



# Is corporate Indonesia ready for the green economy?

# About this report

This report summarises the ACCA and WWF Indonesia roundtable held in Jakarta on 19 April 2012, one of a series of events addressing sustainability issues relevant to the business community in Asia.

Globally, Indonesia is seen as one of the front runners in the transition to a green economy – one defined by the UN Environmental Programme (UNEP) as being low carbon, resource efficient and socially inclusive and therefore offering real potential for encouraging employment and alleviating poverty. The event focused on 'pathways to a sustainable future', and the panel of invited speakers brought policy, business and investment perspectives together in a discussion of the opportunities, challenges and priorities to be considered when creating this future in the Indonesian and Malaysian region.

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# Introduction

Opening the forum, Adam Tomasek began by noting that there is now significant global support for work to be done in the region that could create the conditions where a green economy can take root. Such support is vital as Mr Tomasek also noted the general feeling, among all stakeholders, that the current state of affairs is not good enough and requires a fundamental change in the ways things are done.

This means reassessing policies and investment strategies, and the way we engage with all the different communities involved, including business. The possibility of a future green economy depends on these changes taking place, as the region cannot go on overusing resources while undervaluing both natural capital and the ecosystems supporting this capital. This forum therefore asks the question: Is Asia ready for change?

## THE PARTICIPANTS

The roundtable was moderated by Adam Tomasek, global leader, Heart of Borneo Initiative, WWF, who was joined by:

- Masakazu Ichimura, chief – Environment and Development Policy Section, Environment and Development Division, UN Economic and Social Commission for Asia and the Pacific (UNESCAP)
- Bernadino Vega, chairman, Permanent Committee – Green Investment, Indonesian Chamber of Commerce and Industry (KADIN)
- Neil Franklin, senior adviser, Indonesian Council for Sustainable Development, and director of corporate sustainability, Daemeter Consulting
- Ben Ridley, Asia Pacific regional head, Sustainability Affairs, Credit Suisse
- Rob Evans, technical adviser for sustainability and climate change, PricewaterhouseCoopers Jakarta
- Gordon Hewitt, sustainability adviser, ACCA.

## What does a green economy mean to the region?

Masakazu Ichimura, chief of UNESCAP's Environment and Development Policy Section, began his assessment by noting that UNESCAP first recognised this issue in 2005 – before the term 'green economy' gained real currency. UNESCAP had then proposed a regional strategy to deal with the emerging dilemma of how to ensure that the economic growth required to alleviate poverty in Indonesia did not further damage the region's already poor reputation for environmental protection.

Initiatives such as those launched by UNESCAP now come under the 'green economy' heading, a widely used term but one without a single universally accepted definition. All definitions, however, state that a green economy is one in which increased investment in economic activity enhances natural capital, reduces ecological scarcity and risk, and fosters environmentally sustainable, low-carbon, and socially inclusive development. Green growth is not a panacea, however – although it can help reduce poverty it cannot solve the root causes. Therefore any focus on poverty reduction must be accompanied by sound social policy.



Masakazu Ichimura, chief – Environment and Development Policy Section, Environment and Development Division, UN Economic and Social Commission for Asia and the Pacific (UNESCAP).

In recent years there has been significant policy development in the area of sustainability: global legislation now exists that demands greater levels of corporate responsibility, such as the Nagoya Protocol; supportive frameworks are now being put in place, such as the OECD Guidelines for Multinational Enterprises; and a number of national innovations are also influencing the debate, such as those taking place in Bolivia and Ecuador as part of the Rights of Nature campaign. The challenge is now to resolve what are often opposing worldviews – and this is a key activity for the Rio+20 meeting (the UN Conference on Sustainable Development, scheduled to take place in Brazil, in June 2012), because alongside examples of cooperation, disagreements also exist. These focus on the many challenges now facing the region, including the marketisation of nature and whether this is good or bad (or even happening or not), and the growth of business and trade and the type of contribution they can make.

As a result, business leadership has been identified as one of the driving forces required to enable the transition to a green economy, and the business community should see this call for leadership, and especially for greater CSR, as a great business opportunity. To capitalise on this opportunity, however, businesses need to gain a

better understanding of where CSR investments should be focused in order to synergise economic, social and environmental benefits.

Indonesia is now establishing a strong track record in this area. Not only has the government already published CSR legislation, but it has also launched a number of other related innovations, such as renewable energy targets, support for independent power production, and energy subsidies and tax reforms. Indonesia has also identified key priorities. These include changing the focus of resource use away from biomass (which although sustainable puts pressure on local ecosystems), and to increase investment in infrastructure.

These priorities will help drive the fundamental changes required to create a green economy, both by helping change the visible structure of the economy – through the physical infrastructure changes – and by influencing invisible economic phenomena such as market prices, fiscal policies, governance and lifestyle. In its new publication, *Low Carbon Green Growth Roadmap for Asia and the Pacific*, UNESCAP is now proposing a raft of concrete policy initiatives designed to encourage those invisible actions essential for the visible changes required to make a green economy happen.

## A vision for a green economy

Bernadino Vega, chairman of the Permanent Committee on Green Investment at KADIN (the Indonesian Chamber of Commerce and Industry), noted that this is undoubtedly an exciting time for Indonesia, as the region is experiencing unprecedented growth, which is transforming society in fundamental ways. The societal mix is changing – over 50% of the population is now classed as ‘youth’, an imbalance set to continue until 2030, but after that society will start to age. The rapid growth in the middle classes is leading to greater demands for an improved quality of life, but it is also creating poverty traps and addressing this disparity has become a real challenge. There is also a greater need than ever for coordination between local and central governments, and for the reform of institutional and state laws. A coordinated policy on green reform is urgently required, as lack of coordination between local and national reform can undermine business confidence in a region, affecting investment.

There is also considerable opposition to many green economy proposals, especially from the business community. For example, the government’s drive towards a carbon emissions reduction of 26% – while demanding growth of 7% – is seen by many business leaders, especially those involved in the primary extractive industries of coal, oil and gas, as paradoxical. There is also a fear that a drive towards better infrastructure will result in the effective shelving of any plans for sustainable development, making the green economy an afterthought rather than a primary driver.

There is therefore a real need to influence corporate behaviour through the promotion of new models for growth, thereby changing the behaviour of those companies heavily involved in the exploitation of natural resources. One response could be to demand a formal analysis of the revenues of extractive companies so that profit could be redistributed to CSR, along with an analysis of company policies to ensure that they address environmental, social and governance (ESG) issues.

Market-based pressure can also be applied – one successful example has been the eco-labelling of canned tuna to ensure it is dolphin-safe, a move which not only ensures consumer confidence but which also results in a price premium for the manufacturer. In this way, the market could become one of the more effective ways of driving change and should be explored more actively.

Social inclusivity is also a key tenet of the green economy, and it needs to be made clear that this extends to business. Maintaining a sustainable supply chain is an important aspect of social inclusivity, and its importance is now underlined by growing demand for inclusive business models from major investors coming to Indonesia.

Above all, Mr Bernadino stated, business has to recognise that Indonesia is home to the world's second largest tropical rainforest and one of its most important coral reefs, making the region one of the most diverse ecosystems on the planet. To protect this huge asset, business has to change the way in which it operates, and has to recognise the negative business impact – in terms of market and investor reaction – if such change does not happen.



## Vision 2050: a road map for progress

Neil Franklin, speaking from his perspective as adviser to both the Indonesian Business Council for Sustainable Development (IBCSD) and the World Business Council for Sustainable Development (WBCSD), looked at the implications of 'Vision 2050', a green economy 'road map' originally developed by WBCSD, and now being developed for Indonesia by IBCSD.

WBCSD is a global body of over 200 companies representing \$7 trillion of capitalisation. Of its network of regional chapters, 60% are now located in developed countries, where it actively promotes a policy of CEO-led sustainable development, believing that 'advocacy leads to action' through best practice, policy input and learning-by-sharing. The 2011 launch of the IBCSD, in collaboration with the Indonesian Chamber of Commerce and Industry (KADIN), represented an important development for the sustainable business agenda in Indonesia.

Representing some of Indonesia's leading businesses, IBCSD has already identified a set of key 'lessons' gleaned from an analysis of the Indonesian business community. For example, although a wealth of experience and visionary leadership exists in Indonesia, a 'trust gap' exists

between business and other stakeholders, and that business often under-emphasises long-term trends. As it is clear that sustainability offers a framework in which business can extend strategy horizons and align itself with societal challenges, there is a real need emerging for a collective vision which bridges gaps, finds consensus and defines a clear role for business, as embodied in WBCSD's 'Vision 2050' strategy.

On the basis of the Vision 2050 approach, IBCSD has identified four clear steps as necessary to effect the transition to a green economy. First, an understanding is needed of the specific mega-trends affecting the region, and of what could happen if preventive action is not taken. There then has to be a 'visioning' of alternative paths, followed by a definition of the actions required (including the role of business), and then conditions established to enable the vision to be realised.

Vision 2050 looks at the mega-trends in terms of the problem of economic growth versus natural degradation, and one of the most important mega-trends is the major shift in global fortunes towards the emerging economies that will take place by 2025. This will bring rapid growth of the



Neil Franklin, senior adviser, Indonesian Council for Sustainable Development, and director of corporate sustainability, Daemeter Consulting.



middle classes, demand for better lifestyles, and an ageing population, but also rapid urbanisation – by 2050 it is estimated that 72% of the population will live in urban communities.

IBCSD will focus on developing an Indonesian Vision 2050 strategy throughout 2012. This business-led approach acknowledges the Indonesian government's ambitious combination of development targets and green commitments, with the aim of placing the region among the top ten global economies by 2025 – a pro-growth, pro-job vision but one that is also sustainable. One of the most important aspects of Vision 2050 is that its goals lie sufficiently far in the future to enable a 'comfortable conversation' with even the most extremely opposed stakeholders about the objectives, which of the mega-trends will prove most important, and how policy should develop as a result.

In the context of this conversation, how important is the role of business in driving green growth? In 2011 the government released Presidential Regulation 61, a national action plan for GHG mitigation that lists 46 pages of actions across a wide range of initiatives and sectors. It gives

specific targets for energy use and energy audits, for example, but also looks at major programmes of ecosystem restoration, forest management and low-carbon agriculture. The critical role of business, and scale of private sector investment needed, has never been clearer. The actions required in the transition to a green economy represent numerous business opportunities for those companies that are 'ahead of the curve' and positioned to contribute.

'The Green Race is on,' concluded Mr Franklin in common with many other commentators, and many countries (such as China) are already ahead in the race. As private sector investment in crucial in order to protect the environment, business must embrace the move towards sustainability and recognise the compelling arguments for such a move: that a sustainable business is a smart business, one that anticipates trends and changing market needs; that the challenges that lie ahead are too great to resolve without collective effort and common vision across all sectors of society; and that business cannot succeed if society fails – but society cannot succeed without business solutions.

## A bank's perspective

Ben Ridley looked more closely at the issue of how business can be involved with, and invest in, a green economy from the perspective of Credit Suisse – a Swiss-based global bank where Ben is head of sustainability affairs for the Asia Pacific region. Credit Suisse already works closely with WWF on a number of projects and is therefore actively exploring green economy opportunities for its clients, but also for itself. As Ben explained, the highest standards of sustainability are expected from Swiss-based stakeholders, and these standards guide decision making within the bank when it comes to green economy issues.

Given this involvement, Credit Suisse is therefore well placed to answer the question that many businesses ask when analysing the effort required to promote a green economy: 'Why bother?'

The answer lies in a number of different but interconnected areas, and Ben conceded that for many organisations, the starting point in adopting a more sustainable business model is the need to conserve resources and save money. This is closely followed by the need to manage risks that range from policy changes that could affect business operations, to reputational damage

caused by poor business practices. Risks can, however, also be seen as opportunities and many businesses recognise that the transition to a green economy will also lead to new income streams.

Stakeholder expectations have also become an increasingly important driver for business change, Mr Ridley noted. For an organisation such as Credit Suisse, stakeholder groups include the bank's staff, clients and institutional organisations, but also NGOs – a stakeholder group with rapidly growing influence, supported by a social media network which enables NGOs to be significantly vocal on key issues. The combined economic output of the global NGO community is roughly equivalent to the national GDP of the sixth or seventh largest global economy.

To help clients address sustainability issues, Credit Suisse often responds by undertaking sustainability due diligence for both the client organisation and its supply chain. The bank also looks for substantial demonstrations of corporate commitment, especially towards industry-specific initiatives for change, and assesses whether real capacity has been allocated to such initiatives,



Ben Ridley, Asia Pacific regional head, Sustainability Affairs, Credit Suisse.

rather than just passive involvement. Internal commitment is also important, expressed in company policies specifically designed to manage sustainability.

This type of structured analysis is important because weak sustainability management now has real, and potentially damaging, business implications. For Credit Suisse, for example, if its activities in Indonesia are seen as potentially negative then this could badly affect its retail business in Europe – a chain of events that many businesses could also experience. To help its clients mitigate such damage, Credit Suisse has developed sustainability policies and guidelines for a number of different industry sectors, and has also identified the international standards that can be applied to establish best practice sustainability management.

For Credit Suisse itself, sustainability is embedded into the bank's risk management system with the result that sustainability decisions reach the highest levels of the bank. When assessing the sustainability risk associated with

each transaction, for example, due diligence plays a fundamental role in the decision whether to 'decline, adapt or adopt'.

Nonetheless, Mr Ridley underlined the bank's core philosophy that sustainability must not be seen as just a risk management issue but also as a real business opportunity. Credit Suisse certainly sees it this way; taking a lead on sustainability is part of the organisation's vision of becoming the world's most admired bank. For Credit Suisse, sustainability is good for society, good for the environment and good for business, as can be seen from the bank's already well-established and well-used sustainability advisory services. These services help clients develop their own corporate responsibility policies, and provide a link between businesses and NGOs such as the WWF. NGOs are vital for many sustainability actions, but businesses are often 'terrified' of them; if Credit Suisse can help encourage dialogue between these two parties then such engagement can produce real value and lead to very positive outcomes.

## The role of accountants

Speaking from the perspective of another business advisory sector, Rob Evans, technical adviser on sustainability and climate change at PwC Jakarta, noted the emerging role of accountants in the development of the green economy, especially in a region such as Indonesia, and especially in helping define those business opportunities that are 'green'.

Traditionally, accountants are best known for their advisory and assurance services, especially in areas such as tax, but the growth of new business activities related to sustainability has expanded this brief into areas such as CSR governance, carbon trading, and reputational assessment. There is also a real need to assess risks and opportunities in the context of the mega-trends mentioned by Neil Franklin, which are becoming increasingly clear and which businesses cannot afford to ignore, either because they are a threat to their operations, or because they have the potential to deliver new business opportunities.

From the PwC perspective, a green approach to business is definitely on the rise. More businesses are now climbing up the 'sustainability curve', moving from simply being compliant (in order to mitigate value erosion) to embedding sustainable



Rob Evans, technical adviser for sustainability and climate change, PricewaterhouseCoopers Jakarta.

business practices in the culture and practice of the organisation, and maintaining these practices through continual improvement. Such a shift requires change throughout an organisation, from CEO to front-line staff, and through an often dense layer of middle management; accountants can help businesses make the changes required to move towards greater sustainability, and especially help those who want more than just change – who want to be transformational in how they run their operations and in how they work with financiers and suppliers.

For the accountancy profession, the green economy has therefore become a global business opportunity worth around \$25 billion and articulated in a range of services. These include green economy modelling, which looks at the financial and policy measures required to enable the right environment for change. Integrated reporting is another area of activity. This reporting strategy considers more than just the bottom line by looking at all elements of the business cycle – inputs (from natural to financial capital), outputs, and contribution (from products and services to biodiversity), while also considering the different market, natural, and regulatory landscapes and how these could change.

Such activities allow accountants to measure total business impact – financial, social and environmental – and to translate this impact into the financial information required for making long-term decisions, especially when deciding how much to commit to social investment, and what the right return rate should be, particularly over the longer term.

Accountants can therefore help businesses understand the portfolio of opportunities open to them, appreciate short-term as well as much longer-term opportunities, and identify the opportunities that actively support their brands. Accountants also have an important role to play in thought leadership in this area, bringing experience together and then disseminating it to help other organisations understand the issues involved.

Most important of all, however, is that any business with a real commitment to sustainability – PwC included – should ‘walk the walk’. PwC has a raft of CSR policies in place that demonstrate its own commitment to sustainability and, in the global hunt for talent and clients, such positive and open demonstrations are becoming increasingly relevant, showing that accountants, in particular, can ‘do as well as say’.



# Debate and discussion

Following the presentations, members of the invited audience shared their thoughts and questions with the panel. The following questions were discussed.

How important is it to decentralise decision making when promoting a green economy in Indonesia, given that local governments may also promote local issues that run counter to national policy?

Bernadino Vega responded by accepting that Indonesia is certainly grappling with the problem of how to delegate decision making, and major obstacles include the lack of capacity at local government level, and the fact that the Indonesian region is so geographically extensive and economically diverse. The challenge is always to develop a national policy relevant to all local areas, and local capacity can help the development of such a policy. In addition, a vicious cycle has developed: talented people are often discouraged from entering politics, leading to the formation of administrations that are vulnerable to corruption or poor in realising their plans, thereby further discouraging talent. Talented people will not come forward unless such issues are addressed.

It has become clear that the further a local government is from Jakarta, geographically, the poorer the enactment of nationally driven green economy measures – but where a green economy model can solve an immediate problem, it often is adopted. One example has been the response to overfishing in certain regions, with new policies

introduced to ban certain types of fishing vessel. Such developments are very positive, and central coordination can certainly enable the wider dissemination of such green economic measures to other areas. Complicating the issue further, local communities are, however, becoming more active in protesting against national policy when it challenges local rights.

Overall, it is clear that the national government is lagging behind the private sector when it comes to the development of CSR policies, so perhaps one solution is that business should take the lead in forming policies, which would then be ratified by government.



Left to right: Rob Evans, Masakazu Ichimura, Adam Tomasek, Bernadino Vega, Neil Franklin, Ben Ridley.

Indonesian deforestation, and wetland destruction, has become a serious problem – but what have organisations such as KADIN and WWF actually done to resolve this?

Adam Tomasek of WWF acknowledged that he was regularly asked this question, and his response was to acknowledge the valuable perspectives generated by an NGO, and a chamber of commerce.

The local branch of WWF is an Indonesian NGO but also part of an international organisation which has, for the last 50 years, undertaken work ranging from species research to helping the management of government-owned national parks. WWF looks at mega-trends in terms of their intersection with the environment, and at how to manage outcomes as resources become scarcer and surrounding policy more complex.

KADIN's role is to disseminate information on new economic models that have the potential to address current needs, and to close the 'trust gap' between stakeholders. The mega-trends are also used to encourage businesses to adopt a longer-term perspective on sustainability measures, and the work of the IBCSD, of which KADIN is a member, is to maintain focus on sustainability over this longer period, even though the business community may change.

How can we overcome the challenge of conflicting green economic imperatives, such as the building of 'green' hydroelectric power plants, which also result in the damming of rivers and the destruction of river valleys. Can such huge infrastructure plans ever be sustainable?

The green economic instruments embodied in the national vision for Indonesia do not capture many of the markets operating within the economy today, and significant tensions have emerged as a result, such as the conflicts between major infrastructure projects and local environmental damage. Locally organised legal action has been one response to such large schemes, with class actions that may not always stop development but at least temporarily halt progress while issues are raised and discussed, and alternative strategies proposed and possibly adopted.

Overall, however, these tensions are a clear indication that an incremental response is insufficient; a different economic and financial model is now needed to drive the region's development, and a policy of intervention is required to ensure that one type of economic activity is not more profitable than another. Such an interventionist approach would ensure that major developments would not go ahead if the associated ESG costs were prohibitively high.

In addition, although the problems associated with major schemes have taken time to attract the wider attention required for action, extensively available IT and social media tools can broadcast the results of poor environmental practice around the world straight away. IT is also enabling the faster and more widespread dissemination of information on the real costs and benefits of major development plans; when these costs are better understood, they lead to better analysis and improved decision-making.

This is why Vision 2050 is so important, as it recognises that although it is very difficult to say how long it will take to create a green economy, we can at least identify the kind of world we would like to be living in by 2050 and work back from there in order to ensure that measures are in place to achieve this goal, with important implications for large-scale infrastructure developments that do not fit the vision.



# Related reading



During 2012 ACCA conducted a series of events addressing sustainability issues relevant to the business community in Asia. The following reports of these events are available online.

- ☞ Is corporate China ready for the green economy?
- ☞ Is corporate Indonesia ready for the green economy?
- ☞ Is corporate Singapore ready for the green economy?
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Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

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