



# The Social and Economic Impact of Standard Chartered in Indonesia

A report by Prof. Ethan B. Kapstein and Dr. René Kim

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**STANDARD CHARTERED IS AN IMPORTANT FINANCIER OF TRADE AND HELPS TO CONNECT INDONESIA TO WORLD MARKETS**

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## About the report and acknowledgements

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Standard Chartered commissioned this report to gain an understanding of its economic impact in Indonesia. It is the second such study commissioned by the bank, with the first focusing on its activities in Ghana. Standard Chartered believes it should contribute directly to the economies of the communities in which it operates. To this end, the bank hopes that the study will help to inform its future strategy, in Indonesia and elsewhere.

The report was produced between February and August 2010 and is based on the 2009 financial year. It focuses on the activities of Standard Chartered Indonesia and PT Bank Permata (Permata Bank), a local bank part owned by Standard Chartered. Throughout the report, Permata Bank data have been included in the quantitative analysis at 44.5%, corresponding to Standard Chartered's ownership stake.

The report draws mainly on official Indonesian government statistics and corporate data from Standard Chartered Indonesia and Permata Bank. The exchange rate used is USD 1 = IDR 9,395. It should be stressed that – as required by Bank Indonesia, the central bank – Standard Chartered Indonesia and Permata Bank are run as two entirely separate organisations. No confidential data have been shared by the two banks as part of this study.

The authors wish to thank the managements of Standard Chartered Indonesia and Permata Bank for their support of this project, as well as the customers and other stakeholders of the banks who gave their time during interviews.

The authors received feedback and input from SustainAbility, a think-tank and consultancy. SustainAbility facilitated workshops with key stakeholders of Standard Chartered Indonesia, such as customers, non-governmental organisations (NGOs), policy makers and opinion leaders. Appendix II at the end of this report includes more information on SustainAbility and its contribution.

The authors are solely responsible for the contents of this report. It does not express the views of Standard Chartered Plc, PT Bank Permata or INSEAD.

## Foreword by Peter Sands, Group Chief Executive, Standard Chartered

PETER SANDS



The outlook for the global economy remains fragile. While there are several encouraging signs of recovery, particularly in Asia, significant risks remain around the scale of global imbalances, the process of deleveraging in the West, and the unintended consequences of stimulus packages and regulatory changes. Unemployment across many countries remains high. In this environment, questions continue to be asked about the role of banks in society and how best to structure the financial sector to facilitate growth, investment, trade and job creation.

We must play our part in restoring trust in the financial system. This requires honesty in understanding what went wrong during the financial crisis and, perhaps more crucially, a clear articulation of the essential role banks play in the economy.

**WE PASSIONATELY BELIEVE THAT BY DOING THINGS IN THE RIGHT WAY, BANKS CAN BE AN EXTRAORDINARILY POWERFUL FORCE FOR GOOD**

To understand how banks, and Standard Chartered in particular, can contribute more to the economies and societies that they operate in, we have commissioned a series of independent studies to assess our impact. Our first study focused on Ghana. This report, our second, focuses on Indonesia.

We chose Indonesia deliberately. In contrast to Ghana, where Standard Chartered is one of the largest banks, we have a small presence in Indonesia compared to its population and size. That said, we have a long history in the country and see a bright future ahead. We began operations in Indonesia in 1863 and today we have 25 branches across seven cities. We also have a stake in PT Bank Permata, the ninth largest bank in the country.

Despite these differences, our aspirations in both Indonesia and Ghana are the same: to create long term value for our shareholders, to support our clients and customers and make a positive contribution to the broader community. We passionately believe that by doing things in the right way, banks can be an extraordinarily powerful force for good. They enable people to buy goods and services, to save and invest, to buy homes and grow their wealth. They also help businesses set up, to expand and to trade internationally.

This report by Professor Kapstein and Dr Kim seeks to quantify our direct and indirect contribution to Indonesia. It highlights not only our current impact, but perhaps more importantly, the scale of what Standard Chartered can achieve and contribute as we continue to invest and grow our business. The magnitude of some of the numbers, even for a bank with our small presence, underlines the core role banks play in any economy. The report also makes several recommendations about how we can best focus our investment to maximize our future contribution to Indonesia. We welcome these suggestions and, in particular, note the importance given to the role of small and medium-sized enterprises (SMEs). This echoes one of the main conclusions of the Ghana report. We see SMEs as a significant source of future growth for the Bank and will continue to invest in strengthening our banking services to SMEs in Indonesia, Ghana and elsewhere.

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**FOREWORD BY PETER SANDS,  
GROUP CHIEF EXECUTIVE,  
STANDARD CHARTERED**

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We believe that Indonesia has an extraordinarily bright future. Our economic research suggests that by 2030, Indonesia will be the world's fifth largest economy. We are excited about the opportunities that this presents to grow our business and further support our clients and customers. Moreover, as Indonesia's trade expands, our network across Asia, Africa and the Middle East puts us in an ideal place to provide value-added products and services that can benefit retail customers and help Indonesian companies grow beyond the country's borders.

In Indonesia and across all our markets, we are committed to being 'Here for good': committed for the long term, committed to our clients and customers, committed to having a positive impact. We have a clear strategy: to become the world's best international bank, leading the way in Asia, Africa and the Middle East. We have a powerful culture, with a pervasive sense of shared values and shared stories. Standard Chartered is committed to building a sustainable business as a bank, simultaneously creating value for our shareholders, supporting our clients and customers, and contributing to the communities in which we live and work.



**Peter Sands**  
Group Chief Executive  
Standard Chartered

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## Executive summary

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This report sets out to assess the socio-economic impact of Standard Chartered in Indonesia. It follows on from a similar study of the bank's impact in Ghana. To the best of our knowledge, the studies are among the first of their kind to be conducted for a major international financial institution.

Standard Chartered aims to play a key role in stimulating economic and social development across Asia, Africa and the Middle East through the products and services it provides. The report examines this goal by analysing the contribution of the bank to one of its key Asian markets.

Standard Chartered has operated a branch in Indonesia since 1863, offering a comprehensive range of banking services with 2,200 staff and around 300,000 customers. It also owns 44.5% of Permata Bank, an Indonesian banking group focused on consumer banking. Ranked ninth in Indonesia in 2009, Permata Bank has more than 5,000 employees, almost 1.8 million individual customers and 276 branches across the country.

But what is the wider effect of these activities on Indonesia's economy and society? To answer this question, the study draws on a combination of quantitative and qualitative assessments. The quantitative analysis focuses on Standard Chartered's operations and onshore lending from Indonesian savings, including the activities represented by its 44.5% stake in Permata Bank. Using a social accounting matrix (SAM) – a well-established tool applied by governments the world over – we attempt to quantify the direct, indirect and induced impacts, also known as the multiplier effect, of these activities.

Standard Chartered creates economic output directly by hiring workers, paying taxes and purchasing goods and services from the Indonesian economy. In 2009, this (including 44.5% of the equivalent spending by Permata Bank) resulted in a direct contribution of USD 281 million of value-added to Indonesia. When the effect of the economic output generated by the bank's onshore lending is included – that is the spending by the clients it finances – the bank (including its 44.5% stake in Permata Bank) made a direct contribution of almost USD 2,065 million of value-added.

But Standard Chartered and its clients also create value-added indirectly, as the money they spend is re-spent by their suppliers. Furthermore, they create an induced effect in the form of the total household expenditure that results from their activities. Added together, the direct, indirect and induced impacts of Standard Chartered's Indonesian operations and onshore financing (with Permata Bank included at 44.5%) amounted to USD 4,504 million of value-added in 2009, or about 0.8% of Indonesia's GDP.

In the same way, Standard Chartered has a direct, indirect and induced effect on employment in Indonesia. Allowing for its 44.5% stake in Permata Bank, its total direct employment figure came to 4,492 in 2009, but its operations generated a total of 67,000 jobs, including the indirect and induced effects. Meanwhile the clients financed by the bank employed 187,000 directly as a result of its financing, but a total of 962,000 jobs were created including the indirect and induced effects. Relative to Indonesia's workforce of 113 million, the bank's total impact of 1,029,000 jobs amounted to 0.9% in 2009.

That Standard Chartered Indonesia should be associated with value-added of about 0.8% of GDP – despite its relatively small size – is not surprising, since total bank sector financing in Indonesia accounts for about 36% of GDP and Standard Chartered has a market share of nearly 3% (including its 44.5% stake in Permata Bank). Likewise, while considerable, the bank's total jobs impact of just over one million is not surprising given the high labour intensity of the Indonesian economy – particularly the trade sector to which Standard Chartered provides a substantial proportion of its financing. It is also important to stress that most of the value-added and jobs generated through the activities of Standard Chartered would probably still exist if the bank was not in Indonesia, since its financing would be provided by other financial institutions.

In addition to its operations and onshore financing, Standard Chartered makes a number of other important contributions to Indonesia's economy, including offshore financing, lending to other financial institutions and investments in government bonds. For reasons outlined in the report, these have not been analysed quantitatively, but are included in a qualitative assessment along with contributions such as structured finance, trade finance and services, and financial innovation.

**STANDARD  
CHARTERED  
BELIEVES IT CAN  
MAKE THE  
GREATEST  
CONTRIBUTION TO  
THE COUNTRIES IN  
WHICH IT  
OPERATES  
THROUGH ITS  
CORE BUSINESS  
ACTIVITY**

Standard Chartered is an important financier of Indonesian trade and helps to connect Indonesia to world markets. In 2009, Standard Chartered Indonesia processed just over 38,000 trade transactions with a total value of USD 9.8 billion. Along with Permata Bank, it has also introduced a number of new financial products and technologies to Indonesia. For example, Standard Chartered helped to create and launch Indonesia's first dollar-denominated Sukuk, a Sharia-compliant bond, and Permata Bank introduced the first authentication key for internet banking along with card-less withdrawals from ATMs.

The study goes on to assess Standard Chartered's efforts to build a sustainable business in Indonesia. As an example, the bank has helped to finance an important geothermal energy project, supporting Indonesia as it seeks to tap into its vast renewable energy sources. In addition, Standard Chartered Indonesia has committed to environmental targets, introduced sustainable finance criteria and implemented measures to tackle financial crime. The bank also plays a role in mobilising financial resources to meet the consequences of natural disasters, providing USD 1 million to Indonesian communities in 2009 alone.

To conclude, although it has a relatively small operation in the country, Standard Chartered makes a positive contribution to Indonesia's economy. In recent years it has reaffirmed its commitment to the market by its acquisition of a stake in Permata Bank, with its strong domestic presence. Together, Standard Chartered Indonesia and Permata Bank are providing valuable financial services to Indonesian households and firms, helping to promote sustainable growth in the country.

Standard Chartered believes it can make the greatest contribution to the countries in which it operates through its core business activity. The findings of this study should deepen the bank's understanding of how and to what extent it contributes to host countries, while providing it with ideas for how to stimulate sustainable economic development going forward. The report highlights a number of ways in which Standard Chartered could deepen its impact in Indonesia:

First, it encourages Standard Chartered to work with its Indonesian corporate borrowers to help them strengthen their competitiveness in world markets. Second, it suggests that Standard Chartered should expand its small and medium-sized enterprise (SME) banking services to help foster entrepreneurship in the country. Third, it recommends that Standard Chartered seek an active role in supporting increased infrastructure investment. Fourth, it encourages the bank to engage more actively in agricultural financing. Fifth, it suggests that Standard Chartered should continue to promote best environmental and social practice in Indonesia. Sixth, it recommends the bank align its sustainability programmes more closely with its financial expertise. And finally, it encourages Standard Chartered to continue to provide its Indonesian employees with extensive training opportunities.

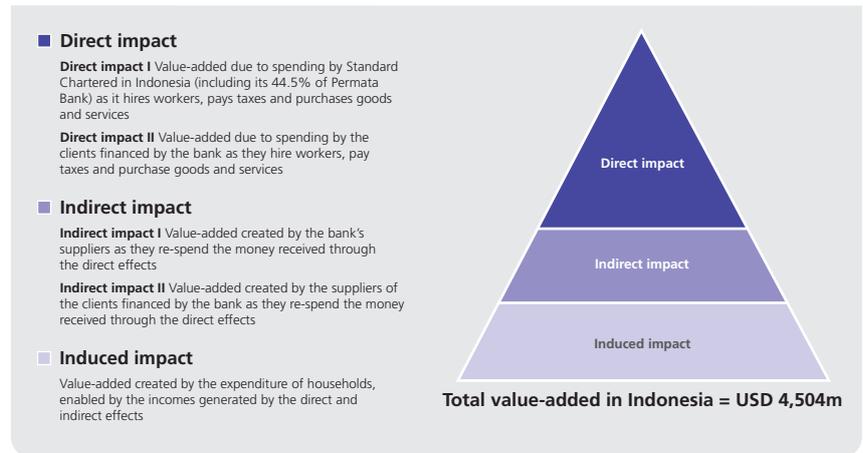
# 1 Introduction

The role of banks in society is much debated. Yet their true contribution to economies and communities is largely unknown. Standard Chartered commissioned this study on Indonesia to deepen its understanding of how the bank impacts on the countries where it operates. It follows on from a similar study of the bank’s socio-economic impact in Ghana.

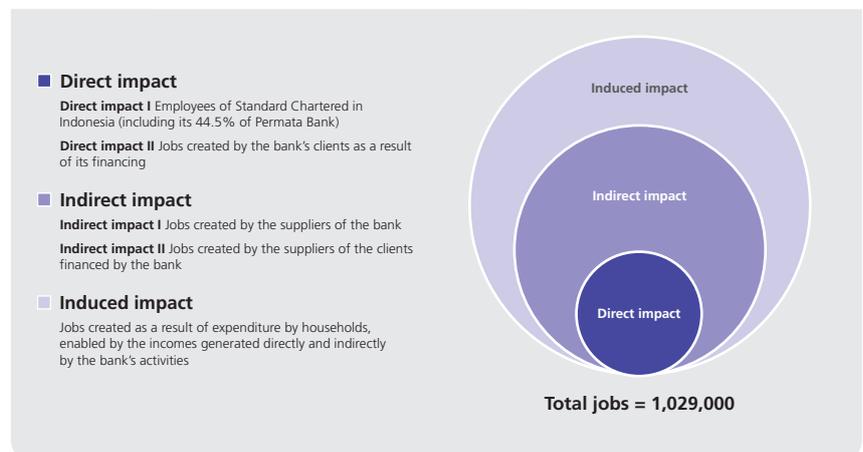
The task is far from simple. To capture the economic impact of a single enterprise, it is necessary to take into account not only its direct effects, but also the indirect and induced effects that result from its activities. A bank and the clients it finances create economic output and jobs directly by hiring workers, paying taxes and purchasing goods and services from the local economy. But they also create output and jobs indirectly, as the money they spend is re-spent by their suppliers. Furthermore, they create an induced effect in the form of the total household expenditure that results from their activities.

When these indirect or induced effects are added, the impact of the bank’s activities extends far beyond its operations and loans. Understanding this wider reach, or multiplier effect, is a must for anyone interested in assessing how banks can play a greater role in societies.

## INDONESIA – LOOKING BEYOND THE TIP OF THE ICEBERG



## INDONESIA – THE MULTIPLIER EFFECT OF THE BANK ON JOB CREATION



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## INTRODUCTION

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What is Standard Chartered's contribution to Indonesia's economy? How many Indonesians depend on jobs created through the bank's activities? What is the wider importance of Standard Chartered to the country's development? And, knowing this, what can the bank do to deepen its socio-economic impact in Indonesia? These are some of the main questions the report sets out to address.

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### 1.1

#### Methodology

The report draws on a combination of quantitative and qualitative assessments. The quantitative analysis focuses on Standard Chartered operations and onshore lending in Indonesia – that is lending from Indonesian savings. It also captures the operations and onshore lending represented by the bank's 44.5% ownership of the Indonesian banking group PT Bank Permata (Permata Bank).

Using a social accounting matrix (SAM), a well-established economic modelling tool applied by governments the world over, we assess data from Standard Chartered Indonesia and Permata Bank in an attempt to quantify the direct, indirect and induced impact on employment and value-added – also known as the multiplier effect – of their activities.

In constructing the required economic input-output model, we have used government data to ensure objectivity. Also, when interpreting the results of the model, we have been careful not to overestimate the economic impact of Standard Chartered in Indonesia. For our analysis, we have included only 44.5% of Permata Bank, corresponding to Standard Chartered's ownership stake. Also, the employment and value-added created by a Standard Chartered Indonesia or Permata Bank client has only been included to the extent that the banks finance that company. In other words, if the client receives 10% of its financing from Standard Chartered or Permata Bank, we have included 10% of the jobs and value-added that it generates. The results derived in this way give a prudent picture of the economic activity that is associated with Standard Chartered in Indonesia, especially since we have limited the economic modelling to aspects that can be safely quantified, namely operations and onshore lending.

As always with multipliers one has to be careful in their interpretation. Most of the jobs and value-added created with the help of Standard Chartered Indonesia and Permata Bank would most likely still exist if the banks were not in the country, as their role as financiers, purchasers and employers might be filled by other financial institutions. That being said, the multiplier does show that Standard Chartered Indonesia and Permata Bank have an impact on economic activity and employment.

It should also be emphasised that – primarily based on the 2009 financial year – this study is a snapshot and as such does not track the development of Standard Chartered Indonesia or Permata Bank over time. Neither does it benchmark the two banks against other financial institutions operating in Indonesia. For more information on modelling approach, assumptions and limitations, please refer to Appendix I.

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**1.1**  
**Methodology continued**

Aside from operations and onshore lending, Standard Chartered contributes to the Indonesian economy in other important ways, for example by facilitating offshore financing – meaning financing from international savings through Standard Chartered Group. It also lends to other financial institutions in Indonesia and invests in Indonesian government bonds. However, the multiplier effect of these contributions has not been quantified for the following reasons:

1. Standard Chartered's offshore financing in Indonesia, about USD 136 million in 2009, has not been modelled because it could have particular characteristics that may not be representative of the bank's financing as a whole. Consequently, including offshore finance in the quantitative analysis could cause statistical errors.
2. Standard Chartered's holding of Indonesian government bonds, about USD 326 million at year end 2009 (8% of its total assets), is excluded from the analysis, because the bonds are marketable securities that serve to finance government operations. The type of quantitative analysis conducted in this report does not lend itself to calculating any multiplier effect associated with the buying and selling of these securities.
3. To quantify the effects of Standard Chartered's loans to other financial institutions in Indonesia, (equal to nearly USD 414 million) it would be necessary to know in detail how that money was lent onwards by the institutions in question. As that falls beyond the scope of this study, the impact of the loans, in terms of value-added and employment, have not been captured.

Also not quantified, but included in the qualitative assessment of Standard Chartered Indonesia's other contributions, is the impact of its structured finance products, trade finance and services, financial innovation, human resources development and sustainability programmes. In the long run these undoubtedly have an impact on the economy, but they cannot be quantified using our economic model, which is based on how the economy currently functions. For example, in terms of financial innovation, the precise channels through which this feeds into the economy can be hard to predict and it typically takes time before the effects can be observed and measured. For that reason the impact of these services cannot be modelled here in the way we model the impact of Standard Chartered's operations and onshore lending in Indonesia.

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**1.2**  
**Scope**

The report extends over five chapters following this introduction. Chapter 2 and 3 set the context for the study, profiling Indonesia's economy and Standard Chartered's role within it. Chapter 4 details the main findings, quantifying the socio-economic impact of Standard Chartered in Indonesia and making a qualitative assessment of other significant contributions. Chapter 5 takes a closer look at Standard Chartered's commitment to building a sustainable business in Indonesia, and the concluding Chapter 6 provides an overall assessment of the bank's footprint in the country, while suggesting a number of ways in which it could deepen its socio-economic impact. Finally, Appendix I elaborates on the modelling approach used for the study – explaining its assumptions and limitations – while Appendix II details the contribution made to the report by SustainAbility, a think-tank and consultancy.

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## 2 The Indonesian context

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### 2.1

#### Economic profile of Indonesia

With a population of 240 million spread across a vast chain of islands, Indonesia is the world's fourth most populous nation and the world's largest Muslim country. In 2009 Indonesia was the sixteenth largest economy in the world. It was also the third fastest growing economy in the G20.

Following democratic elections in 1999, Indonesia has experienced a period of political and economic stability, which has made it an increasingly attractive destination for foreign direct investment.

Indonesia was badly damaged by the Asian financial crisis of 1997-98. It was in the wake of this crisis that the government introduced a set of major economic and political reforms, which led to a decade of robust growth. As proof positive, Indonesia has weathered the global financial crisis that began in 2008 better than many other markets around the world. Thanks to strong domestic demand, the economy has maintained positive growth rates despite a drop in exports, while government policy interventions have managed to avoid bolstering inflationary expectations. Still, spreads on Indonesian debt, meaning the spread between Indonesian debt and US Treasury bills, did increase during the crisis, illustrating the need to maintain a vigilant monetary and fiscal policy stance. At the same time, Indonesia needs to increase its investment in modern infrastructure in order to bring about stronger and more sustained growth.

As illustrated by Table 1, Indonesia is a large, lower-middle income economy whose growth is driven mainly by domestic demand, constituting 71% of GDP in 2008. Net exports, in contrast, contributed just 1.4%. Its strong domestic demand undoubtedly helped Indonesia cope with the fall-out from the global financial crisis, but the country will need to continue strengthening its international competitiveness in order to bring about long-term sustainable growth.

## 2.1 Economic profile of Indonesia continued

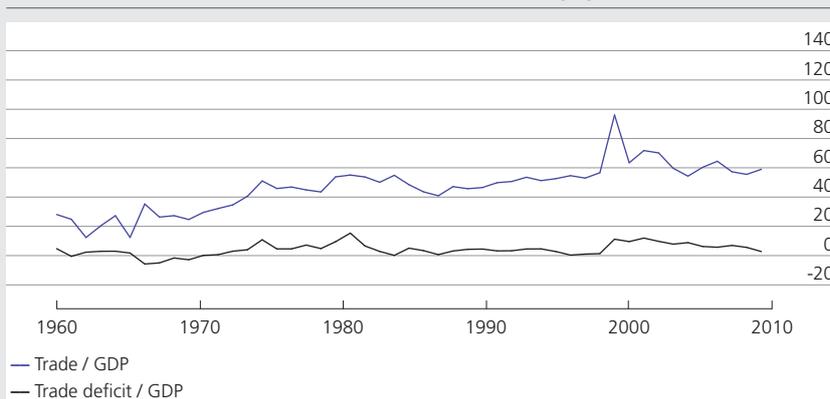
**TABLE 1**  
KEY ECONOMIC INDICATORS OF THE  
INDONESIAN ECONOMY

<b>Population (July 2010)</b>	<b>240 million</b>
<b>Size of workforce (2009)</b>	<b>113 million</b>
<b>Nominal Gross Domestic Product (GDP) 2009</b>	<b>USD 541.9 billion</b>
<b>Gross Domestic Product PPP 2009</b>	<b>USD 969.2 billion</b>
<b>GDP per capita (2009)</b>	<b>USD 2,343</b>
<b>Trade as % of GDP (2009)</b>	<b>58.4%</b>
Exports (FOB) as % of GDP	29.8%
Imports (FOB) as % of GDP	28.6%
Trade balance	1.14%
<b>Government revenue as % of GDP (2009)</b>	<b>17.9%</b>
<b>Sector breakdown of GDP (2009)</b>	
Agriculture	15.3%
Industry	47.6%
Services	37.1%
<b>Consumption breakdown of GDP (2008)</b>	
Domestic demand	71.0%
Private consumption	62.6%
Government expenditure	8.4%
Real investment	27.6%
Net exports of goods and services	1.4%
<b>International receipts as % of GDP</b>	
Remittances	1.3%
Foreign Direct Investment	1.8%

Source: Bank Indonesia, CIA Factbook, World Bank Development Indicators

Despite the relatively small net exports in 2008, Indonesia's trade has grown over time as indicated by Exhibit 1. This demonstrates the importance that Indonesia attributes to participating in the global economy. Exhibit 1 also shows that Indonesia has a zero net trade balance, meaning that the country avoids seeking capital account financing to fund imports.

**EXHIBIT 1**  
TRADE AND TRADE DEFICIT AS PERCENTAGE OF GDP (%)



## 2.1 Economic profile of Indonesia continued

Exhibit 2 highlights the large share of Indonesia's national income devoted to investment. This is crucial to future growth in the country. It shows that Indonesians have a relatively high rate of savings and that the private sector is putting those savings to work.

**EXHIBIT 2**  
GROSS FIXED CAPITAL FORMATION (GFCF) AND FOREIGN DIRECT INVESTMENT (FDI) AS PERCENTAGE OF GDP (%)

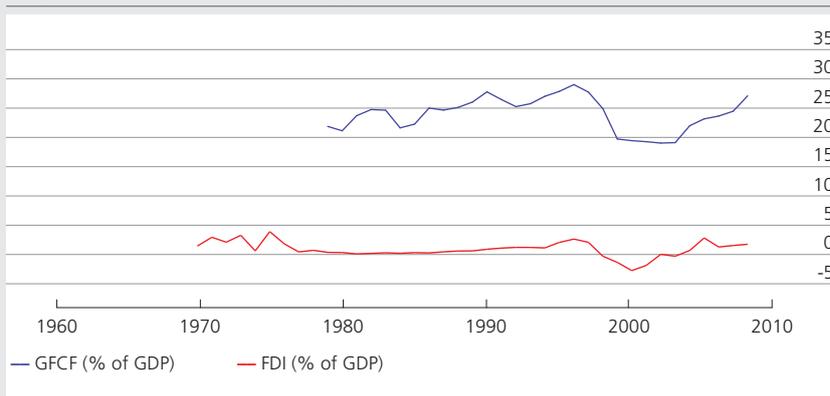
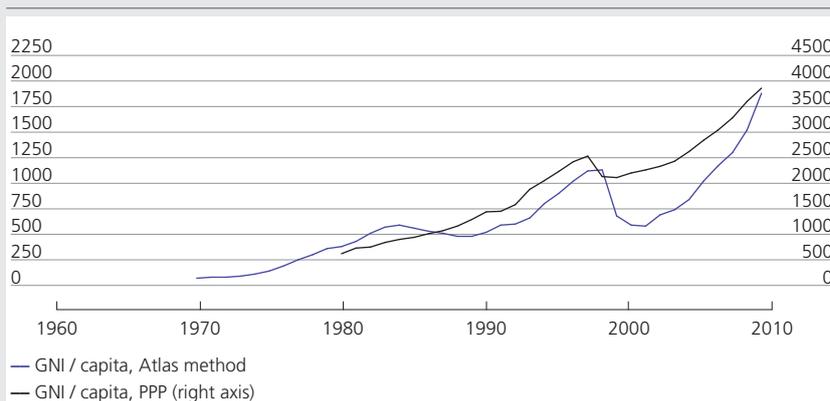


Exhibit 3, in turn, shows an increase in national income, largely due to these higher levels of investment and gains in productivity. Indeed, since the Asian financial crisis of 1997-1998, Indonesia has made great strides as an economic reformer, and the country is now reaping the rewards in the form of higher levels of growth.

**EXHIBIT 3**  
GROWTH OF REAL GROSS NATIONAL INCOME (GNI) PER CAPITA<sup>1</sup> IN CURRENT USD



1. World Bank Development Indicators 2010



## 2.2

### The role of banks in Indonesia

As of May 2010, Indonesia had around 130 licensed banks, 10 of which were majority foreign-owned with another 28 being joint-ventures between Indonesian and foreign banks. The top 10 banks control nearly two thirds of total bank assets, with the four state-owned banks (Bank Mandiri, Bank Negara Indonesia (BNI), Bank Rakyat Indonesia (BRI) and Bank Tabungan Negara (BTN)) controlling more than one third. Since the Asian financial crisis of 1997-1998, the central bank, Bank Indonesia, has maintained a policy of encouraging banks to consolidate and re-capitalise. In recent years, it has also pushed for Indonesian banks to adopt the Basel II capital-adequacy ratios. Bank Indonesia's policy has resulted in a considerable number of mergers and acquisitions, reducing the number of banks by around 25% from 164 in 1999.

Islamic banking has recorded impressive growth in Indonesia since it was first introduced 17 years ago, with assets growing by more than 50% a year in the past eight years, according to Bank Indonesia. As of end June 2010, the country had six fully fledged Sharia banks and a further 23 banks with Sharia banking units. However, Sharia banking still represents a relatively small part of the banking industry, or around 2.8% of total bank assets.

The Indonesian banking sector performs the conventional role of mobilising savings and allocating them to productive investments. In the aftermath of the Asian financial crisis, the sector was unable to perform that function effectively due to the absence of capital and liquidity. But Indonesia's subsequent reforms have put the country back on the growth track, restoring confidence in the banking system. Today, banks are once more putting capital to work in the interest of households and firms. While the banking sector remains small given Indonesia's huge population of 240 million, it is set to expand considerably in step with the nation's projected economic growth.

## 3 Standard Chartered in Indonesia



### 3.1 A brief history

Standard Chartered Indonesia – a branch of Standard Chartered Group – is among the oldest banks operating in Indonesia, with a history dating back to 1863. Standard Chartered has continued to operate in the country, even during the financial crisis in 1997-98. Standard Chartered also weathered the financial crisis that began in 2008 much better than many other international financial institutions. As a result, Standard Chartered Indonesia was able to maintain its lending and financing operations at a time when other banks were engaged in reducing their allocation of credit.

In 2004, Standard Chartered purchased a stake in Permata Bank, and two years later increased its shareholding to 44.5%. Permata Bank was created in 2002 from the merger of five banks and has since grown into a major banking group focused primarily on consumer banking.

'Here for good' is the brand promise of Standard Chartered Group. In Indonesia, as in all the countries where it operates, the bank aims to contribute to the real economy and deliver long-term shareholder value.

## 3.2

## Current profile

Today, Standard Chartered is one of the largest international banks operating in Indonesia, with 1.5% of total bank assets (excluding its stake in Permata Bank) and 19% of foreign bank assets. At year end 2009, it had 13 branches in six cities and a network of over 15,000 ATMs. Standard Chartered Indonesia employs over 2,200<sup>2</sup> workers directly, having added 100 jobs per annum over the past three years. In 2009, the bank made a pre-tax profit of USD 90 million, with a USD 57 million profit after tax. Standard Chartered Indonesia is active in nearly every segment of the financial market, as demonstrated by Table 2. This also shows that most of Standard Chartered Indonesia's activities are financed by domestic savings as opposed to offshore loans. The bank's purchase of 44.5% of Permata Bank has greatly enhanced this local profile.

Although some of the Indonesian stakeholders interviewed for this report expressed the belief that foreign banks derive most of their revenues by trading securities, 52% of the revenue of Standard Chartered Indonesia (excluding its 44.5% stake in Permata Bank) takes the form of net interest income<sup>3</sup>. The remaining 48% is equally split between fee-based income derived from banking services, and trading income. Investment in marketable securities is a relatively minor activity for the bank. At year end 2009, its holding of marketable securities (mainly government bonds) was USD 326 million, equivalent to 8% of the bank's total assets, or less than 15% of its outstanding loans and financing.

2. Includes temporary staff.

3. Interest income (on loans and other types of financing) minus interest expense (on deposits).

**TABLE 2**  
**OUTSTANDING FINANCE**  
**(YEAR END 2009) BY SEGMENT**  
**AND SOURCE OF CAPITAL**

Client segment	100% of Standard Chartered Indonesia		44.5% of Permata Bank	Total outstanding finance (USD million)
	Outstanding finance from domestic savings (USD million)	Outstanding finance from foreign savings (USD million)	Outstanding finance from domestic savings (USD million)	
Small and Medium-sized Enterprises (SMEs)	57.4		791.7 <sup>4</sup>	849.1
Commodity Trade & Agriculture (CTA)	79.9			79.9
Global Corporates (GC)	249.1	56.4		305.5
Local Corporates (LC)	456.9	80.1	334.4	871.4
Financial Institutions	413.8			413.8
Consumer loans	325.6		643.6	969.2
<b>Total financing</b>	<b>1,582.7<sup>5</sup></b>	<b>136.5</b>	<b>1,769.6</b>	<b>3,488.9</b>

4. The figure excludes USD 121.7 million of financing to SMEs which could not be analysed as the economic sectors involved were unidentified.

5. The difference between the column total and the total of the Standard Chartered Indonesia Audited Figures 2009 is due to loans to banks as of 31 Dec 2009 being reclassified as placements in banks.

FINANCING BY  
STANDARD  
CHARTERED  
REACHES A WIDE  
RANGE OF  
SECTORS IN THE  
INDONESIAN  
ECONOMY AND  
HELPS TO  
FACILITATE  
IMPORTS AND  
EXPORTS



### 3.2.1

#### Wholesale banking

Traditionally, Standard Chartered has focused on providing finance to Indonesia's corporate sector. Table 2 shows that, in 2009, Local Corporates accounted for the greatest single proportion, or 29%, of the bank's outstanding onshore loans, with Global Corporates accounting for 16%.

In recent years, Standard Chartered Indonesia has expanded its wholesale banking product suite from a main focus on lending, cash management and trade finance, into a full range of wholesale banking products, including debt capital markets, commodity derivatives, structured trade finance and project finance. The bank's structured finance services are discussed in further detail in 4.2.3.

Standard Chartered offers a wide range of trade finance products and services, supporting both importers and exporters in Indonesia. In 2009, the total value of its trade transactions amounted to USD 9.8 billion. For more information on the bank's trade finance and services, please refer to 4.2.1.

STANDARD  
CHARTERED  
OFFERS A BROAD  
SELECTION OF  
PRODUCTS AND  
SERVICES TO  
ITS RETAIL  
CUSTOMERS,  
SUCH AS  
INVESTMENTS,  
MORTGAGES AND  
CREDIT CARDS



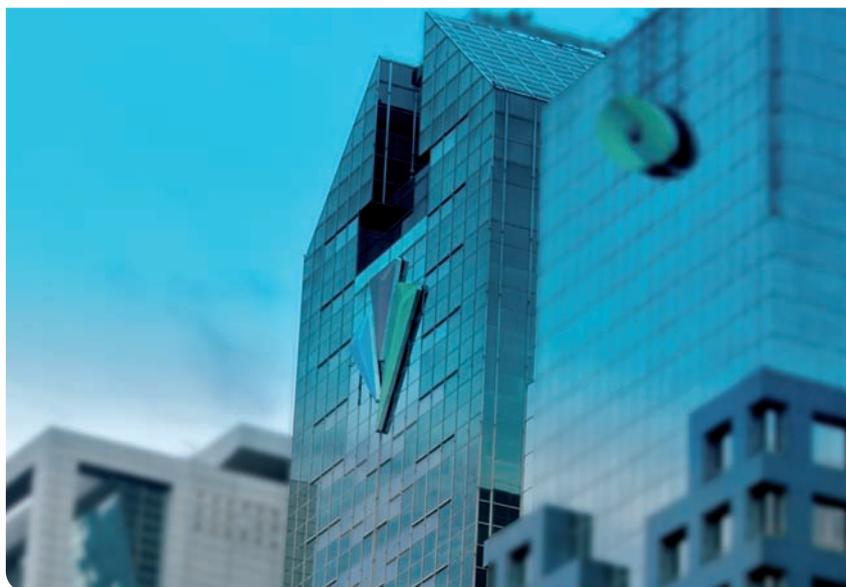
### 3.2.2

#### Consumer banking

Standard Chartered Indonesia has a relatively small, but expanding, retail customer base. It serves 300,000 individual account holders. Its consumer banking services include all aspects of wealth management, such as savings, deposits, treasury, investment services, bancassurance, secured overdrafts and banking via ATM, telephone and the Internet. The bank also offers personal loans, mortgages and a range of Visa and MasterCard credit cards, with total consumer loans standing at almost USD 326 million at year end 2009 (27% of the bank's total onshore lending).

In addition to its individual customers, Standard Chartered Indonesia serves almost 4,000 small and medium-sized enterprises (SMEs) with turnovers ranging between USD 1 million and USD 25 million. Though still a relatively small part of its business, SME banking is a growing area for the bank. Standard Chartered Indonesia helps its SME clients with essential functions such as managing their cash surplus/deficit, collecting payments and conducting transactions more efficiently. And it plays a crucial role in helping them to trade across borders, by providing SMEs with services such as advice on international markets, trade finance and foreign exchange hedging.

**PERMATA BANK  
WITH 1.8 MILLION  
CUSTOMERS IS  
INDONESIA'S  
NINTH LARGEST  
BANK**



### 3.2.3

#### Permata Bank

In contrast to Standard Chartered Indonesia, Permata Bank focuses on financing consumers and SMEs. Its 2009 SME lending amounted to nearly 45% of its total financing.

Serving approximately 1.8 million individual customers in 55 cities across Indonesia, Permata Bank has around 5,030 employees, 276 branches and 577 ATMs, with additional access provided through another 2,000 ATMs throughout the country. With 2.4% of total bank assets (as of July 2010), it ranks as Indonesia's ninth largest bank. In 2009, Permata Bank made a pre-tax profit of almost USD 82 million, with a USD 51 million profit after tax.

Permata Bank's consumer banking area serves individuals, including high net worth customers, as well as almost 26,000 SMEs. Strengthening its services to SMEs, in 2009 the bank deployed an increasing number of relationship managers across its branch network. In the same year, it increased its SME financing – mainly investment and working capital loans – by 15%.

Though predominantly a consumer bank, Permata Bank also offers a range of wholesale banking services which include lending as well as treasury products and transaction banking. Wholesale customers represent a variety of industries and range from automotive and transportation businesses to financial institutions.

In recent years, Permata Bank has expanded its Sharia banking offering (Permata Bank Syariah) in response to growing Indonesian demand. With dedicated Sharia branches in 10 cities, Permata Bank offers its Sharia customers a full range of banking services. Recognised for its contribution to Sharia banking, the bank was awarded the 2010 'Most Profitable Sharia Business Unit' and 'Most Efficient Sharia Business Unit' by Karim Business Consulting.

As required by Bank Indonesia, Permata Bank is run as a separate organisation from Standard Chartered Indonesia, with separate management teams and strategies. However, as a strategic shareholder with a 44.5% ownership, Standard Chartered Group is represented on Permata Bank's board.

# 4 Standard Chartered Indonesia's socio-economic footprint

## 4.1 Quantifiable socio-economic impacts and linkages

As an enterprise embedded in the Indonesian economy, Standard Chartered Indonesia creates socio-economic impacts in three different ways:

1. Through its operations, the bank creates employment and value-added directly in Indonesia. That is to say, Standard Chartered (including its 44.5% stake in Permata Bank), hires workers and buys a wide variety of goods and services in the local economy, while its employees spend a large share of the wages they earn in Indonesia, paying taxes and supporting local businesses. Further, since Standard Chartered's direct suppliers and their employees spend the money they earn as a result of working for the bank, value-added and jobs are created indirectly as well.
2. By taking deposits from Indonesians, Standard Chartered (including its 44.5% stake in Permata Bank) is able to make local loans. These loans provide capital to companies which is then transformed into value-added (e.g. by transforming raw materials into finished products) and employment, both through the companies' own operations and those of their suppliers.
3. Finally, as part of an international banking group, Standard Chartered Indonesia mobilises offshore capital to Indonesian and foreign companies, successively creating direct and indirect socio-economic impacts.

As explained in the introduction, only Standard Chartered Indonesia and Permata Bank's direct operations and domestic lending portfolio have been analysed using the SAM model. Exhibit 4 summarises how the banks create direct and indirect impacts through their operations and through the onshore financing they provide. The induced impact is the final demand due to households re-spending the money they have earned as wages. Though this is also an indirect effect, economic convention obliges us to classify it separately as an induced effect.

**EXHIBIT 4**  
**DIRECT, INDIRECT AND INDUCED IMPACTS RELATING TO STANDARD CHARTERED'S OPERATIONS AND FINANCING IN INDONESIA (INCLUDING ITS 44.5% STAKE IN PERMATA BANK)**

Standard Chartered Operations Impact + Permata Bank Operations Impact	Direct Impact	Indirect Impact	Induced Impact
	Standard Chartered + Permata Bank Revenues	Domestic Suppliers	
	Household Income	Household Income	Re-spending
	Taxes	Taxes	
	Savings & Profits	Savings & Profits	
<b>Standard Chartered Finance Impact + Permata Bank Finance Impact</b>			
Standard Chartered Indonesia + Permata Bank Finance	Output Borrowers	Domestic Suppliers	
	Household Income	Household Income	Re-spending
	Taxes	Taxes	
	Savings & Profits	Savings & Profits	

STANDARD  
CHARTERED AND  
THE CLIENTS IT  
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INDONESIAN  
ECONOMY IN  
THE FORM OF  
HOUSEHOLD  
EXPENDITURE  
THAT RESULTS  
FROM THEIR  
ACTIVITIES



#### 4.1.1

##### Contribution to value-added

Standard Chartered (including its 44.5% stake in Permata Bank) creates economic output directly in Indonesia by hiring workers, paying taxes and purchasing goods and services from the local economy. In 2009, this spending resulted in a net direct contribution of USD 281 million of value-added to Indonesia's economy. When the effect of the economic output generated by its onshore lending is included – that is the spending by the clients it finances – the bank made an overall net direct contribution of almost USD 2,065 million of value-added to Indonesia.

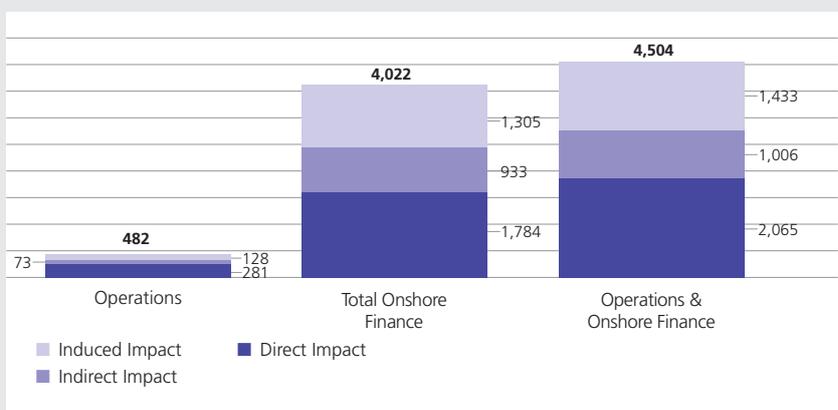
But Standard Chartered (including its 44.5% stake in Permata Bank) also creates value-added indirectly, as the money it spends is re-spent by its suppliers. Furthermore, the bank and its clients create an induced effect in the form of the total household expenditure that results from their activities. Added together, the direct, indirect and induced impacts of Standard Chartered's operations and onshore financing in Indonesia amounted to USD 4,504 million of value-added in 2009, or about 0.8% of Indonesia's GDP.

Considering that total bank financing in Indonesia accounts for about 36% of GDP and Standard Chartered has a market share of just under 3% (including its 44.5% stake in Permata Bank), it is not surprising that the bank should be associated with value-added of about 0.8% of GDP. It is also important to stress that most of the value-added would probably still exist if Standard Chartered was not in Indonesia, since its financing would be provided by other financial institutions.

Exhibit 5 provides an overview of the different components of value-added.

4.1.1 Contribution to value-added continued

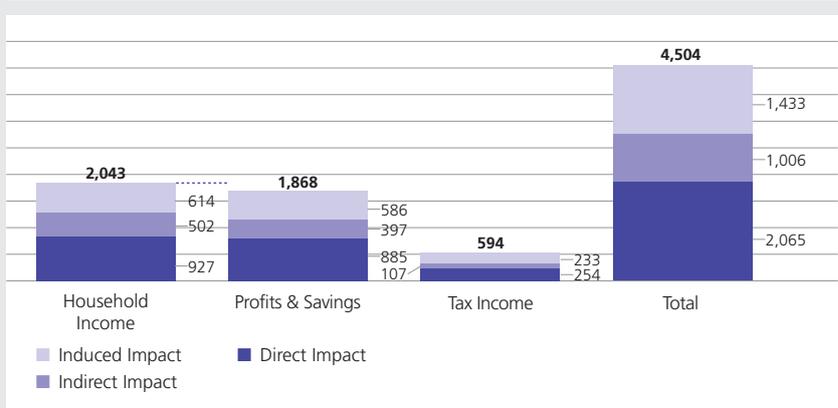
**EXHIBIT 5**  
**BREAKDOWN OF VALUE-ADDED THROUGH STANDARD CHARTERED'S OPERATIONS AND ONSHORE FINANCE IN INDONESIA (INCLUDING ITS 44.5% STAKE IN PERMATA BANK) (IN USD MILLION)**



Perhaps not surprisingly, the biggest impact of Standard Chartered Indonesia (including its 44.5% stake in Permata Bank), or almost 89%, comes from its financing of companies and not from its own operations (11%). Just over 45% of the total value-added impact is created directly, either by Standard Chartered's own operations (6%) or by the recipients of its financing (39%).

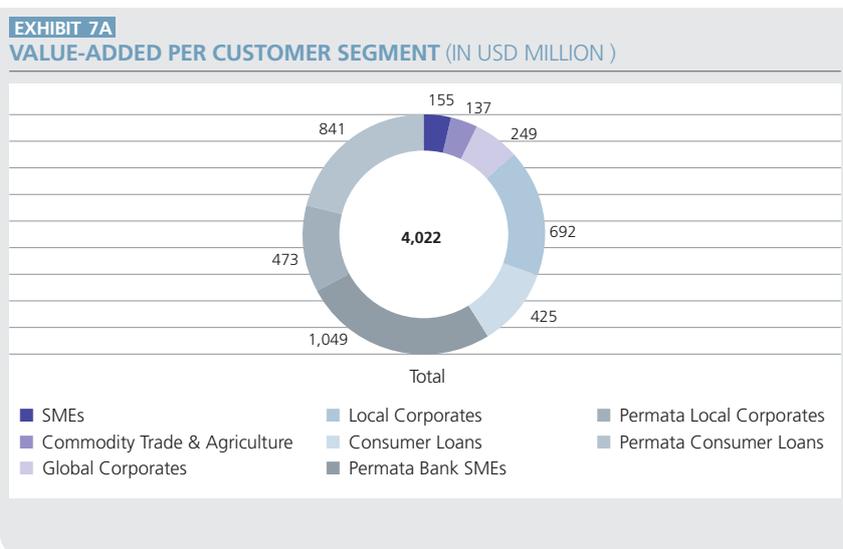
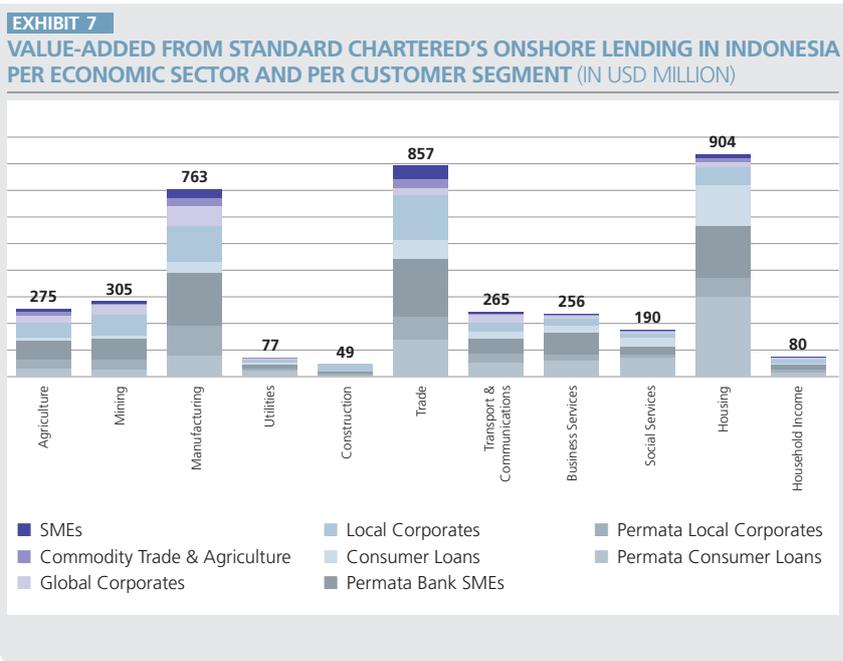
As illustrated in Exhibit 6, about USD 2 billion of the value-added accrues to Indonesian households in the form of wages and other payments, with about USD 600 million going to the Indonesian government in the form of tax receipts. Meanwhile, household savings or corporate savings and profits make up almost USD 1.9 billion of the value-added.

**EXHIBIT 6**  
**DIRECT, INDIRECT AND INDUCED VALUE-ADDED THROUGH STANDARD CHARTERED'S OPERATIONS AND ONSHORE FINANCE (INCLUDING ITS 44.5% STAKE IN PERMATA BANK) VALUE-ADDED COMPONENTS (IN USD MILLION)**



4.1.1 Contribution to value-added continued

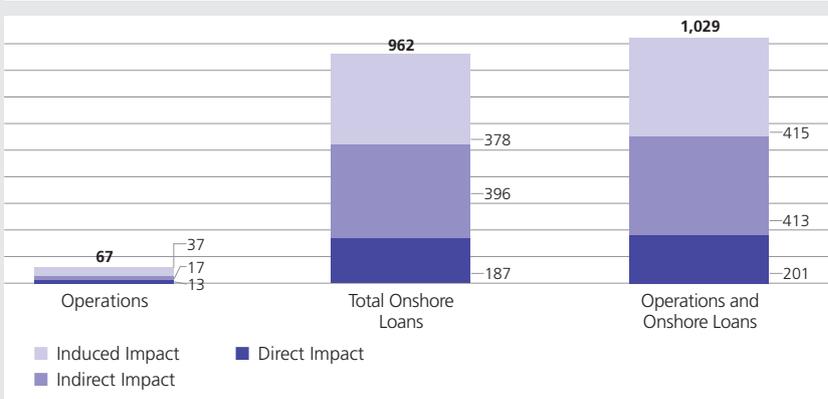
Exhibit 7 shows that the greatest proportion of value-added is generated through Permata Bank. This is understandable as Permata Bank is the ninth largest bank in Indonesia and has significantly more retail and SME customers than Standard Chartered Indonesia. The majority of the value-added is generated in the housing, trade and manufacturing sectors.



4.1.2 Contribution to employment

Governments and other stakeholders usually pay much attention to the contribution that various economic sectors make to employment. To this end, government agencies conduct various labour force surveys that seek to give a picture of how labour is utilised within the national economy. In Indonesia's case, Statistics Indonesia has published several reports that cover the size and allocation of the labour force in the country. For this report, we have used the data from the National Labour Force Survey report published in 2009. Based on the size of the labour population of 113 million (see Table 1) and the output per sector detailed in the SAM (see Appendix I), we determined the employment intensity for 17 sectors in the Indonesian economy. Based on these inputs to our model, we determined the employment associated with Standard Chartered Indonesia's operations and onshore financing. The results are shown in Exhibit 8.

**EXHIBIT 8**  
**BREAKDOWN OF EMPLOYMENT ASSOCIATED WITH STANDARD CHARTERED'S OPERATIONS AND ONSHORE FINANCING IN INDONESIA (INCLUDING ITS 44.5% STAKE IN PERMATA BANK) (JOBS '000s)**



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**4.1.2****Contribution to employment continued**

Standard Chartered Indonesia employs over 2,200 workers directly. For this analysis, we have included the employees represented by its 44.5% share in Permata Bank, to arrive at a total of 4,492 direct employees. Relative to this figure, the operations of Standard Chartered Indonesia (including its stake in Permata Bank) generate a total of 67,000 jobs when the indirect and induced employment effects are taken into account, suggesting a job multiplier of 14.9. In the same way, the bank's clients employ 187,000 directly as a result of the bank's onshore financing, but a total of 962,000 jobs are created when indirect and induced employment effects of the financing are included, for a multiplier of 5.1. Relative to Indonesia's total workforce of 113 million, the total impact of 1,029,000 jobs amounts to 0.9%.

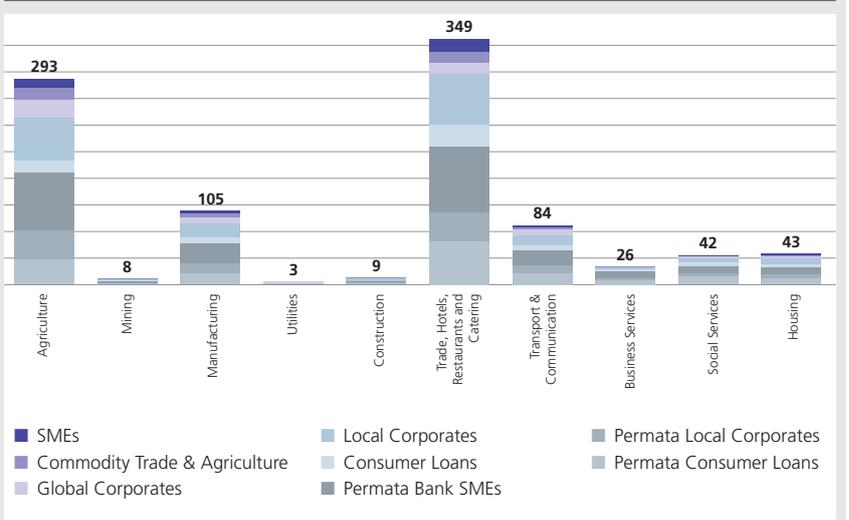
While considerable, the total impact on jobs is not surprising given the high labour intensity of the Indonesian economy – particularly the trade sector to which Standard Chartered provides a substantial proportion of its financing. As with the impact on value-added, we should also stress that the high number of jobs associated with Standard Chartered's activities in Indonesia would not necessarily disappear if the bank were not in the country, as other finance providers would be likely to take its place.

Furthermore, it should be noted that the SAM model only allows for tracing economic effects upstream. In other words, when Standard Chartered Indonesia or Permata Bank lends to a local food company, for example, the model traces the economic effects upstream from this company (e.g. to the agricultural sector) but it does not trace the effects associated with selling the products downstream to the retail (e.g. restaurant) level. However, in as far as companies spend money on the trade sector (e.g. the same food company buying cleaning materials from wholesale trade) these effects are included in the results.

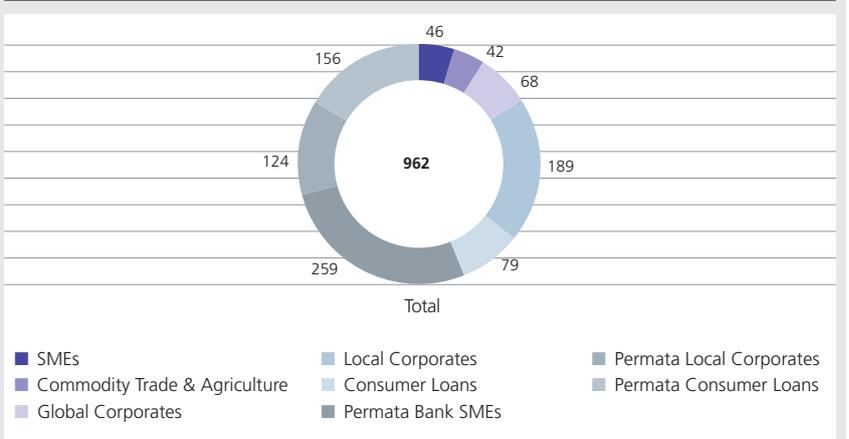
4.1.2 Contribution to employment continued

In what sectors of the economy are the jobs found? Not surprisingly, Exhibit 9 shows that the majority are found in the trade sector, which employs a large number of people, as does the agriculture sector. It should be emphasised that the number of jobs in these sectors is not an indication of their relative efficiency. Typically, when assessing the economic impact of an enterprise, stakeholders pay close attention to the number of jobs created and the associated employment multipliers. However, all too often a large multiplier is an indicator of economic inefficiency: not all the jobs are equally productive. Over time, as the Indonesian economy continues to modernise, observers may see a reduction in their relative employment share. Manufacturing contributes 105,000 jobs to the total, with the rest spread out over several different sectors.

**EXHIBIT 9**  
SECTOR AND SEGMENT BREAKDOWN OF EMPLOYMENT ASSOCIATED WITH STANDARD CHARTERED ONSHORE FINANCE IN INDONESIA (JOBS BY SECTOR '000s)



**EXHIBIT 9a**  
SECTOR AND SEGMENT BREAKDOWN OF EMPLOYMENT ASSOCIATED WITH STANDARD CHARTERED ONSHORE FINANCE IN INDONESIA (JOBS BY SECTOR '000s)



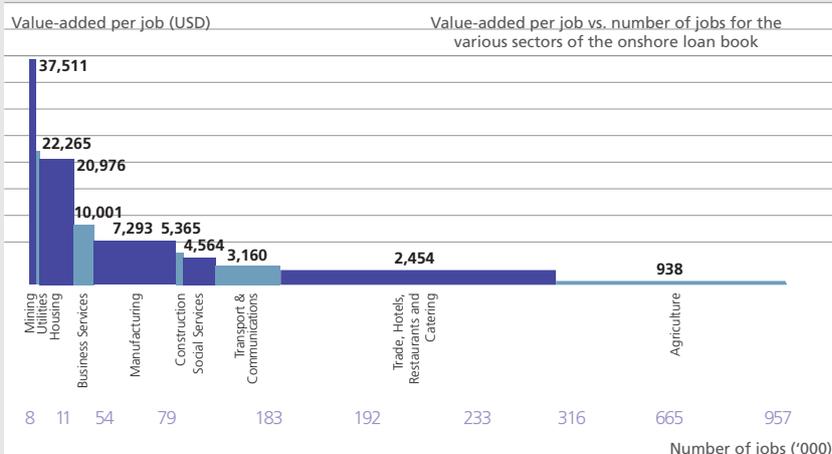
4.1.2 Contribution to employment continued

THE EMPLOYMENT ASSOCIATED WITH STANDARD CHARTERED IN INDONESIA IS FOUND IN A WIDE VARIETY OF SECTORS IN THE ECONOMY



Exhibit 10 shows the value-added per job in each sector. As can be seen, the value-added is quite high in sectors like mining (USD 37,511) and utilities (USD 22,265), but much lower in trade (USD 2,454) and agriculture (USD 938). Again, these figures remind us that employment generation alone is unlikely to be a government policy objective. Instead, governments will generally encourage employment in those sectors that also create the most value-added per worker, while simultaneously seeking to improve productivity in low value-added sectors. This highlights an opportunity for Standard Chartered. Through its financing the bank could play an important role in helping to increase the value-added per job in sectors such as agriculture.

**EXHIBIT 10**  
**VALUE-ADDED PER JOB ASSOCIATED WITH STANDARD CHARTERED'S FINANCING IN VARIOUS SECTORS IN INDONESIA (INCLUDING ITS 44.5% STAKE IN PERMATA BANK)**



## 4.1.3

**Value-added and employment generation by finance**

The results discussed in Sections 4.1.1 and 4.1.2 can be summarised by looking at how much value-added and employment are created by USD 1 million of financing. In Tables 3 and 4 this is illustrated for the various client segments and economic sectors.

**TABLE 3**  
**VALUE-ADDED AND EMPLOYMENT ASSOCIATED WITH STANDARD CHARTERED INDONESIA AND PERMATA BANK FINANCING OF USD 1 MILLION**

Client segment	Economy-wide value-added created by USD 1 million (USD million)	Economy-wide employment created by USD 1 million (number of jobs)
Small Medium Enterprises (SMEs)	1.42	359
Commodity Trade & Agriculture (CTA)	1.72	521
Global Corporates (GC)	1.00	272
Local Corporates (LC)	1.47	396
Consumer loans	1.31	242
<b>Weighted Average</b>	<b>1.37<sup>6</sup></b>	<b>327</b>

6. From Table 2: USD 2,938.5 million of financing considered in this study (USD 3,488.9 minus USD 413.8 Financial Institutions minus 136.5 foreign credit), which multiplied by the weighted average of 1.37 leads to USD 4,021.9 million of value-added associated with onshore financing, as was indicated in Exhibit 5.

**TABLE 4**  
**VALUE-ADDED AND EMPLOYMENT ASSOCIATED WITH STANDARD CHARTERED INDONESIA AND PERMATA BANK FINANCING OF USD 1 MILLION**

Economic sector	Economy-wide value-added created by USD 1 million (USD million)	Economy-wide employment created by USD 1 million (number of jobs)
Agriculture	2.87	2,954
Mining	2.39	62
Manufacturing	1.31	171
Utilities	1.86	79
Construction	0.35	61
Trade	1.25	497
Transport & Communications	0.92	279
Business Services	1.27	106
Social & Public Services	1.61	333
Housing	1.75	80
<b>Weighted Average</b>	<b>1.41<sup>7</sup></b>	<b>327</b>

7. The difference of the weighted average relative to Table 3 is that in Table 4 Consumer Loans have not been included as they cannot be allocated to an economic sector.

Again, these tables emphasise the possible tensions between value-added and employment generation. The interesting feature of Table 3 is that the value-added per worker in the SME sector is not too different from the other client segments. This indicates that Indonesia's SMEs are relatively productive and are well-integrated with the overall economy. That is not necessarily the case in many other developing economies, where SMEs are often informal and outside the mainstream of economic activity, and as a consequence little investment is made to increase efficiency.

Table 4 shows that providing finance to agriculture results in considerable total value-added and employment. However, one has to keep in mind that the quality of these jobs is relatively low, as is shown graphically in Exhibit 10. On a per worker basis, agriculture remains a very poorly paid occupation compared to manufacturing, among other industrial activities. But, given the government of Indonesia's strong interest in scaling up the agricultural sector and making it more efficient, it has the potential to become a growth sector for bank financing.

BY PROVIDING  
TRADE FINANCE,  
STANDARD  
CHARTERED  
SUPPORTS  
INDONESIAN  
COMPANIES AS  
THEY SEEK TO  
EXPLORE FOREIGN  
MARKETS



## 4.2 A qualitative assessment of other socio-economic impacts

### 4.2.1 Trade finance and services

In addition to its operations and onshore lending – the economic impact of which we have analysed quantitatively – Standard Chartered contributes to the Indonesian economy in a number of other ways. This section examines the qualitative impact of some of these contributions:

Standard Chartered helps to promote economic growth in Indonesia by offering trade finance and services that support Indonesian companies as they seek to explore foreign markets, or international companies seeking to do business in Indonesia. In 2009, Standard Chartered Indonesia processed just over 38,000 trade transactions, representing a total value of USD 9.8 billion. About 75% of the transactions stemmed from large corporates, with the remainder being from SMEs.

Standard Chartered Indonesia provides a wide range of risk management services that help companies hedge the impact of movements in currencies, interest rates, commodities and other prices. This allows the companies to focus on their core business, in turn creating employment and value-added for Indonesia. Standard Chartered is recognised as one of the market leaders within foreign exchange and interest rate hedging in Indonesia, including both plain vanilla and structured transactions.

Indonesia's main trading partners for import are China and the ASEAN member states, with the top three destinations for exports being Singapore, the US and Europe. Indonesia is a major exporter of commodities such as coal, gold, copper and bauxite and is dependent on import of such goods as oil and rice.

**4.2.2****Lending to the financial sector**

In 2009, Standard Chartered's total lending to Indonesia's financial sector amounted to nearly USD 414 million. For the reasons explained in 1.1, we have not analysed the impact of this lending quantitatively. Nevertheless, lending to financial institutions is important since it contributes to financial deepening. Due to the wide range of customers and financial needs in Indonesia, different types of financial institutions are needed in the economy. By lending to the financial sector, Standard Chartered indirectly reaches customers it would otherwise not reach. Also, anecdotal evidence suggests that a number of financial institutions have been able to increase their access to other sources of finance as a result of Standard Chartered's lending.

**4.2.3****Structured Finance**

Standard Chartered provides a wide range of cost-efficient financing as well as lease-based and asset-based financing solutions to Indonesian businesses. Services include aircraft and ship referenced finance and structured financing solutions. The services are tailor made to suit the individual needs of clients. They help Indonesian firms to lower their funding costs and manage their balance sheets more effectively. The following case is an example of Standard Chartered's contribution in this area:

**CASE STUDY  
GARUDA INDONESIA**

With a total of 25 Boeing 737-800 Next Generation (NG) commercial aircraft on order, national airline PT Garuda Indonesia (Persero) is rapidly expanding its fleet. Standard Chartered has assisted Garuda in acquiring and leasing four of these new and fuel efficient Boeing 737-800 NG aircraft through Pembroke, an aircraft leasing, financing and management firm owned by the bank. This operating lease has allowed Garuda Indonesia to effectively manage its aircraft residual risk, fleet operations and financing requirements, while providing certainty over its financing costs.

**4.2.4****Government bonds**

At the end of 2009, Standard Chartered Indonesia (excluding its 44.5% stake in Permata Bank) held 8% of its assets in marketable securities, mainly government bonds. Though we have not quantified the socio-economic impact of this, for the reasons outlined in 1.1, the funds held in government securities have a direct and indirect impact on the economy of Indonesia, as they affect the government's ability to spend. At year end 2009, Standard Chartered Indonesia held USD 326 million in marketable securities, mainly government bonds, which was about 0.15 times the amount lent to companies and individuals.

STANDARD CHARTERED HAS INTRODUCED A NUMBER OF FIRSTS TO THE INDONESIAN BANKING MARKET, INCLUDING THE FIRST SUKUK BOND ISSUE, ARRANGED FOR THE GOVERNMENT OF INDONESIA



#### 4.2.5

##### Financial innovation

Both Standard Chartered and Permata Bank have been responsible for introducing a number of firsts to the Indonesian banking market. These innovations have played a role in the country's socio-economic development by widening the access to finance for Indonesians, making more financial products available to companies and consumers and strengthening competition between banks.

The firsts introduced by Standard Chartered in Indonesia include:

First dollar-denominated Sukuk (or Sharia-compliant) bond, arranged for the government of Indonesia.

First Total Relationship Rewards – a reward scheme allowing priority banking customers (customers with funds of USD 250,000 and above) to collect points for their bank balance and credit card spending. Launched in January 2010.

First 25-year mortgages (loans with long tenors were not previously available), helping more Indonesian to buy their own homes.

First eSaver accounts – online savings accounts that pay higher savings rates to customers. Launched in February 2009.

The firsts introduced by Permata Bank include:

First mobile token – an authentication medium for internet banking, including through mobile telephone – allowing more Indonesians to access financial services.

First savings account for children including free life insurance and in-patient medical insurance.

First card-less cash withdrawals from ATMs, allowing more Indonesians to access financial services.

First bank to offer a real time interbank online transfer facility

#### 4.2.6

##### Offshore finance

Standard Chartered provides most of its financing in Indonesia from domestic savings with only a small proportion coming from international savings. In 2009, the offshore financing amounted to USD 136.5 million, or 4% of the bank's total financing (including its 44.5% stake in Permata Bank). For reasons explained in 1.1, the offshore finance was not included in our quantitative analysis.

STANDARD  
CHARTERED  
INDONESIA  
INVESTS IN  
DEVELOPING  
THE KNOWLEDGE  
AND SKILLS OF  
ITS WORKFORCE



#### 4.2.7

##### Human resources and skills development

The Indonesian government, like that of many emerging market nations, devotes serious attention to up-skilling its workforce in the face of global economic competition. This emphasis on improving the skills of the workforce is also found in the financial sector, where Bank Indonesia requires every regulated bank to devote 5% of its staff costs to employee training, a target met by Standard Chartered Indonesia. Staff receive on average 20 hours of training, including technical, professional and leadership training. Standard Chartered Indonesia also offers a risk management certification programme.

About 70% of the staff who leave each year go to other banks, and about 30% go to family businesses. While Standard Chartered Indonesia is working hard to retain its skilled staff, the spread of its alumni to other banks and firms – particularly Indonesian-owned companies – should be seen as a net positive for Indonesia as a whole, since Standard Chartered's bankers generally bring a high level of training to their new employers. Furthermore, senior Standard Chartered staff frequently teach at local universities in Indonesia, sharing their skills and experiences.

Through its international footprint, Standard Chartered Indonesia also provides career opportunities across its international offices. In 2009, 120 Indonesians worked overseas for Standard Chartered.

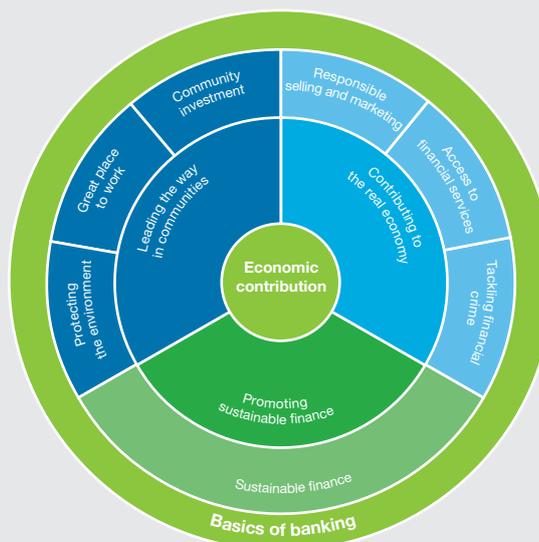
Standard Chartered Indonesia is viewed as an attractive employer by candidates, not least because of its aggressive growth strategy, which includes plans to almost double its number of branches in 2010. Typically, Standard Chartered Indonesia pays the median salary in the market with more competitive pay packages available for higher performers. The employee benefits offered by Standard Chartered Indonesia are on par with those offered by other banks in the market. Benefits include healthcare, insurance and pension schemes.

## 5 Standard Chartered Indonesia: building a sustainable business

According to Standard Chartered 'Sustainability is an approach to doing business that delivers long-term shareholder value by enhancing the economic and social development of the countries in which we operate, while minimising the impact on the environment and upholding good governance.' The bank's goal is to play a key role in stimulating economic and social development in Asia, Africa and the Middle East.

Exhibit 11 illustrates the group's sustainable business model, emphasising its three overarching principles: enabling the real economy to achieve sustainable growth, delivering sustainable finance to respond to risks and opportunities and leading by example in the workplace and community. This chapter briefly examines the progress Standard Chartered is making in adopting this model to build a sustainable business in Indonesia. The various sustainability programmes funded by Standard Chartered Indonesia were valued at over USD 1 million in 2009.

**EXHIBIT 11**  
**STANDARD CHARTERED'S SUSTAINABLE BUSINESS MODEL**



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**5.1****Contributing to the real economy**

By offering products and services that serve the needs of its clients and customers, Standard Chartered enables individuals, corporate borrowers and other financial institutions to act as agents of economic activity and to meet their ambitions. However, corruption, money laundering and terrorist activity can undermine the positive benefits of financial services provision and have a potentially devastating effect on the targeted societies. For this reason, Standard Chartered has made tackling financial crime a priority.

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**5.1.1****Access to financial services**

One long-standing concern in the field of development economics has been how to promote the process of financial deepening, or making financial services more widely available to all social classes. Financial deepening is crucial to economic development, as it enables people, no matter their wealth, to make investments that can improve the lives of their families. The microfinance model has provided a promising example of how capital markets can extend to the poorest members of society, benefiting both those households and the nation overall in the process. In Indonesia, as elsewhere in the developing world, microfinance has become a growing part of the financial markets picture.

Standard Chartered Indonesia has only recently begun to partner with microfinance institutions to enhance access to financial services. Though the bank's involvement with microfinance is in its infancy, Standard Chartered Indonesia has played a role by financing Bank Sahabat, a microfinance bank. Bank Sahabat, which began as a foundation in 1999, has since grown into a commercial bank, meeting the capital requirements of Bank Indonesia. It is headquartered in Central Java and has 6 branches and 300 staff. Its loans are, in the first instance, between USD 35 and USD 150, and these are used mainly for business expansion. In 2009, Standard Chartered Indonesia lent US 5.7 million (on commercial terms) to Bank Sahabat, enabling the bank to triple its customer base from 18,000 to about 50,000. Further, in late 2009 Standard Chartered Indonesia signed an agreement with BMK Ventura to support microfinance loans for micro business entrepreneurs, thus providing working capital to 200,000 low-income households through the network of BMK Ventura's 36 branches in West Java and Banten provinces.

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**5.1.2****Tackling financial crime**

Around the world, financial crime is a major concern. Terrorism, corruption, and money-laundering all rely on the banking system for the transfer of funds. At Standard Chartered, the introduction of Anti-Money Laundering, Know Your Customer and Speaking Up policies has improved the bank's capacity to deter, frustrate and tackle financial crime.

Standard Chartered Indonesia takes seriously its role in tackling financial crime and has mandated training in this area for its employees. This training is conducted on an annual basis in order to ensure that staff are up-to-date on the latest best practice for combating financial crime.

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**5.1.3****Responsible selling and marketing**

Treating customers fairly has moved to the top of the agenda for many financial regulators across the world. Standard Chartered supports this development, monitoring and adopting new rules and regulations as they come into force in the markets in which it operates. The bank is also seeking to develop products and services that correspond more closely to the needs of its customers.

Standard Chartered Indonesia believes it has a responsibility to ensure that its customers understand fully the nuances of the financial products that the bank offers and that they are treated fairly. These basic principles are instilled in Standard Chartered Indonesia's employees through a variety of regular training programmes.

### 5.1.3 Responsible selling and marketing continued

DEVELOPING  
PRODUCTS AND  
SERVICES THAT  
CORRESPOND  
MORE CLOSELY  
TO THE NEEDS OF  
ITS CUSTOMERS  
IS A PRIORITY  
FOR STANDARD  
CHARTERED



The bank aims to reduce its turnaround time for complaints to fewer than 48 hours, reduce the number of inappropriate sales complaints and improve the overall satisfaction with its complaints resolution process. The bank works closely with Bank Indonesia and regulators to promote best sales practice. It is represented on the board of Bank Indonesia's Working Group on Banking Mediacy and Customer Complaints Handling. Standard Chartered Indonesia has also simplified the process required to open an account with the bank.

### 5.2 Promoting sustainable finance

Standard Chartered believes that the decisions it makes around who and what it finances can have a real impact on the long term viability of its business model as well as the sustainable economic development of its host markets. The bank's approach to sustainable finance includes managing the social and environmental risks associated with its lending decisions, as well as seizing the opportunities presented by the growth in the renewable energy and environmental finance sector. In 1997 Standard Chartered introduced an environmental and social risk policy that took into account the environmental and social impacts of lending decisions by its wholesale banking business. Standard Chartered is also, since 2003, a signatory to the Equator Principles, which focus on the social and economic impacts of project finance. All the bank's project finance and project advisory transactions must comply with the Equator Principles, irrespective of value.

In addition, in 2009 Standard Chartered implemented a series of position statements to ensure that it has a consistent and cohesive approach to managing environmental and social risks across its business and financing activities. The statements provide guidance to all relationship managers, credit officers and portfolio managers. They cover specific high risk sectors relevant to Indonesia, such as Forestry and Palm Oil. They also specify the bank's approach to universal issues such as Water, Child Labour and Climate Change.

## 5.2 Promoting sustainable finance continued

Standard Chartered has adopted an overall approach of constructive engagement with its clients to positively influence their environmental and social management practices. It is also committed to supporting renewable energy projects across its footprint. The following example illustrates this approach by the bank in Indonesia:

### CASE STUDY WAYANG WINDU GEOTHERMAL ENERGY PROJECT



Geothermal energy – a renewable and abundant energy source available throughout the country – has great potential in Indonesia. The country's geothermal resources are estimated at 20,000 MW, but less than 1,000 MW have been developed so far. Leading the way is the Wayang Windu Geothermal Energy Project, a USD 298 million Equator Principle compliant enterprise operated by Star Energy. Wayang Windu – located at a twin-peaked lava dome in West Java – is Indonesia's largest geothermal power plant and hosts the world's largest geothermal turbine at 14 MW. Production stands at 110 MW, but a current expansion project is set to double the size of the plant.

Standard Chartered Indonesia is widely recognised for its role in facilitating Wayang Windu, as one of three banks who financed the project. The bank was responsible for the refinancing of the original plant and acted as financial advisor and sole arranger for the new unit. In this way, the bank has demonstrated its commitment to making Indonesia a leader among emerging markets in the renewable energy space.

The Wayang Windu project has delivered a home-grown solution to Indonesia's power generation challenge. It represents a significant advancement for domestic energy production, reducing dependence on costlier foreign supplies.

## 5.3 Leading the way in communities

### 5.3.1 Protecting the environment

Standard Chartered seeks to reduce its operational impacts and invests in communities across its footprint. The bank empowers its employees to help in this effort, particularly through volunteering.

Environmental issues are rising on Indonesia's agenda. Deforestation in particular has been of growing concern at home and abroad. Standard Chartered Indonesia recognises the country's environmental concerns and has responded to them.

In 2009, in partnership with the World Wildlife Fund and local NGOs, Standard Chartered Indonesia planted 3,000 trees in Bali and 2,000 mangrove trees on an island off the Jakarta coast. It will fund the planting of an additional 3,000 trees in 2010. Though these numbers may seem small, the tree planting is helping to raise environmental awareness among Standard Chartered Indonesia's staff and customers.

Between 2008 and 2009, Standard Chartered Indonesia replaced a number of older and less efficient premises with newer, more efficient ones. As a result, the bank reduced its overall energy consumption by 45% and its water use by 75%.



### 5.3.2

#### Community investment

Standard Chartered Indonesia invests in numerous community-based programmes in Indonesia. It also actively promotes two global community investment programmes initiated by Standard Chartered, Seeing is Believing and Living with HIV:

##### Seeing is Believing

Seeing is Believing is a global collaboration between Standard Chartered, the International Agency for Prevention of Blindness and leading international eye-care NGOs, to tackle preventable blindness. Currently, Standard Chartered is committed to raising a further USD 20 million by 2012. The investment will provide 20 million people in impoverished urban areas with access to comprehensive eye-care services.

In Indonesia, according to a recent study by the Ministry of Health, approximately 3.67 million people suffer from blindness, 76% of which is caused by cataracts. Standard Chartered Indonesia provides free cataract surgery for patients who have no money to pay for such operations. Surgery is conducted once a month, benefiting on average more than 70 patients.

##### Living with HIV

Dating back to 1995, the aim of Standard Chartered's Living with HIV programme is to mitigate the detrimental effects of HIV/AIDS on the bank's employees and clients. Through the programme, the bank has met its Clinton Global Initiative commitment to educate over one million people across 50 countries between 2006 and 2010. The bank educates and raises awareness of the virus among individuals and communities through face-to-face workshops and online learning.

Indonesia has established a national commission for AIDS control, Komisi Penanggulangan AIDS, which has outlined strategies to prevent and to control the spread of AIDS/HIV in the country. The commission has determined 79 areas in Indonesia with a high rate HIV/AIDS infection. The statistics show that approximately 170,000 to 210,000 Indonesians suffer from HIV/AIDS.

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**5.3.2****Community investment continued**

Standard Chartered Indonesia plays a vital role by improving awareness of HIV/AIDS amongst its staff through mandatory online training programmes. The bank also helps to improve general awareness, for example by distributing HIV/AIDS flyers in public places and by encouraging people to access its interactive website to retrieve information on HIV/AIDS.

**Disaster recovery**

Standard Chartered has responded rapidly and with substantial financial means to the natural disasters faced by Indonesia in recent years. Indeed, this is where the bulk of its sustainability funding has gone. Specifically, between 2006 and the summer of 2010, Standard Chartered Indonesia spent almost USD 4 million to help restore communities ravaged by natural disasters, including tsunamis, earthquakes and floods. In response to the tsunami in Aceh, the bank made donations of first aid and built a medical training facility. In response to the earthquake in Yogyakarta, its donations included first aid, the rebuilding of ten houses and five schools, the granting of 500 scholarships to students from primary school to high school and financial support for the professional training of 300 teachers. And in response to major flooding in Jakarta, its donations again included first aid, support for the rebuilding of infrastructure, and support for affected communities through investments in catfish and hydroponic farming, a garbage recycling facility and education programmes for children.

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**5.3.3****Great place to work**

For a detailed assessment of Standard Chartered Indonesia's employment practices, please see 4.2.7.

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## 6 Standard Chartered Indonesia's socio-economic footprint: conclusion

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In the aftermath of the global financial crisis, questions about the role of banks in society have once again risen on the public agenda in countries around the world. The crisis revealed that many banks had taken risks that managers did not seem to fully understand, and it suggested that profits had been largely made from trading and arbitrage activities. While there is clearly a role for sophisticated financial products for risk management, it appeared that such products had come to dominate at the cost of basic banking – making loans and providing services to clients in support of their business operations. As a consequence, new financial regulation is being put into place by many governments.

Given that background, it is particularly revealing to reflect on the financial situation in Indonesia. Thanks to sound banking regulation and fiscal management by the government on the one hand, coupled with conservative management by the leading financial institutions on the other, Indonesia emerged from the crisis of 2008 relatively unscathed compared to many other emerging market economies. Thanks to domestic demand, the economy continued to steam ahead, if at a slightly slower pace than in previous years.

The Indonesian case shows how governments and the private sector can work together to create an economic environment that stimulates sustainable growth. Standard Chartered Indonesia has been a player in the Indonesian economy for over a century, and its enduring commitment to the local market has been re-affirmed in recent years by its role in the acquisition of a stake in Permata Bank with its strong domestic presence. Together, Standard Chartered Indonesia and Permata Bank are providing cutting-edge financial services to households and firms throughout the country, while maintaining the conservative banking practices that give customers confidence and trust that their funds are in safe hands.

Because of its ability to mobilise foreign and domestic capital, Standard Chartered has played a significant role in supporting the Indonesian economy, despite the relatively small size of its operation in the country. The scale and scope of the bank's impact has been the focus of this report. We have shown that, in 2009, through its activities, Standard Chartered Indonesia directly and indirectly supported about 1 million jobs throughout the Indonesian economy, while it generated millions of dollars in income for households and tax revenues for the government. These are hardly trivial numbers, especially coming from a bank of modest stature compared to several others on the Indonesian scene. What they demonstrate is the ripple effect of bank lending, or the great leverage that economies gain by being able to access capital markets.

This report should make clear that the private sector can be a major contributor to economies when it is allowed to operate and to thrive. Given a reliable political and economic environment, with clear rules of the game and profit-making opportunities, the private sector will respond through investments and innovation, all of which help promote sustainable growth. Clearly, Standard Chartered has played a role in Indonesian economic history by being an early entrant into the banking market, and it is set to continue playing that part as it looks to the future. The bank has one of the longest histories of any bank operating in Indonesia. This report has provided quantitative evidence of its economic impact on the nation, along with a qualitative assessment of its numerous other contributions.

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**6.1****Next steps**

These are a number of steps that the managements of Standard Chartered Indonesia and Permata Bank may wish to consider as they seek to broaden and deepen their impact:

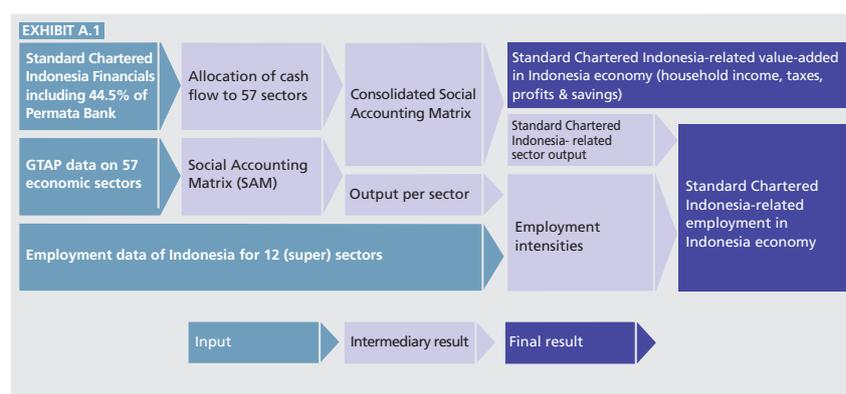
1. Standard Chartered Indonesia and Permata Bank should continue to engage with their borrowers to help them stay competitive in an increasingly global economy. Standard Chartered is present across Indonesia's key export and import markets, making it ideally positioned to support the expansion of Indonesia's international trade. While, in recent years, Indonesian growth has been largely catalysed by the increase in domestic demand, Indonesian manufacturers have an opportunity to capitalise on growing ASEAN trade, as the forces of globalisation continue to sweep through national economies. Indonesian firms, including the agricultural sector, will need to continue to look to export markets as a source of growth. Correspondingly, the banks should continue to play a key role in promoting this continued development through the provision of market information, trade finance, and other crucial services.
2. Permata Bank already operates an extensive SME banking business with 26,000 customers, but Standard Chartered Indonesia could do more to help promote the fortune of SMEs. The SME sector represents the vast majority of firms and jobs in Indonesia, and is the main driver of the nation's growth. Standard Chartered Indonesia currently provides banking services to some 4,000 SMEs, a small share of those operating in the country. Devising strategies to reach out to more of these companies and helping them to grow should be a high priority.
3. To bring about strong and sustainable growth for the future, Indonesia needs to invest more in infrastructure, especially ports, roads and power. Over the next few years, the government has projected a need for infrastructure projects worth USD 160 billion, with USD 100 billion needed to come from the private sector. Standard Chartered should seek an active role in supporting this investment.
4. Standard Chartered Indonesia should explore the opportunities for greater involvement in agricultural financing, particularly given that the modernisation of the agricultural sector is a priority for the Indonesian government. Through its financing, the bank could support the generation of value-added services, thereby helping to enhance the quality of jobs created in the agricultural sector.
5. The management of Standard Chartered Indonesia should continue to promote best social and environmental practice in Indonesia, not just directly but also indirectly, by bringing its standards – such as Equator Principle compliance and sector position statements – to bear on its activities. This is a key role for the bank that cuts across all of its areas of operation, including SMEs, Large Corporates, agricultural finance, consumers and community investment. Its financing of the Wayang Windu Geothermal Energy Project illustrates how it can help develop projects that are sensitive to Indonesia's social and environmental heritage.
6. Globally, Standard Chartered has a strong focus on using its skills, products and services to invest in communities. In future, the bank has an opportunity to create a sustainability agenda aligned both to its strategy and to Indonesia's social and economic priorities. In deciding on its community investment programmes, the bank should place a greater emphasis on those that encourage access to financial services, financial literacy, entrepreneurship and business development.
7. Standard Chartered Indonesia should continue to provide its employees with extensive training opportunities. Through Standard Chartered's access to global training programmes, the bank has an opportunity to collaborate with associations and other banks to enhance the standards within the sector.

## Appendix I

### MODELLING APPROACH

8. SAMs are valid for a specific year. Economies are subject to change and SAMs must be updated periodically.

The model developed for this study combines Standard Chartered Indonesia financial and loan data with a so-called social accounting matrix (SAM) of the Indonesian economy and the allocation of the work force over the various economic sectors. A SAM describes inter-industry linkages in an economy, depicting how the output of one industry goes to another, where it serves as an input. It therefore essentially makes one industry dependent on another, both as customer of outputs and as supplier of inputs. The SAM is a statistical and static<sup>8</sup> representation of the economic and social structure of Indonesia. Exhibit A.1 shows how three information sources are used to arrive at the two main model outputs.

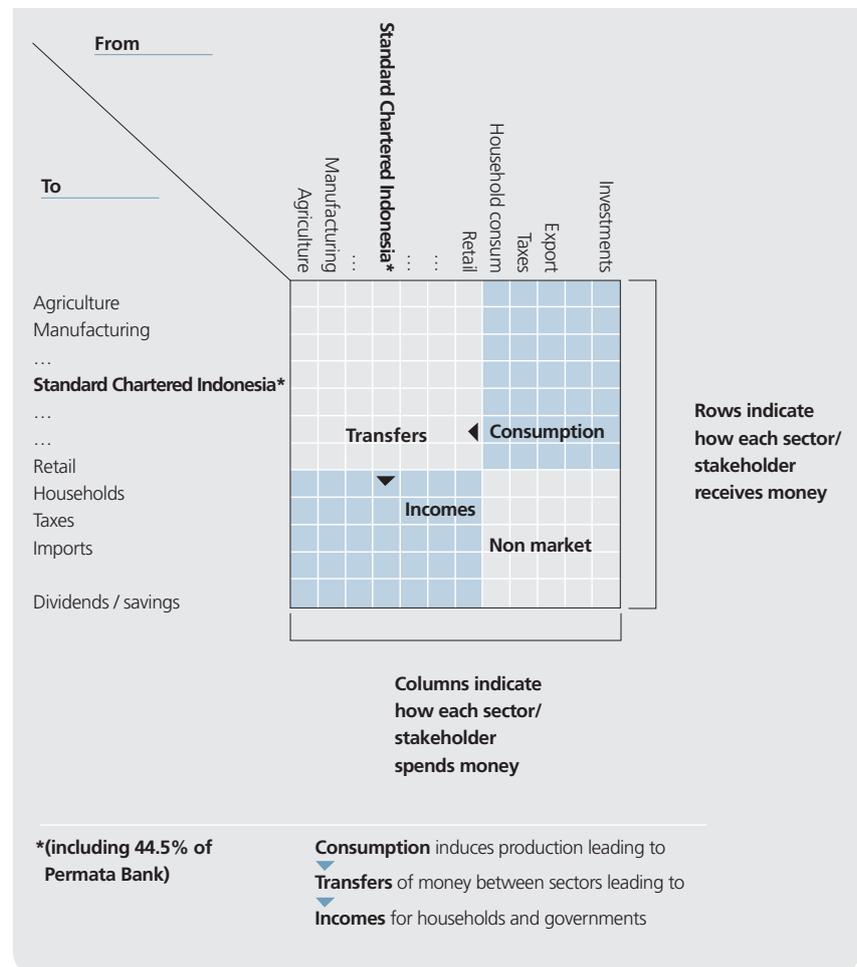


As shown in Exhibit A.1, in the SAM the number of columns and rows are equal because all sectors or economic actors (industry sectors, households, government and the foreign sector) are both buyers and sellers. Columns represent buyers (expenditures) and rows represent sellers (receipts).

Of the four quadrants in the SAM, three are relevant here. Final consumption induces production which leads to financial transfers between the various sectors which subsequently generates incomes for households, governments (taxes) and profits (dividends and savings). For Indonesia, the most recent SAM dates back to 2005 and has been taken from the GTAP<sup>9</sup> database.

9. Global Trade Analysis Project ([www.gtap.agecon.purdue.edu](http://www.gtap.agecon.purdue.edu)).

## MODELLING APPROACH CONTINUED

EXHIBIT A.2:  
SOCIAL ACCOUNTING MATRIX

As is indicated in Exhibit A.2, Standard Chartered Indonesia (including 44.5% of Permata Bank) has been included as a sector in its own right by adding a row and a column in the SAM. The column is Standard Chartered Indonesia's re-allocated cash-flow statement. The row is left entirely blank except for the export (i.e. all) revenues that flow to Standard Chartered Indonesia. The last step in constructing the SAM is to normalise it such that all columns add up to one. Then spending of Standard Chartered Indonesia and the customers it finances can be traced in money terms throughout the economy. In doing so, the economic effect related to the presence of Standard Chartered Indonesia can be divided into three effects:

1. Direct effect: value-added directly due to spending by Standard Chartered Indonesia and the clients it finances (i.e. spending on jobs and salaries, taxes and goods and services from the local economy).
2. Indirect effect: value-added due to suppliers of Standard Chartered Indonesia and suppliers of the clients financed by the bank re-spending the money they received through the direct effects (e.g. re-spending on jobs and salaries, taxes plus goods and services from the local economy).
3. Induced effect: value-added due to the expenditure of households enabled by the incomes generated by the direct and indirect effects.

## APPENDIX I

## ASSUMPTIONS

The main assumption in the model described above is that input-output (I-O) analysis implicitly assumes that an increase in demand can be met by an increase of production at constant prices in all affected sectors of the economy. In reality, however, there are sectors that will not feel the effect of an increased final demand and therefore will not experience an increase of production. Since many of Indonesia's households are farmers as well (42% of the workforce works in agriculture, among whom many are smallholders), their so-called auto-consumption is unlikely to be affected by an increase (or decrease) in final consumption. In the model this has been incorporated by eliminating from the model all household expenditures on food crops and live stock. Whereas induced effects are often significantly overestimated, this approach leads to a much more robust and realistic estimation of these effects, without the need for a data-intensive General Computable Equilibrium model.

Alternatively, there can also be sectors that are unable to increase production at constant prices because of shortages in, for example, labour, raw materials and production capacity. Labour is not deemed too restrictive since labour (especially if it is unskilled) is abundant in Indonesia. Although the official unemployment is stated to be 7.7%, underemployment is ubiquitous.

Furthermore, in order to analyse the effects of Standard Chartered Indonesia's financing on a specific borrower's revenues, we have assumed that a company's increase in revenues is proportional to the amount of capital it has invested; that is, we follow economic convention by assuming that debt and equity are deployed in linear fashion and with equal efficiency. The proportion of a company's revenues that can then be attributed to the loans from Standard Chartered Indonesia is thus equal to the proportion of Standard Chartered Indonesia's financing in the borrower's total capital<sup>10</sup>.

10. Assume a company has assets with a book value of 100, revenues of 200 and a loan from Standard Chartered Indonesia of 9, this would mean that 9% of 200 = 18 in revenues are attributed to Standard Chartered Indonesia. Technically this assumption implies that the asset turnover (sales/assets) of companies remain constant when the company grows.

## LIMITATIONS

It is important to note some of the shortcomings of the I-O/SAM methodology:

First, reports of this kind are data-intensive and technically demanding. Their accuracy depends largely upon the availability and quality of both national and firm-level data.

Second, the I-O/SAM is best used as a snapshot in time (in the case of this study the time is generally 2009) of a company's economic activities. If one is interested in time-series research or in tracking how the major variables under study have changed, the data can be useful but only with certain caveats. For example, I-O data generally do not account very well for technological change since the tables (and the underlying model of the economy on which they are based) are only updated infrequently. Since most industrial sectors engage in technological change over time, however, the analyst who relies on this data may miss some important effects, like the possibility of capital-labour substitution.

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**LIMITATIONS CONTINUED**

Third, the I-O/SAM does not provide a good method for comparing the productivity of foreign and domestic firms. The framework assumes that, for example, the capital-labour coefficients for similar types of firm are essentially the same, thus equivalent injections of, say, investment into the economy by a foreign or domestic firms would generate comparable distributions of employment and income. Yet many economists have argued that foreign investment is indeed more productive for the economy as a whole because of the specific linkages that it forges with domestic suppliers, for example through technology transfer and financing, and because of the organisational and managerial efficiencies of its operations.

Despite these shortcomings, the great attribute of the I-O/SAM approach is that it yields a macro-perspective on a single firm's operations. Given the desire of Standard Chartered's management to understand the bank's broad socio-economic impact or footprint, this approach seems to have particular relevance. In particular, this framework focuses on the financial and economic impacts of a company's investment and ongoing operations within a national setting, and should give a sense of the multiplier effects associated with a company's operations throughout the economy. That information, in turn, can be used by corporate executives and government officials as they seek to understand more about which sectors of the economy are most productive, and also about the potential economic vulnerabilities that might exist should, for example, certain sectors lose their competitiveness.

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## Appendix II

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SustainAbility, a think-tank and consultancy, supported this study by facilitating workshops with employees of Standard Chartered Indonesia and its key stakeholders – that is customers, NGOs, policy makers and opinion leaders.

These stakeholder workshops, held in Jakarta in May 2010, had four clear objectives:

1. Identify priority issues – economic, social and environmental – in Indonesia
2. Provide empirical observations on the value, impact and multiplier effect of the bank's activities in Indonesia, complementing the quantitative analysis
3. Evaluate the relevance of the findings
4. Collect strategic and tactical recommendations to inform future decision making.

Standard Chartered will engage in ongoing dialogue with the workshop participants. The bank regards stakeholder engagement as integral to its sustainability strategy. By working with stakeholders, Standard Chartered ensures that it addresses current and emerging risks and opportunities in the markets where it operates. Stakeholder engagement helps the bank to clarify priorities and develop policies. Furthermore, it provides the bank with important insights on how external stakeholders perceive its performance against its sustainability strategy.







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