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## GOING PUBLIC ON POLLUTERS IN INDONESIA: BAPEDAL's *PROPER PROKASIH* PROGRAM#

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### BAPEDAL's *PROPER PROKASIH* PROGRAM

Indonesia's recently introduced *Program for Pollution Control, Evaluation and Rating (PROPER PROKASIH)* is a landmark initiative. Under PROPER PROKASIH, polluters are assigned environmental performance ratings which are announced to the public. The main objectives of this program are to increase compliance with environmental regulation, promote adoption of clean technologies, create incentives for polluters to strengthen their in-house environmental management capabilities, and to prepare companies in Indonesia for ISO 14000 certification.

#### Media Coverage of PROPER



*Asian Business: Nov 1995*

PROPER PROKASIH is BAPEDAL's innovation. In late 1993, Mr. Nabel Makarim, Deputy for Pollution Control at BAPEDAL, developed a 5-color scheme to give environmental performance ratings to polluters. The five colors - Gold, Green, Blue, Red and Black - reflect performance ranging from excellent to poor. This kind of color coding provides a simple but effective format for communicating environmental information to the public.

PROPER looks like a great story in the making. It is the first program of its kind in a developing country, and in many respects it is unique in the world.

For Indonesia, PROPER signals a bold move toward public participation, transparency, and recognition of the power of the media, and public participation in a rapidly industrializing society. It is an innovative approach to regulation which may work particularly well in developing countries because legal enforcement of pollution control standards is difficult. However, Even developed countries also have something to learn from the Indonesian program.

<b>The 5-Color Rating System</b>
<p><b>Gold:</b> Factories or business activities that use best available clean technology; promote zero discharge of pollutants; and conduct environmental impact management efforts with very satisfactory results. <b>Gold</b> factories should provide a strong example for others.</p>
<p><b>Green:</b> Factories or business activities that conduct environmental impact management efforts and achieve better than standard results. Over the years, criteria for green companies will be adjusted to meet the internationally-accepted ISO 14000.</p>
<p><b>Blue:</b> Factories or business activities that comply with all regulations.</p>
<p><b>Red:</b> Factories or business activities that apply some environmental management effort but not sufficiently to comply with regulations.</p>
<p><b>Black:</b> Factories or business activities that apply no environmental management effort and whose activities cause serious environmental degradation.</p>

The introduction of PROPER PROKASIH has sent a strong signal to polluters that BAPEDAL intends to keep pollution within safe limits as economic growth continues. Indonesia has undertaken several regulatory measures to control pollution since 1990, but the scope for enforcement through the legal system has been very limited. In response, BAPEDAL has frequently resorted to voluntary agreements and out-of-court dispute settlements. While these initiatives have produced positive results, it has proven difficult to replicate them for thousands of non-compliant polluters spread across the country.

With the advent of PROPER PROKASIH, BAPEDAL expects to increase the effectiveness and coverage of its pollution control efforts. Public information and community participation provide additional foundations for a mixed regulatory system, which will be based on a combination of voluntary compliance agreements, negotiated settlements, legal sanctions and market incentives. These will create multiple sources of pressure on polluters to improve their performance.

Public knowledge of environmental performance has important implications for reputationally sensitive companies. Social and market pressure could generate strong incentives for polluters to comply with environmental regulations and, in some cases, to reduce pollution to levels lower than emission standards. Of course, for polluters who do not care about their reputations, public disclosure may have little impact and BAPEDAL will need to use legal sanctions. In any case, PROPER PROKASIH will supplement legal enforcement by identifying serious polluters whose activities should be targeted.

### **Legal Foundations of PROPER PROKASIH**

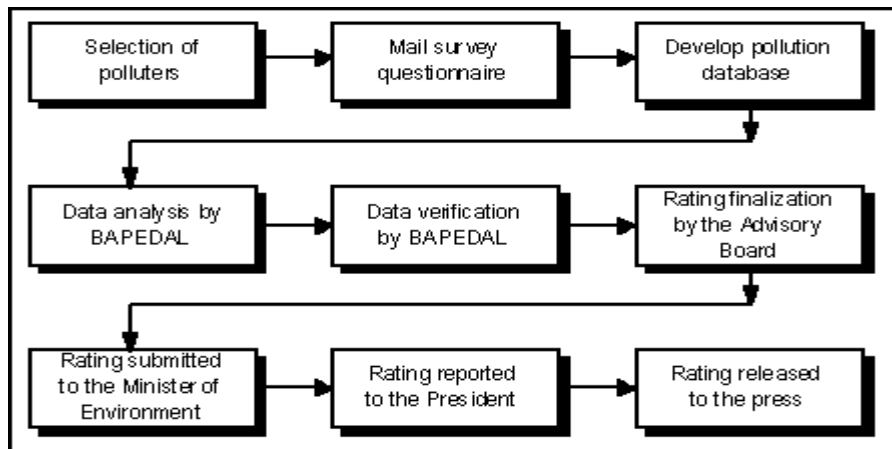
PROPER PROKASIH reflects the national objective of community participation in environmental management, an important element of Indonesia's 1982 Environmental Law. The legal basis for the program was established by Ministerial Decree Number KEP-35/MNLH/7/1995. Compliance requirements for a rating of Blue or higher are drawn from the following regulations:

1. Decree of the President of the Republic of Indonesia: Government Regulation Number 20 of the Year 1990, Concerning the Control of Water Pollution;
2. Decree of the State Minister for Population and Environment: Number KEP-03/MENKLH/II/1991 (to be updated);
3. Decree of the President of the Republic of Indonesia: Government Regulation Number 19 the Year 1994, Regarding Hazardous and Toxic Waste Management;
4. Decree of the President of the Republic of Indonesia: Government Regulation Number 51 of 1993, Regarding Environmental Impact Assessment (AMDAL).

**Implementation**

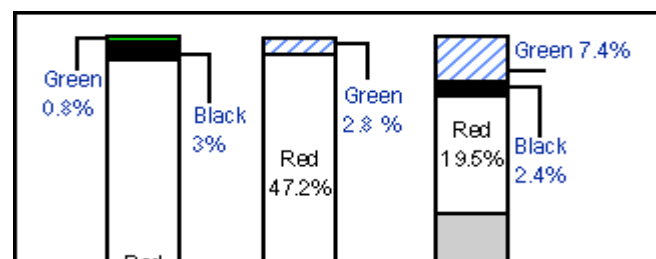
Most factories included in the first round of PROPER ratings were selected from PROKASIH, BAPEDAL’s Clean River Management Program. The rest were voluntary participants that could provide the information necessary for a complete analysis. The program focused on data integrity from the beginning, because its ratings were expected to get close scrutiny by many interested groups. Given the risk of embarrassment from incorrect ratings, several steps were taken to ensure accurate assessments. First, the initial focus was limited to industrial water pollution because BAPEDAL had considerable experience in that area. Only factories considered for Green or Gold ratings were evaluated for their compliance with regulations covering hazardous waste and environmental impact assessments. Secondly, as shown in Figure 1, BAPEDAL established a rigorous overall rating process involving several high-level reviews before public disclosure of final ratings. This process is aided by a computerized system for data analysis that enables the technical team at BAPEDAL to organize the results of their on-site monitoring and inspection activities. The system also records a broad range of information which is considered essential for a reliable analysis of factories’ compliance status.

**Figure 1: The Rating Process**



In February 1995, survey questionnaires were sent to nearly 350 factories participating in the PROKASIH program. These factories covered the fourteen industries for which effluent discharge standards were specified in the Ministerial Decree KEP-03/MENKLH/II/1991. Thirteen provinces were represented in the survey. Of the factories surveyed, 176 provided sufficient data for ratings. Eleven factories volunteered to participate in the program, yielding 187 total participants in the first round.

**Figure 2: Performance By Ownership**



In June 1995, the Minister of Environment publicly awarded Green ratings to 5 factories and disclosed the distribution of ratings for the remaining 182. These facilities were privately notified of their color ratings and given six months to improve their performance before full public disclosure in December 1995. Nearly 64% of the plants were categorized as Red or Black because they were found to have violated effluent discharge standards. This was not surprising to BAPEDAL, since enforcement had been extremely limited. In fact, it was considered remarkable that 36% of the plants were in compliance. This result reinforces our own view, based on extensive research in Southeast Asia, that legal sanctions are not the only source of pressure to abate pollution. Significant roles are also played by community pressure, technological change and market valuation of environmental performance, along with plant characteristics such as industrial sector, type of ownership and scale of output. To illustrate, Figure 2 shows the variation in first-round PROPER ratings by ownership class. Multinationals clearly have the best performance, while the private domestic firms have the worst; public enterprises are in between.

### Short-Term Impact of PROPER PROKASIH

Since the introduction of PROPER, polluters have come under greater pressure to change their complacent attitude towards pollution control. The program has received extensive media coverage in the domestic and international press, and groups ranging from average citizens to senior enterprise managers have become aware of the ratings for individual factories. It is important to note that the system provides carrots as well as sticks: Good PROPER ratings will enhance business reputations with both investors and consumers, providing a potentially important new source of competitive advantage.

Table 1: Short-Term Impact of PROPER

Ratings	Jun 1995	Dec 1995	Change
Gold	0	0	--
Green	5	4	-20%
Blue	61	72	+18%
Red	115	108	-6%
Black	6	3	-50%

Table 1 shows that PROPER has had a significant impact, even in the short space of six months. Ten polluters succeeded in improving their ratings from Black or Red to Blue, and it seems clear that a Black rating is very undesirable. Half of the Black plants improved their ratings between June and December. While these results are certainly striking, it would be premature to claim sustained effectiveness for the public information approach embodied in PROPER. A more balanced judgment will be possible only after the results have been monitored over a longer period. To assure continued interest by bad performers, BAPEDAL will probably have to demonstrate that it remains willing to apply conventional legal sanctions. In any case, however, BAPEDAL's investment in PROPER will have a substantial payoff. The information and data analysis system necessary for public disclosure is also an excellent source of information for conventional regulation. For this reason, BAPEDAL will now find it much easier to apply legal sanctions to persistent violators of pollution regulations. During the next few years, planned expansion of PROPER's information system to full national coverage should make an important contribution to a cleaner environment in Indonesia.

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