Jakarta Post

Smart GDP: A paradigm shift in how we value our natural capital

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JAKARTA

The government and the House of Representatives have amended the 2015 state budget, increasing the total volume to Rp 1.98 quadrillion (US$152 billion), Rp 1.48 quadrillion of which will come from tax revenues and Rp 269 trillion from non-tax receipts.

This year, the government shows more explicitly its commitment to embarking on quality economic growth, reducing disparities in income levels, and improving the nation's quality of human resources. This commitment is reflected in the inclusion of four development targets in the state budget.

The first development target is the achievement of a poverty rate of 10.3 percent. The second is an unemployment rate of 5.6 percent and the third is the ratio of income inequality (Gini ratio) target of 0.40.

The last target is the Human Development Index of 69.4. Surely this is a breakthrough move, since, to date, the dominant paradigm of development in Indonesia has put too much of an emphasis on GDP growth.

As we all know, GDP is calculated based on the net value of all economic activities generated by a country in a particular year, regardless of whether those activities can be sustained in the long term and or can result in increased quality of public welfare.

Just as private companies look at assets and liabilities on their balance sheets, it is in a country's interests to keep an eye on its assets and that includes natural capital. When countries do not take their natural capital into account, and only rely on GDP, "No like grading a corporation based on one day's cash flow and forgetting to depreciate assets and other costs," according to Joseph Stiglitz, winner of the Nobel Prize for Economics.

That is why the new concept of GDP, which also takes into account the extent to which the country's natural capital is used to support economic activities is urgently required. The concept has become popular in several countries, and it is called Smart GDP.

A number of countries are already undertaking natural capital accounting by compiling accounts for water, energy and minerals to be able to manage them better or to evaluate the trade-offs needed for making different development decisions.

Countries need a measure that goes beyond just the annual output of a country. Indonesia is not an exception by all means. The country urgently needs a measure that looks at its entire wealth, combining economic, social and, importantly, natural capital.

Indonesia's GDP growth has not been taking into account the rapid depletion of its natural resources. For example, a study released in *Science* 2014 found that Indonesia has now replaced Brazil as the world's worst in terms of deforestation.

As a result, Indonesia ranks among the world's top greenhouse gas emitting nations due to rapid deforestation. In the CRI (Climate Risk Index) 2014, Indonesia ranks 74th.

And according to Global Forest Watch (2012), Indonesia is ranked third for CO_2 emissions, sixth for marine capture, 6th for fertilizer use and seventh for water pollution.

Many of Indonesia's natural services are often "invisible" to many people. These include air and water, peat land, carbon storage and habitat for fisheries and wildlife. These values are not captured in GDP measurements, so their contribution to the economy and livelihoods is not accounted for.

These services are taken for granted and the government does not know what it would cost the economy if these services were lost. For example, forests are typically recorded in GDP as providing timber. The fact that they are capable of storing carbon is not counted.

Other services, like water regulation, are not captured as a value of the forest but instead is reflected as an agricultural output in the GDP. There are still plenty of unaccounted depreciation of "intangible assets" that the country has been experiencing and it is going on under our own nose, as we speak.

World Bank research suggests that unless the economy grows much faster than the current five to six percent, Indonesia will not escape the so-called 'middle income trap'. Only with growth rates of closer to nine percent, can Indonesia avoid the trap and join the ranks of the high income countries by 2030.

However, without safeguarding Indonesia's rich natural resources, any growth measured solely by GDP will not be sustainable.

The target of reducing poverty, minimizing the inequalities, providing more jobs and enhancing human quality will remain elusive.

With the current depletion rate of Indonesia's natural ecosystems, and pursuing economic growth without having a Smart GDP paradigm, it will be even more difficult to escape the middle income trap.

As President Joko Widodo has proclaimed the "mental revolution" movement across the country, the Indonesian government requires a paradigm shift in the way it views its natural capital.

Future economic growth should be based on smart GDP measurements for the long term resiliency of the nation, by guaranteeing food, water and energy security for the public.

Economic development must be pursued in concert with conservancy of nature and sustainability initiatives from the government and other economic actors. A quote from Guy McPherson illustrates well the importance of balancing economic and environmental factors.

"If you really think that the environment is less important than the economy, try holding your breath while you count your money".

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