

# PHILANTHROPY IN INDONESIA

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## Summary Report

### INTRODUCTION

Indonesia is the fourth most populated country in the world and highly diverse in terms of religion, culture and ethnicity. Various forms of giving have been practised for centuries, driven primarily by religion – Islam, Christianity, Hinduism, Buddhism and Confucianism – and traditional faith. Indonesia has the largest Muslim population of any country.

In the late 1980s and early 1990s, a more modern philanthropy with professional management began to flourish. This period saw the formation of non-governmental organizations (NGOs), family foundations, and formal *zakat* (Islamic alms giving) management agencies. The 32-year New Order regime of Suharto, which lasted from 1966 to 1998, allowed little room for freedom of political expression, but foundations could work on social issues. The New Order also saw the emergence of media-based philanthropy, prompted by natural disasters. Following the Asian Crisis of 1997, which helped to bring down the New Order regime, the *Reformasi* period began, bringing in a wave of massive changes affecting different walks of life, including philanthropy.

A more open and democratic society provides a fertile ground for the growth of philanthropy. The number of state and non-state agencies to manage *zakat* has increased exponentially. Media organizations are broadening their fundraising efforts and establishing foundations to manage the funds collected. The Law on Foundations, promulgated in 2001, allowed foundations to operate within a robust legal framework. Corporate and family foundations are

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A working paper

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increasingly being established as the philanthropic arm of family business groups. More and more organizations are moving from informal and unstructured philanthropy to more modern management systems. Collaborations and partnerships are being formed in response to increasingly complex challenges. With digital technology starting to dominate economic and social life, the younger generation – the so-called millennial generation – have emerged in the philanthropy field. They are introducing innovative ways of doing philanthropy, combining passion, concern about environmental and social issues, and social entrepreneurship.

Despite these developments in institutional philanthropy, individual philanthropy in Indonesia still tends to be ad hoc and unstructured, based on faith and personal preferences rather than an objective assessment of societal needs.

*Philanthropy in Indonesia* is one of a series of working papers being produced by Philanthropy for Social Justice and Peace (PSJP). It aims to provide an overview of philanthropy in Indonesia today. It is based mainly on conversations with people who have been trying to promote, support or strengthen different areas of philanthropy. It should be seen as a work in progress, not a finished document.

## WHAT CURRENTLY EXISTS IN TERMS OF PHILANTHROPY IN INDONESIA?

### Secular institutional philanthropy

#### *Corporate philanthropy*

Corporate foundations in Indonesia are dominated by big Indonesian companies and multinationals, established primarily to manage corporate social responsibility (CSR). CSR was initially more of a voluntary initiative of companies, but Law No 47 of 2012 makes it mandatory for all public listed companies in Indonesia to allocate budget for CSR programmes.

Corporate foundations often support initiatives that are relevant to their line of business. For example, Adaro Foundation focuses on improving the lives of the communities around their areas of operation – Adaro is one of Indonesia's largest coal mining and energy companies. Encouraged by the government, many corporate foundations support education and health. Other popular causes are livelihoods, entrepreneurship and, increasingly, the environment.

### *Media philanthropy*

Media philanthropy forms an important subset of corporate philanthropy. Since the New Order period, media organizations have collected public contributions in times of major natural disasters. Following the December 2004 tsunami, media companies formed a forum to coordinate their reconstruction and rehabilitation efforts. Since then, media companies have moved from just soliciting donations for emergencies to planning and implementing programmes to address a range of social needs.

### *Family philanthropy*

There is a long tradition of giving by affluent families, some of whom have set up a foundation. These family foundations mainly implement their own charitable activities rather than making grants, though there are a few exceptions. Like corporate foundations, family foundations tend to support education, often through scholarships, and health.

Some family foundations work with government, especially at local level. Tanoto Foundation, for example, places great emphasis on working with government, realizing that foundations can only have national-level impact if they work with or influence government.

### *Grantmaking in Indonesia*

Some foundations in Indonesia give grants to other organizations and some operate their own programmes. Others do both, making grants to NGOs where they are seen as having expertise and experience that the foundation lacks.

There are also intermediary grantmaking organizations that channel resources either from foreign philanthropy or from big philanthropy in the country or from companies. These include:

- **Indonesia for Humanity**, established in 1995 by Indonesian activists to support human rights and social justice work, with support from European donor organizations.
- **The Indonesia Biodiversity Foundation**, also known as KEHATI, established in 1995 to help Indonesia conserve its biodiversity resources and use them sustainably.
- **The Partnership for Governance Reform**, also known as Kemitraan, established in March 2000 out of a UNDP-supported project to help Indonesia realize good governance at all levels of government.
- **Tifa Foundation**, established in 2000 in partnership with the Open Society Institute to promote an open society in Indonesia.

Both KEHATI and Kemitraan manage significant funding from foreign government sources.

### *International funders*

At the beginning of the *Reformasi* period, huge amounts of international aid went into Indonesia to support the democratization process. As Indonesia's economy grew, international funding to rights-based causes began to reduce, but international donors, including bilateral agencies, UN development agencies and a few international foundations, still make up the biggest funding block, due to the volume and size of their donations. Climate change is one area where international funding has increased.

### **Faith-based philanthropy**

Religion remains the primary driver of giving in Indonesia. Faith-based philanthropy is growing much faster than secular philanthropy.

### *Traditional Islamic philanthropy*

Islamic philanthropy is based on *zakat*, mandatory alms giving, and *infaq* and *sadaqah*, which are voluntary. Though paying *zakat* on income and assets is compulsory for Muslims, the state does not enforce payment. Many Muslims channel their alms to the needy directly, or give to mosques. Commentators believe that the potential of *zakat* is largely untapped.

Starting from the New Order, government has tried to encourage the payment of *zakat* to licensed organizations. Alms management by these organizations creates resources to support longer-term initiatives which address the underlying causes of poverty and other social issues. Whether through licensed organizations or not, 'the massive practice of generosity in Indonesia' enables institutions of all kinds to raise funds from Muslim communities.

### *Zakat management agencies*

In 1999 the Law on Zakat Management mandated the government to create state-run *zakat* management agencies called Baznas (National Zakat Board) at different levels of government to collect, manage and distribute *zakat* funds. Their number has grown from less than 10 in 2000 to 549 in 2015-18. They use *zakat* money to distribute to people in need; they also have health, education, economic and scholarship programmes.

As well as Baznas, there are also non-state *zakat* management agencies (*Lembaga Amil Zakat* or LAZs). The first of these were formed in the late 1980s and early 1990s. In 1997, 11 of them created the Zakat Forum. The number of LAZs in Indonesia is currently estimated at more than 600. One of the earliest was Dompot Dhuafa (Wallet for the Poor), established in 1993 on the initiative of journalists at a paper called *Republika*, a mainstream Muslim newspaper, now Indonesia's largest *zakat* management agency. Most *zakat* agencies run their own programmes rather than providing grants to other organizations.

## Social justice philanthropy

There are very few grantmaking organizations that exist specifically to support rights-based causes – Indonesia for Humanity, the Social Trust Fund, the Yasmin Foundation, *Pundi Perempuan* (a women’s fund managed by Indonesia for Humanity) and the Tifa Foundation are among the exceptions. A key challenge for social justice and rights-based groups is therefore to gain support from the Indonesian public.

Faith-based philanthropy in Indonesia is mainly focused on its own faith communities, and conservative groups maintain that *zakat* cannot be given to non-Muslims, so the potential for progressive philanthropy – in the Muslim context this means accepting a non-discriminatory principle in the distribution of funds – is limited. Progressive Islamic philanthropy is therefore more likely to be found in Islamic humanitarian organizations than in *zakat* organizations.

Nonetheless, most Islamic philanthropy organizations have expanded their activities into educational, health, disaster relief, economic and socio-religious programmes, and some leading organizations such as Dompot Dhuafa also support advocacy – widely seen in Indonesia as ‘the preferred weapon to effect change at the root level’. Government policies are often viewed as the root cause of injustice, and hence the key to realization of a just society. The Zakat Forum (FOZ) has been playing a key role in supporting the idea that *zakat* funds can be used for humanitarian activities without discrimination between groups or religions.

## Social enterprise and impact investing

Over 80 per cent of the country’s 340,000 social enterprises have been established since 2012. Most are small businesses with an average yearly income of IDR806 million (USD57,467). Some have been formed by CSOs that still rely mainly on international sources for their funding but now want to generate income from their own activities. The existence of a good range of ‘enablers’ (ecosystem builders, incubators, accelerators, capacity builders) points to a trend that is growing ever stronger.

The top three sources of funding for social enterprises are personal income from another job, funding from family or friends, and cash or in-kind donations. For social enterprises at the next stage, impact investing is a potential source of investment.

Indonesia is the largest market for impact investing in South East Asia. However, only seven funds have a full-time local presence, and there remains a funding gap for small investments at early stages. This has been partially filled by the formation and subsequent growth of the Angel Investment Network Indonesia (ANGIN) and several incubators providing seed capital. Formed in 2012, ANGIN has become the largest angel network in Indonesia, with 66

members, including institutional impact investors, who engage in early-stage investment and mentoring.

### *Individual giving*

Indonesia topped the CAF World Giving Index for the first time in 2018, with 78 per cent of the population donating money and 53 per cent giving time – the highest proportion of people volunteering anywhere. Volunteerism has strong roots in Indonesia's culture.

As we have seen, media philanthropy is largely driven by individual giving, with media companies collecting public contributions, especially for major natural disasters. Religious giving obligations are the motive for a lot of giving, with Muslims paying *zakat* and other Islamic alms to state and non-state *zakat* management agencies. Digital technology and the internet have made it easier for the public to give to both traditional and non-traditional causes such as initiatives created by youth activists and artists.

### *Crowdfunding and online giving*

In general online giving is still at an early stage. But as Indonesia is becoming one of the most active users of the internet and social media, the younger generation have started crowdfunding initiatives. Founded in 2013, Kitabisa.com is the largest crowdfunding platform. The number one cause people support is medical, followed by humanitarian and religious giving.

### *Fundraising from the public*

Currently, apart from the media companies and *zakat* organizations, it is mostly big NGOs that have been fundraising in Indonesia. This includes environmental groups with vast international networks – such as Greenpeace, The Nature Conservancy and WWF – and Save the Children, all of which have independent legal entities set up in Indonesia, and also SOS Children Village, Indonesia for Humanity and YAPPIKA-ActionAid. They all target regular giving as well as one-off donations. It is illegal for international organizations to fundraise locally unless they have established an independent, local legal entity.

### **Do individuals support social justice causes?**

Public fundraising to support rights-based work is challenging, and not helped by the current rise of religious conservatism and intolerance. The Social Trust Fund has achieved some success by taking a 'combination approach' – combining mainstream fundraising for disasters with a focus on at least middle-term purposes such as providing scholarships (which they call humanity scholarships). Framing is also important. CSOs need to build a narrative that the general public can relate to, framing human rights not as political or embodying western values but as part of Indonesian culture. People might also

give directly through Kitabisa for a specific case, for example for the defence of a grandmother jailed for taking a cocoa bean.

Philanthropy expert Amelia Fauzia quotes a 2003 survey that suggests potential for Muslims in Indonesia to support social justice causes. More than 65 per cent of respondents agreed on 'the importance of obtaining and securing rights, income equality, women's rights, minority rights, and freedom of expression' while 77 per cent of respondents found no problem with the notion of giving to others without considering their religion. The concept of social justice is rooted in the state ideology *Pancasila*, especially in the last of its five principles, 'social justice for all Indonesians'.

The actual figures for giving are less encouraging. While 94 per cent of Muslims donate to religious organizations, only 3 per cent donate to human rights organizations, 11 per cent to women's organizations, and 11 per cent to environmental organizations.

However, new approaches to social justice and rights-based issues are being spearheaded by the younger generation, facilitated by IT technologies. Millennials seem to be more sensitive to cross-ethnicity/race/gender issues. Indonesian demographics make this a significant trend: 60 per cent of the population are below 30.

## Philanthropy infrastructure

### *Infrastructure organizations*

The key organization for philanthropy ecosystem support in the country is the national philanthropy association [Filantropi Indonesia](#), established in 2007. Since 2015 it has played a central role in aligning the efforts of philanthropy with the Sustainable Development Goals (SDGs). It also runs a number of services for foundations, like the Philanthropy Learning Forum and skills-sharing classes, and it has initiated philanthropy clusters to deepen peer-to-peer learning and partnerships among organizations working on similar areas such as education; nutrition; arts and culture; conservation and environment; and urban areas and settlements.

Two other national associations are FOZ (Forum Zakat), an association of *zakat* organizations established in 1997, and the Indonesian NGO Council (*Konsil LSM Indonesia*). Another important organization is the Zakat Management Institute (IMZ), which focuses on developing the human resources of zakat institutions.

Taken overall, philanthropy infrastructure in Indonesia is far from adequate. Currently there are only a few organizations (CSO or university-based) with an interest in philanthropy research, and private advisory groups and law firms with a special focus on philanthropy are almost entirely lacking.

## Legal and fiscal framework

Since 1998 and the fall of the New Order regime, a number of new laws and regulations have been introduced that affect the philanthropy sector. The main ones are:

- **The Law on Foundations**, introduced in 2001 and revised in 2004, which created a clear legal basis for foundations.
- **Government Regulation No 93/2010 on deductible donations**, issued in 2010, which introduced tax incentives for donations in certain limited areas.
- **CSR Law No 47 of 2012**, which makes it mandatory for public listed companies to allocate budget for CSR programmes.
- **The 2013 Law on Societal Organizations** (*Organisasi Kemasyarakatan* in Bahasa Indonesia), currently the most problematic aspect of the legal framework, which controls and restricts the activities of civil society organizations.

## WHAT IS DRIVING THE GROWTH OF PHILANTHROPY IN INDONESIA?

Commentators mention a range of factors: the fact that government sees philanthropy in a positive light; a stronger commitment from *zakat* management agencies to giving for development, including the SDGs; the greater commitment of companies and families to contribute to the country's development; the massive challenges remaining despite the economic success of the country over the last 10-20 years; wealthy families' desire to leave Indonesia a better place for their children and grandchildren. Four factors that seem to be particularly important in the growth of Indonesian philanthropy are:

- **The SDGs** Institutional philanthropy in Indonesia is increasingly aligning its work with the SDGs. Filantropi Indonesia, which serves as the country focal point for the SDGs Philanthropy Platform, has been running a massive campaign on the SDGs since 2015. It has become a common practice for philanthropy organizations to identify their programmes with one or more SDGs. Using a common framework like the SDGs helps philanthropy organizations learn from and collaborate with other partners who share similar goals.
- **Natural disasters** Responding to a natural disaster is often people's first experience of philanthropy. In the early 1980s, *Kompas Daily* began fundraising from the public following a huge volcanic eruption in West Java. In 1993 *Republika* newspaper set up Dompot Dhufua after a big earthquake in Sumatra. Since then, other media companies have followed suit, and *zakat* funding is increasingly being channelled to

humanitarian causes. With so many disasters striking the country, crowdfunding and ad hoc appeals have become important channels for activating giving.

- **Attitudes of millennials** Millennials are continuing their parents' or other family philanthropy, but doing it differently. They are crowdfunding to raise money for causes they care about; they are the potential driving force behind the growth of social justice philanthropy and the development of social enterprise.
- **Technology** Expanding channels for digital fundraising are a big reason why fundraising is starting to work. This includes Facebook and apps like GoPay – Indonesia is one of the biggest users of Facebook and Twitter globally. Technology also gives people access to information about injustices – potentially a first step towards supporting social justice causes. It is also a big factor in disaster philanthropy.

## WHAT IS HOLDING BACK PHILANTHROPY IN INDONESIA?

Despite the progress, philanthropy in Indonesia isn't doing as well as it could be. While the government recognizes that philanthropy can contribute to national development, it has not provided a robust regulatory framework to ensure the sector can thrive. Philanthropy is often not the biggest priority for affluent families/businesses either. A continuing distrust of civil society, together with a rise of conservatism and identity politics, has had a particularly negative impact on social justice philanthropy.

### Inadequate legal framework

There are several issues here:

- The Law of Societal Organizations, which gives the Ministry of Home Affairs considerable powers to control civil society.
- Tax incentives, widely agreed to be inadequate, with a limited number of causes covered and a low cap on the donation amount. Vague regulations mean that claiming a tax deduction is often not worth the effort.
- Tax deductions are available for only five types of CSR programme, which means that companies often cannot claim a tax deduction for strategic CSR programmes that support the national agenda.
- Law No 9/1961 concerning Raising Money and Goods is outdated and in the process of being revised. The new government draft has yet to fully take into account the current digital revolution, including the effectiveness of social media in collecting donations from the public.
- There is no specific legal basis for social enterprises.

## **Lack of organizational capacity**

Limited organizational capacity is an issue for foundations and CSOs alike. For family and corporate foundations, hiring professionals to operate the foundation, developing and managing funds, grantmaking capacity, and board management are all issues. Lack of managerial skills is an issue for social enterprises too, second only to the difficulty of securing capital (debt/equity). Social enterprises need more support in finding appropriate funding based on their current stage of development.

## **Problems for impact investing**

Apart from the impact investment readiness of social enterprises, the biggest problem on the investor side is that most funding is still coming from overseas, and smaller-scale SMEs (small to medium enterprises) and social enterprises currently can't receive overseas funding. Another problem is the lack of demonstrated exits.

## **THE POTENTIAL OF PHILANTHROPY IN INDONESIA**

Most commentators are optimistic about the potential. After experiencing a massive crisis in the late 1990s, the economy has bounced back. Growing wealth and continuing problems together provide a strong basis for further growth of philanthropy in Indonesia. Young people are concerned about the environment, education and health, and starting to have a lot of money. Public donations have been flourishing in communities across Indonesia.

## **Corporate and family philanthropy**

There is lots of potential for family philanthropy, with increasing wealth and a growing trend towards giving back through philanthropy. With the growth of Indonesian start-ups and foreign investors in the country, the future of corporate philanthropy also looks promising. Media companies in particular have enormous potential to raise funds from the public for humanitarian causes.

As in other countries, philanthropic resources are small compared to those of the government and private sector. To create meaningful impact, philanthropic actors will need to find the right niche and use resources effectively. Disaster response, education, and arts and culture are three promising areas. Another is social cohesion, which is critical in a country with so many different ethnic groups, languages and religions. Environment and climate change also need urgent intervention. Philanthropy has long supported environmental causes. It now needs to extend support for advocacy activities and environmental protection efforts.

All agree that a better legal framework and better tax incentives would help. Philanthropic institutions also need to improve the way they operate, adopting modern management approaches across their organizations and showing greater willingness to collaborate with other players. Capacity building is needed for grantmaking organizations and NGOs, as well as more investment in grantmaking organizations.

### Faith-based philanthropy

In 2011, research indicated that *zakat* management agencies were collecting only a very small proportion of the potential *zakat* funds. One problem is that most people still like to donate directly rather than through a *zakat* agency and are not aware of the greater benefits of paying *zakat* to an agency.

Faith-based philanthropy does have potential to become more progressive. Unfortunately society is becoming more conservative and in the last five years Indonesia has seen a dangerous rise of identity politics.

### Social enterprise and impact investing

Indonesia is a middle-income country which has seen widening inequality, especially between the western and eastern parts of Indonesia and between urban and rural populations. Indonesia is also the second most polluting country in the world in terms of plastics in the ocean. These problems mean opportunities for social enterprises.

To realize this potential, more money is of course needed. Finding impact investors willing to invest in relatively small social enterprises is one issue, but there is also a role for grants. Technical assistance is equally or even more important. Attracting talent is another issue.

The prospects for impact investing look good. The Indonesian market is a lucrative one for impact investors, and there are many issues to be addressed. A better understanding of impact investing could help here, as people think in terms of either commercial investing or donating. There is also a need for local impact investors, as global investors mostly won't invest in smaller organizations.

### Individual giving

The potential for crowdfunding and online giving in Indonesia is huge. Research by Baznas concludes there is a potential to give IDR200 trillion (USD14.3 billion), assuming that all Indonesian Muslims pay their 2.5 per cent *zakat*. Research also shows a huge growth of middle-income consumers. YAPPIKA-ActionAid has acquired 8,500 active regular donors since mid 2016.

If this potential is to be realized, several things will be needed. Building trust has always been a challenge. Another challenge is the payment ecosystem,

and the fact that payment mechanisms are not fitted for telemarketing. Yet another is the still underdeveloped general internet infrastructure.

### **Giving to social justice causes**

There is also potential for individuals to give to social justice causes if the causes were better communicated and the outcomes better understood. Most people don't know what human rights are, so moving from having a school to a right to have a school is a difficult transition. Making donations tax-deductible would also make a difference, especially for bigger donors.

Moving from having a school to a right to have a school may be a difficult transition for givers in Indonesia, but, as in the other countries PSJP has studied, individual giving undoubtedly represents the best potential source of resources for rights-based and social justice causes. Having a large number of small-scale donors confers legitimacy on causes that the government might otherwise frown upon. In a country where individual giving, both to faith-based philanthropy and to media companies for humanitarian causes, is already widespread, the potential must surely be great.

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