



# Business Outlook on Resource Efficiency in Indonesia

## Initiative Resource Efficiency and Climate Action

The Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) supports efforts to promote resource efficiency and climate protection in G20 emerging countries through the International Climate Initiative (IKI). The IKI project Initiative Resource Efficiency and Climate Action strengthens the capacities of key actors from the political and private sector in G20 emerging countries. It supports the development of measures and strategies to increase resource efficiency and climate protection. A special focus lies on SMEs.

## What do Indonesian businesses think? Understanding and assessing benefits and challenges of implementing resource efficiency measures

### Context

The business sector operates in an increasingly complex context of social and environmental impacts of natural resource extraction, the production of goods and services, their consumption and the final disposal of waste.

For prioritizing effective and targeted government regulations, incentives and financial support fostering resource efficiency in enterprises, a sound understanding of current demands and challenges facing the business sector is key. Improving resource efficiency along the production chain in Indonesian enterprises is a shared objective of the Ministry of Environment and Forestry (MOEF) and the global project “Initiative Resource Efficiency and Climate Action”. To this end, the initiative in close cooperation with the MOEF commissioned a “snapshot” of the current business outlook with respect to opportunities and challenges linked to resource efficiency. The resulting business outlook report provides the MOEF with topical insights for the further development and adjustment of policies, approaches, strategies and technical support infrastructures that foster an efficient use of resources.

The report also depicts a snapshot of how the business sector in Indonesia is challenged by the SARS-COV2 pandemic and explores current limitations and capacities.

### Approach and method

For the generation of original qualitative and quantitative data for the business outlook, a **Focus Group discussion** (FGD) and an **online survey** addressing 90 companies from varying sectors were combined. The online survey was conducted in October 2020. The targeted respondents included company personnel with responsibilities in the areas of sustainability and the environment. The virtual Focus Group discussion was conducted in September 2020 in collaboration with the Indonesia Center for Clean Production. The combined responses depict a snapshot of perceived business interests, challenges and opportunities with respect to resource efficiency.

The **survey respondents** represented all sectors of industry, coming among others, from the trade, services and invest-

Published by

**giz** Deutsche Gesellschaft  
für Internationale  
Zusammenarbeit (GIZ) GmbH

On behalf of:



Federal Ministry  
for the Environment, Nature Conservation  
and Nuclear Safety

INTERNATIONAL CLIMATE INITIATIVE (IKI)



of the Federal Republic of Germany

ment industry (27%), the goods and consumer industry (13%), and mining business. The majority are working for big national private companies (36%), followed by micro, small and medium enterprises (34%). With a gender balance composition of 57% male and 43% female, most of the respondents were in a management level position (45.5% top management and 32.5% middle management).

The **Focus Group discussion** included professionals deriving from think tanks, business associations, local government, ministries and company representatives: ICPC, the Center for Batik and Handicrafts, the local government of the Sleman Regency, and six companies including PT Pan Asia Jaya Abadi, PT Kahatex II Rancaek, PT Multielok Cosmetic, PT. Mulia Cemerlang Abadi Sukabumi, PT Dewasutratex, H&M.

## Business outlook results

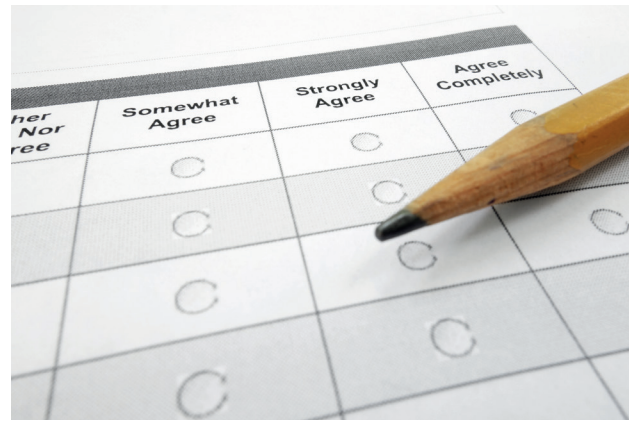
### Challenges

According to the combined survey/FGD results, the biggest challenges for an effective enhancement of resource efficiency in business operations include ► a clear understanding of resource efficiency benefits (57%), ► sufficient knowledge on technologies, methods or tools on resource efficiency (49%), ► initiating employee behavior changes (47%), ► environmental awareness (34%), ► investment for appropriate technologies (27%), and ► top management commitment (16%).

### Perceptions on Resource Efficiency

► Among Indonesian companies, the key rationale for implementing resource efficiency is the limited availability of natural resources, less the incentive of cost reduction or revenue increase.

► Benefits associated with resource efficiency measures among Indonesian company representatives include predominantly environment protection, reducing greenhouse gas emissions and competitive advantages. Still few clearly perceive economic benefits linked to resource efficiency, such as revenue increase.



► While most company representatives support the notion that resource efficiency should be implemented in all companies, many perceive the application of more systemic resource efficiency measures and required investments as extremely challenging.

► A majority believes that rare or limited resources and non-renewable resources should be the main resources subject to resource efficient measures. While not widely practiced, there was also agreement among most that also abundant and cheap resources should be increasingly subjected to resource efficiency.

► According to most participants, there was a perceived hierarchy of importance attached to resources being subjected to resource efficiency measures. Most company representatives concurred that water, energy and materials (biomass, fossil fuels, metals and non-metals), land/soil should be used more efficiently. Fewer thought that food and chemicals are subject to resource efficiency. Some proposed to add waste management and human resources.

### Resource Efficiency Practices

► There is still a lack of knowledge and understanding among businesses what resource efficiency can imply. While most companies pursue some low-key measures, there was a lack of coherent understanding why, how and which resource efficiency measures can benefit a company's overall performance and contribute to environmental protection.

► Most companies target electricity, fossil fuels and water as top three resources subject to resource efficiency measures, followed by raw materials, land/soil, chemicals, food and others (waste and paper).

► Most applied resource efficiency measures follow a low-hanging fruit approach. The most popular initiatives range from replacing paper with electronic documents, electricity saving, paper re-using, and fossil fuel savings. Additional

initiatives include raw material savings, renewable energy, water re-using, product and packaging re-designing.

- ▶ Setting measurable resource efficiency objectives is not mainstream yet. Specific targets are set most often for reducing the use of raw materials (water, hazardous material), energy (electricity), office supplies (paper, printer ink), working hours; reducing the generation of waste (solid waste and wastewater); material substitution (rainwater, renewable electricity); recycling; and increasing revenue.
- ▶ Systematic monitoring of resource efficiency targets and performance is only done by a small proportion of companies yet. Only a few use specific applications or tools for measuring resources use and resource efficiency. Methods most often used include the monitoring of electricity and water bills, material purchasing, material volume, and manual monitoring.
- ▶ A minority of companies have designated staff or divisions assigned to specifically handle resource efficiency related activities. Most often, resource efficiency is subsumed under or handled by divisions of Health, Safety or Environment. Other responsible units may include divisions of General Affairs, Supply Chains, Corporate Social Responsibility (CSR), Sustainability, Operations, Research and Development (R&D), and Strategic Planning or the cross-division environmental management teams.

## Opportunities

Companies perceived the following aspects as opportunity and basis for enhancing resource efficiency ▶ most companies already initiated some resource efficiency measures. This services as a solid starting point for more complex or integrated measures; ▶ some government regulations have already laid an effective groundwork of standards, rules and incentives, concerning regulations for energy, groundwater, and fossil fuel efficiency. Several funding schemes for resource efficiency are available; ▶ though the demand for capacity building is high, there is already a solid landscape of supporting initiatives, institutions, active business associations and think tanks in Indonesia which can be build upon.

## Policy recommendations

The identified challenges and opportunities provide “food for thought” for further steps how to address those. Some overarching policy recommendations can serve as a starting point for further government action on enhancing resource efficiency:

- ▶ **Knowledge of policies and support measures:** Companies should obtain a quick overview of mandatory and voluntary government regulations, standards, incentives, funding opportunities and supporting technical programmes related to resource efficiency and offered by a range of government organisations, financial institutions and consulting bodies. Linkages among regulations and (supporting) programs to support the effectiveness of the resource efficiency implementation should be clear and information easily available for companies.
- ▶ **Government coordination & cooperation:** Government regulations, standards, incentives, support programmes and information sources related to resource efficiency improvements are supported by a broad range of public bodies, though not always in the most coordinated manner. To foster a more integrated and effective government approach towards resource efficiency improvements in business operations, such policies should (ideally) be more systematically coordinated.
- ▶ **Availability of knowledge and information:** A clear understanding of benefits provided by resource efficiency improvements in business operations is key to systematically engage and inspire enterprises to act. The systematic diffusion and adaptation of good practices concerning opportunities and benefits of resource efficient production processes and product developments among industries should be enhanced. Government institutions and business associations play a particular role here.







## Impacts of SARS-COV2-pandemic on business operations and trends

The SARS-COV2 pandemic has since March 2020 drastically impacted business operations worldwide due to interrupted value chains, lockdowns and economic and financial volatility. According to estimates of the Indonesian Ministry of Finance, Indonesia's economic growth in 2020 decreased from 5.3% to 2.3%, with increasing poverty rates rising from 1.89% to 4.89% and unemployment rates increasing from 2.92% to 5.23%. The pandemic has also changed Indonesia's development policy goals for 2020 and 2021, shifting more attention to the health sector, social safety nets and economic stability in 2020 and on accelerating economic recovery and post-pandemic social reform in 2021. Government support for the



private sector includes, inter alia, a National Economic Recovery Program and support in form of subsidies, easing SMEs credit requirements and tax incentives.

In Indonesia, the pandemic poses a particular challenge for businesses and supporting facilities as it exacerbates the lack of funding, limits possibilities for on-the-ground support for SMEs, increases an insecure investment climate and impacts value chains.

While the economic impact on businesses is severe, the pandemic might trigger also increased incentives towards developing a greener economy. Most countries, including Indonesia, currently review or develop green recovery approaches towards a more sustainable economy as a long-term objective.

Perceptions of the private sector of changing business trends due to the pandemic range from increased demand for information and digital technology, a stronger regionalization of supply chains, changing mobility patterns to higher consumer expectations and demand for environmental-friendly products and services. Reservations towards larger investments, however, will remain an obstacle also considering resource efficiency measures.

**Published by:**  
Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH  
Registered offices Bonn and Eschborn, Germany

Address Köthener Straße 2-3, 10963 Berlin, Germany, [www.giz.de](http://www.giz.de)

**Project:** Initiative Resource Efficiency and Climate Action

This project is part of the International Climate Initiative (IKI). The Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) supports this initiative on the basis of a decision adopted by the German Bundestag.

**Contact:** Elisabeth Dürr, [elisabeth.duerr@giz.de](mailto:elisabeth.duerr@giz.de)

**Design/layout:** Additiv. Visuelle Kommunikation, Berlin

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Berlin, 2021