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Strengthening the Corporate Social Responsibility Reporting in Indonesia

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ABSTRACT

Integrating sustainable development into corporate operations has become increasingly important, as business activities significantly affect both society and the environment. In Indonesia, Corporate Social Responsibility (CSR) has transitioned from a voluntary initiative to a legal obligation designed to address sustainability challenges. The government has made ongoing efforts to improve the regulatory framework to ensure CSR contributes more effectively to sustainable development, drawing lessons from international models that have shifted from soft law approaches toward binding obligations. Companies are required to report their CSR activities through the Investment Activities Report or the Laporan Kegiatan Penanaman Modal (LKPM), which serves as a key mechanism for transparency and accountability. This paper analyses how Indonesia can strengthen CSR implementation by improving the LKPM reporting process. By examining the evolution of CSR regulation in the United Kingdom (UK) and Europe, it identifies strategies to enhance Indonesia's CSR system in terms of accountability, transparency, and its overall impact on sustainable development.

KEYWORDS: Corporate Social Responsibility, Environment Social and Governance, Sustainable Development Goals, Reporting Framework, Risk Based Assessment.

1. Introduction

Bringing sustainable development into the way companies operate has become increasingly important, especially since business activities often affect both people and the environment in significant ways. In Indonesia, more businesses and investors are starting to pay attention to Environmental, Social, and Governance (ESG) factors. There is a growing understanding that pursuing social and environmental benefits does not have to come at the cost of financial returns.[1]

Indonesia is parts of many international declarations on sustainable development. However, Indonesia still faces challenges in achieving strong sustainable development performance. According to the 2024 Sustainable Development Report published by the UN Sustainable Development Solutions Network (SDSN), Indonesia ranked 75th out of 167 countries, with a Sustainable Development Goals score of 70.16.[2] This is not a particularly competitive position for attracting sustainable investment flows or ensuring effective long-term development outcomes.

The roots of CSR can be traced back to early developments in corporate governance, particularly in the United States. After the First World War, corporate governance focused heavily on maximizing profitability for shareholders. However, during the 1920s and 1930s, a new way of thinking began to emerge, known as "trustee management." This idea challenged the traditional view that corporate managers were accountable only to shareholders. Instead,

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1 Intan Puspitasari, 'Peran Green Investment dalam Meningkatkan Kinerja' (2017) 13(1) *Segmen: Jurnal Manajemen dan Bisnis*, p. 65.

2 Ricky Prayoga, 'Sustainable Development Report 2024 Peringkat Indonesia ke-75 Dunia' Antara News (11 August 2025) <https://jabar.antaranews.com/berita/634753/sustainable-development-report-2024-peringkat-indonesia-ke-75-dunia?page=all>.

it argued that directors had a duty to consider the interests of a wider group of people connected to the company. For instance, employees, customers, and the broader community.[3] It called for fairer decision-making that balanced different stakeholder interests rather than focusing solely on profit.

Although shareholders still held legal ownership, their influence, especially in large corporations, had become limited. As a result, they started to resemble beneficiaries of a trust rather than active participants in business operations. However, unlike legal trust beneficiaries, shareholders could not directly enforce duties against directors, as the company itself entered into contracts and took on obligations. This development helped shape the modern understanding that companies have responsibilities beyond merely maximizing shareholder returns.[4]

Over time, various legal theories have been used to justify CSR, highlighting the importance of theoretical frameworks in understanding its purpose. There are three major theories have emerged: stakeholder theory, social contract theory, and legitimacy theory. Of these, social contract theory, closely aligned with legitimacy theory, is often considered the most relevant to CSR.[5] This theory suggests that modern corporations, as artificial legal persons, should be held to similar standards of social responsibility as natural persons particularly with respect to human rights and obligations under international law.[6] The idea is rooted in the traditional concept of a social contract, where individuals surrender certain freedoms in exchange for collective security and protection of rights by the state. In this model, the state ensures that individuals and, by extension, corporations act within agreed legal and moral boundaries.

Traditionally, CSR has been seen as a voluntary commitment arising from corporate responsibility rather than legal compulsion.[7] It was viewed as a discretionary exercise of corporate resources toward projects that might not directly benefit the firm but contribute positively to other stakeholders.[8] However, over time, CSR has begun shifting from a purely voluntary concept toward a more mandatory legal framework as seen from reporting obligation, as seen in countries like the United Kingdom (UK) and European Union (EU).[9]

Recognizing that reporting has become a key tool in evaluating CSR performance, Indonesia has also developed its own CSR reporting system. In addition to reporting to shareholders, companies must submit information to the government through the Investment Activities Report or Laporan Kegiatan Penanaman Modal (LKPM), which is filed annually.[10]

This paper analyzes the evolution of soft law to hard law in the context of CSR reporting, with particular reference to the UK and the EU. It further examines how these developments can inform strategies to strengthen the effectiveness of CSR in Indonesia,

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3 Saleem Sheikh, Corporate Social Responsibility Law and Practice (Cavendish Publishing 1996), p. 11.

4 Merrick Dodd and Mitchell Lawrence, 'For Whom Are Corporate Managers Trustees?', Corporate Governance (1st edn, Routledge 2009), p. 1146.

5 *Ibid*, p. 77.

6 *Ibid*.

7 Carola Glinski, 'Corporate codes of conduct: moral or legal obligation' in D McBarnet, A Voiculescu and T Campbell (eds), *The New Corporate Accountability: Corporate Social Responsibility and the Law* (CUP 2007), p. 147.

8 Sommer AAJ (1991) Whom should the corporation serve—the Berle-Dodd debate revisited sixty years later. Del J Corp Law 16:3–56

9 Carola Glinski, p. 147.

10 Indonesia Investment Co-ordinating Board (Badan Koordinasi Penanaman Modal, or BKPM) Regulation No. 4 of 2021 on Guidelines and Procedures for Risk-Based Business Licensing Services and Investment Facilities (BKPM Regulation 4/2021), Art. 1 (39).

particularly through comprehensive reporting mechanisms under the LKPM framework, by understanding the global shift toward more binding and accountable reporting standards.

2. Methodology

This research adopts a qualitative approach supported by comparative legal analysis to examine the concept of CSR reporting and its implementation under different legal frameworks, with a particular focus on Indonesia, the United Kingdom, and the European Union. The study begins with an extensive literature review, analyzing relevant statutes, regulations, and academic works to identify key principles and practices that can inform improvements to Indonesia's CSR reporting system, specifically within the LKPM framework.

3. Transforming from Soft Law to Hard Law

3.1. Regulatory Framework of CSR Reporting in the UK

The UK adopts an integrated approach to CSR, where sustainability considerations are not confined to specific industries but are embedded across all sectors through general corporate governance mechanisms. Central to this framework are the directors' duties under section 172 of the Companies Act 2006 (CA 2006), which align CSR with the fiduciary and strategic responsibilities of directors. In essence, CSR in the UK operates as part of the broader corporate governance landscape, encouraging companies to engage proactively with social and environmental concerns as elements of long-term value creation.

The CA 2006 serves as the cornerstone for understanding CSR in UK company law. Under section 172, directors are required to act in good faith to promote the success of the company for the benefit of its members as a whole. Crucially, the provision directs directors to "have regard to" a range of non-financial factors when making decisions. These include the long-term consequences of business activities, employee interests, the company's relationships with suppliers and customers, and the impact of its operations on the community and environment. The list is non-exhaustive, reflecting a flexible yet structured duty that encourages directors to balance profit motives with broader stakeholder considerations.

Although section 172 does not expressly impose a duty to engage in CSR, Kiarie argues that its essence lies in ensuring that directors respect the rights and interests of all affected parties. In doing so, directors contribute to the company's long-term sustainability and reputation, objectives that align with the spirit of CSR.[11] This interpretation underscores that responsible governance and ethical decision-making are integral to the directors' fiduciary role.[12]

Beyond section 172, CSR-related obligations are further strengthened through corporate reporting requirements under sections 414A–C of the CA 2006. The Strategic Report and Directors' Report Regulations 2013, which apply to financial years ending on or after 30 September 2013, expanded these provisions to ensure greater transparency. The purpose of the strategic report is to enable shareholders to evaluate how directors have fulfilled their duties under section 172 by disclosing key non-financial information.[13] These reforms built upon earlier "Business Review" requirements, extending reporting obligations for

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[11] Sarah Kiarie, '*At crossroads: shareholder value, stakeholder value, and enlightened shareholder value: which road should the United Kingdom take*?' [2006] 17 (1) I.C.C.L.R. p. 329.

[12] Ardian Firmansyah Arifin, 'The Concept of Corporate Social Responsibility and Social Enterprise: The Pursuit of Social Responsibilities in Business Practice' (2025) 1(1) *Business and Human Rights Law & Policy* pp. 81, 83.

[13] S414C (1) CA.

medium and large quoted companies to include environmental performance, social policies, and corporate governance practices.[14]

The amendments also introduced specific disclosure requirements concerning gender diversity, human rights, and corporate strategy, consolidating these elements within the strategic report. Furthermore, quoted companies must now report annually on greenhouse gas emissions, signalling the increasing regulatory emphasis on environmental accountability. Non-compliance with these provisions can attract sanctions, demonstrating that non-financial disclosure is not merely voluntary but a statutory duty forming part of responsible corporate governance.[15]

Under section 414A, all companies, except small enterprises are required to prepare a strategic report. Its objective is to assist shareholders in assessing how directors have discharged their duties under section 172, including how they have considered employee welfare, business relationships, and ethical standards. The report must present key performance indicators and an explanation of how directors have addressed the six statutory considerations listed under section 172(1)(a)–(f).

Additionally, section 414C(7) mandates that quoted companies disclose their policies, risks, and outcomes relating to environmental, social, employee, human rights, and community issues. These reports must be balanced, comprehensive, and forward-looking, enabling stakeholders to evaluate how effectively directors are promoting sustainable business conduct. In this way, the strategic report has evolved into a central mechanism for promoting transparency, accountability, and ethical corporate behaviour in the UK.

Further, under the Non-Financial Reporting Directive (NFRD), formally known as the Directive on the Disclosure of Non-Financial and Diversity Information,[16] large companies must report on environmental, social, and governance matters.[17] The directive follows a “comply or explain” approach[18] and requires disclosure of diversity policies in management and supervisory bodies, including aspects such as age, gender, and qualifications.[19] Later, the Corporate Sustainability Reporting Directive (CSRD) was introduced in 2021 as a more comprehensive reform, expanding reporting requirements and applying to a wider range of companies, including some outside the EU.

The UK model demonstrates that CSR is not limited to philanthropy or voluntary initiatives but forms an integral component of responsible and sustainable business practice. However, despite the comprehensive nature of this framework, its practical impact has been subject to criticism. Scholars and practitioners argue that the strategic reporting regime remains overly broad, providing limited guidance or enforcement mechanisms. Consequently, many corporations treat non-financial disclosures as a narrative exercise, offering general statements on strategy and sustainability without substantive quantitative data.

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14 Ruba Hamed, Basiem Al-Shattarat, Wasim Al-Shattarat, and Khaled Hussainey, ‘The Impact of Introducing New Regulations on the Quality of CSR Reporting: Evidence from the UK’ (2022) 46 *Journal of International Accounting, Auditing and Taxation* 100444, p. 3.

15 *Ibid*.

16 European Commission, ‘Proposal for a Directive of the European Parliament and of the Council amending Council Directives 78/660/EEC and 83/349/ EEC as regards disclosure of nonfinancial and diversity information by certain large companies and groups’ COM (2013) 207 final.

17 Article 1 (1) (a) of the Directive.

18 Article 1 (2) of the Directive.

19 Article 1 (2) of the Directive.

Empirical research further suggests that a significant number of UK companies, particularly among the FTSE 250, fail to produce coherent or forward-looking CSR disclosures.[20] As a result, these reports often resemble public relations tools rather than authentic reflections of corporate accountability and ethical commitment[21]. While the UK's statutory framework represents an important step towards integrating CSR into governance, the challenge remains in ensuring substantive compliance and genuine commitment to sustainable and socially responsible business practices.

3.2. Regulatory Framework of CSR Reporting in the EU

The most recent legislative development governing CSR and sustainability disclosure in the EU is the Corporate Sustainability Reporting Directive (CSRD), adopted in 2021. The CSRD was introduced to overcome the shortcomings of its predecessor, the NFRD, by expanding both the scope and depth of corporate sustainability reporting. Key criticisms of the NFRD such as the lack of enforceability, inconsistent national implementation, and vague reporting standards are directly addressed in the CSRD through more prescriptive and standardised disclosure obligations. The directive aims to enhance the credibility, comparability, and usefulness of sustainability reports for regulators, investors, and the public.[22]

As a core component of the European Green Deal, the CSRD underpins the EU's broader effort to transform itself into a modern, resource-efficient, and globally competitive economy, with the overarching goal of achieving climate neutrality by 2050.[23] The European Parliament introduced the CSRD proposal on 21 April 2021, which was formally adopted on 9 November 2021, and subsequently approved by the Council of the EU on 28 November 2021. Member States are required to transpose the directive into national law within 18 months of its adoption. This legislative reform forms part of the EU's long-term ambition to redirect financial flows toward sustainable investment and to align corporate behaviour with its climate objectives.[24]

The implementation of CSRD obligations is being carried out in phases. Beginning in 2024, the largest companies are required to comply, followed by listed and large non-EU companies operating within the EU by 2026. As a result, the number of companies subject to mandatory sustainability reporting is projected to increase from approximately 11,000 under the NFRD to over 71,000. However, the 2025 Omnibus Proposal may delay compliance deadlines for certain firms until 2028 and raise the employee threshold to 1,000 full-time equivalents, potentially reducing the directive's coverage by as much as 80%.[25]

Although exemptions exist, they are narrowly defined and context-dependent. For example, non-EU issuers may be exempt if they issue only high-denomination debt securities (with a unit value of at least €100,000,- or €50,000,- for securities admitted before 31

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[20] Derek French, Stephen Mayson and Christopher Ryan, Mayson, French & Ryan on Company Law (28th edn, OUP 2011–12) para 9.9.6.

[21] PwC*, A Snapshot of FTSE 350 Reporting: Compliance mindset suppresses effective communication* (2009), available at http://pwc.blogs.com/files/asnapshot-of-ftse-350-reporting.pdf

[22] Dan Byrne, 'What Happened to NFRD?' The Corporate Governance Institute, <https://www.thecorporategovernanceinstitute.com/insights/lexicon/what-happened-to-nfrd/>.

[23] Johan Farberger, 'Why CSRD Is a Game Changer for Sustainability Reporting' EY (4 June 2024) <https://www.ey.com/en_se/insights/consulting/why-csrd-is-a-game-changer-for-sustainability-reporting>.

[24] Coolset Academy, What is the CSRD Directive adopted by the EU (Updated Mar 2025) (1 March 2025) <https://www.coolset.com/academy/csrd-the-new-eu-climate-regulation-explained>.

[25] *Ibid*.

December 2010). Similarly, subsidiaries included within a consolidated sustainability report prepared by a parent company in accordance with the European Sustainability Reporting Standards (ESRS) or an equivalent standard recognised by the European Commission may also be exempt. However, no non-EU jurisdiction has yet been granted equivalence status.[26]

Until 6 January 2030, EU subsidiaries of non-EU parent companies may submit sustainability reports on a synthetic consolidated basis, using the subsidiary with the highest EU turnover over the past five financial years as the reporting entity. This transitional measure is intended to ease the compliance burden during the directive's early implementation phase.[27]

Despite its ambitious scope, the CSRD has encountered several practical and legal challenges. Implementation delays have been a significant issue. Since August 2024, only eight of the EU's twenty-seven member states had transposed the directive into national law. This lack of uniformity has created legal uncertainty, leaving many companies uncertain about their reporting obligations and the potential penalties for non-compliance. Furthermore, the uneven transposition has raised concerns about "gold-plating", where individual member states impose stricter requirements than those envisioned in the directive, potentially undermining harmonisation.[28]

One of the most innovative yet complex elements of the CSRD is the introduction of the Double Materiality Assessment (DMA). Under this approach, companies must report on both impact materiality. The extent to which their operations influence environmental, social, and financial factors, and how these sustainability factors subsequently affect the company's financial position and long-term performance. This dual perspective represents a significant advancement in EU sustainability regulation, as it bridges the gap between ethical responsibility and economic accountability.[29]

However, the CSRD provides limited guidance on defining materiality thresholds, granting companies broad discretion in determining what constitutes a material issue. Consequently, many firms begin with extensive lists of Impacts, Risks, and Opportunities (IROs) that must be filtered through qualitative and quantitative criteria. This process is resource-intensive, subjective, and highly dependent on stakeholder engagement and due diligence. For large multinational corporations already producing sustainability reports voluntarily, these prior frameworks have served as a useful foundation for CSRD compliance, but the transition remains administratively demanding and costly.[30] In essence, while the CSRD represents a major step toward hardening soft-law principles in sustainability reporting, its success ultimately depends on consistent implementation across member states and the capacity of companies to adapt to a more rigorous and standardised reporting environment

4. CSR Reporting Framework in Indonesia

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[26] *Ibid*.

[27] *Ibid*.

[28] Linklaters, 'Corporate Sustainability Reporting Directive transposition tracker' (Linklaters Sustainable Futures, 25 September 2024) <https://www.linklaters.com/insights/thought-leadership/corporate-sustainability-transposition-tracker/corporate-sustainability-transposition-tracker>.

[29] Raquel Fox, Simon Toms, Justin Lau and Martin Katunar, 'Multinationals Face Challenges as They Prepare to Comply With the EU's Sustainability Reporting Law' (*The Informed Board*, Summer 2024) <https://www.skadden.com/insights/publications/2024/09/the-informed-board/multinationals-face-challenges-as-they-prepare-to-comply-with-the-eus-sustainability-reporting-law>.

[30] *Ibid*.

4.1. CSR Regulation in Indonesia

At its core, the Indonesian Company Law conceptualizes CSR as a company's commitment to advancing sustainable economic development that enhances both environmental conditions and the quality of life for the broader community.[31] However, this legal obligation only applies to companies engaged in natural resource-related business activities. Notably, the law stipulates that CSR responsibilities persist regardless of a company's profitability, affirming that CSR is not a voluntary initiative dependent on financial performance but an ongoing corporate duty.

The Company Law also requires CSR activities to be reported to stakeholders within a company's annual report. Company directors are responsible for preparing these CSR plans and budgets, which must align with the firm's annual work plan and receive approval from the Board of Commissioners or the General Meeting of Shareholders (GMS) in accordance with the company's articles of association.[32] In formulating CSR programs, companies must consider fairness and reasonableness,[33] ensuring that activities reflect the company's financial capacity and the risks associated with its business operations.[34] CSR-related expenditures are categorized as operational costs, irrespective of profit or loss, thereby positioning CSR as a structural element of corporate operations.[35]

Complementing this, Law No. 25 of 2007 on Capital Investment reinforces CSR obligations alongside the broader mandate for good corporate governance.[36] Yet, by extending CSR responsibilities to capital investors without clear sectoral boundaries, the law introduces uncertainty regarding its scope and applicability, potentially complicating compliance efforts.

To address these ambiguities, Government Regulation No. 47 of 2012 on Company CSR further delineates the application of mandatory CSR, limiting it to companies operating in natural resource sectors and establishing procedural reporting requirements. The regulation mandates that CSR activities be incorporated into annual reports and presented to the GMS, thereby strengthening corporate accountability and transparency mechanisms.

Indonesia's decentralized governance structure adds another layer of complexity to CSR implementation. Local governments have the authority to issue CSR-related regulations, allowing programs to be tailored to regional priorities. However, this autonomy often results in overlapping or inconsistent regulations.[37] The devolution of legislative and administrative authority to provincial and district levels has led to a proliferation of local CSR rules, some of which have been criticized for being vague, misaligned with national objectives, infringing on rights, or imposing unnecessary costs that conflict with Indonesia's international commitments.[38]

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31 Law No. 40 of 2007 on Company Law as amended by Law No. 6 of 2023 regarding The Enactment of Government Regulation in Lieu of Law No. 2 of 2022 regarding Job Creation, Art. 74.

32 Government Regulation No. 47 of 2012 on Companies CSR, Art 4(1).

33 Government Regulation No. 47 of 2012 on Companies CSR, Art 5(1).

34 Government Regulation No. 47 of 2012 on Companies CSR, Explanation of Art 5(1).

35 Government Regulation No. 47 of 2012 on Companies CSR, Art. 4(2).

36 Law No. 25 of 2007 on Capital Investment Law as amended by Law No. 6 of 2023 regarding The Enactment of Government Regulation in Lieu of Law No. 2 of 2022 regarding Job Creation, Art. 15

37 Widodo Ekatjahjana, Daniel Heilmann and Kai Hauerstein (eds), Regulatory Reform in Indonesia: A Legal Perspective (Hanns Seidel Foundation in cooperation with the Ministry of Law and Human Rights, Directorate General of Legislation, 2019), p. 6.

38 Simon Butt, 'Regional Autonomy and Legal Disorder: The Proliferation of Local Laws in Indonesia' (2010) 32(2) *Sydney Law Review* 177, p. 1.

To encourage CSR engagement, Indonesia's tax regime allows deductions for certain CSR-related expenses, subject to specific conditions. Under the Income Tax Law, companies may deduct CSR expenditures such as donations, provided they had net income in the previous fiscal year and that these deductions do not generate losses[39]. Government Regulation No. 93 of 2010 (GR 93/2010) further outlines criteria for deductible CSR contributions, including valid documentation, Tax File Number (NPWP), and the absence of special relationships between donor and recipient entities.[40]

Beyond fiscal measures, regulatory frameworks for non-financial disclosure have become increasingly important. The Financial Services Authority (Otoritas Jasa Keuangan, OJK) Regulation No. 51/POJK.03/2017 (POJK 51) on Sustainable Finance obliges financial institutions, issuers, and public companies to adopt sustainable finance practices and publish annual Sustainability Reports accessible to the public.[41] This represents a significant step toward integrating CSR and ESG principles into corporate transparency and investor communication.[42]

However, after more than eight years of implementation, the regulation's impact remains uneven.[43] Large financial institutions have adapted more effectively, while smaller entities, particularly regional and sharia banks, continue to face barriers stemming from limited demand, insufficient expertise, and resource constraints.[44]

Disclosure quality of the report is generally assessed through content analysis of governance and sustainability indicators, including sustainability strategy, governance structures, ESG performance, and independent verification. Although POJK 51 Chapter II Article 6 stresses transparency, verifiability, and alignment with GRI principles, ESG reporting in Indonesia is still driven largely by external regulatory pressure rather than internalized corporate strategy. Verification also remains weak, as most companies have not adopted external assurance.[45]

While POJK 51 Chapter II Article 5 outlines reporting requirements, disclosure quality remains uneven, particularly for indicators reflecting institutional capacity. Based on a study by Mela Nurdialy, only 39% of companies report mechanisms for ESG risk measurement and control, and just 29% disclose sustainability training for internal decision-makers.[46] In addition to CSR and sustainability reporting, companies must also submit periodic LKPM to the government.[47] These reports document CSR initiatives, financial allocations, outcomes, and

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39 Law No. 7 of 1983 on Income Tax as amended by Law No. 6 of 2023 regarding The Enactment of Government Regulation in Lieu of Law No. 2 of 2022 regarding Job Creation, Art. 6(1).

40 Government Regulation No. 93 of 2010 on National Disaster Management Contributions, Research and Development Contributions, Educational Facilities Contributions, Sports Development Contributions, and Social Infrastructure Development Costs (GR 93/2010), Art. 2.

41 OJK Regulation No. No. 51/POJK.03/2017 on Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies, Art. 2.

42 Slaughter and May, 'ESG in APAC 2024 – Indonesia' (Slaughter and May, 2024) <https://insights.slaughterandmay.com/esg-in-apac-2024-indonesia/index.html>.

43 Nabila Oka and Ancella Hermawan, 'Evaluasi Penerapan Keuangan Berkelanjutan Berdasarkan POJK Nomor 51/POJK.03/2017 (Studi Kasus pada Bank Sumsel Babel)' (2024) 9 *Owner: Riset & Jurnal Akuntansi*, p. 625.

44 *Ibid*, p. 637.

45 Mela Nurdialy and Henryanto Wijaya, 'Analysis of the Quality of Sustainability and Governance Disclosure in SR Reports: A Study of 51 Indonesian Public Companies Based on POJK 51' (2025) *Law and Economics* 19(2) 187–196, p. 188.

46 *Ibid*, p. 190.

47 Indonesia Investment Co-ordinating Board (Badan Koordinasi Penanaman Modal, or BKPM) Regulation No. 4 of 2021 on Guidelines and Procedures for Risk-Based Business Licensing Services and Investment Facilities (BKPM Regulation 4/2021), Art. 1 (39).

comparisons between planned and realized objectives, particularly concerning community welfare and local economic development.[48] Environmental management compliance is also included in the LKPM, requiring companies to report on licensing adherence, waste management systems, and pollution prevention measures. Where environmental infrastructure is non-operational, companies must provide explanations and outline corrective actions to ensure accountability.[49] The report is submitted through Online Single Submission (OSS) System.

LKPM reporting can function as a mechanism to support the implementation of CSR. Although LKPM reports are not publicly accessible, companies are aware that LKPM compliance has significant regulatory and operational implications. The LKPM regime falls under the jurisdiction of the Badan Koordinasi Penanaman Modal (BKPM), a government agency operating under the Ministry of Investment. Continuous oversight by the Ministry of Investment is particularly significant, as it possesses broad authority over business continuity through the issuance, suspension, and revocation of business licences. Failure to submit LKPM reports may result in administrative sanctions imposed by the government. These sanctions range from written warnings to the most severe penalty of licence revocation.[50]

In practice, common grounds for LKPM non-compliance identified by LKPM verifiers include irregular realisation values, incorrect unit input or excessive zeros, failure to proportionally allocate values across KBLI classifications, misclassification of working capital as investment, construction projects reported as inactive for four consecutive reporting periods, and additional investment reported without sufficient explanation[51]. Going forward, LKPM verifiers should develop greater awareness of CSR-related disclosures, as enhanced scrutiny of social and environmental commitments within LKPM reporting could strengthen its role as an indirect instrument for enforcing corporate responsibility.

Utilising existing CSR-related reporting tools, as discussed above, may help minimise the reporting burden on companies. Rather than allocating additional resources to comply with new reporting obligations, companies could integrate CSR-related expenditures into their existing annual reporting processes and budgets. Government does not need to allocate extra budget or effort to create new agencies regarding this matter.

4.2. Strengthening CSR Implementation and Reporting in Indonesia

To strengthen the application of CSR in Indonesia, the government may consider expanding the scope of CSR obligations beyond the current limitations. The legal status of CSR remains somewhat ambiguous, as various regulations differ in their interpretation of whether CSR is voluntary or mandatory. Both the Company Law and the Investment Law formally prescribe CSR obligations. However, Article 74 of the Company Law confines this requirement to companies operating in sectors that exploit natural resources. Furthermore,

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[48] BKPM Regulation 4/2021, Annex I Art. 1 (39).

[49] *Ibid*.

[50] Indonesia Investment Co-ordinating Board (Badan Koordinasi Penanaman Modal, or BKPM) Regulation No. 5 of 2025 on Guidelines and Procedures for Risk-Based Business Licensing Services and Investment Facilities through OSS (BKPM Regulation 5/2025), Art. 364.

[51] Prolegal, *'Sudah Lapor LKPM? Hindari Kesalahan Penyampaian LKPM Sebelum Submit!'* (Prolegal, 8 October 2025) <https://prolegal.id/sudah-lapor-lkpm-hindari-kesalahan-penyampaian-lkpm-sebelum-submit/>, accessed 11 December 2025.

the Constitutional Court has affirmed that CSR is a flexible concept, with its application dependent on the interpretation and implementation within each jurisdiction.[52]

Drawing lessons from the UK, Indonesia could benefit from broadening the scope of CSR, shifting away from the perception of CSR as a charitable or one-off initiative. Instead, CSR should be systematically integrated into companies' strategic and operational frameworks, similar to the approach mandated by the EU CSRD. The CSRD may serve as a useful reference for Indonesia, particularly because it establishes a broader and more clearly defined scope of companies required to produce CSR-related disclosures. Under the CSRD, reporting obligations apply to companies operating within the EU that employ at least 1,000 employees, while small and medium-sized enterprises are generally exempt and instead encouraged to follow the Voluntary Sustainability Reporting Standard (VSME)[53].

Indonesia could benefit from aligning aspects of its CSR reporting framework with the CSRD, especially in terms of standardisation and transparency of sustainability disclosures. However, caution is required to avoid imposing overly complex reporting obligations that may strain regulatory capacity. Notably, the CSRD extends reporting requirements to certain non-EU companies that meet specific criteria[54]. If Indonesia were to adopt a similarly expansive extraterritorial approach, it could create substantial practical challenges for the Indonesian government, particularly in monitoring, enforcement, and data verification.

To enhance CSR enforcement and reporting, Indonesia could leverage its existing Risk-Based Business Licensing (RBA) system, which classifies businesses according to their potential risks.[55] This system defines "risk" as the likelihood and consequence of harm arising from specific hazards[56]. Businesses are categorized based on risk levels across four dimensions: (1) health, (2) safety, (3) environment, and (4) the use of natural resources.[57]

Each enterprise is assigned a classification code under the Klasifikasi Baku Lapangan Usaha Indonesia (KBLI), which determines its risk level. There are four levels of risk.[58] First, the Low-risk businesses (e.g., retail sale of fish and seafood; tourism information services) require only a Business Identification Number (NIB),[59] automatically issued through the OSS system.[60] Second, the Medium-low-risk businesses (e.g., land transport for tourism; data processing services)[61] require both an NIB and a Standard Certificate,[62] and in some cases, environmental documents such as UKL-UPL or SPPL.[63] Third, the Medium-high-risk businesses (e.g., ship and boat repairs; hosting and digital services)[64] also require an NIB and

[52] Cut Nurul Tasya Putri and Finka Azzahra Utami Masse, 'The Implementation of Mandatory or Voluntary for Corporate Social Responsibility: A Systematic Literature Review' (July 2023) *UTSAHA: Journal of Entrepreneurship* 2(3), p. 2.

[53] SAP, *'Everything Businesses Need to Know About the EU CSRD'* (SAP, 2025) <https://www.sap.com/sea/resources/csrd-guide#who-must-comply-with-the-eu-csrd>, accessed 11 December 2025.

[54] Rachel Barrett, Julia Grothaus, David Ballegeer, Tom Cobbaert and Gilly Hutchinson, 'The impact of the EU's Corporate Sustainability Reporting Directive on businesses in Asia' (Linklaters Sustainable Futures, 17 October 2024).

[55] Government Regulation No. 28 of 2025 on the Implementation of Risk-Based Business Licensing (GR 28/2025), Art. 1(1).

[56] GR 28/2025, Art. 1(2).

[57] GR 28/2025, Annex III.

[58] GR 28/2025, Art. 128.

[59] GR 28/2025, Annex I.

[60] GR 28/2025, Art. 220 (1).

[61] GR 28/2025, Annex I.

[62] GR 28/2025, Art. 221.

[63] GR 28/2025, Art. 221.

[64] GR 28/2025, Art. 222.

a Standard Certificate, subject to mandatory verification.[65] Fourth, the High-risk businesses (e.g., gold and silver mining; manufacturing of medical and dental supplies)[66] must obtain an NIB and a formal business license,[67] with more complex approval procedures and based on activity type and location.[68]

This existing risk-based classification could be effectively used to determine which companies should be subject to mandatory CSR reporting. Low-risk entities may be exempted, whereas medium- to high-risk businesses, given their greater potential environmental and social impact, should be required to disclose CSR activities. This proportional model mirrors practices in the UK and EU, where the extent of reporting obligations is scaled according to a company's size, risk profile, and societal footprint.

Successful implementation, however, depends on the government providing clear technical guidance and sufficient preparation time. CSR reporting is inherently complex, often involving multiple departments such as sustainability, finance, operations, legal, and IT.[69] Nonetheless, such complexity should not serve as a deterrent. Early engagement of assurance providers can improve data reliability and reduce compliance burdens. Globally, approximately 80% of large companies already employ external assurance providers for their sustainability reports, suggesting that such practices can enhance the credibility of CSR disclosures.[70]

From a technical perspective, Indonesia could further strengthen CSR reporting by adopting digital and standardized methods, such as structured XHTML reporting with embedded tagging, in line with CSRD requirements.[71] This would enhance data traceability, accessibility, and usability for regulators and investors. Moreover, increasing the emphasis on quantitative indicators would align Indonesia's CSR reporting practices with international standards and improve comparability.

Integrating the RBA with a clearer, mandatory, and standardized CSR framework would significantly enhance Indonesia's CSR effectiveness. This model would not only improve transparency and accountability but also ensure that CSR obligations are proportionate to each company's risk level and potential impact, thereby balancing international best practices with domestic economic realities.

5. Conclusion

Indonesia has made significant progress in developing its CSR framework, yet further refinement is needed to ensure its effectiveness. CSR should be understood not merely as philanthropy but as a strategic component of sustainable business practice. Future reforms should clearly define which companies are subject to CSR obligations, using existing mechanisms such as the RBA to ensure proportionality. Requiring CSR reporting from medium- and high-risk businesses would better align obligations with actual social and environmental impacts.

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65 GR 28/2025, Annex I.
66 GR 28/2025, Annex I.
67 GR 28/2025, Art. 218 (2).
68 GR 28/2025, Art. 227 (2).
69 PwC Netherlands, 'The promise and reality of CSRD reporting' (PwC Netherlands, 14 June 2024) <https://www.pwc.nl/en/insights-and-publications/themes/sustainability/global-csrd-survey-2024.html>.
70 *Ibid*.
71 Coolset Academy, What is the CSRD Directive adopted by the EU (Updated Mar 2025) <https://www.coolset.com/academy/csrd-the-new-eu-climate-regulation-explained>, accessed 1 March 2025.

Indonesia's dual reporting channels, the annual report and the LKPM provide a solid foundation for disclosure. However, the adoption of digital tools and standardized formats, inspired by the CSRD's emphasis on data traceability, would enhance compliance and oversight. Continuous education and technical guidance from the government remain essential to ensure that companies and assurance providers can implement and report CSR effectively and consistently.

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