

# Regulatory Frameworks to Integrate Corporate Social Responsibility with Circular Economy Principles

Sunaryo<sup>1</sup>, Kasmawati<sup>2</sup>, Hong Nhung Pham<sup>3</sup>, Astri Rahayu<sup>4</sup>

<sup>1</sup> Faculty of Law, Lampung University, Indonesia. E-mail: [sunaryo.1960@fh.unila.ac.id](mailto:sunaryo.1960@fh.unila.ac.id)

<sup>2</sup> Faculty of Law, Lampung University, Indonesia. E-mail: [kasmawati.1976@fh.unila.ac.id](mailto:kasmawati.1976@fh.unila.ac.id)

<sup>3</sup> Faculty of Law, University of Debrecen, Hungary. E-mail: [nhunghpham@mailbox.unideb.hu](mailto:nhunghpham@mailbox.unideb.hu)

<sup>4</sup> Faculty of Law, Lampung University, Indonesia. E-mail: [astrirahayu1212@gmail.com](mailto:astrirahayu1212@gmail.com)

**Abstract:** The urgency of integrating environmental Corporate Social Responsibility (CSR) and circular economy principles into legal policy frameworks has become increasingly critical in the energy transition era. This study examines the regulatory challenges hindering the alignment between CSR obligations and circular economy objectives in Indonesia, particularly the legal disconnection between Law No. 40 of 2007 on Limited Liability Companies and broader environmental regulations. Utilizing a normative legal research method, the study analyzes statutory instruments, policy documents, and international legal frameworks to assess the coherence and efficacy of existing laws. Findings reveal that CSR implementation remains fragmented and often symbolic, while circular economy practices lack regulatory incentives and enforcement, especially in resource-intensive sectors. This gap not only undermines sustainability efforts but also delays the shift toward a low-carbon economic model. The study underscores the need for regulatory harmonization, including revising corporate and environmental laws to embed circular economy principles into CSR obligations. The novelty of this research lies in offering an integrative legal perspective that bridges CSR and circular economy concepts, presenting a policy blueprint to accelerate Indonesia's transition toward a more sustainable and environmentally accountable corporate ecosystem.

**Keywords:** Corporate Social Responsibility; Circular Economy; Energy Transition; Environment; Legal Policy

## 1. Introduction

The convergence of environmental-based Corporate Social Responsibility (CSR) and the circular economy involves the integration of corporate environmental responsibility with a resource-efficient economic model that emphasizes waste reduction, recycling, and sustainability. From a legal policy perspective, this convergence underscores the state's role in formulating regulations that simultaneously promote environmental stewardship and circular economy principles, enabling companies to actively contribute to environmental sustainability. In the context of the global energy transition from fossil fuels to renewable energy to encourage the reduction of environmental harm and adoption of sustainable practices aligned with circular economy goals.<sup>1</sup>

CSR was first conceptualized by Howard R. Bowen in 1953 and serves as a normative guide in policymaking and corporate decision-making. According to Jhonatan Sofian, CSR

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<sup>1</sup> Wany, Eva, Iman Supriadi, Budi Prayitno, and Sarah Yuliarini. "Integration of Circular Economy and CSR for Sustainable Innovation in Business." In *Proceedings of International Conference of Graduate School on Sustainability*, vol. 9, (2024): 293-302.

obligates companies to consider the interests of all stakeholders, including employees, communities, governments, and the environment.<sup>2</sup> CSR thus reflects corporate sensitivity to the social and ecological conditions of the communities in which they operate. Meanwhile, the circular economy is an economic model that integrates production, consumption, and reprocessing cycles to enhance human well-being and environmental preservation. It advocates for sustainable business strategies that enhance competitiveness and economic performance through efficient waste management, green technology, and energy conservation.<sup>3</sup>

The ongoing energy transition has intensified the need to integrate Corporate Social Responsibility (CSR) policies with circular economy strategies. However, significant legal challenges impede this integration, particularly the lack of regulatory harmonization between CSR frameworks and circular economy principles. This misalignment undermines efforts to embed sustainability into corporate practices during the shift from fossil fuels to renewable energy.<sup>4</sup>

Kirchherr et al. describe the circular economy as a systemic approach that emphasizes reducing, reusing, and recycling to enhance economic value, environmental quality, social justice, and intergenerational equity. Business and consumer models are crucial in operationalizing these principles. According to Low Carbon Development Indonesia, the circular economy seeks to prolong the life cycle of products, materials, and resources, ensuring their maximum utility.<sup>5</sup>

In Indonesia, the adoption of circular economy practices is hindered by fragmented and inconsistent CSR regulations. This fragmentation reflects divergent interpretations and applications of CSR across sectors and jurisdictions, stemming from the absence of standardized legal definitions and frameworks. CSR's broad scope—encompassing ethical, economic, and social dimensions—further complicates uniform implementation.<sup>6</sup> As a result, many CSR initiatives are ad hoc, poorly coordinated, and perceived as

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<sup>2</sup> Batuwaël, Marcelia Adriana, Ataina Rusyda Fauziyah, and Hwihanus Hwihanus. "The Influence of Corporate Social Responsibility on Customer Loyalty Across Countries." *Ethics and Law Journal: Business and Notary* 2, no. 2 (2024): 228-236.

<sup>3</sup> Wikurendra, Edza Aria, Arnold Csonka, Imre Nagy, and Globila Nurika. "Urbanization and benefit of integration circular economy into waste management in Indonesia: A Review." *Circular Economy and Sustainability* 4, no. 2 (2024): 1219-248.

<sup>4</sup> Pace, Lisa A., Kristian Borch, and Alan Deidun. "Bridging knowledge gaps towards 2030: the use of foresight for the strategic management of a sustainable blue economy." *Sustainability* 15, no. 13 (2023): 10026.

<sup>5</sup> Kirchherr, Julian, Denise Reike, and Marko Hekkert. "Conceptualizing the circular economy: An analysis of 114 definitions." *Resources, conservation and recycling* 127 (2017): 221-232.

<sup>5</sup> Bappenas. "Circular Economy Concept." Accessed February 10, 2023. <https://lcdi-indonesia.id/ekonomisirkular/>

<sup>6</sup> Carroll, Archie B., and Kareem M. Shabana. "The business case for corporate social responsibility: A review of concepts, research and practice." *International journal of management reviews* 12, no. 1 (2010): 85-105.

superficial, often serving reputational purposes (i.e., greenwashing) rather than fostering genuine sustainability.<sup>7</sup>

The lack of clear standards and strategic integration weakens CSR's effectiveness and erodes public trust. Therefore, standardized legal frameworks, coherent governance, and alignment between CSR and circular economy policies are essential to ensure meaningful corporate contributions to sustainable development goals.<sup>8</sup> The circular economy, by retaining the value of products and materials within the economic system, offers a viable alternative to the linear model, aiming to minimize environmental degradation while promoting long-term economic resilience.

In recent decades, environmental sustainability has emerged as a critical global challenge. The accelerating energy transition has exposed significant legal gaps in corporate environmental responsibility, as existing regulations often lag behind evolving ecological imperatives. Indonesia's Limited Liability Company Law restricts the obligation to implement environmental protection and circular economy principles to companies operating in the natural resources sector. Conversely, environmental law applies universally, requiring all companies, regardless of sector, to uphold environmental sustainability. Within the Corporate Social Responsibility (CSR) framework, this indicates that while formal legal mandates may vary, all corporations are expected to contribute to environmental preservation as part of their broader social responsibility.<sup>9</sup>

Growing concerns about climate change, ecosystem degradation, and resource depletion have prompted increased corporate engagement in environmental issues. This urgency underscores the need for robust, coherent legal frameworks that not only guide but enforce responsible corporate conduct. Environmental CSR and circular economy principles have emerged as key strategies to support sustainability. However, realizing their full potential requires comprehensive, forward-looking legal instruments that incentivize and institutionalize sustainable business practices.

CSR has evolved into a vital component of modern business, reflecting a commitment to ethical conduct and social welfare beyond profit maximization.<sup>10</sup> It serves as a strategic mechanism to enhance corporate efficiency, competitiveness, and investment appeal by

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<sup>7</sup> Baerg MacDonald, Kristi, Alex Benson, John Kitchener Sakaluk, and Julie Aitken Schermer. "Pre-occupation: A meta-analysis and meta-regression of gender differences in adolescent vocational interests." *Journal of Career Assessment* 31, no. 4 (2023): 715-738.

<sup>8</sup> Bappenas. (2021). Summary for Policy Makers: Economic, Social and Environmental Benefits of a Circular Economy in Indonesia, Jakarta: Ministry, PPN/Bappenas, 2021, pp: 6.

<sup>9</sup> <https://ppli.co.id/transisieekonomisirkular/pentingnyatransisieekonomisirkular/>

<sup>10</sup> Dobroskok, Iuliia, Leonid Konstantynovskyi, Nadiia Proskurnina, Maryna Salun, and Tatyana Shtal. "CSR in Ukrainian Retail Enterprises in Time of the COVID-19 Pandemic and the Russian Invasion (2019-2022)." *Studia Europejskie-Studies in European Affairs* 27, no. 4 (2023): 195-214.

balancing financial performance with social and environmental responsibility.<sup>11</sup> Encompassing ethical, legal, environmental, and philanthropic dimensions, CSR fosters long-term engagement in sustainable development initiatives.<sup>12</sup>

Environmental-based Corporate Social Responsibility (CSR), once viewed primarily as a moral obligation, has increasingly become a legal mandate in many jurisdictions. This evolution reflects a paradigm shift wherein companies are not only accountable to shareholders but also to communities and the environment in which they operate. Simultaneously, the circular economy offers a strategic alternative to the linear, extractive economic model by promoting sustainable resource management through waste reduction and material optimization.

The convergence of environmental CSR and circular economy principles presents an opportunity to align economic growth with environmental protection. Legally, this integration can reinforce the normative foundation for sustainability by embedding environmental accountability into corporate operations. Several countries, for example, now require CSR disclosures to include commitments related to sustainability and circular economy practices.

Despite these developments, legal incentive structures that promote the adoption of circular economy practices remain limited. Many existing regulations continue to prioritize environmental impact mitigation over systemic economic transformation. Incentives such as tax breaks or subsidies for circular economy initiatives could significantly accelerate corporate investment in sustainable innovation. While global frameworks like the Paris Agreement have advanced sustainability objectives, they lack explicit emphasis on circular economy strategies as tools for achieving these goals.

In Indonesia, this disconnect is particularly pronounced. The absence of clear legal incentives and fragmented regulatory coordination between national and international frameworks constrains the alignment of business models with sustainability imperatives. This regulatory gap impedes progress toward a low-carbon, circular economy and underscores the need for a more cohesive legal approach.<sup>13</sup> In an era where energy transition and sustainability are critical, strengthening the legal infrastructure that supports the integration of environmental CSR and circular economy principles is essential. Comprehensive legal research is required to develop policies that not only ensure corporate compliance but also deliver tangible environmental and social benefits.

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<sup>11</sup> Sheikh, Salim. "Why should the business community and organizations leverage social media to demonstrate their corporate social responsibility (CSR) commitment?." In *Corporate Social Responsibility and Strategic Market Positioning for Organizational Success*, pp. 86-116. IGI Global Scientific Publishing, 2019.

<sup>12</sup> Sanusi, Sanusi, and Murti Kartini. "Corporate Social Responsibility (CSR) As A Form of Implementing Corporate Responsibility To The Environment And Social Community." *HERMENEUTIKA: Jurnal Ilmu Hukum* 6, no. 2 (2022): 283-291.

<sup>13</sup> Elliott, Lorraine, and Abidah B. Setyowati. "Toward a socially just transition to low carbon development: The case of Indonesia." *Asian Affairs* 51, no. 4 (2020): 875-894.

## 2. Method

This research was performed using a normative legal research method to examine the convergence of environmental Corporate Social Responsibility (CSR) and circular economy principles from a legal policy perspective within the context of the energy transition. The analysis focused on positive law through the examination of statutory regulations, policy documents, and relevant international legal instruments.

The research regarded secondary data, comprising primary legal materials (statutes, government regulations, and international agreements), secondary sources (legal literature and academic journals), and tertiary sources (legal dictionaries and encyclopedias). It also analyzed relevant legal theories and concepts to assess the interrelation between environmental CSR and the circular economy within the framework of applicable legal norms.

A deductive analytical approach was used to interpret general legal provisions and relate them to practical implementation in the era of energy transition. The research further evaluated legal policy instruments intended to encourage corporate adoption of sustainability principles through the integration of CSR and circular economy practices. Additionally, it assessed the effectiveness of existing national and international regulations in supporting sustainability goals. The analysis aimed to generate recommendations for more responsive and coherent legal policies to address the challenges of energy transition and global environmental sustainability.

## 3. Implementation of CSR Environment and Circular Economy Convergence in Indonesia

In response to escalating environmental challenges—particularly climate change and resource depletion—the transition to renewable and sustainable energy sources has become an urgent global priority. This shift is reshaping resource management and compelling industries to adopt more sustainable practices. Within this context, environmental Corporate Social Responsibility (CSR) and the circular economy have emerged as complementary strategies for advancing sustainability. However, their effective implementation is often hindered by significant legal and regulatory barriers.

Environmental CSR refers to corporate efforts to reduce negative environmental impacts while contributing to societal well-being through initiatives such as waste reduction, energy efficiency, and community engagement. Despite its potential, CSR is frequently constrained by fragmented and largely voluntary legal frameworks that fail to incentivize comprehensive adoption. As a result, CSR initiatives are often perceived as marketing

strategies rather than substantive contributions to environmental protection, particularly when regulations emphasize impact mitigation over systemic transformation.<sup>14</sup>

The circular economy adopts a systemic approach focused on resource efficiency, waste reduction, and material reuse. By promoting the "reduce, reuse, recycle" principle, it aims to extend product lifecycles, reduce reliance on finite resources, and generate economic value through innovation. Yet, despite increasing recognition, circular economy principles remain underutilized in business models due to inadequate legal support. The absence of regulatory incentives—such as tax benefits or subsidies—particularly affects sectors still dependent on linear models, including fossil fuel-based industries.

At the corporate level, several leading companies have adopted practices that exemplify the convergence of environmental Corporate Social Responsibility (CSR) and circular economy principles. Danone-Aqua's "Aqua Lestari" program incorporates infiltration well construction and collaboration with waste collectors to recycle 100% of its PET bottles. Unilever Indonesia promotes water conservation and sanitation through public education campaigns and provides refill stations for liquid soap. Astra International's "Astra Zero Waste" initiative repurposes residual waste as secondary raw materials in its production facilities, while HM Sampoerna has developed plant-based filters and recycles tobacco waste as part of its sustainable farming programs. These examples reflect corporate efforts to integrate waste management, resource efficiency, and material reuse within CSR frameworks.

Despite growing global attention to environmental sustainability, national policies often remain disconnected from broader economic strategies that could support circular economy implementation. While international agreements such as the Paris Agreement have catalyzed commitments to reduce carbon emissions, they fall short in incorporating circular economy approaches as part of climate solutions. This gap is particularly evident in countries like Indonesia, where existing legal and policy frameworks are fragmented and misaligned with circular principles.<sup>15</sup> Moreover, developing countries face additional barriers, including limited access to green technologies, financing, and technical expertise—factors essential for a successful circular transition.

To address these challenges, robust legal frameworks are needed to integrate CSR and circular economy practices. Such frameworks should offer clear regulatory guidance and incentivize circular initiatives through fiscal instruments such as tax incentives and subsidies. Without this integration, the transformative potential of CSR and the circular economy will remain underutilized, and progress toward a low-carbon, sustainable

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<sup>14</sup> Ariyanny, Renny, Sung-jun Bae, and Mohammad Kemal Dermawan. "Disgorgement of Profits: An Alternative Solution to Stolen State Assets' Recovery from Corporate Financial Crimes." *Hasanuddin Law Review* 9, no. 2 (2023): 139-154. DOI: <https://doi.org/10.20956/halrev.v9i2.4622>

<sup>15</sup> Nurdiana, Juli, Maria Laura Franco-Garcia, and Michiel Adriaan Heldeweg. "How shall we start? The importance of general indices for circular cities in Indonesia." *Sustainability* 13, no. 20 (2021): 11168.

economy will be constrained. It is therefore imperative for both national and international legal systems to evolve in ways that enable CSR and circular economy strategies to function synergistically in advancing global sustainability and energy transition goals.

#### 4. Environmental Law Policy and CSR in Indonesia

In Indonesia, Corporate Social Responsibility (CSR) obligations are governed by various regulations, most notably the 2007 Company Law, which introduces the concept of Social and Environmental Responsibility in Chapter V, particularly Article 74. Article 1(3) defines TJSL as a company's commitment to participate in sustainable economic development to improve the quality of life and the environment for the benefit of the company, local communities, and society at large. This concept serves as the legal translation of CSR within the Indonesian context. Government Regulation No. 47 of 2012 further elaborates on the implementation of TJSL, but both frameworks remain largely declarative, lacking clear enforcement mechanisms or sanctions.

Additional laws impose CSR obligations on specific sectors, including Law No. 19 of 2003 on State-Owned Enterprises, Law No. 25 of 2007 on Capital Investment, Law No. 40 of 2007 on Limited Liability Companies in conjunction with Government Regulation No. 47 of 2012, Law No. 13 of 2011 on Poverty Alleviation, Law No. 4 of 2009 on Mineral and Coal Mining, and Law No. 22 of 2001 on Oil and Natural Gas. The Regulation of the Minister of Social Affairs No. 13 of 2012 also addresses corporate responsibility in the context of social welfare. The regulatory landscape is further complicated by numerous provincial and local regulations that provide additional, often technical, guidance on CSR implementation.<sup>16</sup>

Whereas, the circular economy lacks a comprehensive legal framework in Indonesia. Nonetheless, certain regulations reflect circular economy principles, such as Law No. 18 of 2008 on Waste Management, which promotes waste reduction and recycling, and Presidential Regulation No. 97 of 2017 on the National Waste Management Policy and Strategy, which targets a 30% waste reduction by 2025. However, these policies have yet to be explicitly integrated with environmental CSR, resulting in a fragmented approach to sustainability.

Several regulations in Indonesia align with circular economy principles, such as Law No. 18 of 2008 on Waste Management, which emphasizes waste reduction and recycling. Presidential Regulation No. 97 of 2017 on the National Policy and Strategy for Household Waste Management (Perpres Jaktranas) outlines policy directions for reducing and

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<sup>16</sup> Siregar, Mahmul. "Prediktabilitas Regulasi Tanggungjawab Sosial Perusahaan (Corporate Social Responsibility) di Indonesia." *Jurnal Hukum Samudra Keadilan* 11, no. 1 (2016): 91-104.



managing household and similar waste, setting a target to reduce waste by 30% (20.9 million tons) and manage 70% (49.9 million tons) by 2025, compared to a projected waste accumulation of 70.8 million tons.<sup>17</sup>

The convergence of environmental CSR and the circular economy necessitates an integrated legal approach. One potential policy reform is the harmonization of existing regulations, particularly by incorporating circular economy principles into CSR obligations through amendments to Law No. 40 of 2007 and Government Regulation No. 47 of 2012. This revision could incentivize companies to fulfill both their social responsibilities and environmental sustainability goals.

Law No. 32 of 2009 on Environmental Protection and Management (Environmental Law) serves as the primary legal framework for environmental protection in Indonesia. Its core principle of responsibility mandates active participation from the government, businesses, and society in environmental protection and management, providing a foundation for CSR initiatives. However, while the Environmental Law promotes environmental responsibility, it does not specifically address the circular economy as a strategic approach. A circular economy, focused on resource efficiency, recycling, and waste reduction, supports the law's objectives of preventing environmental degradation and fostering sustainable development. To fully integrate these objectives, it is essential to amend the law to explicitly incorporate circular economy principles within CSR practices.

The convergence of environmental CSR and the circular economy necessitates an integrated legal approach. A key policy measure is the harmonization of regulations by incorporating circular economy principles into CSR obligations, particularly through amendments to Law No. 40 of 2007 and Government Regulation No. 47 of 2012. Such revisions could incentivize companies to meet both their social responsibilities and environmental sustainability goals more comprehensively.

Law No. 32 of 2009 on Environmental Protection and Management (Environmental Law) serves as the primary legal framework for environmental protection in Indonesia. Central to this law is the principle of responsibility, which mandates active participation from the government, businesses, and society in environmental management. This provides a foundation for implementing sustainability strategies, including CSR initiatives. However, while the law promotes environmental responsibility, it does not specifically mandate the integration of circular economy practices. The circular economy—emphasizing resource

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<sup>17</sup> Fasa, Angga Wijaya Holman. "Aspek hukum dan kebijakan pemerintah Indonesia mengenai ekonomi sirkular dalam rangka mencapai tujuan pembangunan berkelanjutan." *Jurnal Rechts Vinding: Media Pembinaan Hukum Nasional* 10, no. 3 (2021): 339-357.



efficiency, recycling, and waste reduction—aligns closely with the Environmental Law’s goals of preventing environmental harm and fostering sustainable development.<sup>18</sup>

To fully support these objectives, concrete steps are needed to revise or add provisions that explicitly integrate circular economy principles into CSR practices. Strengthening regulations could involve requiring businesses to adopt circular economy principles in their environmental management plans.<sup>19</sup> For instance, regulations could set targets for reducing industrial waste, reusing materials, and implementing eco-friendly technologies. Additionally, transparent reporting mechanisms could be established to ensure that companies meet CSR obligations while advancing sustainable development.

Expanding the scope of the Environmental Law to encompass the circular economy would enable the government to establish a more comprehensive legal framework for addressing environmental challenges. CSR aligns with global trends that advocate for strengthening environmental laws to mitigate climate change and resource depletion. Integrating circular economy principles into regulations would provide legal certainty and incentivize businesses to innovate in fulfilling their environmental responsibilities.

Presidential Regulation No. 98 of 2021 on Carbon Economic Value presents an opportunity to align environmental CSR with circular economy principles through carbon emission reduction initiatives. Companies could be encouraged to participate in carbon trading or emission reduction projects based on circular economy practices, which also support global sustainability objectives.

Fossil-based industries, such as mining and manufacturing, are major contributors to carbon emissions and environmental degradation, making the integration of circular economy principles into their CSR plans essential. However, the current regulatory framework, including Law No. 30 of 2007 on Energy, has been insufficient in promoting sustainable practices. While Article 25 of the law calls for the development of efficient and environmentally friendly energy technologies, it lacks enforceable provisions requiring companies to adopt circular economy practices. As a result, many companies in fossil-based sectors continue to operate with linear models, prioritizing production over sustainability.

This regulatory gap is evident in the slow adoption of renewable raw materials and sustainable production systems. Despite provisions encouraging efficient energy use, there are no specific targets or incentives for circular economy practices. The absence of robust enforcement mechanisms allows companies to maintain business-as-usual operations without facing significant consequences. A more effective approach would

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<sup>18</sup> Darmawan, Andreas James, Reynaldo Fajar Nugraha Susilo, and Yessica Hartono Putri. "Konsep ekonomi sirkular dalam model bisnis berkelanjutan untuk membangun gaya hidup hijau masyarakat Indonesia." *Jurnal Imagine* 3, no. 1 (2023): 41-49.

<sup>19</sup> Koos, Stefan. "Civil Law, Conflict of Laws, and Extraterritoriality in the European Supply Chain Due Diligence Law." *Hasanuddin Law Review* 10, no. 2 (2024): 144-170. DOI: <https://doi.org/10.20956/halrev.v10i2.5535>

involve revising energy sector laws to include specific targets for circular economy practices and providing strong incentives for companies that invest in environmentally friendly technologies.

To ensure the enforcement of sustainability goals, it is crucial to introduce sanctions for companies that fail to meet their obligations. While the intentions behind existing regulations are commendable, the absence of detailed provisions on circular economy integration and enforceability has limited their impact. Therefore, updating and revising these laws is essential to guarantee that the energy sector contributes actively to the transition toward a sustainable, low-carbon economy. This effort aligns with the principle of justice in environmental law, which holds sectors that significantly contribute to environmental degradation more accountable for making improvements through CSR integrated with the circular economy.

The convergence of environmental CSR and the circular economy requires an integrative legal approach. One key policy step is harmonizing regulations by incorporating circular economy principles into CSR obligations through the revision of Law No. 40 of 2007 and Government Regulation No. 47 of 2012. This policy could incentivize companies to fulfill their social obligations while supporting environmental sustainability comprehensively.

Law No. 32 of 2009 on Environmental Protection and Management (Environmental Law) serves as the primary framework governing environmental protection in Indonesia. A central principle of this law is the concept of responsibility, which requires all parties—including the government, businesses, and society—to engage actively in environmental protection and management. The law lays the groundwork for implementing various sustainability strategies, including the involvement of the industrial sector in CSR.

While the Environmental Law recognizes environmental responsibility, it does not specifically mandate the adoption of a circular economy approach. A circular economy, focused on efficient resource management, recycling, and waste reduction, aligns well with the law's goals of preventing environmental harm and promoting sustainable development.<sup>20</sup> Therefore, it is crucial to revise or amend the law to explicitly integrate circular economy principles into the framework for environmental responsibilities, particularly through CSR.

Strengthening regulations can involve creating rules that compel businesses to adopt circular economy principles in their environmental management plans. For instance, regulations could set targets for industrial waste reduction, material reuse in production processes, and the implementation of environmentally friendly technologies. Furthermore, robust regulations could include transparent reporting mechanisms for CSR

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<sup>20</sup> Dhokhikah, Yeny, Yulinah Trihadiningrum, and Sony Sunaryo. "Community participation in household solid waste reduction in Surabaya, Indonesia." *Resources, Conservation and Recycling* 102 (2015): 153-162.

programs based on circular economy principles, ensuring that companies not only meet legal requirements but also contribute meaningfully to sustainable development.

By expanding the scope of environmental law to include a circular economy, the government can establish a more comprehensive legal framework to address environmental challenges. This approach aligns with global trends and encourages the strengthening of environmental law to tackle climate change and resource crises. Integrating circular economy principles into regulations will provide legal certainty, motivating businesses to be more innovative in fulfilling their environmental responsibilities.<sup>21</sup>

Presidential Regulation No. 98 of 2021 on Carbon Economic Value offers an opportunity to integrate environmental CSR with circular economy practices, particularly through carbon emission reduction initiatives. Companies can be incentivized to engage in carbon trading or emission reduction projects based on circular economy principles, aligning with global sustainability objectives.

Fossil-based energy industries, such as mining and manufacturing, are significant contributors to carbon emissions and environmental damage. As such, the implementation of circular economy principles within their CSR plans becomes an urgent necessity. Legal obligations for circular economy integration can be enforced by revising or updating relevant regulations. This could involve adding provisions that explicitly require companies to adopt circular economy principles, such as industrial waste management, resource efficiency, and the application of sustainability-supporting technologies.

Referring to Law No. 30 of 2007 on Energy, Article 25, paragraph (1) emphasizes the development and application of efficient and environmentally friendly energy technologies. In the context of a circular economy, this obligation could be broadened to include specific targets, such as the use of renewable raw materials, waste reduction, and the adoption of sustainable production systems. Revising energy sector regulations could incentivize companies to innovate in environmentally friendly technologies while introducing sanctions for those failing to meet these obligations. This aligns with the principle of justice in environmental law, which asserts that sectors contributing significantly to environmental damage bear a greater responsibility for making improvements, particularly through CSR integrated with circular economy principles.

Stricter regulations in the area of environmental CSR will strengthen environmental management and provide companies with a clear legal foundation to plan and report

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<sup>21</sup> Janah, Samrotul, Zikri Dwi Darmawan, Monica Ayu Ningrum, and Maya Puspita Dewi. "Collaborative Governance in Implementing a Circular Economy-Based Plastic Waste Management Program in the Independent Waste Management Industry." *Bureaucracy Journal: Indonesia Journal of Law and SocialPolitical Governance*, Vol 5 no 1 (2025): 65-81.

their CSR programs transparently. Updating energy sector laws could be a crucial tool in driving the transition from a linear economy to a circular economy, fostering sustainability and facilitating the energy transition. Additionally, strengthening the sanction aspect in environmental CSR implementation is urgent. Current regulations lack sufficient legal consequences for companies that fail to meet their social and environmental responsibility obligations. For instance, applying administrative sanctions or suspending operational permits could improve corporate compliance with sustainability principles.<sup>22</sup>

To encourage broader participation, the government could develop regional regulations that specifically address the integration of CSR and circular economy principles tailored to local contexts. For example, waste management strategies could be adapted to the specific needs of urban or coastal areas facing unique environmental challenges, such as high population density or marine pollution. Such localized regulations would not only contribute to national sustainability targets but also ensure that policy adaptation occurs at the local level, addressing regional needs more effectively. However, the practical implementation of these regulations faces significant challenges, particularly in Indonesia, where compliance with environmental standards is often inconsistent across regions.

One key challenge in integrating circular economy principles into CSR implementation in Indonesia is the uneven quality of CSR reporting and corporate compliance. While many companies express commitment to CSR through public statements or reports, these efforts often lack transparency and measurable impact. 2019 research on CSR practices in Indonesia revealed that many companies fail to disclose detailed information on their environmental performance, making it difficult to assess the effectiveness of their sustainability initiatives.<sup>23</sup> Moreover, corporate compliance rates vary significantly between large multinational corporations and local small-to-medium enterprises (SMEs). Larger companies generally have more resources to implement CSR programs, while SMEs struggle to meet even basic regulatory requirements.

The environmental impact of CSR initiatives is difficult to assess due to inadequate reporting standards and a lack of clear guidelines for circular economy practices. Although some companies have implemented waste reduction and resource efficiency measures, the overall effectiveness remains uncertain due to the absence of standardized metrics and independent monitoring systems. This lack of transparency limits CSR's potential to drive meaningful environmental change and hinders stakeholders—such as regulators and consumers—from holding companies accountable.

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<sup>22</sup> Waluyo, and Dona Budi Kharisma. "Circular economy and food waste problems in Indonesia: Lessons from the policies of leading Countries." *Cogent Social Sciences* 9, no. 1 (2023): 2202938.

<sup>23</sup> Setiawan, I. Kadek Agus, Puji Ayu Larasati, and Irwan Sugiarto. "CSR contextualization for achieving the SDGs in Indonesia." *Journal of Judicial Review* 23, no. 2 (2021): 183-196.

Moreover, practical challenges, such as limited access to green technologies, insufficient knowledge of circular economy principles, and inadequate recycling and waste management infrastructure, complicate the integration of these practices. While fiscal incentives, such as tax reductions or subsidies for eco-friendly technologies, could encourage the adoption of circular economy principles, they must be accompanied by clear regulatory frameworks, technical support, and capacity-building initiatives. Governments can facilitate industry-environmental organization partnerships to develop tailored solutions addressing sector-specific challenges.

While fiscal incentives are valuable for promoting circular economy practices, the success of such policies hinges on addressing practical barriers. Strengthening CSR reporting standards, improving corporate compliance with environmental regulations, and providing targeted support to local businesses will be crucial to ensuring Indonesia's transition to a circular economy is both effective and inclusive.<sup>24</sup>

Implementing these policies faces several challenges, notably a lack of awareness among companies, many of which still view CSR as a financial burden rather than a long-term strategic investment that can enhance economic value and improve reputation. Additionally, weak coordination between government agencies remains a significant obstacle to the effective implementation of integrated regulatory frameworks.

Limited infrastructure to support a circular economy further hinders progress. Inadequate recycling facilities and the high cost of environmentally friendly technologies may prevent companies from adopting circular economy practices. Therefore, government investment in sustainability infrastructure is crucial to facilitating the adoption of circular economy principles.

To overcome these challenges, the government must develop specific regulations that integrate environmental CSR with circular economy practices, particularly in the renewable energy sector. Enhanced collaboration between companies, communities, and the government is essential to create adaptive and inclusive policies. Public education and awareness about sustainability, particularly in the context of the energy transition, must also be prioritized.

The convergence of environmental CSR and the circular economy offers a strategic opportunity to accelerate Indonesia's energy transition. An integrative legal approach focused on sustainability and multistakeholder collaboration is key to addressing these challenges. Clear, robust, and sustainability-oriented policies will ensure that the energy transition generates economic, environmental, and social benefits.

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<sup>24</sup> Lestari, Jihan, and Badingatus Solikhah. "The effect of CSR, tunneling incentive, fiscal loss compensation, debt policy, profitability, firm size to tax avoidance." *Accounting Analysis Journal* 8, no. 1 (2019): 31-37.

## 5. The Implementation of Corporate Social Responsibility (CSR) in Hungary

Since the early 2000s, the Hungarian government has progressively committed to promoting Corporate Social Responsibility (CSR). A notable milestone was the 2006 governmental decree on "strengthening the social responsibility of employers," which aimed to encourage ethical and inclusive business practices, including the official recognition of companies supporting persons with disabilities and promoting inclusive employment.<sup>25</sup>

A more significant development occurred in 2023 with the enactment of Act No. CVIII/2023, the ESG Act. This legislation established a national sustainability framework and amended the Accounting and Taxation Acts, mandating large companies to publish annual sustainability reports. These obligations, aligned with the EU's Corporate Sustainability Reporting Directive (CSRD), will be implemented in phases starting in 2025.

The Hungarian government also promotes CSR through awards and awareness campaigns, such as the CSR Hungary Award, which recognizes companies with outstanding CSR performance. Government officials emphasize that economic growth and sustainable development can be pursued simultaneously during these award ceremonies.<sup>26</sup> Additional state-led initiatives include the "family-friendly workplace" program and various recognitions for companies that employ marginalized groups or implement flexible work policies. Public institutions also engage in CSR-related conferences and support platforms like the UN Global Compact in Hungary.

The ESG Act emphasizes the importance of transparency in sustainability disclosures. Large enterprises meeting specific financial or employee thresholds are required to prepare ESG reports outlining their environmental and social impacts. To facilitate compliance, the government plans to provide technical guidance and ensure regulatory clarity, aiming to reduce administrative burdens. This approach reflects a balanced regulatory strategy that combines oversight with practical support for companies.

The Hungarian government has consistently demonstrated a willingness to collaborate with private enterprises, civil society organizations, and professional bodies. Through tripartite social dialogue forums, the government fosters the integration of CSR principles into labor, social, and environmental policies. Corporate actors and NGOs have been actively involved in the development of national ESG policies, with ministries such as the

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<sup>25</sup> Bijsmans, Patrick, and Christina Altides. "Bridging the gap between EU politics and citizens? The European Commission, national media and EU affairs in the public sphere." *European Integration* 29, no. 3 (2007): 323-340.

<sup>26</sup> Györi, Zsuzsanna, Andrea Madarasiné Szirmai, Sára Csillag, and Mátyás Bánhegyi. "Corporate Social Responsibility in Hungary: The Current State of CSR in Hungary." In *Current Global Practices of Corporate Social Responsibility: In the Era of Sustainable Development Goals*, pp. 193-211. Cham: Springer International Publishing, 2021.

Ministry of Interior and Ministry of Finance offering targeted funding programs to support social cooperatives and enterprises.<sup>27</sup>

Recent data highlight a growing awareness of sustainability among Hungarian companies. The 2024 KPMG Survey indicates that 53% of large firms in Hungary recognized biodiversity loss as a risk in their sustainability reports, up from 39% in 2022. Additionally, a 2023 research by IFUA Nonprofit Partner found that 83% of companies engaged in at least one CSR activity, such as donations, sponsorships, or employee volunteering programs. While comprehensive evaluations of government CSR policies remain limited, these trends suggest that regulatory and supportive measures have effectively encouraged business engagement in sustainability.

Hungary's CSR policy highlights the synergy between government regulation and corporate participation. Through its National CSR Action Plan (2015), Hungary integrated EU directives, encouraging large companies to regularly report on their social and environmental performance, enhancing transparency and ensuring compliance. The government also uses non-fiscal incentives, such as awards and voluntary certifications (e.g., the CSR Hungary Award), to promote sustainable practices. A key element is multistakeholder collaboration, with CSR policies developed by ministries, businesses, NGOs, and academics, aligning with socio-economic and environmental challenges. Hungary's approach demonstrates that transparency, reputational incentives, and inclusive dialogue significantly improve CSR accountability and effectiveness.

For Indonesia, a similar approach could address complex socio-economic and sustainable development needs. This would include clearer regulations, stronger sustainability reporting, fiscal or reputational incentives for innovative CSR, and enhanced collaboration among government, businesses, and civil society. Adopting Hungary's model of regulation, transparency, and collaborative governance could help Indonesia create a more strategic and impactful CSR agenda aligned with national development goals.

## 6. Conclusion

The convergence of environmental CSR and the circular economy is a strategic approach to achieving comprehensive environmental sustainability in the energy transition era. By integrating these concepts, companies can efficiently manage resources and minimize environmental impacts. Legal policies that support CSR and circular economy implementation are essential to create a regulatory framework that encourages innovation, reduces carbon emissions, and facilitates the transition to renewable energy.

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<sup>27</sup> Silander, Daniel. "The European Commission and Europe 2020: Smart, sustainable and inclusive growth." In *Smart, sustainable and inclusive growth*, pp. 2-35. Edward Elgar Publishing, 2019.



This integration will accelerate the achievement of global sustainability goals and foster a cleaner, more environmentally friendly energy transition. Failure to legally integrate environmental CSR and the circular economy would undermine Indonesia's commitments to energy transition under international frameworks.

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