



# SRI IN ASIAN EMERGING MARKETS:

## INDONESIA

**Research Partner:**

David Finneren

**Contributory Research:**

Emma Rachmawaty

**Project Manager:**

David St. Maur Sheil, Director ASrIA

Project Sponsor: **Sustainable Financial Markets Facility, SFMF**  
& **International Finance Corporation, IFC**



INTERNATIONAL FINANCE CORPORATION  
World Bank Group

### SRI in Asian Emerging Markets

Sponsored by the **IFC Sustainable Financial Markets Facility**

ASrIA wishes to thank the International Finance Corporation for its sponsorship of the project and the Report 'SRI in Asian Emerging Markets'. IFC's support has been provided via its Sustainable Financial Markets Facility (SFMF), a multi-donor technical assistance facility established to promote environmentally and socially responsible business practices in the financial sector in emerging markets. The SFMF is currently funded by IFC and the governments of the Netherlands, Switzerland and Norway. The SFMF grant was directed in particular to the reports on China, India, Indonesia, Korea, Malaysia, the Philippines and Thailand. IFC is the private sector arm of the World Bank Group ([www.ifc.org](http://www.ifc.org)).

### Countries

**China**  
**India**  
**Indonesia**  
**Malaysia**  
**Philippines**  
**South Korea**  
**Thailand**

Also find on our website the following related reports:

**Japan**  
**Hong Kong**  
**Singapore**  
**Taiwan**

All these Reports are also freely available on the ASrIA website at:  
[www.asria.org/publications](http://www.asria.org/publications)

Each individual country report, with associated documents, appendices and other related information will also form the basis of the relevant country pages of the ASrIA website at:  
[www.asria.org/sri/asia/sriasia](http://www.asria.org/sri/asia/sriasia)

ASrIA sincerely welcomes receipt of any updated information relevant to any part of the reports. Please direct to [david@asria.org](mailto:david@asria.org)

### Methodology

This Report was produced in collaboration with researchers in each country. Research has largely been conducted by telephone, face to face interviews, media and internet searches.

### Disclaimer

ASrIA does not guarantee that every relevant organisation and individual has been covered in each market. With the resources available in each market, the reports make every effort to focus on key areas of relevance, to deliver data that is accurate and opinions that are objective and balanced.

## Foreword



The expansion of Asia's private sector and its accompanying investment opportunities are forever changing the global economy. Yet as home to roughly half of the world's population, rapid industrialization, expansion of information technology, and urbanization underway throughout East and South Asia pose enormous challenges that must be recognized by private investors and governments alike. Hundreds of millions of people are in the process of moving permanently from the countryside to cities. Rapidly expanding businesses are making further demands on resources. Throughout the region, clean water, clean air, biodiversity, fisheries, fertile soils, and improved standards of living are all at risk because of unsustainable development.

For the most part, portfolio investors in Asia have yet to explicitly recognize the complex array of issues that could hinder long-term private business and investment returns. The socially responsible investment industry - a \$2.4 trillion worldwide industry that includes 760 retail funds and hundreds of institutional investors - has only just begun surfacing in Asia and has yet to fully demonstrate how its techniques can contribute to business performance. Research commissioned by IFC on the SRI industry indicates that SRI assets amount to only \$2.2 billion in all emerging markets, including Asia. That is less than one tenth of 1 percent of the worldwide total. Only \$1 billion in SRI assets is held by developing country investors.

Evidence shows that SRI investment approaches provide returns at least as strong as funds that don't take social, environmental, or corporate governance factors into account. Well-constructed and well-managed SRI funds have consistently proven to match or outperform their benchmarks. In the context of such enormous challenges facing Asia today, SRI has potential for contributing further to improved environmental and social conditions. SRI investors can also be a factor in improving long-term economic competitiveness by positively influencing corporate behavior and governance.

The International Finance Corporation, the private sector arm of the World Bank Group, shares the caution and conservative nature of most other financial institutions, in line with our fiduciary responsibility to shareholders. Yet in the process of nearly 50 years experience investing in developing countries we have learned how good investment returns are compatible with creating employment, a healthy environment, and an improved quality of life in developing countries. We set high standards for corporate governance and environmental and social performance and innovation, not only to fulfill our development mission, but because our investments in nearly 3,000 companies in 140 countries have demonstrated that there are valuable business benefits from initiatives that help progress toward sustainable development. IFC's experience would indicate that SRI investors likewise may be able to gain insight and better exploit hidden market opportunities by focusing on sustainability leaders.

The International Finance Corporation is fortunate to have been able to work with a partner like ASRIA to bring the message of sustainable investment to a wider audience. SRI has great potential in the emerging markets. Realizing this potential requires objective and thorough analysis of the investment opportunities and barriers; targeted programs of research, awareness raising and capacity building; and strong international partnerships to influence framework conditions and catalyze the market. The pioneering research undertaken by ASRIA and its partners for this report is another significant step forward. More needs to be done, and IFC and its Sustainable Financial Markets Facility look forward to playing their part.

We are grateful to the governments of the Netherlands, Switzerland, and Norway, whose cofounding enabled IFC to sponsor this important work.

A handwritten signature in black ink, appearing to read 'Javed Hamid', written in a cursive style.

Javed Hamid  
Regional Director for East Asia & Pacific  
International Finance Corporation

1.0	<b>EXECUTIVE SUMMARY</b>	4
2.0	<b>SRI FUNDS</b>	5
2.1	Domestic SRI Funds	5
2.2	Global SRI Funds Registered For Sale In Indonesia	5
2.3	Global SRI Funds With Significant Holdings In Domestic Market	5
2.4	Private Equity Investment, Community Funds, And International Funds	5
2.5	Islamic Investment In Indonesia	9
3.0	<b>SRI RESEARCH IN INDONESIA</b>	10
3.1	Domestic SRI Company Research	10
3.2	International SRI Research Groups Covering The Domestic Market	11
4.0	<b>GOVERNANCE INITIATIVES</b>	11
4.1	Government Policies/ Programmes	11
5.0	<b>SRI ORGANISATIONS</b>	13
5.1	Leading Organisations Involved In CSR And Sustainable Development	13
5.2	Other Related Organisations	14
6.0	<b>PUBLIC AWARENESS</b>	14
6.1	Consumer And Public Surveys	14
6.2	Indonesian Consumer And Advocacy Groups	14
7.0	<b>CORPORATE GOVERNANCE INITIATIVES</b>	15
7.1	Introduction To Corporate Governance In Indonesia	15
7.2	Organisations Promoting Corporate Governance	17
7.3	Corporate Governance Case Studies	18
8.0	<b>SHAREHOLDER ACTIVISM</b>	19
9.0	<b>CORPORATE DEVELOPMENTS AND RESPONSE</b>	19
9.1	Corporate Reporting	19
9.2	BAPEDAL Report	19
9.3	Leading Company Examples - Corporate Reporting	20
9.4	Company Reporting Case Study	22
9.5	Corporate Rewards And Ceremonies	22
10.0	<b>COMMUNITY INVESTMENT AND MICRO-FINANCE</b>	23
10.1	Provision Of Micro- Finance Programmes In Indonesia	23
10.2	Examples Of Micro- Finance Programmes In Indonesia	24
10.3	Micro- Finance Case Studies	28
11.0	<b>ASSESSMENT OF THE FUTURE MARKET FOR SRI</b>	28
12.0	<b>APPENDICES</b>	30
12.1	Appendix 1: History Of The JSX	30
12.2	Appendix 2: Islamic Investment, Index Calculation	31
12.3	Appendix 3: Data On Consumer And Investor Awareness	32
12.4	Appendix 4: Annual Report Award 2002	35
12.5	Appendix 5: A Summary Of The 2002 Green Report Of P. T. Astra International Tbk	36
13.0	<b>RESEARCH PARTNER</b>	39
14.0	<b>GLOSSARY</b>	40

## 1.0 EXECUTIVE SUMMARY

Indonesian corporates, having tight family and friendship bonds, have long traditions of serving social objectives. However, the realization of an unsustainable future and the evolution of CSR on a global scale as a means to identify and implement solutions is generating boardroom reflection and operational repercussions worldwide. In spite of natural distinctions in business culture and CSR definitions, leading companies are responding - Indonesia is no exception (see 9.3, 9.5, Appendix 4).

Indonesia continues to operate under the shadow of the economic and subsequent socio-political crisis that erupted in 1997. A major stumbling block to renewed investor confidence in private and public sector business undertakings is a concern for a continuing lack of sound corporate governance practices (see 7.1). Investors want to believe their funds are being used in their interests, and that transparent and full disclosure of company results allows them to confidently monitor the investment performance of the companies in which they invest.

The Jakarta Stock Exchange (JSX), established in a private operational capacity since 1992, has focused on establishing basic modern fundamentals to support a reputable trading environment in a developing country context (see Appendix 1). The economic crisis drained significant momentum from the growing, albeit immature bourse. Recent corporate restructuring, institutional strengthening and policy improvements have combined to help stabilize the currency and improve overall investment scenarios (see 4.1).

SRI as an investment strategy is a relatively unknown phenomenon in the business, financial and social communities of Indonesia. However, there are interesting parallels between SRI and faith-based investment approaches, such as the Islamic (Syariah) principles. Syariah screening criteria (see 2.5), in particular its prohibition of interest/hedging practices, has enabled Islamic financial institutions/instruments to be relative beacons of stability during the economic crisis. Islamic investment strategy has expanded over the years to include a capital market Islamic Index (JII) (see 2.5.1) and a range of Syariah financial instruments. Comparison of recent capital market Indices indicates significant positive trends in JII results during a strengthening bourse and conventional bond market (see Appendix 2).

A continuation of these trends may encourage future SRI investment to take root and accelerate alternative growth in a variety of Islamic financial instruments. Indonesia faces extraordinary challenges as it designs its version of sustainability and perseveres with improvements in related risk areas (i.e. good governance, legal reform/enforcement, taxation, corruption, human/consumer rights, regional autonomy and politicking/power-sharing). As the gaps in imagination, understanding and leadership lessen the diffusion of good governance, business standards and human development increases. Great nations rise to challenges of integrity and long-term viability - Indonesia is no exception.

With a gradual improvement in corporate reporting (9.1), corporate awards (9.5) and corporate governance standards (7.0) there is an increasing pool of information that both global and domestic SRI investors can act upon. That this is beginning to happen, at least with respect to some global funds, is evidenced by the fact that some SRI research has already been conducted into Indonesian corporates, and this trend is likely to continue. Considering all the corporate, government, civil society and religious trends that this report highlights, the adoption of SRI in Indonesia may take time, but its roots should be strong.

*A gradual diffusion of good business standards and a gradual improvement in corporate reporting and business practice provides an increasing pool of information for SRI investors.*

## 2.0 SRI FUNDS

### 2.1 Domestic SRI Funds

None to date

### 2.2 Global SRI Funds Registered For Sale In Indonesia

None to date

### 2.3 Global SRI Funds With Significant Holdings In Domestic Market

*Limited investment in Indonesia by global SRI funds has been taking place.*

Listed-company CFO's and international securities firms have indicated that SRI funds have been investing in Indonesia. Morley Fund Management (Singapore) Ltd. has limited holdings in Indonesia. Research providers SAM and Socia Center have conducted research on a limited number of Indonesian companies (see 3.02).

The Blue Orchard Dexia Micro Fund has confirmed an investment of approximately US \$1 million into the Indonesian micro-credit sector (4% or the current portfolio value of US \$25 million).<sup>1</sup>

### 2.4 Private Equity Investment, Community Funds And International Development Funds

*There has been an impressive increase in civil society organization focused on social and environmental issues.*

Over the past several years Indonesia has seen dramatic political liberalization, massive decentralization and substantial economic reform with higher levels of citizen participation. However, there remains significant uncertainty in efforts to minimize instability and restore economic growth. The process of transition has been a difficult one, leaving up to 40 million Indonesians living below the poverty line with no guarantee of fair, democratic and accountable mechanisms for governance of natural resources and quality of life at the community level. Aside from expanding programmes at major international NGO representative offices (i.e. WWF, The Nature Conservancy (TNC), Conservation International (CI), International Business Leaders Forum (IBLF), Ford Foundation, Asia Foundation) an impressive increase in civil society organizations, widely known as NGO's, has evolved to support community and environmental recovery (see Table 1 on "Major NGO's" below). These organizations, which receive up to 65% of their funds from international funding agencies, focus in five key areas; education and training, community development, micro credit, institution building and environmental conservation.

<sup>1</sup> Confirmed for Blue Orchard by Jean-Philippe de Schrevel, Blue Orchard, 4/8/03

See list of major international lenders and SRI themes (10.2)

A few of the major Indonesian NGO's are highlighted below:

#### **2.4.1 KEMALA (Kelompok Masyarakat Pengelola Sumberdaya Alam)** **[www.bsp-kemala.or.id](http://www.bsp-kemala.or.id)**

KEMALA (meaning Natural Resource Management Community Group), is a component of the USAID/Indonesia Natural Resource Management programme (NRM) established in 1998. KEMALA is implemented by the Biodiversity Support Programme(BSP), a consortium of the World Wildlife Fund, The Nature Conservancy, and World Resources Institute with additional support from DFID and the Ford Foundation. BSP is managed by USAID's Global Bureau Environment Center with a mission to promote conservation of the world's biological diversity and to maximize the impact of U.S. Government resources directed towards international biodiversity conservation. KEMALA is a focal point to build strong regional nodes through supporting NGO's and local community organizations. It's overarching focus is environmental protection and community human rights in Java/Sumatra, Maluku, Papua, Kalimantan and Sulawesi. KEMALA has evolved into a proven network of participatory community mappers, public interest lawyers, community organizers, coastal/marine advocates, agrarian and conflict resolution trainers and regional autonomy specialists.

#### **2.4.2 DML (Dana Mitra Lingkungan)** **[www.dml.or.id](http://www.dml.or.id)**

DML or 'Friends of the Environment Fund', was founded in 1983 under the initiative of a group of prominent public figures and captains of industry. DML provides a forum for Indonesian corporate leaders to examine environmental effects of their operations and consider alternative solutions to the challenges of eco-friendly development. DML's centrist approach strives to promote methods that improve company bottom lines while also improving environmental quality and community living standards. DML takes a middle of the road position because its founders are striving to understand the complex world of the global economy along with the challenging opportunities to preserve the environment. Through corporate support, DML's mission is to increase awareness of the importance in environmental protection and striking a healthy equilibrium between environmental preservation and nation building.

DML addresses environmental problems surrounding industrial and urban development that include issues on industrial pollution, solid and non-toxic waste recycling, public policy, community empowerment and CSR. DML's experts and partners work closely with local authorities, civil society and industry to facilitate development of intelligent and practical proposals through win-win approaches. Viable solutions emphasize the relationship between increased productivity on the one hand, and environmental protection and social improvement on the other.

#### **2.4.3 KEHATI (Keanekaragaman Hayati Indonesia)** **[www.kehati.or.id](http://www.kehati.or.id)**

KEHATI, the 'Indonesia Biodiversity Foundation', received initial financial support as a grant(US \$21 million) in the form of an endowment fund from USAID under a 10-year Cooperative Agreement. The fund enables KEHATI to conduct training, research/information, empowerment, advocacy, community/institution building, policy formulation, etc. as well as establish long-term commitments to conserve the country's rich biodiversity. Domestic business enterprises and individuals sharing a concern for biodiversity conservation are crucial partners in KEHATI's engagement with multi-stakeholders to identify and pursue innovative ways to manage and conserve biodiversity resources. Given the significant progress in its conservation programmes and the magnitude of biodiversity destruction across the country, KEHATI cannot continue to rely on its endowment fund as primary financial support for its operations. It therefore endeavors to mobilize resources from a host of international and domestic sources. In joint efforts with

national and international partners, KEHATI has attempted to apply innovative conservation financing mechanisms (i.e. debt swaps) that will support biodiversity programmes in Indonesia in a sustainable manner.

The following is a list of major NGO's showing funding and funding sources:<sup>2</sup>

**Table 1 Major NGO'S – Funding Sources**

No.	Organization/ Programme	Type of Fund(s)	Fund Utilization	Grant/Loan Amount (Rp)	Source of Funds
1	Friends of the Environment Fund (Dana Mitra Lingkungan)	Corporate Grants	Regular support to WALHI (environmental NGO)	Varies year-to-year	Over 100 Private Companies
			Nature conservation/ education by NGO's/ students/universities	4 million - 1.5 billion	
			Small-scale funding to local NGO's	8 million/ activity	
2	Bank Indonesia	Revolving Loan	Conservation - 5000 ha. community forest/critical land	30 billion - 10 years	Bank Indonesia
3	Strengthening Small Scale Enterprise and Cooperative (PUKK)	Corporate Grants	Managed as venture capital by Permodalan Nasional Mandiri and Bahana Ventura	2.75 billion	2.5 % of State-Owned Enterprises (SOE) profit
4	Natural Resource Management Programme (NRM III)	Various Grants	Administers programmes in sustainable forestry, agriculture/coastal resources and protected areas	> USD \$15 million/year	USAID, WWF, TNC, WRI, DFID, FORD FOUNDATION
5	KEMALA Foundation	Government Grants	Supports 30 NGO's in environmental/ community-based programme implementation	Up to USD \$500,000/year	USAID, EU
6	Indonesian Biodiversity Foundation (KEHATI)	Government & Corporate Grants, Endowments	Support NGO's/CBO's in biodiversity/conservation, grants	4 million – 1.5 billion/activity	USAID 88%, ODA + Intl. NGO Grants 12%
7	Bina Swadaya Foundation	Domestic & International Sources	Research, facilitation, micro-credit loans, consultancy & banks to improve common welfare: self-help concept	100K – 15 million/activity	Domestic sources 90%, International NGO's 10%

<sup>2</sup> In part to Synergos Institute 'CSRO Development in Asia: Indonesia Case' 2001

8	Credit Union Coordination of Indonesia (Badan Koordinasi Koperasi Kredit Indonesia - BK31)	Bank Loans, Member Savings	Cooperatives development, micro-credit loans, education/training to network members	15 – 500 million/ ctivity	Domestic sources 60%, International NGO's 40%
9	Astra Dharma Bhakti Foundation (YDBA)	Corporate Grant	Community development, education/training, publications	Various	P.T. Astra International, Tbk.
10	Dian Desa Foundation	Domestic & International Sources	Community development, research, micro credit, SME development, grants/loans	1 – 400 million/ activity	ODA 40%, Intl. NGO's 20%, Income/Fees 40%
11	Mitra Mandiri Foundation (United Way International)	Corporate Grants	Social services/health, credit provision, medium loans, education/training, welfare, research	20 – 150 million/activity	Mobil Oil, Freeport, Aqua, Citibank/Amex, Medco, P&G. Bakrie, etc.
12	Indonesia Forum for the Environment (Wahana Lingkungan Hidup Indonesia - WALHI)	CSRO Grant, International Sources	Environmental conservation, human rights, small/medium size grants/loans	50 - 200 million/activity	ODA 50%, Intl. NGO's 50%
13	Lembaga Penelitian, Pendidikan dan Penerangan Ekonomi & Sosial (LP3SE)	Government Grants, Endowments	Research, publications, education/training, community development, large grants	100+ million/ activity	ODA 60%, Intl. NGO's 10%, Indo. Gov. 20%
14	Indonesia Prosperity Foundation (Yayasan Indonesia Sejahtera - YIS)	Corporate Grants, Endowments	Community development, public health, research, credit provision, medium grants/loans	1 – 45 million/ activity	Income/Fees 30%, Endowments 25%, Intl. NGO's 45%
15	Yayasan Bina Usaha Lingkungan (YBUL)	Domestic & International Sources	Facilitate environmental care, education/training, technology, micro-credit, grants	70 million – 1.5 billion	World Bank/GEF-SGP, Winrock, USAID
16	Yayasan Dharma Bhakti Parahabat (YDBP)	Domestic Sources	Grameen micro-credit replication throughout Indonesia (Java so far)	500K – 2 million/credit	Individual investors, self-financing
17	Yayasan Dian Mandiri (DIMAN)	International & Domestic Sources	Grameen micro-credit replication throughout Indonesia (Java so far)	500K – 2 million/credit	Opportunity International, local business/government

## 2.5 Islamic Investment In Indonesia

Islam encourages people to invest for the long-term future. Investment is in accordance with Islamic principles (Syariah) that are realized through deposits/savings in Syariah banks or via Syariah bonds/shares in both public and private listed corporations in the capital market. However, investment utilizing Syariah methods requires an investor awareness of the strict compliance to codes of operational conduct honored by the Syariah-certified companies in receipt of those funds. The Jakarta Islamic Index (JII) therefore aims to provide a basic performance benchmark for investors to profit from investment in Syariah financial instruments in Indonesia.

### 2.5.1 Jakarta Islamic Index

*The objective of the Jakarta Islamic index is to raise the trust level of investors.*

P.T. Danareksa Investment Management (DIM) and P.T. Jakarta Stock Exchange (JSX) recently launched an Islamic index of shares based on traditional Islamic Principles: the **Jakarta Islamic Index (JII)**. JII is one of the DIM products in cooperation with the JSX based upon an MOU to develop Syariah within the stock exchange. The JII currently includes 30 Syariah corporations. Criteria for selection and certification of the stock in JII companies has been developed by the Dewan Pengawas Syariah (Syariah Supervision Board) at DIM until further notice from Dewan Syariah Nasional and Majelis Ulama Indonesia (National Syariah Board and the Indonesia Ulema Council).

The Objective of JII is to function as a benchmark to measure the performance of investment in Syariah shares. The Goal of the JII is to increase the trust level of investors to develop further equity investments utilizing Islamic Principles.

### 2.5.2 Syariah Investment Categorization

Out of the total listed companies in the JSX, many do not meet Syariah criteria, automatically excluding those shares from Syariah eligibility. According to the Syariah Supervision Board(SSB), the major business activities that violate Syariah principles include:

- Gambling and related recreation or unethical business transactions in trade
- Conventional financial institutions such as banks and insurance companies which utilize interest and profit orientation as the major means of revenue generation
- Activities that produce, distribute and trade in haram (forbidden) food and beverages
- Activities that produce, distribute or provide products and services which damage moral standards and/or provide no useful natural purpose

Considering various economic factors that influence corporate financial performance, the SSB decided to exclude numerous financial ratios of corporate performance from the Syariah selection criteria until the national economic recovery becomes further stabilized and public firms have established a more significant degree of good governance. Stocks of publicly-listed companies not eligible due to Syariah criteria are excluded from the JII.

### 2.5.3 Stock Selection Methodology at JII

The determination of stocks for JII index inclusion has been determined via a specific calculation methodology:

- 60 stocks are chosen from a recognized Syariah performance list, based on the highest value of average market capitalization during the past year.
- A subsequent ranking of those stocks is based on average liquidity of regular trading value for the most recent full calendar year in order to determine the top 30 performers in the JII.

A semi-annual review of the JII is performed with index component determination each January and July. Changes in listed company activities are monitored regularly based on available public data.

### 2.5.4 Syariah Supervision Council

To ensure that all Syariah categorized stocks meet established Islamic Syariah guidelines, the Syariah Supervision Council at DIM has established stock selection criteria. In addition, a compliance audit of the criteria is available which focuses on transaction validity and business structure integrity. An interesting difference in the Indonesia transaction criteria is its emphasis on historical and projected revenue compared to a focus on profit in Malaysia.

### 2.5.5 Index Calculation

For details on the Index Calculations see Appendix 2

## 3.0 SRI RESEARCH IN INDONESIA

### 3.1 Domestic SRI Company Research

**N**o SRI research is presently conducted in Indonesia.

## 3.2 International SRI Research Groups Covering The Domestic Market

Researchers/analysts on behalf of the major national/international securities houses with a presence in Indonesia have an awareness of SRI but have generally given it little or no priority in terms of significant market analysis or investment potential.

Sam Research Ltd, has conducted limited research into Indonesian companies, including the cigarette manufacturers Gudang Garam and Hanjaya Mandala Sampoerna and also into Telekomunikasi Indonesia (Telkom)<sup>3</sup>.

Socia Center, has conducted research into mainly multinationals with a major presence in Indonesia, including P.T. Astra International and P.T. Barito Pacific.<sup>4</sup>

## 4.0 GOVERNMENT INITIATIVES

**G**rowth, environmental protection and social justice go hand-in-hand in any vision of true sustainable development. Over the years, rapid economic growth in some parts of the country has created an overall rise in per capita income and rich dividends for many Indonesians. However, the disproportionate prosperity, corrupt oversight and subsequent economic crisis resulted in significant income disparity and pollution, for which Indonesians are paying a heavy price in terms of social well-being, human health and natural resource degradation. Many well-intended policy initiatives have survived a consultative process riddled with political self-interest to become reasonable programme frameworks to address these challenges, but beneficial results are scarce and continue to suffer from a lack of adequate inter-ministerial coordination, detailed implementation, resource/budget allocation and effective enforcement.

### 4.1 Government Policies/ Programmes

*Government policy initiatives provide a programme framework, but implementation and enforcement are a major challenge.*

No	Government Policies/Regulations/Programmes	Remarks
1	Law No. 23/1997 on Environmental Management	Defines corporate responsibility, company activity and public role in environmental management
2	Law No. 10/1998 on Banking	Relevance to bank finance practices (incl. Syariah) – banks must consider EIA in lending
3	Law No. 8/1995 on Capital Market An obligation to report on corporate governance, including some major environmental aspects	Regular reporting requirements for all JSX companies for BAPEPAM submittal and public scrutiny
4	Gov. Reg. No. 45/1995 on Activities in Capital Market related to non-compliance	Procedures for approval/refusal of permits and registration
5	Board of Director JSX Decree No. Kep-316/BEJ/06/2000 on Requirements and Procedures for JSX Listing	Listed companies are in environmental compliance by filing EIA. Forestry companies should have eco-labeling certification
6	Law No. 19/2002 on Intellectual Property/Copyrights	Procedures on comprehensive compliance/enforcement of IP piracy/prevention

<sup>3</sup> [www.asria.org/sri/asia/research?expand\\_all=1](http://www.asria.org/sri/asia/research?expand_all=1)

<sup>4</sup> [www.asria.org/sri/asia/research?expand\\_all=1](http://www.asria.org/sri/asia/research?expand_all=1)

7	Industrial Performance Rating Programme (PROPER) based on various Laws/Regulations/Decrees between 1995-2001	Voluntary industry-wide initiative to account for environmental regulation compliance via colour rating/public awareness/award scheme
8	Gov. Reg. No. 2833/LK/2003 on Money Laundering/Terrorist Financing	Implementation of 'Know Your Customer' regulations for financial community including pension funds
9	Law No. 5/1999 on Antimonopoly and Unfair Competition	Levelling the field in production and services to control business competition and violation of public interests/consumer rights
10	Ministerial Decree No. KEP 117/M-MBU/2002 on Corporate Governance (CG) in SOE's	Requirements for all state owned companies (SOE's) to adopt & implement CG guidelines
11	Board of Director JSX Decree No. Kep-315/BEJ/06/2000 on Requirements & Procedures for GCG	Independent Commissioners, Audit Committee & Corporate Secretary become mandatory
12	BAPEPAM Rule Nos. 49/84/5/63/60/86/17/82/38/41/42/58 from 1996-2002 on Requirements & Procedures for relevant CG legal framework in JSX	IPO Listing, Related Parties, Material Transactions/Business Line Change, GASM, Information Disclosure, Financial Statements, Annual Reports, Director Comfort Letter, MIS Integrity and Insider Trading
13	MPR Decree No. 9/2001 on Agrarian Reform and NRM	Mechanism to settle land disputes and protect natural resources

Sources<sup>5</sup>

<sup>5</sup> Law No. 8/1995 on Capital Market  
 Law No. 23/1997 on Environmental Management  
 Law No. 10/1998 on Banking  
 JSX & BAPEPAM websites (regulations)

## 5.0 SRI ORGANISATIONS

There are currently no organizations in Indonesia actively promoting SRI. However, there are a number of NGO's and firms assisting in the fields of CSR and a range of sustainable development issues.

### 5.1 Some Leading Organisations Involved In CSR And Sustainable Development

- 5.1.1 Leadership for Environment & Development (LEAD)** [lead.or.id](http://lead.or.id)  
A resource centre for SD training, IT services, and networking.
- 5.1.2 Forum for Corporate Governance in Indonesia (FCGI)** [fcgi.or.id](http://fcgi.or.id)  
This organization has been active in linking corporate governance with CSR strategy/practices.
- 5.1.3 Indonesia Rainbow Foundation (Pelangi)** [pelangi.or.id](http://pelangi.or.id)  
Environmental policy research/recommendations, project consultancy
- 5.1.4 Society for Islamic Society (Masyarakat Ekonomi Syariah - MES)**  
[ekonomisyariah.org.id](http://ekonomisyariah.org.id)  
Policy development, awareness, consultation on Syariah principles, investment & financial instruments.
- 5.1.5 Institute for Development, Economic and Finance (INDEF)**  
A research Institute for development, economy and finance
- 5.1.6 Foundation for Humanitarian Projects in Indonesia (Yayasan Kemanusiaan Indonesia)** [humanitarianprojectsindonesia.org](http://humanitarianprojectsindonesia.org)  
Health as a basic human right; medical care, IT, equipment, advice
- 5.1.7 Forest Watch Indonesia (FWI)** [fwi.or.id](http://fwi.or.id)  
Public/private sustainable forestry policy, research, practices, monitoring & publications
- 5.1.8 Telepak Indonesia** [telepak.org](http://telepak.org)  
Natural resource management advocacy, capacity building, research, policies, etc. (forestry, fishery, etc.)
- 5.1.9 Indonesia Ecolabel Institute (Lembaga Ecolabel Indonesia (LEI))** [lei.or.id](http://lei.or.id)  
Insure the sustainability of all environmental resource functions
- 5.1.10 International NGO Forum on Indonesian Development (INFID)** [infid.be](http://infid.be)  
Communication facilitation amongst NGO's on democratic principles and environmental justice to insure human rights and civil society participation
- 5.1.11 International Association of Students for Commerce, Economics and Science (AIESEC)** [aiesec.org](http://aiesec.org)  
A leading global university network of students supporting CSR, cultural understanding, higher education and information-sharing with an active Indonesian chapter.
- 5.1.12 Indonesia Business Links (IBL)** [ibl.or.id](http://ibl.or.id)  
National/international companies in Indonesia committed to ethical business practice supporting technology transfe amongst peers and SME's (affiliated with IBLF - U.K.)

## 5.2 Other Related Organisations

A list of NGO's managing development funding above: (2.4)

A list of consumer and advocacy organizations (6.1)

A list of organizations active in improving corporate governance (7.0)

## 6.0 PUBLIC AWARENESS

As government, business and consumer awareness levels evolve to better understand how transparent, accountable institutions, systems and behavior benefit society, the concept and characteristics of SRI gain momentum. Indonesia continues to struggle in its recovery from dramatic economic/financial collapse and emerge as a fledgling democratic republic - the transition in key sectors (such as political, judicial, commercial, fiscal, institutional) naturally takes time.

*Capital market participants, academia and the investment community have shown support for introducing environmental criteria into investment decisions.*

### 6.1 Consumer And Public Surveys

Analysis of existing surveys/reports demonstrates a low level of consumer awareness and public opinion on environmental/social issues (i.e. 5%). Consumer solidarity and concern for major issues is weak due to minimal education, historical/cultural interaction and a pricing orientation related to income gaps, survival modes and affluent lifestyles. Approximately 20% of the more than 40 million workers employed in the formal sector have unionized, reflecting a concern for workers' bargaining power. However, a recent survey of capital market participants, academia and the investment community indicates significant awareness and support for additional environmental parameters (88%), including an environmental index and internal costing of external environmental factors to insure more sustainable operational practices and realistic market pricing (For full details on these surveys see Appendix 3).

Quantum leaps in policy development are not understood well by a majority of the general public, who are experiencing continuous infringement on their rights and resources. Media, public relations firms and NGO's have come to play a critical role in communicating on a broad range of environmental and social trespasses during a reformation period that encourages open, accurate dialog. NGO's are likewise gaining support and influence, due to the new paradigm in multi-stakeholder viewpoints and would benefit further from an impartial oversight/certification authority.

### 6.2 Indonesian Consumer And Advocacy Groups

#### 6.2.1 Indonesian Consumers Organization (Yayasan Lembaga Konsumen Indonesia - YLKI) [ylki.org](http://ylki.org)

Consumer protection and consumer awareness; seminars/training, publications, etc.

#### 6.2.2 Indonesian Green Consumers Foundation (Yayasan Lembaga Konsumen Hijau Indonesia - YLKHI)

Promotes green consumerism

#### 6.2.3 Indonesia Forum for the Environment (Wahana Linguungan Hidup Indonesia - WALHI) [walhi.or.id](http://walhi.or.id)

Environmental Advocacy (forestry)

#### 6.2.4 Indonesia Mining Advocacy Network (Jaringan Advokasi Tambang) (JATAM) [jatam.org](http://jatam.org)

Environmental Advocacy (mining)

- 6.2.5 **Indonesia Legal Aid Foundation (Yayasan Lembaga Bantuan Hukum Indonesia - YLBHI) & Indonesian Center for Environmental Law (ICEL)**  
Legal Assistance (human rights/natural resources)
- 6.2.6 **Indonesia Human Rights Watch**  
Human rights advocacy - major focus on government/military
- 6.2.7 **Independent Research & Advisory** centennial-group.com  
Shareholder relations, corporate analyst, investment guidance
- 6.2.8 **GSH Consulting**  
Shareholder relations & corporate analyst, investment guidance
- 6.2.9 **Commission for Supervision of Business Competition (KPPU)** kppu.or.id  
Oversight to insure fair business competition & related law enforcement

## 7.0 CORPORATE GOVERNANCE INITIATIVES

### 7.1 Introduction To Corporate Governance (CG) In Indonesia

*Jakarta Stock Exchange (JSX) and BAPEPAM have made persistent efforts to promote corporate governance.*

Implementation of good corporate governance (GCG) practice in Indonesia has shown positive progress since its introduction less than three years ago, despite overall lack of support from the government and general public. A Corporate Governance Code was revised by the capital market authorities in 2000/2001<sup>6</sup>. Pursuant to an IMF recommendation, both the World Bank and ADB have contributed resources to support the establishment of a National Committee for Corporate Governance (NCCG) in 2000 as well as a number of subsequent programmes, workshops and forums on CG. NCCG issued a 'Code of Best Practice' in 2001 that has contributed meaningfully to the foundation for capital market and corporate implementation of CG in Indonesia. Both the JSX (7.2.1) and BAPEPAM (7.2.2) have been persistent in efforts urging business adoption and compliance to maximize shareholder value through improved application of principles related to transparency, accountability, trustworthiness, responsibility and equity. The guidelines also encourage a sense of social responsibility, environmental protection, shareholder rights, moral norms and legal compliance.

The most recent regulations issued by BAPEPAM/JSX address audit committees and independent commissioners. Many CG initiatives remain voluntary, yet a number of corporate leaders have recognized the benefits of implementation in terms of improved competitiveness/productivity, access to capital/qualified staff, HRD/industrial relations, Commissioner/Director professionalism, share price /profitability, disclosure/decision-making, etc.

Recent independent CG market analyses (2002/2003) conducted by security houses (CLSA/ACGA/Bahana), accounting institutions (PwC/ACCA/McKinsey) and international organizations (OECD/PERC/TI) highlight a number of common positive trends and serious concerns.

<sup>6</sup> [www.ecgi.org/codes/country\\_documents/indonesia/ins\\_cgcg\\_may\\_2000.pdf](http://www.ecgi.org/codes/country_documents/indonesia/ins_cgcg_may_2000.pdf)

+ Trends +	- Concerns -
New rules/regulations expand compliance scope	Reduction in corruption, collusion & nepotism (KKN)
Accounting standards improvement (IGAAP)	Stronger, consistent enforcement of existing rules, regulations & sanctions
Strengthening of GCG culture/ support organizations	Greater disclosure and transparency - financial statements, annual reports and related parties
Improved disclosure	Clearer separation of ownership and management
More independent boards	Better definition of Directors' role & responsibilities
Audit committee introduction	Improved audit committee role
Independent commissioners requirement	Broader education & socialization of GCG code/rules
Investor premiums between 17-25% for GCG implementation	Improved risk management & compliance processes
Media awareness	More effective external audits
	Less minority shareholder sufferance/abuse
	Ethical taxation collection methodology

The Indonesian Institute for Corporate Governance (IICG) organized the 2nd annual GCG Awards in 2002 based on its GCG Perception Index shared with all JSX member companies. Seven GCG categories were used to rank and evaluate respondents, based on their positive adoption of the following criteria.

- GCG Commitment
- Rights of Shareholders
- Board of Commissioners
- Functional Committees (Audit, Remuneration & Nomination)
- Board of Directors
- Transparency & Accountability
- Shareholder Relations

Corporate Governance Perception Index (CGPI) 2002		
No.	Company	Score
1	Bank Central Asia	90.46
2	Bank Universal	89.05
3	Bank Niaga	88.55
4	Kalbe Farma	88.42
5	Astra International	87.95

These results compare fractionally to the most recent quartile CG ratings from CLSA/ACGA in which Unilever, Bank Central Asia, Telkom and Aneka Tambang were respective leaders. GCG is not just an Indonesian issue - the compilation of various market analyses likewise evaluates Indonesia CG on both a regional and international basis, casting a comparatively negative light on progress achieved to date. In early 2003 CalPERS divested from several Asian markets, including Indonesia, due to a negative mix of market liquidity/volatility, market regulation, investor protection, capital market openness, settlement proficiency, transaction costs, political stability, financial transparency and labor standards.

*The Government lacks proactive political will to effectively challenge corruption and promote good public and corporate governance.*

Implementing GCG is difficult to separate from the macro-environment in which companies operate. Public institutions need to perform their roles, functions and tasks in accordance with good governance principles. The government lacks proactive political will at all levels to affect the required legislative, regulatory and administrative changes associated with effective good public governance (GPG) and GCG. A 2003 survey conducted by UNDF/World Bank shows that 65% of Indonesian households are victims of corrupt officials. The same survey indicates households spend over 1% of income on bribes while business expends as much as 10%. The general public and supporting organizations need to better realize and act assertively to hold authorities and business accountable for corrupt transgressions.

Please also refer to the Astra Reporting Case Study (9.4) for corporate governance trends in Indonesia.

For regulatory initiatives by the Government please also see 4.1  
For information on shareholder associations and activism see 8.0

## 7.2 Organisations Promoting Corporate Governance

- 7.2.1 **Jakarta Stock Exchange (JSX)** [jsx.co.id](http://jsx.co.id)  
Stock Exchange
- 7.2.2 **Capital Market Supervisory Agency (Badan Pengawas Pasar Modal - BAPEPAM)**  
[bapepam.go.id](http://bapepam.go.id)  
Stock Exchange watchdog
- 7.2.3 **Indonesia Institute for Corporate Governance (IICG)** [iicg.org](http://iicg.org)  
Corporate governance development, awards (see 7.1) & shareholder activism
- 7.2.4 **National Committee for Corporate Governance (NCCG)** [nccg-indonesia.org](http://nccg-indonesia.org)  
Policy development, support structures, institutionalization and socialization driver for good corporate governance
- 7.2.5 **Forum for Corporate Governance in Indonesia (FCGI)** [fcgi.or.id](http://fcgi.or.id)  
Linking corporate governance with CSR strategy/practices
- 7.2.6 **Indonesian Institute of Accountants (IAI)** [akuntan-iai.or.id](http://akuntan-iai.or.id)  
National body to improve accounting practices
- 7.2.7 **Center for Local Government Innovation (CLGI)** [clgi.or.id](http://clgi.or.id)  
Supports excellence in local governance
- 7.2.8 **Partnership for Governance Reform** [partnerships.or.id](http://partnerships.or.id)  
Governance reform in decision-making and resource allocation, eradicate corruption, supremacy of law

- 7.2.9 Indonesia Corruption Watch (ICW)** [antikorupsi.org](http://antikorupsi.org)  
Systematic freedom from corruption based on social justice - awareness, participation, enforcement, monitor/empower, etc.
- 7.2.10 Business Watch Indonesia (BWI)** [unisosdem.org](http://unisosdem.org)  
Business accountability and fairness issues researched and converted into action and NGO network support
- 7.2.11 Transparency International (TI) / Indonesia Society for Transparency (MTI)** [ti.or.id](http://ti.or.id) / [transparansi.or.id](http://transparansi.or.id)  
Leaders in corruption awareness/monitoring/avoidance and good governance to strengthen accountability
- 7.2.12 Indonesia Institute for Corporate Directorship/Commissioners & Directors (IICD)** [nccg.org](http://nccg.org)  
Strategic business partners to develop and internalize directorship skills, knowledge and ability to implement GCG. Affiliated with NACD (USA)
- 7.2.13 Corporate Leadership Development Institute** [cldi-i.com](http://cldi-i.com)  
An instrument of strategic intervention for all State Owned Enterprises (SOE's) to develop future corporate leaders, including a healthy dose of CG
- 7.2.14 Indonesian Society of Independent Commissioners (ISICOM)**  
A leading association supporting the implementation of CG guidelines and practices from professional directorship perspective

### 7.3 Corporate Governance Case Studies

No.	Event	Issues
1	Lippo Bank	Investment Management & Performance Agreement (IMPA) confidentiality/dubious financial reporting/ Director accountability/BAPEPAM regulatory enforcement
2	Kimia Farma	Dubious financial reporting/Director accountability, BAPEPAM regulatory enforcement
3	Texmaco	Master Settlement Acquisition Agreement (MSSA) manipulation/owner accountability/BAPEPAM regulatory enforcement
4	Semen Cibinong	Asset (equity) Off-balance sheet manipulation/owner accountability/BAPEPAM regulatory enforcement
5	Indomobil	Credit asset (property) (re)purchase misappropriation/owner accountability/BAPEPAM regulatory enforcement
6	Bumi Resources	Minority shareholder rights/transparency in asset acquisition/Director accountability/BAPEPAM regulatory enforcement

## 8.0 SHAREHOLDER ACTIVISM

*Shareholder activism  
has emerged in  
Indonesia.*

Shareholder activism and investor governance initiatives have grown in concert with the public introduction and gradual development of good corporate governance initiatives begun in earnest since 2000. Leading activists highlight moral hazard and bureaucratic inefficiency repeatedly in the lack of enforcement and unequal application of law - determining factors that motivate non-compliance both inside and beyond the commercial sector. A number of high profile infractions fingered over the past couple years attest to occasional deviation and uneven recourse (see Table below). For example, the recent Lippo Bank mishap not only raises director-owner transparency-accountability issues, it triggers deeper concern from a realization that the majority of bank shares, temporarily in government hands, remain subject to political intervention. (i.e. director appointment, credit distribution, asset settlement/foreign acquisition, debtor release/discharge, etc.)

A representative group of minority shareholders recently established an equity presence in the capital market (LQ 45) as an independent shareholder association - a promising trend to counter the occasional lack of ethics and competency in implementing legal oversight and raise awareness levels. Several NGO's and firms have discovered meaningful purpose in defending the common rights of abused parties and supporting others short on power and influence (See 7.2). Much remains to be done.

## 9.0 CORPORATE DEVELOPMENT AND RESPONSE

### 9.1 Corporate Reporting

The presence of a significant number of multinational corporations in Indonesia along with the adoption of ISO14000 standards by many companies has encouraged a movement towards social and environmental reporting in Indonesia. A few companies, such as P.T. Astra International, Tbk., have produced or are producing approximate versions of internationally recognized standards for sustainability reports.

### 9.2 BAPEDAL Report

[menlh.go.id](http://menlh.go.id)

*Environmental  
reporting is increasing  
in volume and quality.*

In 2001, BAPEDAL (the Environmental Impact Management Agency, which recently merged with the Ministry of Environment), examined the status of environmental reporting in Indonesia. In addition, a recent review of current overall reporting practices in the business community indicates the following results:

- A small percentage of Indonesian companies have produced environmental/social/sustainability reports that exhibit varying degrees of qualitative and quantifiable content (see examples below). Several firms are in the process of increasing quantitative content and engaging 3<sup>rd</sup> party verification to achieve higher levels of sustainable corporate reporting during 2003. Others consider those goals as realistic objectives in 2004.
- Some companies have clearly associated environmental reporting with ISO 14000 series certification and Environmental Performance Indicators - measurement of enterprise effectiveness/efficiency in the utilization of relevant resources. Although CSR as a value driver is mainly skin-deep, many companies are in the process of developing effective approaches to identify, apply, integrate, quantify and report on sustainability initiatives.

## 9.3 Leading Company Examples - Corporate Reporting

### 9.3.1 Freeport-McMoran Copper & Gold (mining)

2002 Sustainability Report ('Real People, Real Commitment') is the company's first annual qualitative/quantifiable attempt to highlight a combination of relevant economic, environmental and social conditions, challenges, programmes and benefits primarily in Eastern Indonesia. The companion document is not yet fully integrated into overall 2002 corporate financial reporting or verified by qualified 3<sup>rd</sup> parties.

### 9.3.2 P.T. Astra International, Tbk. (holding company)

2002 Green Report is a 'leading edge' environmental/community development documentation in Indonesia which summarizes the business Group's evolving efforts in qualitative and quantifiable ways related to its diverse range of company operations. The Green Report is not yet fully integrated with relevant 2002 corporate financial reporting or verified by qualified 3<sup>rd</sup> parties (see Company Reporting Case Study 9.4).

### 9.3.3 Asia Pacific Resources International Holdings, Ltd. (APRIL) (forestry)

2000-2001 Environmental & Social Review ('Nurture') is the first Group report combining both disciplines with an Indonesia focus on steady progress, multi-stakeholder participation and assertive solicitation for feedback in achieving international standards of excellence in the pulp/paper industry. 3<sup>rd</sup> party verification and further operational integration of sustainability practices is a commitment in a more comprehensive 2003 Sustainability Report.

### 9.3.4 P.T. Kaltim Prima Coal (mining)

2002 Social & Environmental Report ('More Than Mining') recounts consistent progress in its commitment to transparent social & economic programmes to increase community welfare in mining areas with a focus on HRD, safety, community (including micro-credit), environment and a dedicated foundation. 3<sup>rd</sup> party verification and further operational integration/quantification of sustainability practices is a logical next step.

### 9.3.5 P.T. Newmont Nusa Tenggara (mining)

2002 Sustainability Report ('Now & Beyond') is the result of a global HQ initial effort to support achievements and challenges in individual mining conditions related to economic, safety, employee, environment and community accountability. Newmont is a Global Mining Initiative/ Mining, Minerals & Sustainable Development leader utilizing a 5-Star assessment process to enhance disclosure content with a commitment to 3<sup>rd</sup> party verification in 2003.

### 9.3.6 Beyond Petroleum - BP (oil & gas)

Utilizing a major greenfield gas development project with 3<sup>rd</sup> party verification and reputable donors/ multi-stakeholders to demonstrate world renowned sustainability implementation experience while other corporate divisions develop and align ad hoc environmental/community initiatives into an eventual national sustainability framework.

### 9.3.7 P.T. Unilever Indonesia, Tbk. (consumer goods)

In keeping with its mantra of 'Global challenges-local actions, global policies-local initiatives, global reporting - local performance', major programmes in water stewardship, sustainable fisheries, public health and SME development are strong testimony to its leadership and commitment to environment/social development incountry. Further operational integration, quantification and 3<sup>rd</sup> party verification are under consideration.

### **9.3.8 Citibank (financial services)**

Active involvement (including Citi employees) in community development, education, capacity building and micro-finance programmes as well as a leading domestic proponent of the new Equator Principles re environmental and social guidelines on project finance. Perfect timing to quantify and integrate into operations to maintain a leading MNC role.

### **9.3.9 P.T. Indocement Tunggal Prakasa, Tbk. (cement)**

They are gradually implementing environmental and social programmes including climate change/emission control. Further progress is anticipated in moves toward more sustainable business practices and reporting in 2003.

### **9.3.10 P.T. Indofood Sukses Makmur, Tbk. (food/snacks)**

The Bogasari Flour Milling Division implements exemplary CSR initiatives in 5 categories; HRD, environment, CG, social cohesion & economic strengthening. Environmental and community programmes emphasize SME development while internalizing sustainable values and work methods. The holding company supports education/awareness initiatives and has designs to begin a broader assessment of sustainability benefits in 2003.

### **9.3.11 P.T. National Gobel (electronics)**

Various 2000/2001 management programmes on solid/hazardous waste, energy reduction, water/gas consumption, HRD, green products and environmental accounting. Programme implementation throughout the (Matushita) production network (9 plants) and reporting are not yet annualized/integrated into group operational/financial performance.

### **9.3.12 P.T. Nestle Indonesia (food/beverage)**

Ad hoc reports (2000/2001) summarize factory and apprentice operations in East Java highlighting HRD and community participation. Also involved in coffee/cocoa/palm oil supply chain QC initiatives and donations to conservation, education, health and gender initiatives. Annual reporting of overall national operations (4 plants) and related environmental/social issues is not available. A CSR Update is planned for 2003.

### **9.3.13 P.T. Uni Seraya (wood products)**

First corporate Chain of Command (CoC) certification in Indonesia confirming sustainable forest management practices (FSC standard) in wood sourcing for moulding, doors and furniture production. Critical aspects related to planning, documentation and field operations (plantations, logging, woodworking) across group related companies were concluded in 2002 to earn SGS/LEI accreditation/certification including WWF attestation. Current financial/sustainability reporting is at an elementary stage.

### **9.3.14 P.T. Aneka Tambang, Tbk. (mining)**

2002 Annual Report (financial) briefly outlines numerous environmental and community initiatives without quantification or operational integration and includes qualitative progress on good governance. Aneka Tambang is also publicly-listed in Australia and a top-level leader in good corporate governance reporting with recent awards from IICG, JSX and the Ministry of State Owned Enterprises (SOE's).

### 9.3.15 P.T. Bank Dagang Bali (banking)

A private bank specializing in delivering financial services profitably to the low-income public. Since 1970, the longest serving formal sector financial institution providing micro-finance on a substantial scale in a developing country on a continuous, profitable basis without a subsidy. Sustainability is its lifeblood while sustainable reporting is becoming a priority.

### 9.3.16 P.T. Kawasan Industri Jababeka, Tbk. (industrial estate)

First integrated sustainable industrial real estate development in Indonesia established in 1989 with over 1000 companies, infrastructure, housing/recreational facilities and elementary - university education. Progressive expansion of estate-wide environmental and community development programmes - the benchmark in eco-industrial estates in Indonesia.

## 9.4 Company Reporting Case Study

- P.T. Astra International, Tbk.

Known throughout the Asian region as a leading, well-managed Indonesian-based automotive conglomerate, a look under the hood at P.T. Astra International, Tbk. reveals its founding roots lay in basic CSR principles and values that bespeak a history of impressive business growth and performance. The journey to modern day financial prominence, corporate governance role model and sustainability aspirant is an inspiring tale likely to motivate other company quests for public recognition, commercial success and long-term shareholder value. Successful completion of restructuring demands and rights issues has enabled a refocus on the basics, including GCG and a deepening sustainability agenda.

Its current preeminent position in Indonesia is no surprise to its senior executives, who have consistently espoused a credo of integrity, best practices, transparency, responsibility and business value creation. These have become essential elements driving processes and performance to higher levels of profitability, social responsibility and environmental conservation. The growing commitment to triple bottom line implementation exemplifies solid progress in good governance development and helps to ensure a sound financial position, strong sense of community and healthy operational environment for the greater Astra family of companies, shareholders and stakeholders.

The summary of the PT Astra 2002 Green Report is in Appendix 5.

## 9.5 Corporate Rewards And Ceremonies

2001 was the first year in which annual ceremonies have been performed to recognize financial reporting and good governance accomplishments within the business community. These events have been driven by a combination of factors related to improvements in tax compliance, capital market integrity and corporate citizenship. The intention is to demonstrate positive contributions to help recover investor confidence and accelerate the national economic recovery. Based on an evaluation of 83 Annual Reports (financial) from 2001, public and non-public companies, including SOE's, were ranked according to extensive criteria (see Appendix 4) in August 2002. The top 3 winners were:

- P.T. Asuransi Bintang, Tbk.
- P.T. Aneka Tambang, Tbk.
- P.T. Astra Graphia, Tbk.

*Corporate awards for CG and financial reporting were introduced in 2001.*

The evaluation was conducted by examining the audited Annual Reports for 2001 under criteria emphasizing the implementation of good corporate governance principles. The Jury Committee selected potential top rated companies and interviewed their management. The Jury Committee did not perform any audit or investigative audit, or any related procedures in this evaluation process<sup>7</sup>.

## 10.0 COMMUNITY INVESTMENT AND MICRO-FINANCE

*Even as Indonesia's financial system collapsed during the crisis, the leading micro-finance institutions remained liquid, profitable and stable.*

Micro-finance is commonly defined as the provision of financial services provided (savings and/or credit) to economically active low-income groups in different occupations (the poor, low-income households and micro-entrepreneurs). These services are often in the form of poverty alleviation projects and important for the economic development of the informal sector and the creation of employment. Consequently, micro-finance contributes to relieving poor target groups (i.e. small farmers/fishermen/entrepreneurs) by serving a clientele that either has no access or insufficient channels to the formal banking system and by offering services in rural areas where the formal banking system is not sufficiently represented. Even as Indonesia's financial system collapsed during the crisis, the leading micro-finance institutions remained liquid, profitable and stable. Steady progress since on key constraints in the business environment, such as security, inefficient bureaucracy, misguided policy and legal uncertainty, is creating a more prospective climate for micro-finance infrastructure and services to flourish. Bank Indonesia now requires all banks to have a strategy and business plan related to MSME portfolio development. According to the Director of Rural Bank Supervision, over Rp. 170 trillion has been channeled into the MSME sector to date with another Rp. 43 trillion set aside for qualification and disbursement - average annual ROI has hovered around 25%.

### 10.1 Provision Of Micro-Finance Programmes

Micro-finance is provided to beneficiaries in Indonesia from a variety of formats and programmes summarized:

<sup>7</sup> Bapepam Press Release re Annual Report Award, August 2002

#### Regulated:

- Commercial banks with micro-finance windows: BRI, BPD
- BPR's (People's Credit Banks)
- Cooperatives
- LDKP - Lembaga Dana dan Kredit Pedesaan (Rural Micro-finance Institution)
- G-G Donor Activities (see Appendix 5)

#### Non-regulated:

- Self-help Groups
- NGO's
- Credit Unions
- Baitul Maal wat Tamwil (local financial institution established by Islamic NGO's)
- Dakabalarea (established by private sector/individuals in West Java)

#### Bank Indonesia (2002 Report):

- Total active BPR: 2.141 (82 are BPR Syariah)
- Total assets: Rp. 8.393 trillion (September 2002)

## 10.2 Examples Of Micro-Finance Programmes In Indonesia

The following table illustrates a number of SRI categories and micro-finance projects listed according to donors and indicating the amounts of overall investment. A large percentage of the G-G donors strive to channel funds to relevant implementers (NGO's) for targeted implementation or route funds through ongoing country programmes with major international donors (IMF, World Bank, ADB, EU, etc.). This enhances communication, recipient relationships and technology transfer while insuring host government involvement in a coordination/administration capacity to minimize unnecessary intervention and preempt the tendency for corruption.

No.	Donor	Country SRI Themes	Micro-finance Project	Project Objective	Project Activity	Country SRI Amount (USD)	Micro Project Amount (USD)
1	ADB	Farmer income NRM- coastal reefs Financial governance SME exports Renewable energy Power transmission SOE governance & restructuring Decentralization	Rural Income Generation  Community Empowerment for Rural Development  Micro-Credit	Poverty reduction via micro-enterprises  Community empowerment in the villages  Micro-enterprise development for poor/near poor	Micro-finance to mobilize savings/access credit to improve livelihoods  Community-based savings/loans in Sulawesi  Credit/savings support in 5 provinces	762,200,000	79,000,000  115,000,000
2	ACIAR (Aust. Center Intl. Ag. Research	Agriculture extension Fisheries development Crop science Poverty reduction	Micro-finance research, training & farmer support	Programme structure, development and pilot implementation	Case studies & lending activity to rural farmers in E. Indonesia (Lombok)	3,500,000	26,000,000 300,000
3	GTZ/KfW/DEG	Health/family planning Water supply Pollution control Training/education Decentralization Good governance SME development	Small financial institutions  Bank linkages for credit & savings formation  Provincial Development Bank (BPD) strengthening for rural finance development	Improve banking capacity of small financial institutions at people credit banks (BPR) and LKPD  Improve rural poor access to financial services  Improve rural population access to bank services	Strengthen Perbarindo, establish LDKP, introduce deposit protection scheme, improve financing system, adapt regulations and supervision by BI  Linking self-help groups and banks, minimizing costs/risks by providing banking services  Strengthening banking network, establishing BPR in sub-districts, products for rural needs/capacities	35,000,000	500,000  400,000
4	CIDA	Good governance Human rights SME development NRM Capacity building	Private Enterprise Participation (PEP)  Canada Fund (small grants)  Governance Reform Support Project	Credit circles of small loans at low interest MSME's in Sulawesi, Bali & Java  Support NGO's with revolving micro-finance fund  Reform advisory to Ministries of Health, Education, Cooperatives & SME's, etc.	Pilot partnerships w/women association, rattan, coconut oil, pottery, garments & metalwork clusters  Poverty reduction in Kalimantan, Sulawesi, Papua & Sulawesi  Technical assist to reform policy, structures, systems, institutions, mechanisms & skills	20,000,000	400,000 1,250,000  500,000  12,500,000

5	EU	NRM-forestry focus MSME development Health/education Poverty reduction Trade/investment Good governance	Small/Micro Scale Enterprise Development	Facilitate NGO assistance to MSME's for economic development	Funding to overcome product quality standards in trade expansion	45,000,000	7,500,000
6	World Bank	Energy reform Community development Water resources Corporate governance reform JSX/BAPEPAM support				460,000,000	
7	IFC	Banking reform Agriculture expansion Extractive industry sustainability SME development				120,000,000	
8	DFID	Community recovery Governance reform Forestry stakeholders Poverty reduction Conflict prevention Small grants Trade Facilitation	Small Grants	Local NGO support	Income generation	15,000,000	200,000
9	UNDP	Poverty reduction Governance reform Environmental protection Conflict recovery Sustainable HRD Regional autonomy				5,000,000	
10	ILO	Labour law Human rights Trade unions Employer organizations Child labour Social security Worker education Industrial relations				8,500,000	

11	USAID	Democracy/governance Decentralization Environment & Energy Economic growth Health/humanitarian aid					104,000,000	
12	AusAID	Democratic reform Education/elections Good governance Financial strengthening Security/stability Economic/environmental management					80,000,000	
13	Dutch Aid/INA	Poverty alleviation Good governance Community rehabilitation Water management Basic education					58,000,000	
14	Korean Aid (KOICA)	HRD/digital divide Democracy/human rights Emergency relief Environment Gender equality Poverty reduction					3,000,000	
15	JICA/JIBC/JETRO	Social development Poverty alleviation Good governance Environmental protection Sustainable growth Structural reform Economic recovery					160,000,000	
16	NORAD	NRM/Coastal zone mgt Human rights & Health Poverty eradication Governance reform Education/training Capacity building					1,250,000	
	NZAID	Education NRM Community development Conflict Resolution Governance					700,000	
	Sweden Aid (SIDA)	Human Rights Democratization Poverty alleviation					600,000	

Sources<sup>8</sup>

<sup>8</sup> GTZ, Project Group Microfinance, May 2001  
Miscellaneous contact with Jakarta-based donor offices  
Indonesia Foreign Assistance Database ([www.undp.or.id/infoad/profilesdetail](http://www.undp.or.id/infoad/profilesdetail))

## 10.3 Micro-Finance Case Studies

### 10.3.1 Bank Rakyat Indonesia (BRI)

Known as Indonesia's oldest Bank (1895), an offshoot from the German Raiffeisen cooperative bank model, BRI is regarded as the beginning of Indonesian rural banking. A series of hard lessons learned over the years enabled policy leaders and bank management to launch the BRI micro-banking division, the world's largest fully self-sufficient and sustainable micro-finance system, which has operated profitably on a nationwide scale without subsidy since 1987.

### 10.3.2 Yayasan Dharma Bhakti Parasahabat (YDBP)

YDBP began in 1999 with initial funding from experienced businessmen and bankers, as a pilot project providing small loans of USD \$40 - \$225 to farmers and petty traders, primarily women, in the villages of West Java. From the outset, YDBP has followed closely the Grameen approach, providing one year loans without collateral in an effort to deliver a means of self-sufficiency and compliment inadequate government safety net initiatives for the underprivileged. Today YDBP has over 42,000 members and is Grameen's first large-scale replicator poised to become an important player in the field of micro-credit for the poor in Indonesia.

## 11.0 ASSESSMENT OF THE FUTURE MARKET FOR SRI

### Drivers for SRI in Indonesia

- Islamic values based investment industry already well established
- Global SRI funds showing some interest in Indonesia already
- Some SRI research has already been conducted
- Wide range of civil society institutions active
- Significant private equity and development financing programmes under way
- Micro-finance sector active with many schemes and gaining valuable experience of grass-roots investment needs
- JSX & BAPEPAM actively promote corporate governance and sustainable development agenda
- Corporates reporting and adoption of environmental standards improving, with some shining stars

### Conclusion

- Potential for some cross-over between Islamic and SRI investment
- Increasing information to encourage global SRI funds to enter the market
- SRI may be slow to establish, but the potential is there for a solid future

The current era of more open politics, regional autonomy, trade liberalization and citizen participation is creating an environment of rapidly changing needs in a country faced with many new challenges. The IMF post-programme monitoring role helps to reinsure reforms stay on track and cost of capital remains relatively low through an upcoming election year.

The combination of low corporate governance ratings and an insecure investment climate is presently discouraging many funds from considering Indonesia. The slow pace of reform in legal/judicial, banking/financial and political/institutional areas may dampen investor confidence, but macro-environment restoration from strong policy reform has enabled falling public debt, interest and inflation while currency value, new lending and corporate earnings rise. Robust performance in the MSME sector has converted funds into livelihoods, products and services with growing NGO support and remains a key factor in the future stability and commercial success of the country - its world class role in micro-finance underscores further progress in poverty alleviation (see 10.3).

'The increase in external pressure from minority shareholder activism (see 8.0) enhances investor understanding, improves transparency in disclosure/operational accountability and gradually develops a long-term market mindset with the ability to negotiate and resist unethical practices. Recent and upcoming regulations (see 4.1) provide further scope to strengthen enforcement and raise awareness levels. The financial community should be encouraged to exercise prudential oversight in channeling its influence towards capital allocation, ownership prerogatives, new funding and risk management by integrating sustainability into their decisions.

While government and big business struggle with the reform paradigm, there is a growing trend amongst some multinational and domestic companies on the Jakarta Stock Exchange to produce varying degrees of social and environmental reports (see 9.1). This has been driven by a combination of factors related to good governance, ISO14000 standards, Islamic (syariah) compliance (see 2.5.2), corporate HQ direction and investor/public expectation. A few companies have also made early attempts to produce sustainability reports (see 9.3). As corporates act more on their own initiative and out of enlightened self-interest versus increased government regulation and tightened supervision, the promise of real progress becomes profound. Growing awareness of the common investment criteria shared between basic 'syariah' and SRI guidelines may be a precursor to significant growth in Islamic financial instruments and SRI fund opportunities in a range of companies in the foreseeable future.'

## 12.0 APPENDICES

### 12.1 Appendix 1: The History Of JSX

The Jakarta Stock Exchange (JSX) came into being as a privately owned company and operated stock exchange on July 13, 1992. The roots of its establishment can be traced back to the early part of this century. In 1912, under the auspices of the Dutch colonial government, Indonesia's first stock exchange was set up in Batavia, the colony's administrative centre which later became known as the future city of "Jakarta".

Closed during the First World War and then reopened in 1925, the Batavia exchange operated alongside parallel bourses in Semarang and Surabaya until 1942, when the archipelago's occupation by Japanese Imperial Forces curtailed further trading. In 1952, seven years after Indonesia declared its independence, the exchange was reopened in Jakarta, trading stocks and bonds issued before the war by Dutch enterprises. A nationalization programme launched in 1956, however, brought trading to a halt yet again.

Not until 1977 was the exchange reopened, this time under the management of the newly created Capital Market Executive Agency (Badan Pelaksana Pasar Modal - BAPEPAM), an institution reporting to the Ministry of Finance.

While trading activity and market capitalization grew over the years alongside the development of Indonesia's financial markets and private sector - highlighted by a major bull run in 1990 - it was not until the exchange privatisation and liberalization in 1992 under the ownership of Jakarta Stock Exchange, Inc. that the JSX emerged as one of Asia's more dynamic securities markets. As the result of the privatization of JSX, BAPEPAM's function has changed to become the Capital Market Supervisory Agency (Badan Pengawas Pasar Modal).

The year of 1995 marked a new beginning for JSX. As of May 22, JSX launched the Jakarta Automated Trading System (JATS) to replace the manual trading system. The newly installed automated trading system facilitates greater frequency of shares trading and ensures fairer and more transparent market practices as opposed to the manual trading system.

In July 2000, JSX launched scripless trading aiming to enhance market liquidity and to eliminate the occurrence of lost and forged instruments, and to speed up the process of transaction settlement.

In 2002, JSX also initiated the implementation of remote trading in order to increase market access, market efficiency, speed and frequency of trading.

## 12.2 Appendix 2: Islamic Investment And Index Calculation

The JII calculation is done by the JSE based on available data with a market-cap weighted methodology. This calculation also covers adjustments due to changes in public company data and performance.

Sources: Bank Muamalat ([www.muamalatbank.com](http://www.muamalatbank.com))  
 Karim Consulting ([www.karimconsulting.com](http://www.karimconsulting.com))  
 Danareksa Investment Management ([www.danareksa.com](http://www.danareksa.com))

Syariah Relationship: Religion Based (Islam/Syariah)  
 Type of investment: Islamic Banking/Funds/Bonds  
 Criteria: based on strict Code of Conduct for Syariah compliance

- Halal: meets Islamic(Syariah) principles
- Subhat: core activity is halal but revenue source is haram (non-compliant) (i.e. hotel with alcohol sales)
- Makruh: potential to cause sickness/death (i.e. tobacco/arms)
- Haram: does not comply with Syariah principles (i.e. alcoholic products at cafés/restaurants/pubs)
- Debt:Equity: 45 %

### Islamic Bond and Mutual Funds

Short-term market potential: from present Rp. 500 billion to Rp. 4 trillion (US \$55.6 million - US \$470 million)

### Bond Issuers (mudharabah bonds - profit sharing)

- P.T. Indosat, Tbk. - Rp. 175 billion
- P.T. Berlian Laju Tanker, Tbk. - Rp. 60 billion
- P.T. Bukopin Rp. 50 billion
- P.T. Bank Muamalat Indonesia - Rp. 200 billion
- P.T. Bank Syariah Mandiri - Rp. 200 billion (to be offered 9/2003)
- P.T. Indofood Sukses Makmur, Tbk. (in process of market development)

333 (100%) Total listed companies in JSX  
 236 (70.66%) Eligible as Syariah bond  
 59 (17.66%) Not Syariah bond compliant  
     34 (10.18%) are Subhat  
     4 (1.20%) are Makruh

Data: JSX per 1 May 2003 - Jakarta Composite Index 452.2  
 Jakarta Islamic Index 72.86

INDEX DESCRIPTION	Jakarta Composite Index	Liquid Top 45	Jakarta Islamic Index	Main Board
Jan-02 2002 Close	451,636	96,952	70,459	121,117
Dec-02 2002 Close	424,945	91,978	67,318	112,582
Variance	(26,691)	(4,974)	(3,141)	(8,535)
Percent	-6%	-5%	-4%	-7%
1-May 2003 Close	452,198	99,139	72,862	117,441
29-May 2003 Close	494,776	110,059	81,065	130,488
Variance	42,578	10,920	8,203	13,047
Percent	9%	11%	11%	11%

## Islamic Banking

*Legal basis:* Law No. 10/1998 on banking  
Law No. 23/1999 - Bank Indonesia

*Potential market:*

- Mid-term growth potential (2011) : 54%
- 0.26% of total asset banking sector by 2011: Rp. 204 trillion

*Islamic Banks:* Bank Muamalat  
Bank Syariah Mandiri  
Micro-finance/Bank Perkreditan Rakyat Syariah (BPRS): 89 institutions

*Islamic Business Units:* Bank Bukopin, Bank Danamon, Bank BNI, Bank BRI, Bank IFI,  
Bank BII, BPD East Java

*Total Islamic Assets and Financing*

No	Description	Commercial Banks (January 2003)	Microfinance (BPRS) (December 2002)
1	Total Asset	Rp. 4.403 trillion	Rp. 165 billion
2	Third party fund	Rp. 3.112 trillion	Rp. 100 billion
3	Total financing	Rp. 3.379 trillion	

Source: Kompas, 30 April 2003 & ASBISINDO<sup>9</sup>

## 12.3 Appendix 3: Data On Consumer And Investor Awareness

### Survey on Consumer Awareness of Environmental/Social Issues

Survey on Internalization of Environmental Aspects into Investment Activity under the auspices of the Ministry of Environment and the University of Indonesia (Laporan Akhir Kajian Internalisasi Aspek Lingkungan Hidup dalam Kegiatan Investasi. Kementerian Lingkungan Hidup dan Universitas Indonesia)

<sup>9</sup> Kompas 22 April 2003: Investasi Obligasi Syariah Bisa Capai Rp. 700 Milyar  
Kompas 30 April 2003: Perbankan Syariah yang Semakin Memikat

No.	Level of Importance	Results by Rank
1	Level of importance - internalization in investment activity	87.5% agree (87% agree to apply it in planning and feasibility study stages; 13% agree to apply it in IPO and listing process)
		Requirements for listing: EIA (0.786), EMS (0.710), environmental programmes and environmental certification (0.429), environmental audit (0.286) (Peraturan Pencatatan Efek Nomor 1-B) 12.5% do not agree
2	Level of importance – driving forces for internalization in investment activity	To protect the environment (0.430), to comply with regulations (0.290), public image/reputation (0.140), to apply with international standards/ buyer requirements (0.700), to support the government (0.700)
		Budget constraints: Budget is limited (8.000), high investment cost (7.786), instant benefit is not clear (7.000)
3	Corporate policy for internalization	To protect the environment if relevant with its economic benefit/profit (0.430), to protect the environment although profit reduction (0.360), Priority on economic and production aspects (0.210)
		Budget allocation: Investments in: raw material savings (energy, water) (0.430), compliance (0.290), pollution prevention (0.210), environmental performance (0.070)
4	Implementation Strategy	To prevent pollution at source (0.690), minimize utilization of water and energy (0.310)  Policy priorities: To protect the environment (0.238), to comply with regulations (0.232), to prevent pollution (0.156) and to reduce complaints (0.113)
5	Benefits	Protection of the environment (0.430), compliance and law enforcement (0.290), support to government programmes, good image of company, reduction of public complaint and increase sales/demand (0.070)
		Economic benefit: Not clear (0.500), tangible economic benefit (0.290), no proof of economic benefit (0.210)

6	Influence of environmental problems on corporate financial performance	Pollution having direct impact on financial performance (0.710): (analysis and risk evaluation of company to the environment to be included in company report (0.750), in social conflict case of environmental problems (0.125) and in social conflict due to workforce problems (0.125)
		Pollution not having direct impact to financial performance of company (0.29) (public company to implement EMS (0.67 and environmental audit 0.33)
		Reporting Public company report to include incidence of environmental pollution and social conflict (0.86) and not to include same (0.14)
		Rating Public company to include performance of: EMS (0.55), safety and health (0.18), nature conservation (0.18), labour (0.09).
		Annual And Semi Annual Reports Public company to include environmental performance report (0.670), to submit report on business operation regarding natural resources material (0.170), to submit a report on labor and performance of safety and health (0.080)
		Sanctions To lower the level of rating in stock exchange (0.610), administration sanction (0.330), delisting (0.060)  Administrative sanctions: cancellation of: permits, registration, operational approval and limitation of activity
7	Type of public company to implement internalization	Manufacturers (0.100), Natural Resource-based Production (water, mineral, forestry, oil and gas)(0.930), Poultry (0.790), Transportation (0.570), Property and Hotel (0.500), Restaurant (0.500), Construction (0.360), Repair Services (0.290)

Source:

Kantor Menteri Negara Lingkungan Hidup. Laporan Akhir: Kajian Internalisasi Aspek Lingkungan Hidup dalam Kegiatan Investasi. Jakarta, 2001

Notes:

- Secondary data: books, regulations, library, seminar/research paper, relevant institutions and companies under IPO process
- Primary data: observation in JSX, interview with questioner, in depth interview with investors and issuers and discussions with stakeholders
- Respondents: experts and professionals in issuers, JSX, brokers, environmental specialists and capital market experts

Other results from the Survey:

No.	Issues	Description
1	Requirements for Green Public Company	<ul style="list-style-type: none"> <li>a. EIA for those companies on a compulsory list (please refer to the EIA regulation – all types of large business &amp; major polluters from the beginning of JSX registration)</li> <li>b. Implementation of Env. Mgt. System (EMS)</li> <li>c. Detailed Programme Plan and Environmental Policy for short-term and long-term period</li> <li>d. Certification (Eco-labeling, ISO 14000 series)</li> <li>e. Environmental audit</li> <li>f. Evaluation of regular report by relevant institutions, independent consultant, etc.</li> <li>g. Risk analysis report on environmental problems</li> <li>h. Reward has be achieved in environmental management</li> </ul>
2	Green Stock Group	<ul style="list-style-type: none"> <li>a. Minimum requirements to be determined</li> <li>b. Assessment can be done by existing appraisal institutions with experience in environmental aspects</li> </ul>
3	Environmental Index	<ul style="list-style-type: none"> <li>a. Use existing mechanism for Index setting (depends on nominal value of the stock, volume of sales).</li> <li>b. Please refer to establishment mechanisms in setting-up LQ-45, Composite Index or Islamic Index</li> </ul>

## 12.4 Appendix 4: Annual Report Award 2002

A Jury Committee was provided with detailed assessment criteria for each audited 2001 Annual Report consisting of:

- All information and presentations about the profile of those companies which are not limited for such as the brief descriptions of the companies, brief descriptions about their business, products and their core strengths, lists of subsidiaries and affiliation parties, the composition of their commissioners and directors, including independent commissioners, audit committees, shareholder composition, organization structures, number of employees and human resources development programmes;
- All information and presentations about their reports in connection with their implementation of good corporate governance principles which are not limited for such as the descriptions of mission and vision of their companies in the implementation of good corporate governance, the duties of their Board of Directors, Board of Commissioners, Audit Committees and Remuneration Committees, activities in connection with their supports for social and environment equilibrium, transaction with affiliated parties and their explanations with regard to business ethics implementation;

- All information and presentations about analysis and management discussions of their companies implementation, which are not limited for such as their operational and financial performance, their dividend policies and payments, business prospects and strategies and their implementation with regard to business policies;
- All information and financial report presentations with regard to the current general accepted accounting principles and related capital market regulations;
- All information and other relevant report presentations that can be presented fairly according to the needs of their stakeholders such as their shareholders, suppliers, employees and others.

The evaluation was conducted examining audited Annual Reports 2001 under this criteria emphasizing the implementation of good corporate governance principles. Once the Jury Committee selected the potential top rated companies, the Committee interviewed the management of those potential top rated companies on August 5<sup>th</sup> and 6<sup>th</sup> 2002. The Jury Committee did not perform any audit or investigative audit, or any related procedures in this evaluation process.

Source<sup>10</sup>

## 12.5 Appendix 5: A Summary Of The 2002 Green Report Of P.T. Astra International Tbk

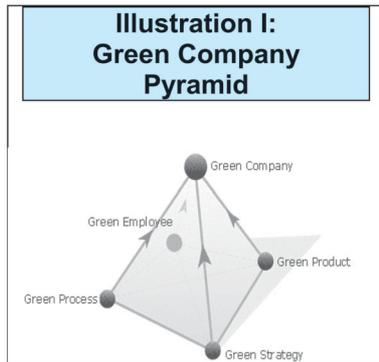
*The full published Report is available on the Indonesia Country Page of [www.asria.org](http://www.asria.org)*

From its inception in 1957, P.T. Astra International, Tbk. (Astra) founders created milestones for excellence and chose to engage in business that created added value for the nation and society while utilizing available resources to grow and prosper together with the surrounding environment. Today, Astra is a public Company with six business divisions: Automotive, Financial Services, Heavy Equipment, Agribusiness, Information Technology, and Infrastructure. Over the course of its development, the Company has formed strategic alliances with many reputable international corporations in its effort to expand business opportunities.

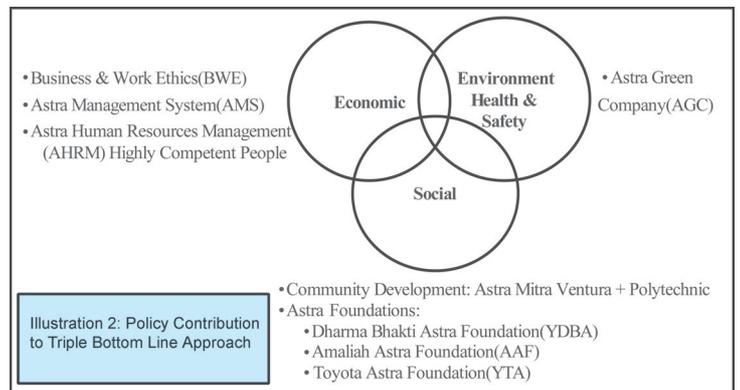
The clairvoyance of Astra founders in strong business principles and values provided the basis for a 1980's policy entitled 'Guidelines on Business and Work Ethics'. This early focus on good corporate governance was revised in 2001 to insure professionalism, continuous performance improvement and to maximize corporate value in compliance with current standards and regulations. To support Astra's commitment to maintaining standards of transparency, accountability, responsibility and fairness in accordance with good corporate governance principles, an Audit Committee, Executive Committee, and Remuneration/ Nomination Committee as well as a Risk Management Group and an Internal Audit Department were established over the past couple years.

The early 1980's also marked the formation of the first Environment, Health & Safety (EHS) Committees focused on awareness of fire safety, loss prevention and environmental regulations related to waste, water and air usage. World trends toward cleaner production and zero waste influenced programmes introduced as pro-active and comprehensive ways of dealing with pollution and determining more efficient processes and materials less hazardous to human health and the environment. EHS initiatives have been translated into a **4C approach** : **Commitment, Compliance, Competence** and **Cleaner Production**, which provides a foundation for Astra Green Company assessment criteria. EHS Corporate Policy in 2000 signified

<sup>10</sup> Bapepam Press Release re Annual Report Award, August 2002



the creation of the Astra Green Company (see Illustration 3) and involved four distinct pillars: Green Strategy, Green Processes, Green Products and Green Employees (see Illustration 1). Astra management recognized business as a Green Company ultimately generates solutions to EHS challenges, as well as being a friendly interface with the environment and community. Astra continues to implement this Triple Bottom Line (TBL) approach as the foundation for 'sustainable business' in an effort to integrate the achievement of economic, social and environmental, health & safety performance in its 2003 EHS Corporate Policy (see Illustration 2) .



The creation and application of various TBL management 'tools' has its roots within the individual behavior of Astra employees. Training and competence development programmes are implemented based on an HRD system (AHRM) that supports the establishment of a corporate culture involving all workers (see Illustration 2). An Astra Management System (AMS) was also developed from its Total Quality Control network as a framework and process guide in creating "operational excellence".

The strategy towards achieving TBL performance is reflected in real action programmes which the Astra Group have emphasized in two major programme areas: EHS and Social Development. A number of eco-efficiency and health & safety programmes have been initiated in affiliated companies, producing a number of tangible and intangible benefits. The tangible results are important for management to quantify the benefits of EHS implementation. EHS practices enforce key EHS principles: **Refine, Reduce, Re-use, Recycle, Recover** and **Retrieve-to-Energy**. Best performance in accordance with Astra Green Company criteria is labeled 'GOLD' level, while low results receive a 'BLACK' level endorsement. The achievement of Astra Green Company performance is used as input for subsequent EHS Corporate Policy refinement, as well as reference material in executive reviews to monitor the extent of sustainability in each business sector.

In line with its vision of 'Prospering Together with the Nation', the Astra Group has initiated a number of community development programmes, serving local communities near its Head Office and local communities surrounding subsidiary companies throughout Indonesia. The Dharma Bakti Astra Foundation (YDBA) focuses on assistance in the development of SME's in Indonesia (see Illustration 1).

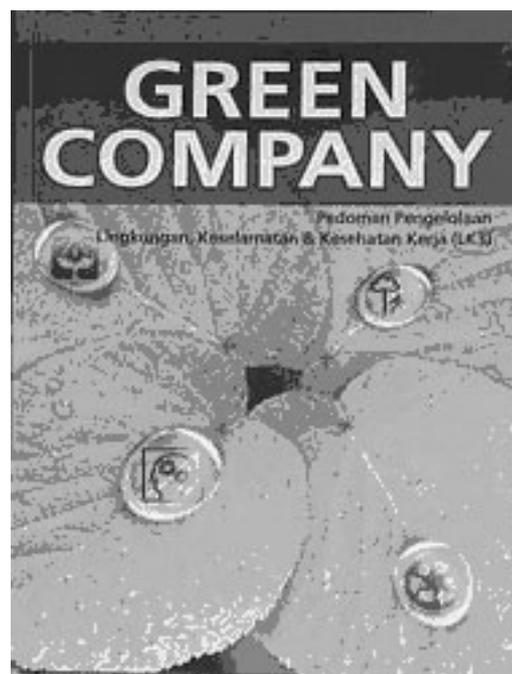


Illustration 3:  
Green Company Book

In 2002, the Foundation sponsored 70 training programmes with like-minded corporate partners for over 1,500 SME's. An Astra venture capital company, P.T. Astra Mitra Ventura (AMV), invested almost Rp. 15 billion in 45 partner companies in 2002. These partners have shown positive growth and adopted relevant investment criteria that embody CSR principles and reflect the overall strategy, principles and values of the Astra Group. There is an Astra Manufacturing Polytechnic that serves as a technical institute providing education and job opportunities for an average 200 students per year with 60% of the graduates employed in Astra Group companies. Lastly, the Toyota Astra Foundation likewise supports a scholarship programme and enabling funds for a host of university research, symposiums, expositions, e t c .

The Community Development programmes are also conducted in subsidiaries located throughout Indonesia. These companies work closely with local communities and leaders to develop neighborhood contests that contribute to overall cleanliness of local neighborhoods and a sense of pride and community spirit.

## 13.0 RESEARCH PARTNER

### **David Finneren**

David Finneren is the President Director of P.T. Minaca Selaras, an Indonesia-based enterprise supporting corporations in their approach, identification, implementation, integration, quantification and reporting on sustainability initiatives. The company also facilitates investment in specific sustainable development projects related to clean production/climate change, water resource utilization, ecotourism and renewable energy as well as sustainable ventures in agriculture, forestry, plantations, fisheries and resource extraction. Since 1998, he has been a Regional Vice President in S.E. Asia and Advisor to Integrated Control Systems, Inc. (USA), a leading global specialist in productivity and efficiency solutions incorporating guaranteed performance and sound investment returns.

### **Emma Rachmawaty**

Emma Rachmawaty is Head of Economic Resources Division, Ministry of Environment, Republic of Indonesia. She has been working for MOE for 11 years and since 1993 she has been in charged of involving financial institutions in Indonesia in incorporating environmental aspect into their business practice. She manages environmental credit-lines channelled by banking sector for investment. Recently she has been tasked with identifying possible involvement of non banking financial institutions in environmental management and to create other alternatives of financing for environment. She also responsible for setting up policy on changing unsustainable production and consumption patterns, setting up policy on economic instruments implementation and actively involved in Trade and Environment Committee of WTO.

## 14.0 GLOSSARY

<b>ADB</b>	<b>Asian Development Bank</b>
<b>BAPEPAM</b> <b>BSP</b>	<b>Badan Pengawas Pasar Modal</b> <b>Biodiversity Support Programme</b>
<b>CG</b> <b>CFO</b> <b>CSR</b>	<b>Corporate Governance</b> <b>Chief Finance Officer</b> <b>Corporate Social Responsibility</b>
<b>DFID</b> <b>DIM</b>	<b>Department For International Development (UK)</b> <b>Danareksa Investment Management</b>
<b>EIA</b> <b>EU</b>	<b>Environmental Impact Assessment</b> <b>European Union</b>
<b>GCG</b>	<b>Good Corporate Governance</b>
<b>IICG</b> <b>IMF</b>	<b>Indonesian Institute For Corporate Governance</b> <b>International Monetary Fund</b>
<b>JII</b> <b>JSX</b>	<b>Jakarta Islamic Index</b> <b>Jakarta Stock Exchange</b>
<b>MNC</b> <b>MOU</b>	<b>Multi National Corporations</b> <b>Memorandum Of Understanding</b>
<b>NCCG</b> <b>NGO</b> <b>NRM</b>	<b>National Committee For Corporate Governance</b> <b>Non Governmental Organisation</b> <b>Natural Resource Management Programme</b>
<b>QC</b>	<b>Quality Control</b>
<b>ROI</b>	<b>Return On Investment</b>
<b>SME</b> <b>SOE</b>	<b>Small and Medium Sized Enterprises</b> <b>State Owned Enterprise</b>

## **ASrIA, Association for the Sustainable and Responsible Investment in Asia** [www.asria.org](http://www.asria.org)

ASrIA is a not-for-profit membership association dedicated to promoting sustainable and responsible investment (SRI) practice in Asia. ASrIA has over 100 members including investment institutions managing over US\$2 trillion in assets. In order to raise awareness about SRI, ASrIA has run conferences, seminars and workshops, and published wide-ranging research on SRI issues. ASrIA has also created a network of people and organizations committed to developing SRI in Asia. ASrIA's website, [www.asria.org](http://www.asria.org), is the primary resource for SRI in Asia, already attracting over 1,800 page views per day and 5,000 subscribers to the regular e-bulletin.

### **What is SRI?**

Sustainable and Responsible Investment (SRI), also known as Socially Responsible Investment, is investment which allows investors to take into account wider concerns, such as social justice, economic development, peace or a healthy environment, as well as conventional financial considerations.

The most successful SRI funds provide investors with dual returns:

- Financial returns that compare well to, and often exceeding, the returns of conventional investments
- Social and environmental rewards that go beyond the direct financial return to the investor

SRI is therefore a positive economic choice about the way we live and the world we live in.