Corporate Social Responsibility in Mining Companies: Regulation and Business Role in Indonesia

Antonius Setyadi
Faculty of Economics and Business, Universitas Mercu Buana, Indonesia

Abstract.
This study aims to examine the role of mining business actors concerning community development in Indonesia from a regulatory perspective related to corporate social responsibility (CSR) programs. This research used qualitative methodologies using interviews and literature reviews were used. Mining companies share the common objective of profitability with other business sectors. However, CSR program within companies mandates that mining companies play a developmental role as community agents in the vicinity of their operations. In Indonesia, the national ideology of Pancasila and the 1945 Constitution, serves as the highest legal document, which firmly establishes that mining resources are under the control of the state. These resources are used to achieve social justice for all Indonesians through equitable development carried out by companies. This study explores CSR programs in the Indonesian mining sector by conducting a special role regulated by the ideology and constitution of the nation.

Keywords: CSR, regulation, mining companies

1. Introduction

The popularity and widespread application of Corporate Social Responsibility (CSR) programs by many companies worldwide, including in Indonesia, have drawn the attention and interest of various stakeholders, including academics [1]. Recently, Kurowski & Huk (2021) reported that mining companies are increasingly embracing CSR, which has resulted in a relatively high level of social responsibility within this industry [2].

The consideration of stakeholders is also crucial when discussing CSR and its emphasis on social impact. Wheeler et al (2002) reported that CSR is a theoretical structure used to explore companies attitudes toward stakeholders [3]. The nature of business operations almost inevitably entails social, environmental, and economic consequences. Therefore, companies are obligated to consider their stakeholders, which include the government, customers, owners/investors, and affected the community, as stipulated by regulation.
One of these stakeholders in companies is the community around mining area. According to Veiga et al. (2001), mining community are defined as populations residing in areas heavily impacted by the operations in their vicinity [4]. Through immediate employment or through the effects mining has on the economy, society, and the surroundings, these localities are connected to the mining industry, and the size varies widely, ranging from a city to a village [4].

Across different nations, companies have adopted CSR programs aimed at benefiting the community around mining sites in diverse ways. In addition to offering compensation for losses resulting from mining activities, they have implemented infrastructure development, community health initiatives, the establishment of foundations, support for small local business, promotion of sports and cultural activities, as well as initiatives to enhance educational opportunities [5-6]. Even though mining companies may have similar programs, this study focuses on examining the nuanced understanding of role in community development.

Mining operations are scattered across the globe, including numerous locations throughout Indonesia. The majority of these mines are situated in remote areas. The Indonesian Forum for the Environment claims that (Walhi) and Auriga, as of July 2022, land concessions in Indonesia covered approximately 10 million hectares (ha) [7]. Given the extensive presence of mining operations and the widespread pursuit of this business sector, this study seeks to investigate role of companies concerning the community residing in proximity to mines, through the lens of CSR programs. In addition, the analysis draws upon existing regulation to provide a comprehensive understanding of this matter. The questions to be answered through this study are:

What are regulation governing CSR activities in mining sector in Indonesia?

How does this regulation shape role played by mining companies concerning the welfare of the community around mining areas?

2. Theoretical Review

2.1. Companies Social Responsibility (CSR)

The International Organization for Standardization’s (ISO) 26000 comprehensive definition of an organization’s responsibility for the consequences of its decisions and actions on the environment and society of CSR [8]. Transparency and moral conduct are hallmarks of corporate social responsibility (CSR), and they support sustainable
development that benefits society as a whole. In addition, corporate social responsibility (CSR) conforms to existing legal requirements, considers the expectations of stakeholders, and upholds global norms of conduct. It is applied in the organization’s interactions with stakeholders and integrated across the board.

This concept emphasizes an organization’s accountability for how its actions and choices influence the social welfare of those impacted by its businesses or business processes. This is relevant for manufacturing and mining companies with varying degrees of impact on surrounding the community, including environmental effects on social life. In addition, the above definition alludes to compliance with applicable laws, especially in the country of mining area.

2.2. Stakeholder Theory

‘Groups whose support is vital for the life of an organization’ is how the Stanford Research Institute (SRI) first coined the term “stakeholders”. Suppliers, purchasers, public policy decision-makers, social organizations, and the government are examples of a company’s stakeholders [9]. There are two categories of possible stakeholders: (1) Primary stakeholders: government, trade associations, political parties, and the community; (2) Secondary stakeholders: shareholders/investors, creditors, consumers, suppliers, and workers. However, according to stakeholder theory, managers and business owners need to take into account the legitimate interests of the people and groups who are impacted by their operations [10].

2.3. Study Methods

This study used a qualitative approach, through case-study study methods with philosophical assumptions of constructivism. Document analysis, focus group interviews, and interviews were used to gather data. Additionally, semi-structured interviews were carried out with informants, which included one group and five individuals with knowledge of and experience in the mining industry from the Ministry of Energy and Mineral Resources, state-owned enterprises, and private firms. The informants were in a strategic position as the decision makers and played a role in Indonesian mining sector, 4 (four people) and 1 (one) group of informants are in strategic positions, and are decision makers and play a role in the mining sector in Indonesia. 1 (one) person is someone who is experienced in managing CSR in a company on the European continent, where the researcher feels it is necessary to add information and experience from this informant as
additional data to increase insight into CSR practices abroad. The selection of informants from the private sector and state-owned companies was not differentiated for several reasons as follows:

1. The CSR output of both the state-owned and private sectors company is not differentiated because it could be that within the same project, there is cooperation or collaboration between the private sector and state-owned company.

2. The state-owned company that handles mining is incorporated into a holding company, called MIND ID, which has diversified types of mining. There is only 1 (one) state-owned company that handles nickel, and this company is used in this research.

3. The research is in normative view (emphasizing a philosophical/philosophical basis), or normative CSR and not research on programs (instrumental CSR), so that the moral foundations of both state-owned company and the private sector are considered the same.

This research also used the Focused Group Interview (FGI) technique with 6 (six) people from a CSR team of State-Owned company who have businesses in nickel mining, which was carried out online, connected to the internet network. The 6 (six) people who are members of FGI are members of the Institutional Relations and CSR Division of the State-Owned company, who work in one division, including for CSR programs, and they are different from the informants in the interview above.

In this research, the documents used contain CSR-related news and cases from Indonesia, international CSR research publications, statistics from statistical agencies, and other reliable sources will be consulted to offer further information. Apart from that, juridical documents are also used in the form of the Law of the Republic of Indonesia and its derivative regulations such as Government Regulations.

Meanwhile, data analysis used categorical aggregation according to the type of study conducted, namely instrumental case studies. Stake (1995:74) suggests two ways of analyzing and interpreting data, namely Categorical aggregation and also Direct interpretation [11]. This research uses Categorical aggregation in line with the type of case study research used in this dissertation research, namely instrumental case study research. Categorical Aggregation is a way to cluster complex data into categories or classes to make it easier to search for meaning. This involves searching for a set of themes from the data, in the hope that relevant meaning will emerge regarding the lessons to be learned about the case. A thematic analysis of all the data will be carried out, with the aim of looking for common themes.
Data analysis using the categorical aggregation method, as initiated by Stake (1995), is as follows [11]:

The researcher first read the transcript and used content analysis to pinpoint particular themes. Similar instances and occurrences are grouped together when themes are found. After grouping similar data together, researchers can make interpretations about what is meant by categories. As Patton (2002) notes, sometimes this step results in areas of ambiguity or very large concepts. When this happens, content analysis is performed again to filter the data and better understand what was found.

The next step is to group themes into larger categories.

During this analysis, the researcher also remains sensitive to new themes and categories,

Narrative notes are written, using key quotes from categories and themes, linked to research questions, and other documents.

In this research, the researcher used MAXQDA 2018. Data validity in this dissertation study was related to four triangulation strategies, namely: triangulation of data sources, researchers, theory, and methodology [11].

3. Discussion

3.1. What are regulation governing CSR activities in mining sector in Indonesia?

CSR practices in Indonesia are regulated in regulation, as follows:

1. Article 74, paragraph 1, Law Number 4: Social and environmental responsibility is mandatory for businesses in the natural resource industry. Consequently, environmental social responsibility (CSR) is the word employed in this Limited Liability Company Law. (TJSL) [12].

2. For other business entities, Law Number 25 of 2007 on Investments, Article 15 [13], letter (b), stipulates that “Every investor is obliged to carry out CSR.”

3. Specifically for State-Owned Enterprises (BUMN), including Public Limited Liability Companies and Public Companies, there are activities as a form of social responsibility, known as BUMN Environmental Social Responsibility (TJSL BUMN). Ministerial Regulation PER-05/MBU/04/2021 regarding the BUMN Social Responsibility Program served as the foundation for the approval of this program (TJSL) [14]. Furthermore, the program previously known as the Partnership and Community
Development Program (PKBL) was superseded by the new title. This PKBL's legal foundation was Law Number 19 of 2003 about BUMN, notably Article 88 [15].

Before regulation regarding SOE TJSL, PKBL was conducted by SOEs based on BUMN State Minister Regulation No. PER-05/MBU/2007 concerning SOE Partnership Program with Small Business and Community Development Program [16]. The government established this program to encourage participation from BUMN in community empowerment efforts, with a particular emphasis on strengthening micro and small business units. The ultimate objective was to increase overall community welfare and promote an equitable distribution of development outcomes. Furthermore, the Minister of BUMN Regulation Number Per-02/MBU/7/2017 [17] governed the Second Amendment to the Minister of State-Owned Enterprises Number PER-09/MBU/07/2015 Regulation concerning Partnership Programs and Community Development Programs for Owned Enterprises Country. According to the SOE Ministerial Regulation Number Per-02/MBU/7/2017, the main goal was to hasten micro and small businesses’ transition to self-sufficiency in order to build a just, prosperous, and equitable society [17]. To achieve this, it was essential to foster the growth and development of micro and small business by providing access to capital, enhancing management capabilities, and supporting other related activities.

The Minister of State-Owned Enterprises of the Republic of Indonesia, Number Per-02/MBU/7/2017, defined the PKBL program in Article 1, Paragraph 6. This regulation was later amended by the Minister of State-Owned Enterprises, Number Per-09/MBU/07/2015, on Partnership and Development Programs for the Environment of State-Owned Enterprises [17]. According to this definition, BUMN Partnership Program enhanced the capacity of small business to become self-sufficient. Article 9, Paragraph (1) of regulation provided further details on the designation of the Partnership Program.

**Article 9**

**First Partnership Initiative** The money is distributed as follows:

a) Loans to cover working capital needs and fixed asset purchases that boost output and sales.

b) Extra loans to cover immediate expenses in order to complete orders from Foster Partners’ commercial partners.

c) Construction Load:

(2) To fund research on the Partnership Program as well as initiatives pertaining to education, training, apprenticeships, marketing, promotion, and other issues aimed at boosting the productivity of Fostered Partners.
In reference to the Community Development Program, the Ministry of State-Owned Enterprises of the Republic of Indonesia Number Per-02/MBU/7/2017 (7) provides a copy of the Second Amendment to the Minister of State-Owned Enterprises Number Per-09/MBU/07/2015 concerning Partnership and Community Development Programs Community Development for State-Owned Enterprises, Article 1 Paragraph. This document clarifies that the BUMN Community Development Program, also referred to as the Community Development Program, enhances the social conditions of the community [17]. Meanwhile, the allocation of funds is regulated in Article 9, as follows:

Article 9

(3) Environmental Development Program Funds are disbursed in the form of:

2. Training, facilities, and infrastructure can all be considered forms of educational support.
3. Helping to promote health.
4. Support for the construction of public facilities and/or infrastructure.
5. Support for places of worship.
6. Support for the preservation of nature.
7. Social help from the community within the context of poverty reduction, including for
   1. The installation of electricity in unconnected locations.
   2. The supply of facilities for clean water.
   3. The availability of restrooms, sinks, and washing areas.
   4. Assistance in the categories of promotion, education, training, apprenticeship, and other pertinent areas in an endeavor to assist small businesses—apart from Partnership Program Partners—in achieving greater financial independence.
   5. Poor people's housing repairs.
   6. Financial support for fisheries, agriculture, and animal husbandry.
   7. Support for commercial equipment.

This knowledge about PKBL helps in understanding the basis of SOE TJS/SL which in practice has a link to PKBL to help Indonesian people fairly and equitably.

In the SOE TJS/SL program, which was approved in 2021, the UN's 2015–2030 Sustainable Development Goals (SDGs) have been included into the program's implementation
paradigm. BUMN Social and Environmental Responsibility Program (TJSL) Ministerial Regulation PER-05/MBU/04/2021, Article 1 number 18 states the definition of CSR by stating “BUMN Social and Environmental Responsibility Program, commonly known as BUMN CSR Program, encompasses a range of activities that reflect the steadfast of companies dedication to sustainable development [14]. This includes delivering positive outcomes to the economy, society, environment, law, and governance through an approach that is more cohesive, targeted, quantifiable, and responsible, forming an integral part of companies overarching business strategy”. The Minister of BUMN Regulation Per-05/MBY/04/2021, which describes the Social and Environmental Responsibility Program for State-Owned Enterprises, states in Article 5 that the BUMN TJSL program is built around a number of fundamental principles [18]:

1) Social: To increase community welfare by achieving the fair and equitable realization of fundamental human rights.

2) Environment: For the sustainable management of the natural resources that support life on Earth and the surrounding environment.

3) Economy: To achieve superior economic growth through creative commercial endeavors, inclusive businesses, reasonably priced renewable energy, sufficient infrastructure, and partnerships that foster sustainable employment and business possibilities.

4) Law and governance: To establish security, stability, and a law-based state, it is necessary to realize legal certainty and effective, transparent, responsible, and participatory government.

In Indonesia, the regulatory framework governing CSR for Limited Liability Companies is referred to as TJSL. This term encompasses two fundamental components of responsibility, namely social and environmental. It is distinct from the term CSR, which solely pertains to social responsibility. Regarding TJSL, the environmental responsibility component has its regulation. According to Minister of Energy and Mineral Resources Regulation Number 26 of 2018 about the Implementation of Good Mining Principles and Supervision of Mineral and Coal Mining, this obligation in the mining industry is governed by good mining practices.

Good mining practices are included in Article 3 paragraph of Minister of Energy and Mineral Resources’ Regulation Number 26 of 2018, which addresses their implementation and the oversight of coal and mineral mining (3) [19]:

a) Technical mining
b) conservation of coal and minerals.

c) Occupational safety and health in mining.
d) Safety of mining operations.

e) Environmental control during mining, reclamation, and the post-operation phases.

f) The use of engineering skills, technology, and the design, development, and implementation of mining technology.

Mining companies are obligated to obtain environmental documentation, such as an analysis of impacts or management efforts, monitoring reports, or statement in paragraph 14. The basis of all these arrangements is the 1945 Constitution of the Republic of Indonesia article 28H (1) where “Each person possesses the inherent entitlement to live a life of physical and spiritual prosperity, to have access to adequate shelter, enjoy a safe and healthy environment, as well as right to receive healthcare services.”

The provincial governor issues a blueprint for the Master Plan for the Development and Community Empowerment in Mineral and Coal Mining Business Activities (also known as the PPM Blue Print) for these CSR arrangement companies based on Article 2 paragraph (1) of Minister of Energy and Mineral Resources Regulation Number 41 of 2016 concerning the Development and Empowerment of Community in Mineral and Coal Mining Business Activities. The integrated development master plan serves as a guideline for holders of exploratory mining business permits, special exploration mining business permits, and production operation mining business licenses in preparing community development and empowerment programs.

PPM Blue Print encompasses various initiatives to enhance the human development index at both the provincial and district/city levels (Article 3, paragraph 1). This holistic approach fosters prosperity among remote community, in line with the objectives enshrined in Indonesian constitution, namely the principles of Pancasila and the 1945 Constitution.

As an illustration, consider the PPM Blue Print, which the Central Sulawesi Governor released in accordance with Regulation Number 38 of 2019 on the Master Plan for Community Development and Empowerment in Mineral and Coal Mining Business Activities. In this particular situation:

1. The Community Development and Empowerment, or PPM, refers to initiatives aimed at promoting advancements in health, education, employment, real income levels, and sociocultural aspects of the local community. It also involves giving the community opportunities to engage in sustainable environmental management of the area surrounding the mine, creating institutions to support PPM’s independence, and developing infrastructure to support PPM.
2. Community Development and Empowerment Blueprint referred to as PPM Blueprint, is a document that contains an integrated strategic development plan for the PPM policy directions in the Province.

3. PPM Master Plan is a document that contains the program plan prepared based on the Blueprint.

4. d) The Periodic PPM Program is carried out in accordance with a work plan and budget that have been authorized by statute for the current year.

A blueprint for empowerment and community development

Section 2

The preparation of PPM Blueprint is conducted by:

1. Taking into account the national and regional spatial layout plans in addition to the national and regional medium-term development plans

2. Involving the Regent/Mayor whose jurisdiction covers Mining Business activities.

Section 3

(1) PPM Blueprint as referred to in Article 2 contains at least:

1. increase in provincial and district/city human development index

2. the community’s economic growth surrounding the mine up to the commencement of post-mining operations,

3. sustainable socio-cultural and environmental development of Community,

4. community institutional development in supporting the independence of PPM,

5. infrastructure development supporting PPM.

The increase in the human development index of the Province and Regency/City as explained in paragraph (1) letter a refers to the human development index resulting from study and statistical data owned by the Province and Regency.

The degree of actual income or employment in the community is determined by the economic growth of the area up until the post-mining activities mentioned in paragraph (2) letter b are implemented based on the gross regional domestic product before the existence of mining business.

The sustainable socio-cultural and environmental development in paragraph (2) refers to the lowest local wisdom consisting of:
1. customs
2. religion
3. sports and arts
4. participation in environmental management.

Section 5

(3) PPM Master Plan as referred to in paragraph (1) includes plans for empowerment and community development programs from the post-mining program to the production operating phase.

(4) PPM Master Plan in paragraph (3) is created via social mapping to get a general idea of the community’s starting conditions consisting of:

1. Health
2. Education.
3. Amount of actual revenue or economic activity in accordance with the profession practiced.
5. Civic and societal.
6. presenting chances for local residents to engage in environmentally friendly management.
7. the establishment of local institutions to aid PPM's independence.
8. the creation of infrastructure to assist PPM.

3.2. How does this regulation shape role played by mining companies concerning the welfare of Community around mining areas?

Companies to extract natural resources from mining area are not autonomous entities. The primary focus is to acquire the wealth contained within mining site, and the operations are subject to state regulation, which govern their role and responsibility. For example, Point (b) of Law of the Republic of Indonesia Number 19 of 2003 respecting State-Owned Enterprises emphasizes the significance of State-Owned Enterprises in structuring the national economy to achieve Community Welfare [15].
Section 2

(1) The purposes and goals behind the creation of SOEs are:

a) support the growth of the state’s revenue and the country’s economy overall;

b) pursue profit.

c) Planning for the provision of high-quality, sufficiently abundant commodities and services to suit the requirements of the general public in order to achieve public benefits.

d) Take the lead in commercial ventures that the cooperatives and private sector have not yet undertaken.

e) Engage in active participation in offering advice and support to business owners from economically disadvantaged groups, cooperatives, and the community.

Weighing point (b)’s language makes it quite evident that SOEs play a part in structuring the national economy in a way that promotes human wellbeing. The Minister of State-Owned Enterprises of the Republic of Indonesia Number: Per-8/MBU/08/2020 Concerning the Strategic Plan of the Ministry of State-Owned Enterprises for 2020–2024 has also stressed this in Attachment I to the regulation [22].

Chapter I Part (B) Potential and Challenges

“As a government institution, the Ministry of BUMN has role of administering affairs in BUMN sector to support the President in governing the state. This role is in the form of fostering and encouraging BUMN to become agents of development and value creation. Furthermore, the Ministry of BUMN is tasked with developing business scale while at the same time ensuring that increasing business scale provides added value to Indonesian economy.”

Although role of BUMN as a development agent of the government is well-defined, the same principle applies to private mining companies. The government has established regulation that outline the relationship between mining companies and the government, including responsibility for CSR practices. Article 1 paragraph (3) of Law of the Republic of Indonesia Number 40 of 2007 regulating Limited Liability Companies stated that [14]:

“Businesses that uphold sustainable economic growth and improve living standards for themselves, their communities, and society at large are committed to practicing social responsibility and environmental responsibility”.

The aforementioned regulations are meant for Limited Liability Businesses that play a part in sustainable economic growth to enhance the environment and quality of life for the benefit of the local community and the wider public.
Responsibility of mining companies, as mandated by government regulation including the Law of the Republic of Indonesia Number 3 of 2020, are focused on the welfare of the Community surrounding mining area [23]. These responsibility are outlined in the amendments made to Law Number 4 of 2009 concerning Mineral and Coal Mining, specifically in part (b) which states:

“Business operations related to the extraction of minerals and coal play a significant role in creating genuine added value for regional and national economic development that is sustainable. The execution of these obligations is impeded by a number of obstacles, including questions about the allocation of power between the Central and Regional Governments, concerns pertaining to permits, safeguarding the impacted community, mining data and information, oversight, and penalties. Because of these limitations, enterprises have not been able to produce the planned optimal added value and the execution of mineral and coal mining operations has not been carried out properly.”

The government through its regulation considers protection for affected Community. Therefore, the government places a significant focus on ensuring that Community residing in the vicinity of mining area is not adversely affected by the operations. This is a crucial aspect of the efforts to promote responsible and sustainable mining practices.

4. Conclusion

In conclusion, the regulatory basis of CSR practices refers to Pancasila as the principles of the state or norms for the formation of the constitution. The fundamental principles of the state and the constitution emphasize the goal of achieving social justice for all Indonesians through the equitable distribution of development. This objective ensures that the benefits of development are spread throughout the country, leading to the improved welfare of Indonesian people. The equitable distribution of development and welfare for Community around the mine also needs to be improved. Therefore, the government, using its regulation governing CSR programs in mining companies, anticipates and mandates that mining companies serve as agents of development on behalf of the government, to enhance the welfare of Community surrounding mining operations.
References


[23] Law of the Republic of Indonesia No. 3 of 2020 concerning Amendments to Law No. 4 of 2009 concerning Mineral and Coal Mining.