Sustainable Development Financing
Experience from Indonesia

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Outline

A. Climate Change in Indonesia’s Development Context
B. Financing Sustainable Development
C. International Climate Change Financing Partnership
D. Foreword
Land area: 699,548 sq mi (1,811,831 sq km);
Total area: ± 5 million sq km
Counted Island: 18,000 (6000 are inhabited)
Coast line: 95,181 km

Natural resources: petroleum, tin, natural gas, nickel, timber, bauxite, copper, fertile soils, coal, gold, silver

President: Joko Widodo
Monetary unit: Rupiah
Language: Bahasa Indonesia (2015)
Population: 242 million
Poverty Rate: 11.40%
Per capita income: $5200
Human Dev. Index: 0.684
A. CLIMATE CHANGE IN INDONESIA’S DEVELOPMENT CONTEXT

Indonesia’s Development Challenges

- Indonesia’s GHG emission is predicted to increase from 2.1 to 3.3 GtCO₂e between 2005 and 2030 (SNC, 2010)

- Indonesia is vulnerable to changing climate. Potential economic loss due to climate change and climate disaster in 2100 is predicted 7% from GDP (WB, 2010, ADB, 2010)

- Indonesia is Mega-biodiversity country. Biodiversity is development capital, but the full potential is undervalued and it is decreasing (MoEF, 2014)
Actions on mitigation, adaptation and biodiversity are part of Sustainable Development
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
National Commitment

- Indonesia’s commitment to reduce 26%-40% of its GHG emissions by 2020 needs to be included in the national and sectoral development plans for 2015-2020

- Growing concerns about the current GDP growth reliance on natural resource exploitation, while its environmental carrying capacity decline, and threatened by climate change impacts & increased degradation of its natural resource base

- Applying green & low carbon development strategy will provide opportunities for the government to achieve HIC status by 2033, by planning and managing the environmental risks associated with climate change and the losses and degradation of the country’s natural resources.
## Indonesia’s Commitment in Climate Change Mitigation

Reducing 26% to 41% of GHG Emissions from Business As Usual in year 2020 (Presidential Regulation No. 61/2011)

<table>
<thead>
<tr>
<th>Mitigation Sector</th>
<th>Emissions million tCO2e in 2020</th>
<th>Reduction as % of BAU</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BAU total</td>
<td>Target Reduction</td>
</tr>
<tr>
<td>Forestry and peatland</td>
<td>1344</td>
<td>672</td>
</tr>
<tr>
<td>Energy and transport</td>
<td>1000</td>
<td>38</td>
</tr>
<tr>
<td>Agriculture</td>
<td>221</td>
<td>40</td>
</tr>
<tr>
<td>Industry</td>
<td>134</td>
<td>2</td>
</tr>
<tr>
<td>Waste water</td>
<td>250</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total emission reductions</strong></td>
<td><strong>2950</strong></td>
<td><strong>767</strong></td>
</tr>
</tbody>
</table>
Indonesia’s Action Plans towards Sustainable Development

CLIMATE CHANGE AND BIODIVERSITY NATIONAL ACTION PLAN

CLIMATE CHANGE MITIGATION ACTION PLAN (2011)

CLIMATE CHANGE ADAPTATION ACTION PLAN (2014)

BIODIVERSITY ACTION PLAN (Revised 2015)

Source: Bappenas
Challenges

POLICIES as well as MARKET FAILURES
(subsidized growth, distorted energy prices, no internalized of externalities)

• Reshape Fiscal and Financial Infrastructure
  • Food Security
  • Energy Security
• Moving from Single Track to Multiple Track

INTERVENTIONS FOR MARKET CORRECTIONS AND CHANGING BEHAVIORS
### B. Financing Sustainable Development

#### Climate Mitigation Financing Requirement is Large

<table>
<thead>
<tr>
<th>No.</th>
<th>Sources</th>
<th>Mitigation Needs (in USD)</th>
<th>Annual Mitigation Needs (in USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mid-Term Development Plan, 2010</td>
<td>3.7 bn (2010-2014)</td>
<td>925 million</td>
</tr>
<tr>
<td>2</td>
<td>Second National Communication, 2009</td>
<td>8.3 bn (26%); 16.8 bn (41%)</td>
<td>0.83 bn – 1.68 bn</td>
</tr>
<tr>
<td>4</td>
<td>Bappenas, 2011</td>
<td>28.07 bn (RAN-GRK 2010-2020)</td>
<td>2.8 bn</td>
</tr>
<tr>
<td>5</td>
<td>CPEIR, 2012</td>
<td>70.5 bn (RAN-GRK until 2020)</td>
<td>7.05 bn</td>
</tr>
</tbody>
</table>

Source: Strengthening Public and Private Climate Finance in Indonesia, 2013
Indonesia’s Actions towards Sustainable Development

Ministry of Finance’s Fiscal Policy Domain in Climate Financing

Indirect Influences
Technology Policy, Strategic Industries, Tech. Transfer, R&D, Trade, dll

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

Ministry of Finance
Policy Tools Available For Influencing Climate Change Mitigation / Adaptation

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
• Invest 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 Stds

BUDGET CONTROL
The Goals of Ministry of Finance Involvement in Climate Change Measures

To drive transformation in resources management to promote low carbon growth and climate resilience

To ensure effectiveness of the management and use of climate and development financial resources from domestic and international sources

To support climate change programs undertaken by government and non-government entities through catalytic budgeting and fiscal instruments
Reforming economic and fiscal policies to help Indonesia meet climate change objectives while taking account of equity and Indonesia’s goals to reduce poverty and unemployment

- Green Planning and Budgeting Strategy
- Green Paper: Economic and Fiscal Policy Options for Climate Change Mitigation in Indonesia

Assessing sectoral policies where fiscal instruments can contribute to mitigation, exploring ways to improve and scale up carbon finance opportunities, and working with other agencies to develop domestic climate finance instruments

- Low carbon development options in forestry, manufacturing, transport sectors
To ensure effectiveness of the management and use of climate and development financial resources from domestic and international sources

- Improving policy and system to track, register, monitor and report climate finance from international sources
  - The Landscape of Public Climate Finance in Indonesia
  - Improvement of registry, monitoring and reporting system for external grant and loan

- Improving system to monitor and evaluate effectiveness of budget (expenditures) for climate change programs
  - Climate Public Expenditure and Institutional Review (CPEIR)
  - Development of budget tagging and scoring system for climate change mitigation expenditures
  - The Landscape of Public Climate Finance in Indonesia
To support climate change programs undertaken by government and non-government entities through catalytic budgeting and fiscal instruments

- **Provision of program budget and special allocation funds**
  - Expenditures for activities related to climate change carried out by line ministries and government agencies
  - Special allocation funds to incentivize climate change actions by local governments at sub-national level (provincial and district/city levels)

- **Creation of public funds to scale up and leverage climate finance**
  - Geothermal Revolving Fund
  - Energy Efficiency Fund

- **Fiscal incentives to support development of renewable energy**
  - e.g. tax facility and custom, import duty exemption
C. SYSTEMIC APPROACH TO INCREASE BUDGET EFFECTIVENESS

Priority Actions for Effective Climate Finance

**BUDGET TAGGING:**
Tracking climate change-related direct and indirect activities

**SCORING & PERFORMANCE-BASED BUDGETING**
Prioritization of climate activity based on cost-effectiveness including poverty and gender benefits.

Monitoring effectiveness & efficiency of expenditure.

**GREEN PLANNING & BUDGETING**
Issuance of fiscal policies, and mechanisms for financing prioritized and effective climate change activities.

Priorities:
- Forestry, Peat-land & Marine Resources protection
- Agriculture and Irrigation system rehabilitation
- Energy and Industry
- Public Transport, Urban & Regional Infrastructure
- Education and Health
- Disaster Management
Budget Tagging Mechanism: Based on Themes at Output Level

**Budget themes:**
1. MDG’s-1: Poverty Alleviation;
2. MDG’s-2: Basic Education;
3. MDG’s-3: Gender Equality and Women Empowerment;
4. MDG’s-4: Child Mortality Rate;
5. MDG’s-5: Mother Health;
6. MDG’s-6: HIV/AIDS, Malaria, and Other Diseases Alleviation;
7. MDG’s-7: Environment and Climate Change;
8. MDG’s-8: Global Cooperation;
9. Infrastructure;
10. Public Private Partnership;
11. South-South and Triangular Cooperation.
Budget Tagging Policy for Climate Change Mitigation

Mitigation Fiscal Framework (MFF), 2012

Low Emission Budget Tagging and Scoring System (LESS), 2014

Budget Tagging System at National level, 2014 (Ministerial Decree 136/2014)

Budget Tagging System at Sub-national level (assessment stage, 2015)
D. NEXT STEPS

- Enhance tracking & reporting
- Apply Performance-based Budgeting
- Scale up climate finance
- Scale up to Sustainable Development Financing

Develop the self compliance for implementators and strengthen the systems for tagging of climate finance in the national and sub-national budget.

Build agreed performance indicators for climate activities to measure cost effectiveness.

Improve administration and reporting of international climate finance so the government can oversee and manage flows through the country system.

Scale up the tagging and performance-based budgeting for Sustainable Development Goals.
Thank You