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OUTLOOK 2022

GUARDED CONFIDENCE

AMID THE UNCERTAINTY, INDONESIA SEEKS TO CHANGE GEARS AND DRIVE ITS ECONOMIC GROWTH BACK TO THE LEVELS OF BEFORE THE PANDEMIC.

CLOCKWISE FROM LEFT:
PANG XUE KAI, HENRY WIBOWO,
ARYA SETIADHARMA,
AND ENRICO TANUWIDJAJA

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By Chris Wren

16

Accelerating Progress on Indonesia's Climate Initiatives



As a follow-up to the urgent call to action contained in August 2021's Intergovernmental Panel on Climate Change (IPCC) report and ahead of September's UN General Assembly, Climate Action Tracker issued its update on the progress being made by countries towards their commitments under the 2015 Paris Accord. As with the IPCC report, it made for equally stark reading concluding that few countries, even those with strong targets, are on track to deliver on the cuts in carbon emissions previously committed. It also noted that, whilst the Paris Accord was framed for countries to evolve and increase their commitments over time, several countries, Indonesia included, have failed to submit more ambitious goals.

"We estimate that with current actions global emissions will be at roughly today's level in 2030, we would be emitting twice as much as required for the 1.5 °C limit," the report stated.

As the host country of the upcoming COP26 conference to be held in Glasgow at the end of October, United Kingdom Prime Minister, Boris Johnson, used his address to the UN General Assembly to lay

out his goal to secure commitments on "coal, cars, cash and trees" from the world's leaders when they meet. He noted that "the cost of new green technologies are falling all the time," adding that "we have the technology and finance to make a big economic success of this agenda. We lack only one thing, and that is time." Other world leaders also made strong commitments with Chinese President Xi Jinping committing that China will stop funding new coal fired power plants overseas and increase its funding for green and low-carbon energy projects in developing countries, the latter a commitment also echoed by the United States.

As part of the COP26 activities, the Glasgow Chamber of Commerce and BritCham Indonesia are co-hosting the Climate Chamber Mission, a virtual international trade and knowledge ex-



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change event involving business chambers from 10 countries, each with 10 companies represented in their delegations. The goal is to connect sustainable and low carbon conscious countries, circular cities and businesses seeking to build international partnerships and deliver on ambitious climate targets. Indonesia is the only emerging country to be represented and will take the lead in the discussions around 3 topics: Green Finance, the Circular Economy and Human Capital.



“The demand for recycled waste is the primary driver of the recycling industry. Large companies, mostly international ones, have made commitments for say, 50% of their packaging to come from recycled materials and so one of the big markets to supply this is Indonesia. They are driven by their own global commitments,” says Dian Kurniawati, CEO PT Tridi Oasis



As a follow-up to the discussion on Green Finance covered in September’s issue of Forbes Indonesia, Britcham Indonesia held a second round table where invitees from some of the COP26 delegate companies participated in a discussion on some the key actions and initiatives ongoing and/or needed in their respective sectors. Below is a summary of the key discussion points and my thanks for their participation to Azis Armand, Vice President Director and Group CEO of PT Indika Energy Tbk, Marcus Lee, Managing Director of PT Jababeka Tbk, Dian Kurniawati, CEO PT Tridi Oasis, and Olly Riches, Chairman of Britcham Indonesia and President Director of Michael Page Indonesia and the Philippines.

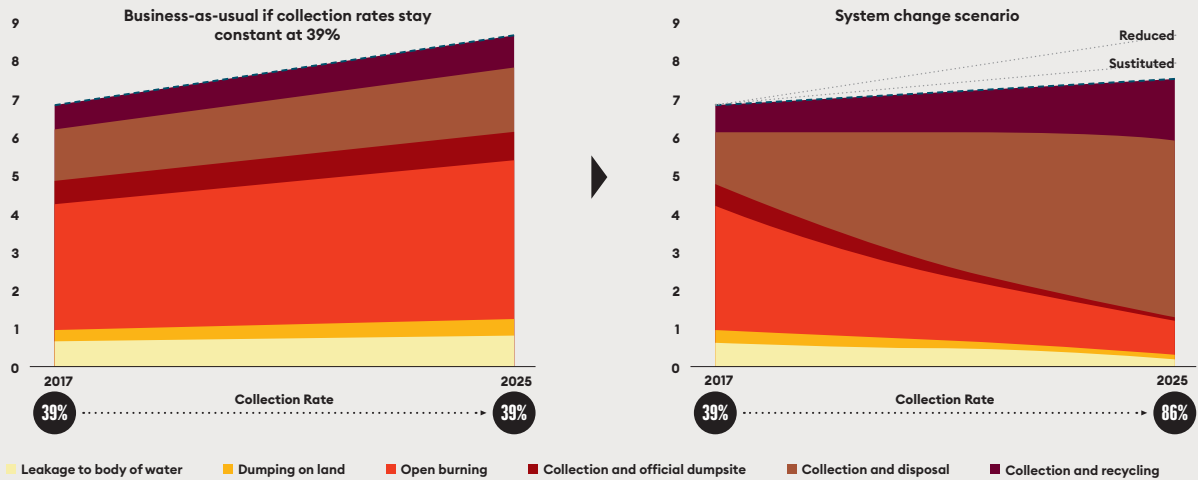
What are the key driving forces within companies around ESG today?

Targets, objectives and financial impact are the main driving forces of decision making within the corporate sector and so the integration and prioritization on sustainability goals will mainly come from a pressure to deliver on certain measures. “Our original push for change was generated by the intention to stabilize our operational and financial performances as the coal sector is subjected to significant fluctuations. Our principals, the shareholders, pushed us to stabilize and when we got deeper on the how, we came to a point where stability also meant

sustainability,” noted Azis, “being a public company and being active in the international debt market, we were also exposed to the expectations of the financing sector. This led us to really look at transforming our portfolio and amending our purpose which then gains traction with our employees and our suppliers,” he added. “Our founders and shareholders were committed to having a township with minimum pollution even if 70% of our development houses industrial companies. This means no chimneys producing pollutants, restricting what type of activities can be operated in the township and designing in green space,” noted Marcus. Our panelists noted that there is increasing stakeholder momentum on sustainability but it’s not yet universal here and there are therefore companies moving more slowly as they are not exerted to the same pressures. At the same time many companies are still in a transitional phase. Dian noted “the demand for recycled waste is the primary driver of the recycling industry. Large companies, mostly international ones, have made commitments for say, 50% of their packaging to come from recycled materials and so one of the big markets to supply this is Indonesia. They are driven by their own global commitments.” With Indonesia being an attractive market for FDI presently, the expectation is for ESG to become more front and center, “foreign

A DRAMATIC CHANGE IS REQUIRED TO CHANGE FROM "BUSINESS AS USUAL" TO A "SYSTEM CHANGE SCENARIO"

Plastic waste generation, million ton/year, Indonesia



SOURCE: NPAP ANALYSIS BASED ON >50 PUBLIC, PRIVATE AND ACADEMIC PUBLICATIONS

investors see Indonesia as a country which can make a huge impact on climate change... it has one of the highest renewable energy potentials in the world, the largest deposits of nickel (for EV batteries) and forests which contribute to maintaining the atmosphere,” added Olly.

What areas could help accelerate the integration of ESG topics into corporate strategies?

With companies being answerable to their own stakeholders, there is a need for a strong government-led framework within which their management can or must work to develop and implement their own actions. Whilst noting the initiatives which they can drive are important, “we are just one town... still very small in the overall capacity of Bekasi and Jakarta...our neighbours, other developers, the industry generally must all be working to the same guidelines and objectives,” noted Marcus. “We (Indonesia) have goals, but we don’t consistently have plans, a list of initiatives, for all key sectors. More has been done in the forestry, industrial waste and water management sectors than the energy sector so far for instance,” commented Azis. The panel also noting that backing up the plans with a program of tax breaks, incentives and potentially penalties (carbon tax or monetary) would accelerate adoption of strategies but noting in the transitional phase, incentives will be the bigger pull. There are also projects which, whilst very beneficial to ESG corporate actions in the long run, transcend the capacity of individual compa-

nies to deliver on them. Taking a large proportion of cars off the road by putting commuters to Jababeka and other development onto public transportation networks or dimethyl ether production across multiple coal producers were examples quoted of where government investment and/or industry coordination will be the most effective way to drive change. Longer term it’s impossible in the power generation sector to talk about phasing out coal without developing a plan to replace or convert the existing coal-fired plants, this probably means an acceleration in the development of geo-thermal power generation. It will start with the government setting out its national long term plan in this sector.

And what about in the Waste Management Sector?

The government has laid out its objectives to reduce solid waste and marine plastic debris by 30% and 70%, respectively, by 2025. “There are several actions under discussion including Extended Producer Responsibility (EPR) regulations but it’s really the demand for recycled waste which is driving the changes in the market,” shared Dian. Private waste management recyclers are responding to the demand and investing to the opportunities to make a business from it. “Looking forward, there are already good practices in other parts of the world and Indonesia can mirror these,” added Dian, “for example, EPR and minimum recycled content regulations would work hand in hand to help achieve these goals.”

SCOPE 1 GHG EMISSIONS (TON CO2EQ)



Strategic priority – reduce carbon emissions by increasing alternative energy for operational use, primarily biofuel and solar
Based on Kideco, Petrosea, and Tripatra performance
*Based on Kideco, Petrosea, Tripatra, MUTU performance

RECLAMATION AREA (HA)



Strategic priority – continue reclamation efforts while also mitigating potential impacts on biodiversity to achieve zero net loss of biodiversity
Based on Kideco performance

SOURCE: PT INDIKA ENERGY TBK ANNUAL REPORT*

And what about the Human Resources aspect?

The panel noted that the development of the knowledge economy, driving R&D including to support climate change and other development goals related initiatives, ICT adoption and consequentially, the country's competitiveness rankings will all benefit from greater investment in education, especially at PhD's and Masters level. Whilst the latest National Medium Term De-

→ "There are not many specialists in the market yet, it's mostly about hiring passionate people."

velopment Plan for 2020-2024 includes an emphasis on Human Resources, STEM subjects in particular, the starting point is low with R&D investment at around 0.25% of GDP and the number of people engaged in R&D is around 233 per million inhabitants, some 12% only of the figure of fellow Asean member Thailand. It will take some time and investment for the focus in these areas to become a competitive advantage within the economy. Azis shared "within our operations, our teams have successfully demonstrated how

digitalization can effectively lead to efficiency and de-carbonization. It required a different set of competencies and team skills, data science, IoT, AI etc.. in conjunction with our traditional mining engineers and logistics engineers. But when we come to innovation and implementation of carbon capture technology for power plants, it requires a lot of new skills, academic, local and internationally, we need to work together to come up with solutions in the next 5 to 10 years."

"Like in other sectors, President Jokowi is seeking to nurture the home-grown talents. It's a multi-layered approach which starts at the grassroots, part of which is ensuring the universities are getting up to speed and offering courses around ESG and Sustainability," Olly noted, "international partnerships can be a key to help accelerate access to programs, for instance the UK's Transnational Education Partnerships which allow Indonesians to gain UK qualifications in these areas whilst working in Indonesia. One quick win is also to look at bringing back Indonesians who have trained or worked abroad in countries where the ESG topic is more mature," he added.

In terms of ESG hiring, as there are not many specialists yet in the market "it's mostly about hiring passionate people," noted Dian. "Strategic planning in this area requires support from experts and so we are hiring an international consultant to assist our master planning, including sustainability," noted Marcus. "Multi-national companies often have access to global expertise but with ESG still being in the early stages here, there are only a handful of local companies with a full team here, although this is steadily changing," Olly shared, "senior ESG positions also require good team-building and communication skills as it's not a one-person initiative, blending this profile with passionate team members, purpose-driven millennials for instance, is one strategy we are seeing across SEA," Olly added.

How can we bring along MSME's which may otherwise not have the resources to drive changes?

The panel recognized that the larger corporations live in an eco-system supported by many thousands of business partners, employees and contractors. Bringing corporate values to their eco-systems, education, sharing best practices, finding opportunities to engage in local communities and emphasizing health and safety all contribute significantly to spreading the impact being driven from corporate actions in this area. 📌