element, as mentioned already, its individual decision-makers' willingness to think CSR over. This leads directly to the second level of CSR relevant factors. Personal attributes and character traits of individual executives meriting consideration include sex, race, minority or religious background, marital status, career stage, or completed ethics education.

   Some institutional factors are for example: organisational structure and firm size, resource availability, development stage of the firm, decision-maker personality and values, corporate culture and organisational ethical climate, board composition

3. *External Environmental Level*
   The external environment must not be neglected as an important factor for the feasibility of CSR policies and programs, determined, inter alia, by the industry and broader environment context, but also by government interventions and regulative initiatives. External environment factors include: industry attributes, competitive environment, governmental regulation and incentives

4.5 The Perspective and Implementation of CSR by German Industries

Germany as part of EU, is adopting norms and values being formed by the EU. At the beginning of 2000, the European Union (EU) took up the idea of the social responsibility of companies, realising that CSR is a chance to encourage companies to make voluntary contributions to social and ecological sustainability outside the regulatory framework. The EU green paper on CSR demands that environmental protection and social interests should be given equal attention and states clearly that CSR should contribute to the implementation of strategic goals set by the EU and its sustainability strategies (Bronchain 2003, EU 2001).

In 2002, the EU set up the European Multi Stakeholder Forum on CSR, which represents environmental and social NGOs and business associations. Their aim was to reach consensus on CSR and come up with joint recommendations for the promotion and advancement of CSR. The multi stakeholders' final report was presented in July 2004. Then there was a certain change in the EU policy

approach regarding CSR. Since the beginning of 2007 CSR Laboratories were established under the umbrella of the European Alliance for CSR. The laboratories developed approaches for CSR management. In February 2009 the European Commission hosted again a plenary meeting of the European Multistakeholder Forum on CSR. The aims of this meeting were to review progress on CSR in Europe and globally, and to discuss possibilities for future joint initiatives.

A further explanation of how German industries interpret the CSR, is formulated by the so-called CSR-Germany. It is formed by BDA, BDI, DIHK, and ZDH.

Bundesvereinigung der Deutschen Arbeitgeberverbände (BDA)

BDA is the leading social policy organisation of the German business community. It represents the interests of small, medium-sized and large companies from all sectors on all issues relating to social and pays policy vis-à-vis policy-makers, trade unions and public opinion. It is the voice of business and offers its members a comprehensive range of services. BDA defends the interests of one million businesses which together employ twenty million workers and which are linked to BDA through their voluntary membership of 6,500 employer federations.

Bundesverband der Deutschen Industrie (BDI)

BDI is the leading organisation of German industry and industrial services. It speaks for 37 sectoral confederations and represents more than 100,000 companies with more than eight million employees. It is the voice of German industry vis-à-vis policy- making institutions at national, European and international level.

Deutscher Industrie- und Handelskammertag (DIHK)

As the umbrella organisation of 80 German Chambers of Industry and Commerce, DIHK defends the interests of German business vis-à-vis policy-makers in the German political world and the European institutions. The Chambers organisation represents general business interests on the basis of a broad cross-section of business people: 3.6 million commercial businesses are statutory members of Chambers. This means that the Chambers organisation is independent of individual interests and carries a particular weight vis-à-vis policy-making bodies. Overseas chambers at 20 locations in 80 countries around the world promote the German economy's external commercial relations.

Zentralverband des Deutschen Handwerks (ZDH)

ZDH brings together 53 chambers of skilled crafts, 36 central confederations of skilled crafts as well as important business and academic skilled crafts institutions in Germany. ZDH is a forum for developing harmonised positions on all fundamental issues linked to crafts policy. It represents the overall interests of skilled crafts vis-à-vis German parliament, German government and other central German authorities, the European Union and international organisations.

4.5.1 German Industries' Understanding of CSR

Corporate Social Responsibility (CSR) describes companies' commitment to work towards sustainability by acting voluntarily beyond their legal obligations on ecological, social and economic matters wherever they are involved around the world. CSR is not a new development. Companies have been engaging for the society in which they do business for as long as there have been companies. Best known are the many foundations through which business personalities have been

contributing to their communities since the Middle Ages. This commitment has continuously developed as society has evolved and processes have been modernised. Today, a commitment to society is a fixed component of German business culture.

Naturally, CSR strategies need to consider the interest of various stakeholders (Sharma and Starik 2004) and need to be supported by a sense of ethics (Christensen *et al.* 2007). Still from an international perspective, when discussing the social and ethical role of business, organisations tend to refer to the term CSR. CSR has been incorporated as an international goal in the action plan of the World Summit on Sustainable Development, held in Johannesburg in 2002. A new feature perhaps the fact that, albeit not widely known, the issue was also on the agenda at the G8 Summit in Heiligendamm Germany, held in summer of 2007 (G8 Summit 2007). With the amount of publicity and attention it now receives, CSR has without doubt become one of the buzzword of our times.

The experience gathered by some authors in respect of the perception of CSR in Germany is that there is a lot of ambiguity with regard to the term, as no internationally recognised definition is widely used in the country. Some experts or companies take a view that CSR is nothing more than philanthropic engagement of a company. Others perceive the term in a much broader sense, acknowledging that business has responsibilities within the environment it operates in (Filho and Pawlak 2009).

The WBCSD states that CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large (WBCSD 2007). The definition of the European Commission (EC) goes a step further in defining that, through CSR, *"…..companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis"* (EC 2001).

The scope of CSR therefore embraces both social and environmental issues, in spite of the misleading term "corporate social responsibility". The definition also highlights the voluntary character of the engagement as well as importance of communication with stakeholders. Furthermore, activities within CSR are said to vary from business to business. For this reason, no concrete legislation enforcing social responsibility on companies is presently envisaged at the European level. It is worthwhile to note that the German Government has officially acclaimed the definition of EC (Franz and Pretschker 2007).

Launched by the EC, the European Multi-stakeholder Forum on CSR provides a platform for discussions on the topic among business representatives, NGO, scientists, etc., and this is being widely used by German companies. The Forum's work has led to the conclusion that companies should "identify what items are pertinent with regard to the company's vision and specific objectives, the risks and opportunities associated with its environmental and social footprint and the views of relevant stakeholders" (Loew 2005). Such formulation adds a new aspect of CSR in a German perspective, namely, acknowledgement of existing international

norms. These could comprise ILO Norms, OECD Guidelines for Multinational Companies, or Principles of Global Compact, to name a few.

In terms of practical implementation of CSR, an individual approach of companies is advocated and the idea of "one-size-fits-all" solutions is discarded as such. It is highlighted that interpretation of CSR is very much dependent on business sector, type of markets where the company is present, as well as the specific needs of the stakeholders. Imposing legally binding specifications on how to implement CSR is therefore discouraged in Germany, since it is seen as potentially detrimental to innovativeness and creativity in the field. Instead, general recommendations are advocated that will provide a rough orientation for companies on how to engage in society and the environment (CSR Germany 2007).

Summing up, the following characteristics of CSR – as perceived by German companies – may be listed as follows:

- CSR is a company's **contribution to sustainable development**
- CSR embraces **social and environmental responsibility**
- **A dialogue with the stakeholders** is embedded in CSR
- CSR is a **voluntary engagement** and **no legal enforcement** is to be anticipated
- CSR is **company specific** and its implementation will vary from organisation to organisation

4.5.2 The Objectives, Opportunities and Limits of CSR according to 'CSR Germany'

'CSR Germany' as Germany's leading business organisations support the multi-faceted commitment of German companies to society. 'CSR Germany' offers companies the possibility to

- link up with a network in order to promote the exchange of experience;
- present their CSR activities to a wider public;
- obtain information about backgrounds, recent developments and trends.

Many companies are actively involved in solving weighty societal problems, especially in emerging and developing countries. Through their CSR activities, companies can make an important contribution to sustainable development, also in partnership with other players in society. In this context, the division of roles between governments and companies needs to be clearly delineated. Companies can complement the efforts of politicians for development of society and social progress through their commitment, but cannot substitute for them.

Furthermore, there are governments that still have to transpose and implement fundamental environmental and social standards. This task cannot be delegated to companies. This would amount to a privatisation of law enforcement.

The UN Special Representative for Human Rights and Multinationals, John Ruggie, gave concrete expression to this division of roles in a draft endorsed by the UN Human Rights Council and based on three pillars *"Protect – Respect – Remedy"*. Protect: it is the task of the state to protect the people on its territory from infringements of human rights by non-state players. Respect: it is the duty of companies to respect human rights as enshrined in the relevant national legislation and to build the necessary management structures to that end. Remedy: legal and out-of-court complaint mechanisms need to be developed and strengthened to improve redress for infringements of human rights committed by companies and others.

4.6 The Perspective and Implementation of CSR by Indonesian Industries
4.6.1 Indonesian Industries' Understanding of CSR

In Indonesia, CSR became one of the obligations that must be implemented by the corporation in accordance with the contents of Article 74 Paragraph 1 of Government Law on Public-listed Companies who has passed the House of Representatives in July 2007. It is mentioned that a corporation that carries on business in the field of and/or relates to natural resources, is required to run the social and environmental responsibility. This shows that CSR is understood as a vehicle that can be used to achieve the goals of sustainable community development. It is expected that CSR activities can meet the interests of the stakeholders, be it the internal or external stakeholders.

The application of CSR has increased, both in quantity and quality. In addition to managing diversity and more varied activities, seen from the financial contribution, the amount is getting greater. PIRAC (Public Interest Research and Advocacy Center) research in 2001 showed that the fund CSR in Indonesia has reached more than 115 billion rupiah, or about 11.5 million U.S. dollars from 180 to 279 companies which is spent on social activities. Although these funds are still very small compared with the fund of CSR in the United States, if it is seen from the cumulative figures, the development of CSR in Indonesia was encouraging. The average number of companies that donate funds for CSR activities are approximately 640 million rupiah, or about 413 million per activity. For comparison, in the U.S., portion of the contribution of CSR fund in 1998 reached 21.51 billion dollars and in 2000 reached 203 billion dollars or about 2030 trillion rupiah (Saidi and Abidin 2004:64).

To understand the notion of CSR, business people and entrepreneurs can refer to the Government Law No. 40/2007 about the Public-listed Company in which Article 1, Clause 3 states: *"Social and environmental responsibility is the company's commitment to participate in sustainable economic development in order to improve the quality of life and environment that are useful, both for his own company, local communities, and society at large"*.

According to that Government Law, it is obvious that CSR is not just a philanthropic activity, as it is often narrowly interpreted by some parties where CSR is an activity directly related to philanthropic or charitable activities. An example is a contribution to the nursing home, going home together during

Lebaran (moslem feast of Eid), mass treatment, cleft lip surgery, cataract eye surgery, blood donors, and other similar activities.

Indeed, philanthropic activities are only a small portion of the implementation of CSR. CSR is now viewed as the implementation of the concept of sustainable development by the business. This conception says: sustainable development is a development in which to meet current needs, we should not interfere with the ability of future generations to meet their needs (UN General Assembly 1987).

4.6.2 CSR and the Partnership Program & Community Development (PKBL)

CSR is becoming a trend and more companies are implementing the program. In its development, in the scope of state-owned enterprises, new terminology raised which is the Partnership Program and Community Development (In Indonesian Language: *Program Kemitraan dan Bina Lingkungan or PKBL*).

CSR and PKBL are similar but not identical. The sense is almost identical, which is social and environmental responsibility, but they have different funding sources. Unlike the PKBL, for CSR, the funding is budgeted by each company and taken from the company's operating costs. Meanwhile, the PKBL is drawn from the profit of the company.

PKBL refers to the Regulation of the Minister of State-owned Enterprises (SoEs) No. Per-05/MBU/2007 about PKBL which was established on 27 April 2007. By regulation, the government outlines the role and participation of SoEs into two programs, namely Partnership Program (PK) and Community Development Program (BL). PKBL is the program to empower small business by the SoE through the use of funds from the profits of SOEs. The amount to fund the program is maximum of 2% (two percent) of net income for the PK and a maximum of 2% (two percent) of net income for the BL.

Under Article 1 Point 5 of the Regulation of the Minister of State-owned Enterprises (SoE) No. 05/2007, what is meant by PK is the program to improve the ability of small businesses to become strong and independent. Partnership Program (PK) is business cooperation program that is oriented more on business development which is based on partnerships between the corporate (mainly SoEs) with Micro Small and Medium Enterprises.

PK which is conducted by the SoEs, in accordance with Article 11 Paragraph 1 of the Regulation of the Minister of State-owned Enterprises (SoE) No. 05 of 2007, is given in the form of loans to finance working capital and/or purchase of fixed assets in order to increase production and sales, and special loans to finance the implementation of the funding needs of business partners which can be characterised as an additional short term loan in order to fulfill orders from the partner of business partners.

Item 6 of the Regulation of the Minister of State-owned Enterprises (SoE) No. 05 of 2007 explains that BL is the empowerment program of social conditions of the society by the SoE through the use of funds from the profits of SoEs. BL is

oriented on the empowerment of the environmental condition of both the economic and social, as defined in the concept of CSR.

In accordance with Article 11 Paragraph 2 Letter (e) of the Regulation of the Minister of State-owned Enterprises (SoE) No. 05 of 2007, the BL program is given in the form of assistance to victims of natural disasters, education and/or training, health improvement, development of public facilities and infrastructure, places of worship, or nature conservation.

Summary of differences of CSR and PKBL are presented in the table below.

Table 4: Summary of Differences of CSR by Private Sector and PKBL by State-owned Enterprise

	CSR	PKBL
Characteristic	Part of the program in general building corporate image in front of stakeholders as securing the supply chain system supply	Pure as the company's activities to provide social benefits to communities, especially communities around the domicile of company
Implementation Motive	The company has a target behind the benefits of CSR activities, a commodities trading company branding or image that ultimately led to economic gain	No (even forbidden) set a target return benefits to the company, but a pure grant
Funding Source and Availability of Budget	Derived from the company's operational costs	Derived from income set aside
Amount of Budget	Depending of their respective companies	2% for PK and 2% for BL
Mechanisms and Procedures	Following the company's rules regarding the mechanisms and procedures of procurement of goods and services	Very simply remain there despite audit
Regulation	Company's internal rules	Subject to the Regulation of Ministry of State-owned Enterprise No. PER-05/MBU/2007
Activity Types	Related / inline with the marketing program (in general)	Partnership in the form of venture capital assistance to small entrepreneurs (pure grants)
Sustainability	Fluctuate, depending on management policy	Fluctuate, depending on the amount of net income and policy of GMS (General Meeting of Shareholders)
Exampe of Activities	Various activities of the company to improve human welfare, preserve the environment, and increase corporate profits (people, planet and profit)	PK: loans to finance working capital and / or purchase of fixed assets in order to increase production and sales, and special loans to finance the implementation of the funding needs of business partners that are additional loans and short term in order to fulfill orders from the partner business partners. BL: assistance to victims of natural disasters, education and / or training, health improvement, development of public facilities and infrastructure, places of worship, or preservation nature

Source: compiled from various documents (i.e Ferdian 2008a, Ferdian 2008b, MihradiCendikia 2008, Faqih 2010, BUMN Track 2011)

From the above description, it can be concluded that CSR is not identical with the PKBL, where PKBL is simply a part of CSR undertaken by SoEs. From the two programs, namely the PK and BL, the one that is almost similar to the CSR is the BL program. However the one that distinguishes CSR with PBL is the budget allocation. CSR is one component of the operational costs of companies, so it is natural that companies have a motive of having mutual benefit from its CSR activities. Meanwhile BL is derived from net income allowance. In the BL scheme, the company does not require direct benefit in turn because it is a pure grant.

CSR activities and/or BL usually consider several things, among others:

1. Proximity, which is the closeness of CSR/PKBL activities with the geographical position of the company's activities.
2. Relevance, which is the extent to which CSR/BL activities are relevant to or support the company's operating profit.
3. Magnitude, which is associated with the effects of "promotion" that can arise form a positive image if CSR is run well, although not explicitly presented. This is a form of social responsibility that is more intact, which is the responsibility on three basic points (triple-bottom line), i.e. people, planet and profit.

According to Saidi and Abidin (2004:64-65) there are at least four models or patterns of CSR which is generally applied in Indonesia:

1. Direct involvement. The company runs its CSR programs directly and organises its own social activities or deliver donations to the society without any intermediary. To perform this task, a company usually employs one of his senior officials, such as corporate secretary or public affairs manager, or become part of the official duties of public relations.
2. Through the company's foundation or charitable organisations. The company established its own foundation under the company or its group. This model is the adoption of a common model applied to companies in developed countries. Typically, the company provides initial funding, regular fund, or endowment funds that can be used regularly for activities of the foundation. Some of the foundation that are established by the company i.e. the Coca Cola Company, Foundation for Rio Tinto (mining companies), Yayasan Dharma Bhakti Astra Foundation, Friends of Aqua, the GE Fund.
3. Partnering with other parties. The company maintains its CSR through its association with social institutions/non-governmental organisations (NGOs), government agencies, universities or the media, both in managing the fund and in conducting social activities. Some social institutions / NGOs in cooperation with the firm in carrying out CSR, among others, the Indonesian Red Cross (PMI), Indonesian Child Welfare Foundation (YKAI), Dompet Dhuafa; government agencies (Indonesian Institute of Sciences/LIPI, Ministry of Education, Ministry of Health, Ministry of Social Affairs), universities (UI, ITB, IPB), mass media (DKK Kompas, Kita Peduli Indosiar).
4. Support or join in a consortium. The company co-founded, became a member

of or supports any social institution that was established for specific social purposes. Compared with other models, this pattern is more oriented on grant that is "development grant". Party or consortium of such institutions trusted by companies that support them proactively seek cooperation partners among the operational agencies and then develop a mutual agreement upon program.

4.7 Synopsis

CSR has turned out to be one of the most persistent "management fashions" and considered as an increasingly necessary practice. Pressures to the effort to implement CSR is raising, where the corporation is no longer solely engaged only for profit, but also has to set aside a certain part of its profits to CSR activities to provide maximum benefit for the public interest, especially the stakeholders.

CSR is defined as an approach whereby companies integrate social concerns in their business operations and interaction with stakeholders based on the principle of voluntarism and partnership. In implementing CSR, the company has some responsibilities to fulfill, which are:

1. Economic responsibility. The company must generate profit and have economic value added as a prerequisite to continue to live (survive) and growing.
2. Legal liability. In the process of seeking profits, the company must not violate policies and laws that have been set by the government.
3. Ethical responsibilities. The company has an obligation to run a good business practice, correct, and fair.
4. Philanthropic responsibilities. Aside that the company should earn a profit, obey the law, and ethical behavior, company can be asked for contribution that can be felt directly by the public to improve the quality of life for all

To help companies implementing the CSR, many institutions worldwide have developed the guidelines or principles that can be used by companies as a benchmark or to orientate themselves in conducting their CSR such as: *Global Compact, Equator Principles, Global Sullivan Principles, Caux Round Table Discussion, OECD Principles for Multinational Corporation, ISO 26000, and Global Reporting Initiative.* All guidelines that can be used as guidance for running CSR have common indicators to be achieved. All of which comprises the economic, social, and environment indicators with all detail aspects (labor, human rights, product responsibility, etc.).

From the various CSR guidelines, it can be seen that indeed the MDGs and CSR have the same motives and goals relating to economic, social, and environment so that there are strong indications that CSR can be harmonised with government programs to achieve the MDGs. *Thus, the current one question remaining is how should the harmonisation mechanism between CSR implementation and government program to attain MDGs look like.*

Company's participation in implementing CSR can provide many benefits for companies, among others:

- increase sales and market share,
- strengthen brand positioning,
- increase the company's image and influence,
- improving ability to captivate, motivate, and retain (retain) employees
- reduce operating costs, and
- increase the desire for investors to invest

However, implementing CSR cannot be said as a simple matter since there are some things that can be drivers/barriers for companies to implement CSR, namely: Individual aspect, Institutional aspect, and External Environmental aspect.

In Germany there is an institution called CSR-Germany as representation of German industries which is composed of several organisations namely BDA, BDI, DIHK, and ZDH. For German industries, CSR is not a new development whereas a commitment to society is a fixed component of German business culture. The German government has officially acclaimed the definition of CSR from the European Community where CSR is *"an effort where companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis"*.

CSR for the German industries are:

- CSR is a company's *contribution to sustainable development*
- CSR embraces *social and environmental responsibility*
- *A dialogue with the stakeholders* is embedded in CSR
- CSR is a *voluntary engagement* and *no legal enforcement* is to be anticipated
- CSR is *company specific* and its implementation will vary from organisation to organisation (cannot be 'one-size-fits-all' solution)

However, the German industry acknowledges some opportunities and/or limitations of CSR. They said that: *"Many companies are actively involved in solving weighty societal problems, especially in emerging and developing countries. Through their CSR activities, companies can make an important contribution to sustainable development, also in partnership with other players in society. Companies can complement the efforts of politicians for development of society and social progress through their commitment, but cannot substitute for them. This task cannot be delegated to companies. This would amount to a privatisation of law enforcement"*.

In Indonesia, CSR is viewed as the implementation of the concept of sustainable development by the business. Indonesian government even issued regulations related to CSR which is Government Law No. 40/2007 about the Public-listed Company in which Article 1 Clause 3 states: *"social and environmental responsibility is the company's commitment to participate in sustainable economic development in order to improve the quality of life and environment that are useful, both for his own company, local communities, and society at large"*.

Indonesian companies who are engaged in the exploration/exploitation/

management of natural resources is bound by regulations in Article 74 Paragraph 1 of Government Law on Public-Listed Companies in 2007 that said *"a corporation carries on business in the field of and/or relates to natural resources, is required to run the social and environmental responsibility"*.

CSR is becoming a trend and more companies in Indonesia are implementing the program. In its development, in the scope of Indonesian state-owned enterprises, new terminology raised: Partnership Program and Community Development (In Indonesian Language: Program Kemitraan dan Bina Lingkungan or PKBL). PKBL refers to the Regulation of the Minister of State-owned Enterprises (SoE) No. Per-05/MBU/2007 about PKBL which was established on 27 April 2007. Partnership Program (PK) is business cooperation program that is oriented more on business development which is based on partnerships between the corporate (mainly SoEs) with Micro Small and Medium Enterprises to improve the ability of small businesses to become strong and independent. Meanwhile, BL is the empowerment program of social conditions of the society in the form of assistance to victims of natural disasters, education and / or training, health improvement, development of public facilities and infrastructure, places of worship, or nature conservation.

CSR and PKBL are similar but not identical. The sense is almost identical, which is social and environmental responsibility, but they have different funding sources. The funding for CSR is managed by the company itself and taken from the company's operating costs. Meanwhile, the PKBL is calculated from the profit of the company. PKBL is simply a part of CSR, which is undertaken by State-owned Enterprises.

CSR and PKBL in Indonesia can be done in various ways such as direct involvement, through foundation or social organisation within the company, partnering with other party, and also by supporting or joint in a consortium.

Chapter 5

HARMONISATION OF CSR AND MDGs TO ACCELERATE THE ACHIEVEMENT OF MDGs

5.1 General View of Harmonisation of MDGs-CSR

In drafting a cooperation mechanism to accelerate the achievement of MDGs through CSR, the problem that arises is how to harmonise the government programs to achieve the MDGs with CSR programs run by private parties. In a simple way, the harmonisation of CSR program to accelerate the achievement of the MDGs can be illustrated by the following scheme:

Figure 4: Schematic of Harmonisation MDGs-CSR
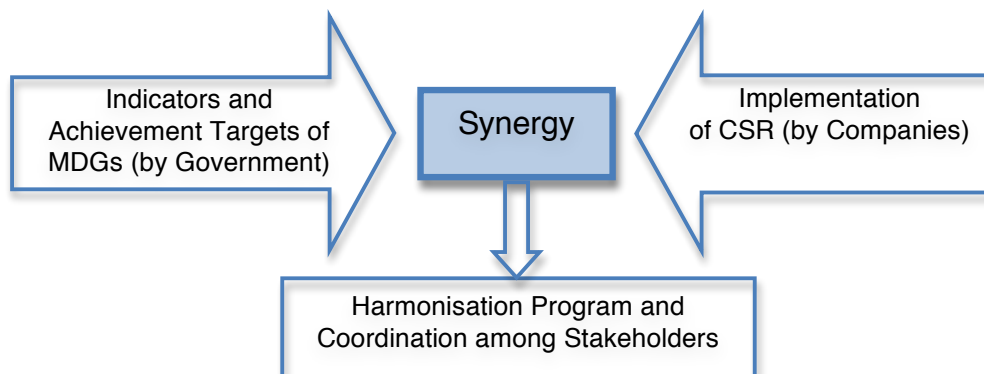
The harmonisation program is initiated by the identification of government programs in the Middle-Term Development Plan 2010-2014 (including indicators and target achievement) which is relevant to the MDGs and can be achieved through CSR. Government and private sector are expected to synergise their MDGs programs and CSR activities. At the end it is expected from this synergy that the harmonisation of programs and activities which involves various parties to realise the acceleration of the achievement of the MDGs can be emerged. This harmonisation requires various parties to coordinate mutually with each other i.e.: between ministries, between central and local government, among regions, and between government and private sector.

Achieving the MDGs in fact brings the opportunity to cooperate with corporations and access their CSR funds. But it must be kept in mind that CSR is voluntary, thus it cannot be viewed as the principal source of funding to finance development

program. Making CSR as an obligation for the companies will likely deal with the resistance from the private sector, because if the government do so, then there will be no difference with the mandated tax. And if it is done, there seem likely to double taxation. But that does not mean the private sector does not want CSR activities, because even though its nature is voluntary, if companies do not do CSR activities, it will get a social sanction by itself.

We will further elaborate the harmonisation of CSR implementation and MDGs' achieving efforts by peeling aspect by aspect below.

5.2 Individual Aspect

In this regard, the individual factors such as gender influence, cultural background, minority background, religious background, ethics education, and other demographic factors such as years of work experience, career stage, age, marital status, income are insignificant to explore. In this research, the focus is on the two variables which are CSR implementation and MDGs. Thus the institutional aspect between CSR operator (private and state-owned companies) and the government as the main responsible parties for the achievement of MDGS will be the central point to be studied.

5.3 Institutional Aspects

In formulating the institutional aspects *("who is doing what")*, focus group discussion has been conducted several times in the year 2010[4]. These events are led by Bappenas by inviting various actors of development from both government and private parties, i.e.:

1. National Development Planning Agency:
    *   Directorate of Health and Community Nutrition
    *   Directorate of Religious Affairs and Education
    *   Directorate of Industry, Science and the State-owned Enterprise
    *   Directorate of Development Cooperation of Government and Private Sector
    *   Directorate of Poverty Reduction
    *   Directorate of Settlement and Housing
    *   Directorate of Population, Tourism, Youth and Sports
    *   Directorate of Multilateral Foreign Funding
    *   Directorate of Planning of Development Funding
2. Ministry of Health:
    *   Bureau of Planning
3. Ministry of Finance:
    *   Directorate of Financing and Regional Capacity
4. Ministry of Justice and Human Rights:

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[4] The author owes his deepest gratitude to Ms. Riza Hamzah and Mr. Sugeng Hendarto as well as Ms. Tuti from the Agency of Development Planning of the Republic of Indonesia and also UNDP Indonesia without whom the FGD events will not take place. The author also acknowledges that parts of this writing are also retrieved from the report paper from the UNDP-Bappena project.

- Directorate of Harmonisation of Legislation
5. Ministry of National Education:
   - Bureau of Planning
6. Ministry of State-owned Enterprise:
   - Directorate of Partnership and Community Development
   - Bureau of Legal Institutions
7. Private Sectors:
   - Department of General Affairs and CSR, PT. Aneka Tambang
   - Department of Finance & Strategy, PT. Bank Mandiri
   - Indonesia Business Link

Based on the FGDs, harmonisation schemes is formulated and described in the explanations below.

To harmonise the participating actors (government and companies), the central government first passes the strategy down to local government through Bappeda (Local Agency for Development Planning). Bappeda plays a role as coordinator in the local area which is subsequently given to the technical units/departments to initiate partnerships with the private sector, which is then formulated in the Regional Action Plan *(Rencana Aksi Daerah/RAD)*. RAD embodies the targets of MDGs to be achieved at local level, ranging from strategic achievements, indicators of success, until the mechanism of implementation.

In addition, RAD also has a weakness generally associated with the fact that there is no information on non-governmental activities in it. With the harmonisation mechanism, it is expected to enrich the RAD not only with government-run activities, but also with information on partnerships (with activities that is run by non-government parties).

From the description above, we can have a picture of employment patterns in the institutional aspects as follows:

Figure 5: Patterns of Cooperation in Institutional Aspects
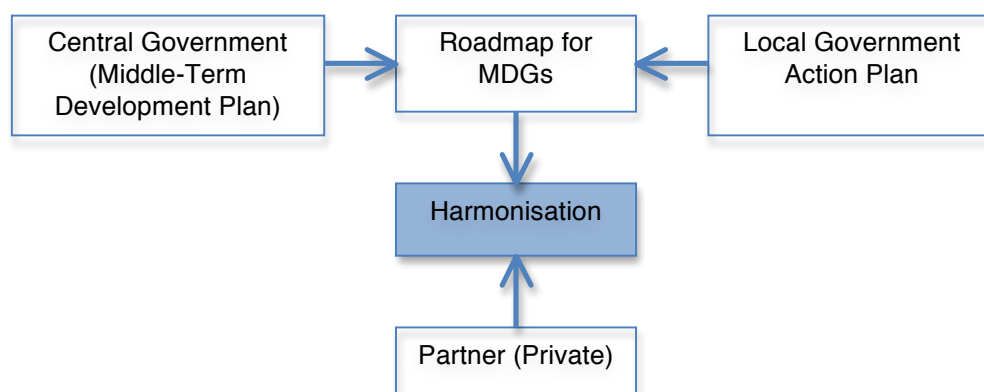
5.3.1 Harmonisation Mechanism of MDGs-CSR Program

The initial step of harmonisation of MDGs-CSR is described in detail in Figure 6

below. In general, the preparation steps begin with the segmentation (unbundling) of the program and plan activities based on the achievement of MDGs planned funding sources. Here it will be identified, which program and activity plan to achieve MDG can be harmonised with the corporate CSR activities (which can be funded by private sectors) and which can not. Here there will be separation/segmentation to separate the program and plan activity to achieve MDG, which is offered to sponsor of the CSR Program. The next step is the approach process of administering the company who runs CSR which is then followed by the determination of programs and activities in more specific way.

Figure 6: Step Harmonisation MDGs-CSR
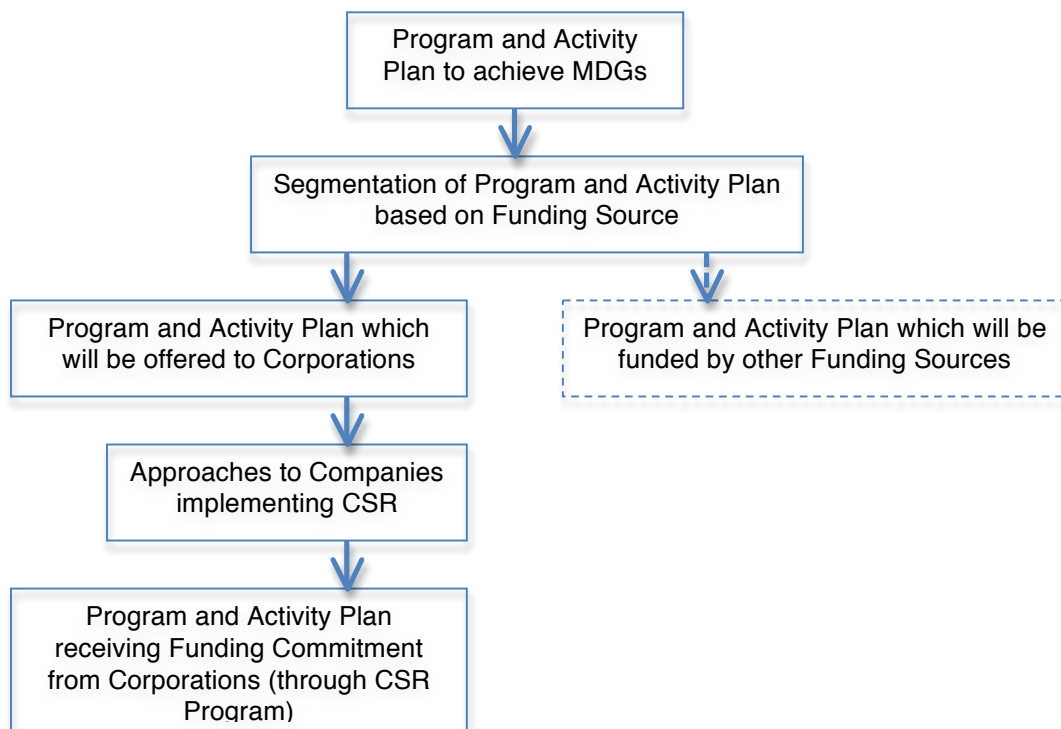
Efforts to approach certain companies that conduct CSR programs are specified by Figure 7 below.

Figure 7: Step of Establishing Intensive Communication with the Company Implementing CSR

The steps in Figure 7 above can be explained as follows:

1. The government identifies companies that have defined CSR. The number, type and scale of the volume of business enterprises will be very different from one city to another. It is quite reasonable, because each city has unique circumstances which can be the main attraction of companies to operate or open branches. But in general, there are several types of companies that are always present in every city, namely: banking, telecom operators, manufacturers of motor vehicles, PLN, PERTAMINA, and others. At this stage, it needs simply to identify companies that operate or adjacent to the city. The output of this step is a list (long-list) of companies that implement CSR programs, and companies that do not regularly carry out CSR programs but may be invited to work together (usually local scale companies that are fairly well established).
2. The government makes the initial rating and sorts it based on the level of business relevance to the MDGs to be achieved. The ordering over the company is intended to set priorities that will be contacted.
3. Government and private sector establish such a systematic communication. If necessary, the government can involve the intended companies in the formulation of communication strategies in particular. This process is important in order to build a framework of cooperation based on shared understanding and responsibility.
4. Government and private sector collaborate on an ongoing basis. The sense of mutual understanding of common interests is raised so that cooperation can be established, either during the implementation phase as well as in monitoring / evaluation (monev). It is characterised by the process of expanding the coverage (scaling up) both in terms of quantity and quality of achieving the MDGs, particularly those funded by the CSR/PKBL. This condition is the final target of government partnerships with companies in directing CSR to the achievement of the MDGs. It should be noted, that the format does not have to work together in the form of cooperative engagement, although it would be great if both parties (Government and companies) sign the cooperation agreement. For more details, the process at this stage is illustrated in Figure 7.

The process of communication between government and private sector is essential and must be done carefully. Until recently, private parties are always worried and even being antipathy toward government programs related to CSR because there is suspicion that the CSR of the company will be used as a means of funding for government activities which can be a burden for the company.

Things that need to be considered in establishing communications with the firm include:

1. Local Government will not increase the tax of companies, but will cooperate mutually beneficial.
2. Local government will offer alternatives of CSR funds distribution which is already budgeted by the company as usual. Thus, essentially there is no additional cost. It even helps to give an alternative implementation of CSR programs, to be more efficient for society.

3. Essentially, the responsibility of the attainment of MDGs lies with the government. Therefore, the government should create a grand design/roadmap to achieve the MDGs and offers options that are expected to achieve by the CSR program.
4. Joint implementation mechanism will be formulated together.
5. There will never be the flow of cash from the company to the Government.
6. The process of implementation, especially the procurement of goods and services related to CSR program implementation, will follow the system and procurement procedures in enterprise. There will be no government intervention in this implementation phase, except in the aspect of quality assurance so that the outcome of cooperation will meet the agreed targets and in line with the MDGs targets.

On the other hand, local governments should avoid these things as follows:

1. Submitting a project proposal to the company and offering it directly so that they are willing to participate. This will give an impression that the local government throwing the responsibility to the company.
2. Inviting the company to work together with the local government while the local government itself has not done much, or even has not done at all. It must be emphasised that basically the responsibility of the achievement of the MDGs lies with the government. The contribution of the other party is more complementary to what has been and is being run by the government.

Communication process at an early stage would be better if it is done door-to-door. This can be done by taking the initiative to meet with the organisational unit that is responsible for CSR programs within the prospective partner company. From the preliminary meeting, it can be noted whether there is possibility for further cooperation with the company or not. If the meeting with the companies in the short-list of potential partners has been conducted, the nomination prospective partner company can be produced. Communication through information on website and *CSR Exchange*[5] are also suitable.

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[5] CSR Exchange is a form of activity where government can directly meet with companies and other relevant agencies. In this event the government shares information about development program that can later be cooperated with the companies through their CSR programs.

Figure 8: Step of Building Intensive Communication with Companies Implementing CSR

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                    ┌─────────────────────────────────────┐
                    │ Defining the Proper Communication Form │
                    └─────────────────────────────────────┘
                                      │
                                      ▼
┌──────────────────────┐  ┌──────────────────────┐  ┌──────────────────────┐
│ Short-list of Companies as │  │ Communication Action │  │ Program of Activity Plan │
│ Potential Working Partner │  │ Plan with the Companies │  │ which will be offered to │
│ implementing CSR     │  │ as Potential Partner │  │ Companies            │
└──────────────────────┘  └──────────────────────┘  └──────────────────────┘
            │                         │                         │
            ▼                         ▼                         ▼
         ┌──────────────────────────────────────────────────────┐
         │ Communication with Companies as Potential Partner    │
         └──────────────────────────────────────────────────────┘
                          │
                          ▼
┌──────────────────────────────┐        ┌──────────────────────────────┐
│ First Commitment in Form of  │───────▶│ Further Intensive Communication with │
│ Memorandum of Understanding  │        │ Companies as Potential Partner │
└──────────────────────────────┘        └──────────────────────────────┘
                                                        │
                                                        ▼
              ┌──────────────────────────────────────────────┐
              │ Commitment of Cooperation to implement CSR   │
              │ Program to accelerate the Achievement of MDGs │
              └──────────────────────────────────────────────┘
```
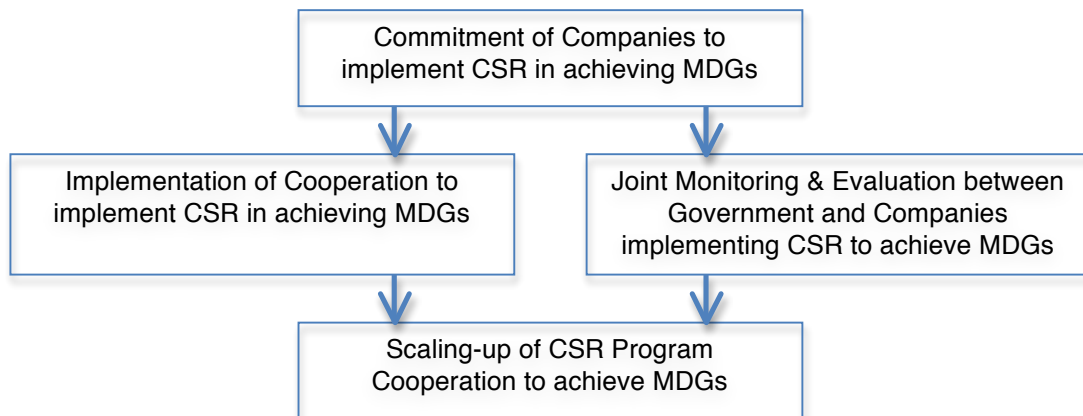
This way will provide the following benefits:

1. In the first place the government can filter private companies that run the CSR in the short-list of potential partners that have prospects for further action.
2. Communications may be accompanied by an informal approach, where more opportunities may occur to exchange information in a more substantial way as well as advocacy and lobbying.
3. Intensive level of communication between local governments with potential partners would be more effective because it has almost entered the realisation phase of cooperation.
4. Execution phase of the CSR program will be on each company's hand as the executor of CSR program. Other institutions including the government will only function as a controller of the quality or achievement of the run programs.
5. It will not be enforced to have an institution as coordinator of the CSR programs of private sector. There are fears that the establishment of such institutions will get opposition from private parties which would ultimately be counter-productive for the purpose of this activity (Source: Director of Harmonisation of Legislation Ministry of Justice and Human Rights).
6. The government has yet to oblige companies to report on CSR activities in the form of standardised CSR report according to international guidelines, but companies doing CSR program is expected to inform in a simple form to the Local Government (Source: Director of Harmonisation of Legislation Ministry of Justice and Human Rights).
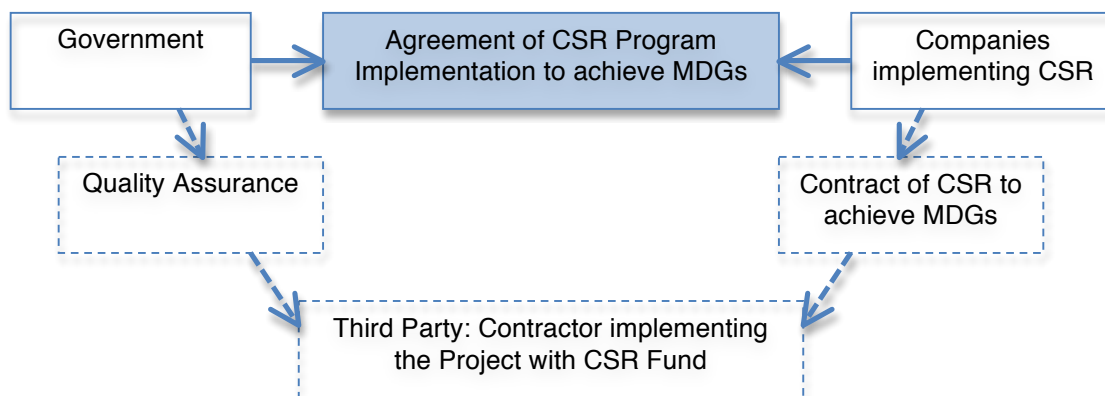
Figure 9: Phase of Implementation Partnership of CSR Program for Achieving MDGs

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┌─────────────────────────────┐
│   Commitment of Companies to │
│  implement CSR in achieving MDGs│
└─────────────────────────────┘
        │              │
        ▼              ▼
┌──────────────────┐  ┌─────────────────────┐
│ Implementation of │  │ Joint Monitoring &   │
│ Cooperation to    │  │ Evaluation between   │
│ implement CSR in  │  │ Government and       │
│ achieving MDGs    │  │ Companies            │
│                   │  │ implementing CSR to  │
│                   │  │ achieve MDGs         │
└──────────────────┘  └─────────────────────┘
        │              │
        ▼              ▼
    ┌─────────────────────────────┐
    │   Scaling-up of CSR Program  │
    │  Cooperation to achieve MDGs │
    └─────────────────────────────┘
```

5.3.2 Implementation Mechanism of CSR-Funded Projects

From the explanations above, funding for the CSR program is part of operational costs. The consequence is, the process that will take place at the implementation phase will follow the system and procedure of the procurement of goods and services prevailing within the company. In this process there is almost no involvement of local government, except in the process of quality assurance / quality assurance. This is to assure that the achievement of MDG work program is carried out in accordance with work plans prepared jointly by the Local Government and the company. The framework of the relationship between the involved parties is shown in Figure 10.

Figure 10: Implementation Phase of CSR Program

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┌────────────┐   ┌─────────────────────────┐   ┌──────────────┐
│ Government │──▶│ Agreement of CSR Program │◀──│ Companies    │
│            │   │ Implementation to achieve│   │ implementing │
│            │   │ MDGs                     │   │ CSR          │
└────────────┘   └─────────────────────────┘   └──────────────┘
      │                                                │
      ▼                                                ▼
┌──────────────────┐                         ┌──────────────────┐
│ Quality Assurance│                         │ Contract of CSR to│
│                  │                         │ achieve MDGs      │
└──────────────────┘                         └──────────────────┘
         │                                         │
         ▼                                         ▼
       ┌───────────────────────────────────────────┐
       │ Third Party: Contractor implementing       │
       │ the Project with CSR Fund                  │
       └───────────────────────────────────────────┘
```

By the time the company has completed running its CSR program, there will be a handing over assets (if the infrastructure) from the company to local government. The next stage is the activity of Monitoring and Evaluation (monev). This activity is very important with the following benefits:

1. Maintain and improve the quality of communication between the parties.
2. Measuring the effectiveness of cooperation already underway.
3. Opening opportunities for increasing the scale of cooperation in a more

sustainable basis. The target is that the parties may jointly create programs that work with CSR funds.
4. Interwoven cooperation that is built will be more constructive.

5.4 External Environmental Aspect
5.4.1 Industry Attribute and Competitive Environment

Competitiveness is essentially the ability of a firm, sector or economy to compete against other firms, sectors or economies (Willis 2005). The Porter's five forces of competition (Power of Buyers, Power of Suppliers, Threat of substitutes, Barriers to entry, Competitors) are usually applied to elaborate this issue. However, in this paper, it is not taken to mean the ability of a firm, sector or economy to compete nationally or internationally (i.e. with their equivalents in other countries) – in other words, macro-economic rather than micro-economic competitiveness.

In this study the competition is not discussed from any viewpoint, because in this case what matters is how the country Indonesia is trying to achieve its MDGs. Moreover, private sectors that are expected to contribute to the success of development with their CSR are also not in a position to compete with one another.

In her book about the Competitive Environment, Willis actually makes the regulations as an important point in influencing competitiveness or economic growth. Therefore what becomes a concern in this sub-chapter is how the current rules may encourage or inhibit the harmonisation of CSR implementation with the government programs in achieving the MDGs.

5.4.2 Regulation: Legal Basis of CSR and PKBL

There is no regulation related to CSR for private companies because the government and the private sector realise that the nature of CSR is basically voluntary.

The importance of CSR in the industry related to social and environmental aspects in supporting the optimal economic achievement with the involvement of all stakeholders including the community has been emphasised in recent legislation, including:

1) Government Regulation No. 23 about the Environmental Management of 1997 on rights, obligation and role of society on the environment.
2) Government Regulation No. 27 of 1999 on Environmental Impact Analysis, information disclosure and the role of the community.
3) Regulation of Ministry of State-owned Enterprise No. KEP-236/MBU/2003 dated 17 June 2003, explaining that the company has an obligation to be responsible for the welfare and improvement of living standards for people around the location of the company.
4) Government Regulation No. 40 of 2007 regarding Public-listed Companies which requires company associated with the management of natural resources

to implement social and environmental responsibility, inserting budgeting obligations as the cost of company with respect to decency and fairness, and provide sanctions for those who do not perform, although it does still require government regulations to be implemented.

Currently the Indonesian government is preparing a "Government Regulation on Social and Environmental Responsibility" as a derivative of the Law Decree No. 40 of 2007. In preparing this decree, the government tries to push the company (in this case the public-listed corporation *(Perseroan Terbatas/PT)* that runs their business activities in the field and/or related to natural resources) as a legal subject who has a social and environmental responsibility.

Social and Environmental Responsibility which should be run by the PT is to be made in the company's annual work plan and approved in the Annual General Meeting (AGM). Activity plan and budget for the implementation of social and environmental responsibility is established by considering the principle of decency and fairness. The director of PT in this case is responsible for the implementation of social and environmental responsibility. The implementation of social and environmental responsibility must be included in the Company's Annual Report and presented in the AGM.

In the design of this decree, the government will also seek to impose sanctions for a corporation that does not implement the social and environmental responsibility in accordance with the provisions of the legislation. The government also encourages the competent authorities who wish to give the award to the companies who have participated in implementing the social and environmental responsibility.

With this Government Regulation it is expected that private companies engaged in natural resource management will be responsible for environmental sustainability and social welfare, especially in the surrounding community. This government regulation is expected to become one of the drivers of the implementation of CSR in Indonesia that could support the achievement of the MDGs.

5.4.3 Non-compliance with the Regulation

According to the Directorate of Harmonisation of Regulations and Legislation Ministry of Justice and Human Rights of the Republic of Indonesia, the provision of non-compliance with the regulation for abusing the implementation of CSR by the public-listed company will be adjusted in accordance with the applicable laws of each field, for example, companies that violate the rules in the environmental field, it will be given sanction in accordance with Environmental Law. This may be applied to other sectors, such as Energy and Mineral Resources, Labor Law, or any other Act.

The government is also expected to give rewards to companies that have practiced a sound CSR, in its various forms, such as providing incentives, special interest, and so forth, in addition to providing award which is currently done.

5.4.4 Incentives

Although there is statement says that "socially responsible behaviour needs no incentives at all as it is the basic duty of every citizen and company", at present, in Indonesia as one of developing countries where public awareness on social and environmental issue is still low, there are few incentives given to companies to encourage them to do CSR. Some of them are described below.

5.4.4.1 MDGs and CSR Award in Indonesia

MDG Awards program is one of the United Nations Millennium Campaign Indonesia. Year 2010, is the fourth year of the event. Previously, the implementation of MDGs Award in 2007-2009 is the result of cooperation with Metro TV via the program "Save Our Nation through the MDGs". Implementation of the MDG Awards this year attempts to encompass more participants, and establish cooperation with more institutions.

MDGs Award is an advocacy as well as an appreciation of various efforts and responsibilities of various companies and local government commitment in supporting the achievement of the MDGs. In this occasion, the UN Special Ambassador for MDGs in Asia and the Pacific of 2003-2007 will serve as director for the MDG Awards 2010.

Provision of MDGs Award is determined by several criteria that indicate achievement of best practices from companies or local governments. Simply put, the indicators in best practices are as follows:

- Showing a positive impact of real and measurable for the improvement of quality of life of the community, both as a local program or programs at the sectoral level within a long period (more than three years);
- Held in a sustainable manner from the aspect of social, cultural, economic and environmental;
- An effort that can inspire others to make similar efforts, replicate, expand coverage, giving lessons together, changing perceptions, attitudes and policies and improving governance of companies and governments to better direction;
- Encourage innovation and partnership between government, private and civil society.

Moreover, since 6 years ago, dozens of companies both private and state-owned enterprises in Indonesia have been following the ISRA (Indonesia Sustainability Reporting Award) which is held by the National Center for Indonesia Sustainability Reporting (NCSR). Year 2010 marks the sixth accomplishment of the ISRA. Sustainability reporting reflects companies' accountability in conducting their business affairs in responsible manner in order to enable the stakeholders to evaluate the implementation thereof (in this case CSR indicators are also assessed by stakeholders).

The aim of these awards is to motivate and accelerate sustainability reporting of

Indonesian companies by rewarding outstanding attempts to implement and communicate corporate performance in three aspects (economics, social and environment). In developing and reporting their sustainability performance (CSR), companies use various guidelines such as the Global Compact, GRI, ISO 26000, and OECD Guidelines for Multinational Corporation, as described in Chapter 4.

Since the inception of the awards, the number of participants has steadily increased from only seven participants in 2005 with only one company publishing a stand-alone Sustainability Report to 23 participants in year 2010.The awards are not just catered for public-listed companies and this is reflected in the background of the participants, which consist of 17 public-listed companies, 5 SoEs and one Non-Governmental Organisation[6] (NCSR/INA 2010).

5.4.4.2 Tax Exemption and Deduction
(Source: Effendi 2010)

Generally, tax system in various countries provides provisions concerning taxes on the CSR program, philanthropy, and other social activities. The followings are commonly used incentive schemes.

1. Tax Exemption
   That is, the government will not collect taxes upon CSR program funds from the tax object, which is given to individuals or organisations that receive/ manage those funds (generally non-profit organisation). Tax exemption is given to the interests of justice or to promote the kinds of economic activities that benefit the community and help the government's task.
2. Tax Deduction/Tax Allowance/Tax Relief
   That is, the allowance from the government to the use of CSR funds as a reduction of taxable income or the tax base. This policy will result in income tax becomes smaller for organisations that conduct CSR activities, so that the amount of the tax will become smaller.
3. Tax Credit
   That is, the allowance from the government to the use of CSR funds as a tax payable deduction that will reduce the amount of real tax burden.

In practice, all three forms of tax incentives are applied with different scheme and levels by each country in accordance with the constitution and the political will of each government.

Within certain limits, tax provisions in Indonesia also provide incentive schemes for the CSR program. These incentives are promoted as a form of government accommodation on public interests in the long run. Here, the incentive schemes of tax exemption, tax deductions, or tax credit may be applied according to the basic law in Indonesia and the application of CSR programs that occur in society.

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[6] Best sustainability reports for the ISRA 2010 respectively are PT Aneka Tambang, PT Kaltim Prima Coal, and PT Bukit Asam.

In the scope of Income Tax, the regulation related to CSR activities is provided in Article 4 of Government Law Year 1983 on Income Tax as amended by Governmental Law No. 36 of 2008 (Income Tax Act). As described in Paragraph 1 Letter (d) Number 4 of the Article, the profits from the sale or transfer of property in the form of grants, assistance, or donations given to blood relatives in a straight line and religious bodies, educational bodies, social bodies including foundations, cooperatives, or individuals who run micro and small businesses, are not an object to Income Tax for the receiving persons/institutions.

Then, in Article 4 Paragraph 3 Letter (a) of Income Tax Act, other CSR activities which are exempted from Income Tax object are also regulated, namely aid or donations, including alms received by the agency or institution which are established or authorised by the government and grants property received by blood relatives in a straight line, religious bodies, educational bodies, social agencies, including foundations, cooperatives, or individuals who run micro and small enterprises, which are regulated by the Regulation of the Minister of Finance, as long as there is no connection with the business, occupation, possession, or control between the related parties.

Moreover, in Article 4 Paragraph 3 Letter (k) of Income Tax Act, it is stipulated that the income received or accrued by venture capital firms for a share of profit of business partners, which are established and are conducting business or activities in Indonesia, are excluded from Income Tax. (With notes: the business partners are in the scale of micro, small, medium enterprise, or engaged in activities in business sectors which are regulated by the Regulation of the Minister of Finance and whose shares are not traded on stock exchanges in Indonesia.

Hereinafter, in Article 4 Paragraph 3 Letter (l,) (m), and (n) of Income Tax Act, there is also exclusion of imposition of Income Tax on CSR activities, such as scholarships that meet certain requirements, the remaining net profit of non-profit institution engaged in field of education and research & development that has been registered at the authorised agency, which is reinvested in the form of facilities and infrastructure of educational or research and development activities in a period of 4 (four) years since the remaining net profit is obtained, as well as aid or benefits paid by Social Security Administering Agency to a particular taxpayer.

The provisions described above are tax policy in the form of tax exemption for CSR activities in the scope of *Income Tax*. On the other hand, in the scope of *Value Added Tax (VAT)* there is also arrangement on the tax exemption related to CSR activities. It is described in the Article 4A Paragraph 3 of Government Law Number 8 Year 1993 regarding Value Added Tax on Goods and Services and Sales Tax on Luxury Goods as amended several times and latest by the Government Law Number 42 of 2009 (VAT Law) that the medical health care services, social services, religious services, education services, and arts and entertainment services, are not subject to VAT.

In addition to *tax exemption*, the Indonesian government also provides tax incentive policies for CSR activities in the form of *tax deductions*. As set forth in the Article 6 Paragraph 1 of Income Tax Act, there are some costs associated with

CSR activities, which are permitted to use as a deductible expense in calculating the Income Tax of taxpayer.

Those costs are:

- The cost of waste treatment;
- The cost of scholarships, apprenticeships and training;
- Contributions in the context of national disaster management provisions which are stipulated by government regulation;
- Contributions in the context of research and development being done in Indonesia which are regulated by government regulation;
- The cost of building the social infrastructure which are governed by the government regulation;
- Donations of educational facilities which are governed by government regulation;
- Contributions in the context of sports coaching, which are regulated by government regulation.

5.5 Case Study of MDGs-CSR Harmonisation and Institutional Coordination for Accelerating the Achievement of MDGs

Below are some profiles of companies operating in Indonesia that are incorporated into the Global Compact Local Network (GCLN) Indonesia and have implemented CSR. The positive impacts of the implementation of CSR are not only just perceived by the surrounding community as beneficiaries of CSR but also by the company itself (IGCN 2009).

(a) Danone Indonesia

One of the products of Danone Indonesia known by the public, namely Aqua, participates in the achievement of the MDGs in the field of water supply and environmental sanitation. This activity was implemented in some places where Aqua operates, from Aceh, Brastagi, Lampung, Sukabumi, to East Nusa Tenggara including Timor Tengah Selatan (2007-2009) and Alor (2009-2011).

Danone's action to support the MDGs is not much different from its CSR activities in which Danone targeting water and sanitation sector, covering the area around the plant to the surrounding community by involving employees voluntarily, and urban slums for the scavenger communities by developing a social business. Another program is the Independent Development Program in the City of Bekasi where Danone Indonesia, in collaboration with the scavengers, provides clean water technology in critical areas of clean water.

Some things that can be taken from the CSR activities carried out by Danone Indonesia are as follows:

1. Danone's action (and other corporations) is an opportunity that can be optimised by the government in partnership with one another in order to

accelerate the achievement of MDGs 2015 targets as intended in the harmonisation schemes in the institutional aspects above.

2. Noting that CSR is a voluntary activity that cannot be imposed by the government to private parties, the actions that can be done is equating the action content, while the execution is returned to the private sector.

3. The government can socialise and encourage the private sector to make CSR activities as an accelerator to achieve MDGs as their business values. The encouragement can take a form of award which is the MDGs and CSR Awards.

(b) Yayasan Unilever Indonesia (Source: SWA Online 2010)

In order to welcome its 10th birthday, Yayasan Unilever Indonesia conducted a series of activities for employees, called Employee Volunteerism. This is to provide the opportunity for the employee to participate and contribute themselves significantly to improving environmental and community's conditions.

In addition Yayasan Unilever Indonesia also held the Green & Clean Environment Program, Economic Development Program, and Public Health Education Program.

- Green & Clean Environment Program is a program that focuses on environmental problems of waste, reforestation, and water infiltration. In this program, there is also the so-called trashion program, namely mothers to practice the skill for sewing/tailoring the used product packaging to serve as a useful item. These activities foster the nature of entrepreneurship and empowerment of women.
- Economic Development Program is an activity of enhancement and empowerment of black soybean farmers in seven districts of Java. This program reached approximately 93,000 beneficiaries, and provided the opportunity for more than a thousand women to generate revenue.
- Community Health Education Program is a program to widen knowledge about health and nutrition needs of venturing into early childhood education.

Social responsibility activities undertaken Unilever always have relevance to the business to ensure its sustainability.

(c) Sinar Mas Group (Source: ETF 2011)

Another example of companies that have engaged in CSR is the Sinar Mas Group through Eka Tjipta Fondation (ETF). This organisation is a nonprofit organisation established to improve the quality of life, welfare and independence of the community in social, economic and environmental aspect. Activities undertaken include Social Community and Cultural area (through education, cultural arts, sports, social welfare, religious and health), Community Economic Empowerment and Development area (through social activities of small and medium business partnerships and integrated farming), and Environment Preservation area (through the empowerment of social activities and environmental conservation).

One of ETF activities in education sector is evidenced by the signing of a collective agreement with the Ministry of National Education in research and development

program of schooling. This agreement enables ETF to cooperate in curriculum development, research and development, as well as evaluating the education unit.

The agreement is driven by the efforts to encourage *sekolah kebun* (garten schooling), which are managed by ETF to meet the standards of the National School. In the early stages, it is focused on elementary and junior high schools that are most in number. So far, ETF is actively empowering the infrastructure and educational resources around the Sinar Mas production facilities, among others, by managing as many as 146 schools from the early- to middle-age level of students in the surrounding palm plantations, and involving about 1,000 teachers.

All schools were concentrated around the centers of managed plantations of Sinar Mas Agribusiness & Foods in Sumatra and Kalimantan, with the students consisting of not only children and families of employees, but also local people. It is in such a way pursued so that they get an education with the quality that is equivalent to children in urban areas.

Later, the ETF - over the next three years - will get technical assistance, including experts who are assigned by the Ministry of National Education related to research and development of the garten schooling. *"This agreement is a breakthrough and worth to support, in which private institutions is directly involved in improving the national education standards in specific areas. Obviously we are willing and ready to appoint technical personnel to oversee this process"*, said the Minister.

Not only that, the ETF also initiated a number of scholarship programs, one of which, namely Tjipta Sarjana Bangun Desa that reaches nearly 1,700 students from 33 universities in Indonesia. ETF also dedicated as much as 100 units of notebooks for teachers with excellent achievement who serve in specific areas.

The activities undertaken by Eka CSR Tjipta Foundation have been providing benefits for the company Sinar Mas as follows:

- Improve corporate image in the eyes of stakeholders
- Fostering positive relationships/interactions with local communities, governments, and other groups
- Encourage improvement of company's reputation with good ethics business operation
- Demonstrate commitment of the company, so as to improve trust and respect from related parties
- Build a shared understanding and solidarity between company and community
- Easing access to the markets or customers
- Increase employee's working motivation, so that the spirit of loyalty to the companies will develop
- Improve business continuity consistently

5.6 Synopsis

The individual and external environmental aspects are considered less significant in this study. What should be taken into consideration for the external environmental aspect, are the rules that can facilitate or hamper the efforts of various parties (institutions) in achieving the MDGs. In other words, the major concern is the institutional aspect (who is doing what) as further described below.

In Indonesia, private enterprise is basically not bound by any regulations in implementing their CSR because the nature of CSR is voluntary. However, for state-owned enterprises and public-listed companies who are doing their businesses in the field related to natural resources, there is a requisite to implement the CSR or partnerships and community development programs.

This is regulated by the Regulation of Ministry of State-owned Enterprise No. KEP-236/MBU/2003, explaining that the company has an obligation to be responsible for the welfare and improvement of living standards for people around the location of the company and also by the Government Regulation No. 40 of 2007 regarding Public-listed Companies which requires company associated with the management of natural resources to implement social and environmental responsibility, inserting budgeting obligations as the cost of company with respect to decency and fairness, and provide sanctions for those who do not perform, although it does still require government regulations to be implemented.

Harmonisation mechanism to accelerate the achievement of MDGs through CSR and PKBL is as follows:

1. The central government set the Roadmap of Achievement Acceleration of MDGs which will be used as a reference for private parties to participate in implementing the acceleration of the achievement of MDGs in Indonesia. The central government passes the strategy to the local government through Bappeda. Bappeda plays a role as coordinator in the local level. The provincial government set up "Regional Action Plan in Accelerating the Achievement of MDGs" which is used as a basis for planning, improving coordination of efforts to reduce poverty and improve people's welfare.
2. The government identifies programs and activities in "Regional Action Plan in Accelerating the Achievement of MDGs" whose implementation can be harmonised with the activities of CSR (which can be funded by the private sector) and which are not (CSR , PKBL, or other sources).
3. Government identifies companies that have implemented CSR and PKBL. At this stage, it is simply to identify companies that operate or adjacent to the area. The output of this step is a list (long-list) of companies implementing CSR/PKBL programs, and also list of companies that do not regularly carry out CSR programs but have the concern of CSR and can be asked to work together (usually a local scale company that has been fairly well established). (Note: The list of companies shall not be disseminated as public information, but only for government consumption in order interlacement cooperation for the achievement of MDGs).
4. The government makes the initial rating and sorts it based on the level of business relevance to the MDGs to be achieved. The ordering over the

company is intended to set priorities that will be contacted. The output of stage 1 to 4 is such a document that can be used as a base to communicate to the companies in which the government program for MDGs and activities of CSR/PKBL can be harmonised.

5. The government makes an approach to the companies running CSR/PKBL (socialisation and communication) that have been determined in the previous stage. The government is trying to convince the companies to synergise its CSR/PKBL activities in the public interest. Here the communication strategy and professional mediation is needed in order to realise the synergies of CSR/PKBL activities and to avoid the negative concern from the companies that CSR/PKBL is only used as a tool by the government to make the private sector as *cash cow* to fund government programs.

6. Government and private sector establish systematic communication. If necessary, the government can involve the intended company in the formulation of communication strategies in particular. This process is important in order to build a framework of cooperation based on shared understanding and responsibility.

7. Government and private sector collaborate on an ongoing basis. The sense of mutual understanding of common interests is raised so that cooperation can be established, either during the implementation phase as well as in monitoring / evaluation (monev). It is characterised by the process of expanding the coverage (scaling up) both in terms of quantity and quality of achieving the MDGs, particularly those funded by the CSR/PKBL. This condition is the final target of government partnerships with companies in directing CSR/PKBL to the achievement of the MDGs.

Many companies in Indonesia who have been doing CSR in the economic, social, and environment have tasted a variety of benefits. The Indonesian government also held a CSR Award for companies that have implemented CSR well and giving positive impact on society at large, and also the MDGs Award for local governments that have succeeded in achieving the MDG targets significantly. Various facts on the ground show that private companies with a wide variety of CSR activities can work hand in hand with the governments to help achieve the MDGs.

In addition to that, the government of Indonesia also encourages companies to do CSR by providing tax exemption and deduction through a few government regulations related to Income Tax and Value Added Tax.
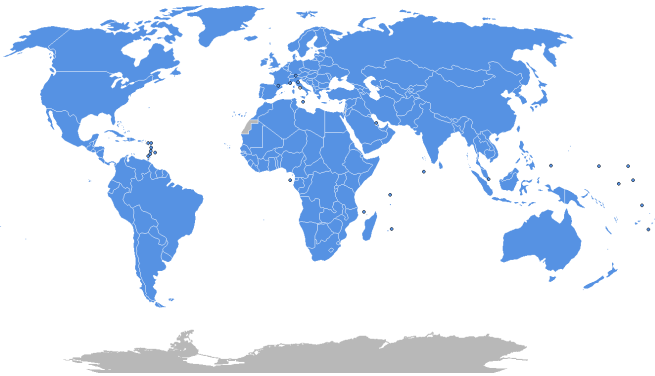
Chapter 6

CONCLUSING REMARKS

Deadline for the achievement of MDGs in 2015 is in sight. Many of the targets had been reached by Indonesia, but there are also some *homeworks* remain to be done to meet all the MDGs. Aspect of limited government funding is seen to be an obstacle in achieving this. To response to this challenge, some conclusion remarks are drawn as research answers:

1. Exploring a variety of guidelines related to CSR such as the Global Compact, Caux Round Table Discussion, GRI, ISO 26000, Global Sullivan Principles, Equator Principles, OECD Principles for Multinational Corporation, it can be seen that in general CSR can be harmonised with the government programs in achieving the MDGs because the indicators between those two variables are related to one another.

2. Based on the principles of responsibility in the business ethics discussion (responsible subject, responsible object, responsible authority, and background norm), the Indonesian government, who has signed a commitment to the UN Millennium Summit in 2000, is responsible to meet the MDG targets until the year 2015, without any pressure from any side so that no institution has the right to conduct surveillance except the awareness of the Indonesian government and relevant parties in meeting the various norms and values in the economic, social (human rights, labor, gender, etc.), and environment.

   However, it must be bared in mind that the attainment of the MDGs is not only the responsibility of government. Various parties in Indonesia including both state-owned enterprises implementing PKBL as well as private companies with their CSR (and maybe other parties) must cooperate to raise the standard of human welfare of Indonesia in accordance with the MDGs.

   Therefore, in the case of Indonesia, CSR and PKBL can be utilised as important instruments to accelerate the achievement of the MDGs. CSR and PKBL can be utilised not only to accelerate the targets of MDG which are still not yet achieved, but also for those which have been attained. Nevertheless, the priority is obviously on those targets which have not been yet achieved.

   Anyway, it must be recognised that implementing CSR is not a simple thing.

Many aspects are underlying company's desire to implement CSR, such as individual, institutional, and external environmental aspect.

3. The individual aspect has very less significant effect in this study. This is slightly different from the external environmental aspect. If viewed from the perspective of external environmental aspect, government regulations may be the driver for companies to implement CSR.

What becomes the center of attention in this study on the harmonisation of the implementation of CSR mechanisms to accelerate the achievement of the MDGs is indeed the institutional aspect, which is also related to the aspect of funding. The private sector with their CSR (including state-owned enterprises with their PKBL) needs special attention from the government of Indonesia so that the implementation of CSR can be conducted effectively. But the following statements must be really realised, that CSR is a *voluntary engagement* and *no legal enforcement* is to be anticipated, and CSR is *company specific* and its implementation will vary from organisation to organisation.

Suggestion:

Therefore, the Indonesian government must be very careful in approaching cooperation with private companies. The prudence of the government to offer the harmonisation mechanism of financing and implementation of CSR by private parties must be observed to hinder the negative thought from the private sector that this harmonisation program is only a means to give added weight to the private sector. Therefore, governments need to precede an approach in such a way to the private sector, in this case the company, in order to motivate them to work together and harmonise the MDGs and CSR programs (see Chapter 5).

In addition, the Local Agency for Development Planning in the Provincial level should be able to act as coordinator for the harmonisation of the implementation of CSR to support the achievement of the MDGs, but still the implementation of CSR is left to the company itself. The coordination of government and corporation in the framework of this harmonisation is very important to avoid the *overlapping* agenda of CSR implementation. Furthermore, such harmonisation can also reduce the *blankspot* of CSR implementation. It means that by conducting the coordination (between government and corporations) and harmonisation of the program/ activities of CSR, the coverage area of CSR can be widen and more Indonesian people can take the benefits of CSR.

The local government should create a document of action plan which emphasises the program and activities to be offered and to be harmonised with the private sector. From this document the government may be self-informed, which activities can be done by itself and which activities can be done by the corporations. After the government established this document, the approach to the firms takes place. The approach to the firms should be open and professional. The approach can take the form of:

- Publication of the website: Government publishes the mapping document in the website so that companies can access and take information from it,
- *CSR/PKBL Exchange*: Government meet corporations in such *CSR/PKBL Exchange*,
- Door-to-door-approach: Government can do the door-to-door-approach to corporations to establish direct communication.

4. The achievement of MDGs in Indonesia will certainly be more rapid if Indonesia can cooperate with other countries especially the developed countries such as Germany. The German industries have opened the door wide open for cooperation with the developing countries as mentioned by the 'CSR-Germany's objectives namely that the 'CSR Germany wants to link up with a network in order to promote the exchange of experience and to present their CSR activities to a wider public.

Suggestion:

Consequently, if Indonesia wants to cooperate with donor countries such as Germany, then the thing to note is that the development programs designed by the government of Indonesia must comply with the principles as has been stated by German government in AP 2015 for helping developing countries in achieving the MDGs. The designed programs should be: (1) Based on the Principle of Partnership and Shared Responsibility, (2) Result-oriented (Efficiency), and (3) Promoting coherence the between institutions. That way, Germany and other donor countries would be easier to provide assistance, not only in a material form but also technical and personal improvements as well as institutional capacity building.

Hopefully, the goal of the government and people of Indonesia towards a prosperous life, just and equitable in all sectors and to all levels of society, is not just a mere wishful thinking, but is feasible to achieve.

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