



## Sustainable Development

Sustainable development can be defined as the development that meets the needs of the present without compromising the ability of future generations to meet their own needs" <sup>1</sup>. All citizens of the world should have the desire to preserve the quality of life for future generations. The current use of the world's natural and environmental resources is unsustainable. There are also widespread social problems that need to be resolved, such as poverty and social disintegration.

Public concern over sustainability issues, such as climate change, the availability of clean water and food supply, is growing, both in Europe and in Asia. This public concern is having an increasing impact on the production, trade and consumption of products. It leads to additional requirements imposed by buyers, and government regulations. Although the public concern over sustainability is genuine and largely justified, the information on which the concern is based is not always correct, and the measures taken by buyers or by governments are not always the most efficient or effective to achieve a sustainable world.

The concern over sustainability however also creates new opportunities, by generating demand for new products (such as eco-products and renewable energy) and stimulating research and innovation. There is also growing evidence that an active sustainability policy contributes to the efficiency, risk management and profitability of companies.

The concept of sustainability implies a balance between the needs of today and those of the future. Actions and measures that are aimed at long-term objectives need to take into account possible adverse short-term effects, and vice versa. Solutions need to be found for short-term loss of employment or income, especially for vulnerable people, which may result from sustainability driven actions. Sustainability is defined as all environmental and social aspects of products and processes of production and consumption. Environmental aspects range from local pollution of water, soil and air, to biodiversity and global issues such as climate change and ozone layer depletion. Social aspects are all parts of labour relations, such as compliance with labour regulations and ILO-standards on freedom of association, child and bonded labour and workplace health and safety issues, to local communities, cultures and human rights<sup>2</sup>.

Below, the Indonesian and European business community have set out the principles of what they believe is an efficient and effective sustainability policy, in which business, government and non-governmental organisations each carry an important part of the responsibility for a sustainable world.

Much progress has been made in recent years in the environmental and social sustainability of production processes around the world. Also in Indonesia, there are many examples of sustainable production in agriculture, mining and manufacturing, and these examples do not always receive the credit they deserve.

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<sup>1</sup> Brundtland Report, 1987

<sup>2</sup> Corporate Social Responsibility is defined as a company's commitment to taking part in sustainable economic development in order to improve the quality of life and environment, which will be beneficial for the company itself, the local community and society in general. (UU No.40/2007, chapter 1 article 1).



There is however a need to further expand sustainability principles to all major producers and also to smaller and medium-sized companies. The efforts in Indonesia need to be mirrored with supporting policies in the European Union, swift implementation of agreements between Indonesia and the European Union, and facilitation of trade of sustainable products.

### **1. Accounting for Sustainability Costs**

Indonesia is a resource-rich country, where natural assets like food, energy, water and a growing range of raw materials are being heavily exploited. These resources are, in many cases, limited in supply. The importance of sustainable use of Indonesia's natural resources for the country's economy creates the need for an accurate accounting and valuation of the state of natural capital in Indonesia, including internalising negative externalities through appropriate pricing. Institutionalising a GDP+ measurement that moves beyond basic economic activity in the context of sustainable growth, consumption, income distribution, natural resource depletion and social well-being (quality of life) indicators could also be considered. This would support the implementation of national policies related to sustainability, such as the commitment to reduce carbon emissions.

More material, coherent and integrated information on environmental, social and governance (ESG) information should be included into corporate financial reports or in separate sustainability reports. This integrated reporting should be mandatory for listed companies and encouraged for other companies, so that Indonesia can establish and maintain a competitive and leadership position among emerging Asian economies. This would help to attract long term sustainable and responsible investment.

### **2. Enforcement of Existing Regulations**

Consistent enforcement of existing environmental regulations by governments and respect for the law by companies should have the highest priority.

Governments have to use the tool of regulations responsibly. Regulations should only be used where other mechanisms to improve sustainability, such as incentives and voluntary standards, are ineffective.

It is suggested that the European Union and Indonesia expand technical co-operation and learn from each other in the area of environmental regulations and the enforcement thereof, through meetings and exchange visits.

### **3. Stimulating before Regulating**

Sustainability should be stimulated by internalising the sustainability costs of a product into its financial price. This should be achieved by reducing disincentives and creating incentives for sustainable products and by taxing non-sustainable products. Policies that fit into this principle are :



- Greening of the Taxation System : reducing subsidies on polluting products (such as fossil fuels) and applying higher taxes on polluting products rather than on non, - or less polluting products, and offering tax breaks on investments in sustainability and environmentally friendly products, such as fuel-efficient cars;
- Charging environmental clean-up costs to the polluter;
- Providing subsidies or low-cost financing for investments in new technologies that improve sustainability;
- Stimulating joint research by government-funded research institutions and the private sector to find solutions to sustainability issues;
- Providing information and technical assistance on implementing sustainability standards;
- Supporting technological co-operation between Indonesian and European companies, by creating new lines of information exchange and communication between Indonesian and European companies that make it easier to match supply and demand of environmental technologies. Examples are focused match-making meetings;
- Providing incentives and more affordable funding for investments in sustainability.

These policies should be considered in both Indonesia and the European Union.

#### **4. Constructive Engagement**

Regulations, standards and agreements need to be made on the basis of transparency and genuine consultation between companies, governments and other stakeholders.

Before issuing any new regulation or stimulation policy with regards to sustainability, the government needs to systematically consult with the business community on its expected effectiveness and impact.

Companies and stakeholders, often organised in non-governmental organisations, need to engage in genuine dialogues aimed at finding solutions for sustainability problems, based on facts, and basic common principles.

Companies should consider publishing a sustainability report, as a widely accepted communication mechanism on all sustainability issues.

Constructive engagement also implies respect for other cultures in the communication process, both between organisations as well as between countries.

#### **5. Voluntary Standards and Self-Regulation**

Before issuing legal restrictions on products, governments must give companies and the other related stakeholders the opportunity to formulate and implement voluntary sustainability standards.

Standards that have been achieved in national or international consultation, such as RSPO, FSC, MSC and GlobalGAP should be respected, also in relation to governments' own rules and regulations. However,



governments should work together with companies during the formulation of the international standards to ensure that the country's interests are duly taken into account. The government has the right to regulate. It is however, agreed that companies should take the initial responsibility to set voluntary standards. If the government finds these inadequate, only then should it regulate. Government needs to have a system of cooperation with national accreditation bodies, producers, and certification bodies.

Government institutions in the financial sector could stimulate self-regulation of publicly listed companies through the stock market, with the following steps :

- 1) mandate sustainability (preferably integrated) reporting;
- 2) link executive compensation to long-term sustainability performance and encourage loyalty-driven securities that reward investors for holding shares / assets long term;
- 3) embed sustainability (ESG accountability and performance) as a fiduciary obligation of the Board of Directors;
- 4) enable development of reputable sustainability indices and sustainable investment products and asset classes beyond equity (bonds, sukuk, ETF/EPFs);
- 5) ensure security houses, investment managers, market analysts, rating agencies, insurance underwriters, public accountants and related institutions and peers include sustainability factors in their roles, responsibility and interaction with the capital market;
- 6) encourage and enable the leadership of the Indonesian Stock Exchange to be proactive in its policies, pronouncements and commitments to sustainable practices and performance, aiming to be an emerging market leader for sustainable and responsible investment.

## **6. Adherence to Internationally Accepted Standards**

Companies in all countries should adhere to at least one of the internationally accepted standards of sustainability. Many of these standards not only cover environmental and social standards, but also principles of governance and business ethics. Companies should not only formally underwrite such standards, but also ensure their implementation through a systematic management approach.

Non-governmental organisations should consider applying similar principles<sup>3</sup>.

Nevertheless, there are many instances in which sustainability initiatives in Indonesia do not receive adequate recognition by sustainability standard setting bodies. In the forestry sector for instance, official land ownership documents, as required by the international standard setting bodies, are not always available. Full reliance on law enforcement agencies is also not always effective. Efforts by forestry companies to apply alternative planting and harvesting techniques, should receive more recognition from standard setting bodies. There are many good examples in Indonesia, such as a pulp and paper company that applies protective rings of production forest around high conservation value areas. More attention to the effects and less emphasis on the methodology should be considered.

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<sup>3</sup> The Global Reporting Initiative (GRI) which is a standard setter for sustainability reporting has just launched its sector supplement for Non Governmental Organizations (NGO's) which make them able to comply in how to report sustainability in a NGO. With a sustainability report, the NGO can be held responsible and accountable for all its actions.



Another issue, especially for smaller producers, is the cost of certification. These are often prohibitively high. More competition among certification bodies should be encouraged.

Farmers mostly do not have the resources to invest in sustainability, and have very limited working capital. Special efforts are necessary to ensure that the financial benefits of sustainable production are felt immediately. Companies must be encouraged to develop new and innovative business models that are able to better engage local communities by helping them to address systemic issues such as unemployment.

Buyers usually attach higher credibility to voluntary standards than to mandatory standards. However, local certification can become a worldwide system as long as the system is recognised by the market and at the same level with existing international standards. Therefore, local certification needs to be well marketed.

International standards should take more into account what has already been implemented on local levels. Due attention should be paid to the governance and fairness in international certification standard setting.

## **7. Increasing Public Awareness**

The public needs to be educated on the effects of unsustainable production and consumption on the current and future living environment. Some forms of pollution cause immediate health risks. Other forms of production and consumption deplete important resources such as clean water. The longer terms effects of loss of biodiversity and climate change also deserve attention. An extensive awareness campaign should be designed by the government, NGOs and companies taking the lead in sustainability.

The government has the prime responsibility to educate the general public about sustainability. Such education and awareness campaigns take years of consistent efforts in order to bring about changes in behaviour. Growing public awareness will increase the incentives for companies to apply sustainable production methods.

Several companies in Indonesia that are taking a leading role in sustainability have taken local initiatives to educate the public. These companies are generally also willing to share the lessons learned, and to help upscale local or company initiatives to national campaigns, or by joining local association or groups of companies with similar visions of sustainable business, such as the Indonesia Business Council for Sustainable Development (IBCSD). Information about Indonesian success stories in sustainability are also important in order to improve Indonesia's sustainability image.