Accelerating Green Economy Transition Through Greening The RPJMN

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Indonesia’s strive to achieve high, green growth

- Economic growth 7% per year framed in
  - the 4-track development strategy (pro-growth, pro-job, pro-poor, pro-environment)
  - 26-41% voluntary emissions reduction targets by 2020 against BAU

- Growth acceleration and expansion focused in 6 economic regions
  - Through large-scale national and international investment
  - A wide range of economic activities: food estate, palm oil plantation, mining (incl. coal), manufacturing, tourism, etc.
  - Big potential for poverty eradication but if not done properly will produce huge greenhouse gases emissions
LONG TERM DEVELOPMENT MISSION, 2005-2025

Vision
“Prosperous, Democratic and Just Indonesia”

Mission
- Continue Development to achieve Prosperous Indonesia
- Strengthen Democratic Pillars
- Strengthen Justice in every Aspect of Development

- 2004
  - Pro-poor (poverty alleviation)
  - Pro-jobs
  - Pro-growth

- 2007
  - Added by Pro-environment

- 2014
  - Economic Growth 7%

- 2020
  - GHG Emission reduction 26% (+15%)
  - Reduced biodiversity loss

Source: Bappenas, 2010 and Ministry of Finance, 2012
The Future Economic and Development Agenda

- **REDD+**
  Rewarding actors that maintain and protect forests in both the forest area and other land use area (Area Penggunaan Lain - APL) – contribute significantly (85%) to achievement of national commitment (26/41)

- **Green Economy (GE)**
  One that results in improved human well-being and social equity, while significantly reducing environmental and ecological risks

- **Sustainable development (SD)**
  Development that meets the needs of the present without compromising the ability of future generations to meet their own needs (Economic Growth, Environmental Aspect, Social Aspect)

- **REDD+ correlates closely to the effective implementation of GE with later contributing to the SD goals**
Why Should Indonesia Get Greener?

- Development Benefits: Energy security, competitiveness
- Fiscal Benefits: Reducing waste, free up funds
- Quality of Life Benefits: Cleaner air, reduced congestion
- Poverty & Equity: Reducing environmental burden on the poor
- Reduced Economic Burden: Policy distortions & inefficiency
- Opportunity Cost: biodiversity or ecosystem services

Can Indonesia afford the degradation, distortions and development deficit of not getting greener?
Principles for Green Fiscal Policy

Investing for Future

• Linking in with development objectives
• Distributional issues addressed
• International financing in exchange for doing fair share
• Get prices right: Competitiveness, reduced waste

Reducing Distortions

• Perverse incentives and distorting policies minimized
• Non-price market failures alleviated
• Externalities (non-carbon) internalized
Fiscal Policy Supporting “Pro-4” Agenda

The Government Mission for the year 2012:
Acceleration and Expansion of the Qualified Economic Growth, Inclusive and Fairness to Improve People’s Welfare

4 Pillars of Development

- Pro Growth
- Pro Job
- Pro Poor
- Pro Environment

Fiscal Policy Direction for the year 2013
Strengthen Domestic Economy for Social Welfare Improvement and Extension

Taxation Policy Strategies

Tax Reform and Modernization:
- Equality
- Simplicity
- High integrity

Encourage Direct Investment for Priority Sectors/Industries/Regions
Role of Ministry Of Finance In Green Economy

Ministry of Finance
Policy Tools Available For Influencing Green Economy Development

By managing
• Investment climate
• Pricing (fiscal) policies
• Direct spending
• Risk and financial mkts
• Sectoral rules & law

Can influence:
• Incentives
• Investments
• Industry
• Int’l $ flows
• Pro Poor Approaches

Financial/Investment Policies
• Investment Climate (attract capital)
• Banking Sector
• Non Bank Finance Inst’s
• Municipal Finance Rules

Taxes / Subsidies
• Tax/Fees/Charges
• Royalties/Rent Capture
• Subsidies/Tax breaks

Expenditure Policies
• Strategic Budget Priorities
• Direct Investment
• Public Service Obligation
• Green Procurement
• Education – Awareness

Direct Regulation
• Enforcement / Incentives
• Zoning and Land Use
• AMDAL/ Env Audit
• Building / Design Standards
• Vehicle Emission Standards

Int’l Institutions & Mechanisms
IFI Policies, Global Funds, Carbon Mkts, Debt swaps

Indirect Influences
Technology Policy, Strategic Industries Tech. Transfer R&D, Trade, etc
Green Fiscal Policy Strategy

**Investing for Future**
- Apply Principles of Medium Term Expenditure Framework and Performance Based Budgeting in the Medium Term Development Plan 2010-2014. Green Budgeting
- Improve policy framework design for promoting geothermal development and identify financing needs to mitigate upstream risk of geothermal projects.
- Develop incentives for renewable energy development and acceleration of power plant development using renewable energy
- Introduce and use Green GDP and apply Economic Instruments to give incentives for sectoral development, more environmentally friendly industries

**Reducing Distortions**
- Rationalize subsidy policy of electricity (and others…), ore cost-oriented pricing
- Better pricing and resource valuation to protect and deliver environmental services
- Contribute to reducing both GHG emissions and energy subsidies
Green Fiscal Policy: Examples
(Tax Incentives for Greener Outcomes)

- Minister of Finance (MoF) Regulation on Taxation and Customs Facility for Renewable Energy Sources Utilization Activities
- MoF Regulation on Exemption or Reduction of Corporate Income Tax
- MoF Regulation on VAT borned by government on the Import of Goods for Geothermal Activities
- Tax allowance for certain industry related to renewable energy i.e. biofuels, biodiesels
- Revolving fund for geothermal exploration
Green Fiscal Policy: Managing Tax Incentives and Trade Offs

Environmental policies cause an adjustment of economic structures

The price of using environmental resources should thus be brought closer in line with the social cost, with the consequence that pollution should decline, and GDP become less pollution intensive.

Polluting industries will thus be held in check while cleaner industries will be boosted, and the net effects on welfare – though not necessarily on economic activity as measured in national accounts statistics – should be largely Positive.

A cost-effective environmental policy should aim to minimize the costs incurred in achieving an environmental objective.
Phasing out of inefficient fossil fuel subsidies:

- Gradual with protection for poor (transfers)
- Sequenced through managing the demand side to reduce consumption
- Narrowing the gap between domestic and international prices.
The phasing out of inefficient fossil fuel subsidies in Indonesia is to be implemented in a gradual manner in order to minimize the spill-over impact on the poor noting that a large part of the consumption basket of the poor is affected by higher fossil fuel prices → 2005, reducing subsidized from 5 to 3 commodities, by removing diesel oil from industry and fuel oil from subsidy, Carrying out Kerosene to LPG conversion program, Putting the removed subsidy budget for poverty alleviation related program.

The phasing out strategy is to be sequenced through managing the demand side by adopting measures that will reduce fossil fuel energy consumption and then by gradually narrowing the gap between domestic and international prices.
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- Rising fuel consumption
- Fuel prices increases
- Bottleneck domestic refineries
- Restricting domestic fuel stock
- Insufficient infrastructure and transportation
- Ineffective fuel subsidy

Current Condition

<table>
<thead>
<tr>
<th>Fuel Subsidy Alleviation</th>
<th>Strategy</th>
<th>Target Condition</th>
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<tbody>
<tr>
<td>Decreasing energy intensity</td>
<td>Lower volume of subsidized fuels</td>
<td>Green area converted in 2009 with 23 million conversion packages.</td>
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<td>Alleviating fuel subsidy along with compensating variation</td>
<td>Non-fuel diversified renewable energy sources</td>
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<td>Energy diversification</td>
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Policy Framework for Reducing Fuel Subsidy

Green Fiscal: Roadmap & Achievements on Kerosene – Gas Conversion

- Kerosene used by majority households in Indonesia (9.9 million KL) and subsidized by Government (more than Rp 37 Trillion/year)
- LPG only used by 10% of households and more expensive than subsidized kerosene.

Up to 2007

- Government program: distribute 42 millions of conversion package to targeted households.
- Removing 2.069 million KL of kerosene and distribution of 19 million conversion package up to 2008.
- Removing 4.1 million KL of kerosene and distribution of 23 million conversion package up to 2009.

2007 - 2009

- LPG will become major energy with estimated volume of 4.1 million tonnes/year.
- 6 million KL of kerosene will remove and only maintain 2 million KL.

2010 forward...
Opportunities & Challenges

Opportunities

- **Leader’s commitment** is strong, yet domestic agenda also important -- democratization and decentralization.
- **Public awareness** and stakeholders’ involvement: positive signal shown by successful LPG conversion program.
- **Indonesia Modalities in Fiscal Policy** Development support more climate investment on green economy such as renewable energy, energy efficiency, green building, etc
- **Capacity building** on initiative domestic flexible mechanisme (ICCTF,IGIF) on financing instrument on Green Economy is underway.

Challenges

- **Resource efficiency:**
  - **Energy efficiency**: need innovative technology and to generate awareness and participation from the society
  - **Natural resources efficiency**: need best practice for sustainable fisheries, sustainable agriculture, sustainable forestry, etc.
- **Aligning Incentives and Coordinating Across Government**
- **Renewable energy resources:** Barriers beyond pricing and risk: e.g. IDR 2T for geothermal power plant has not been used.
- **Limited human capital / resources.**
Thank You