

# **Mainstreaming Green Financing in National Budget and Plans: Indonesia Case**

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# The Flow of Mainstreaming of Green Financing

**1. Indonesia Voluntary** commitment to reduce emissions by 2020 (G20 Leaders Summit in Pittsburg, US, 2008)

- + 26% emission reduction using domestic resources
- + Up to 41% reduction with international support

**2. RAN-GRK**: Presidential Regulation No.61/2011 on National Action Plan to Reduce GHG Emissions (5 sectors with Forest will be the main contributor)

3. RAD-GRK: 34 provinces deliver their local action plans by 2012

4. Inserting detail green and sustainable development strategies in the development agenda (Year 2014 and medium term budget)

5. Adding more budget for environment (performance based budgeting) and enhancing private sector participation

# Mitigation Fiscal Framework (MFF) as The Bridge between Emission Reduction and Financing Required

- ❑ Implementation of RAN-GRK across country and sectors will be highly complex
- ❑ The MFF will support this by defining:
  - + the resources that will be required
  - + the cost-effectiveness of mitigation actions
  - + the policies to be formulated or reformed
  - + the institutional arrangements that need to be in place

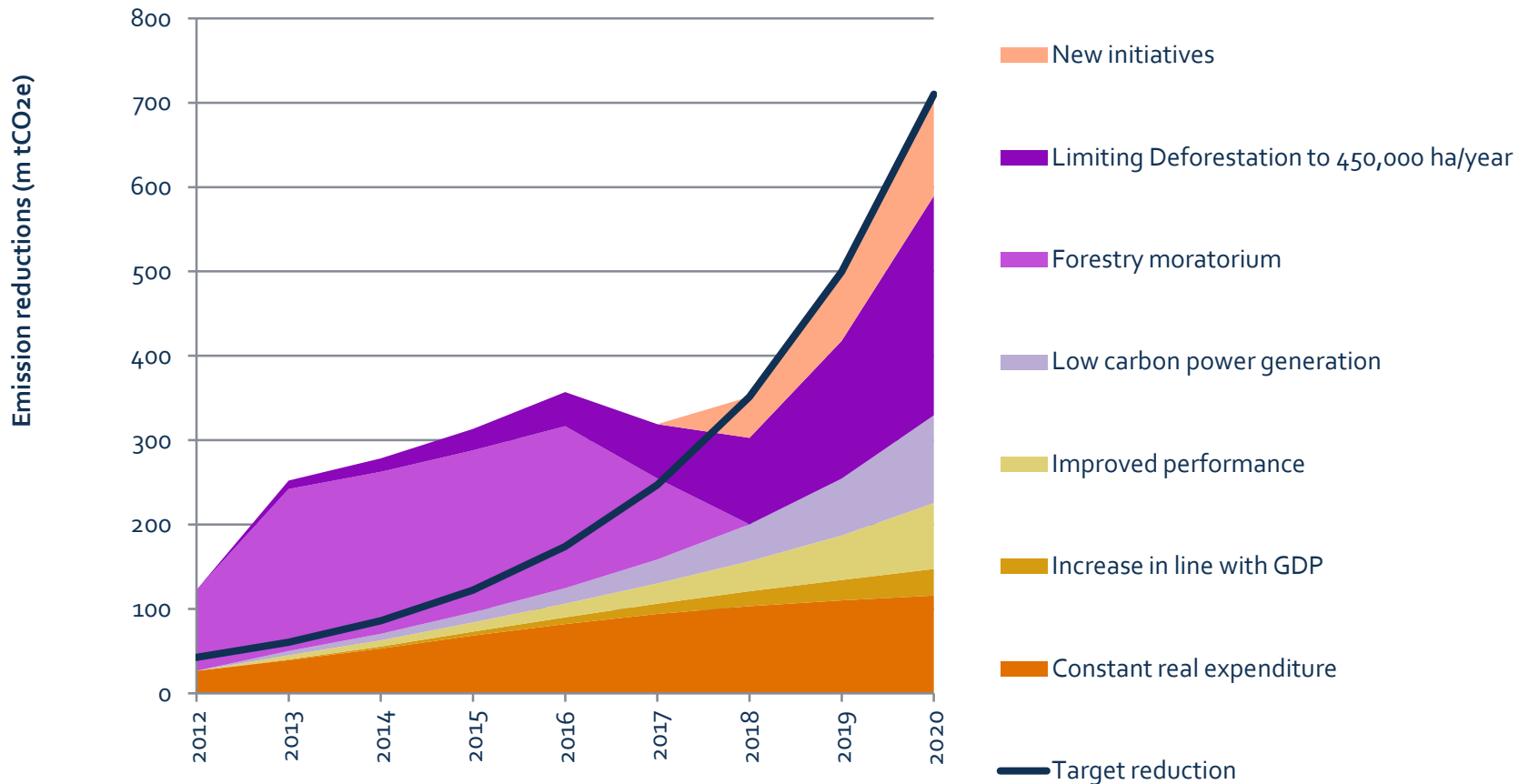
## Main Findings of the first MFF (1)

- + The First MFF focused on forestry, peatlands, energy & transportation mitigation actions which covered 93% of national emission reduction targets
- + In the 2012 budget, the RAN-GRK (mitigation) actions received about Rp 15,9 trillion
- + Analyses suggest that if the current level of financing for RAN GRK actions is maintained, it will deliver **only 15%** (116 mtCO<sub>2</sub>e) of the RAN-GRK emission target of 767 mtCO<sub>2</sub>e
- + If this expenditure is allowed to increase in line with economic growth, a further 4% can be achieved
- + Prioritising the most cost-effective and efficient projects could add (+) another 10% of the required reductions

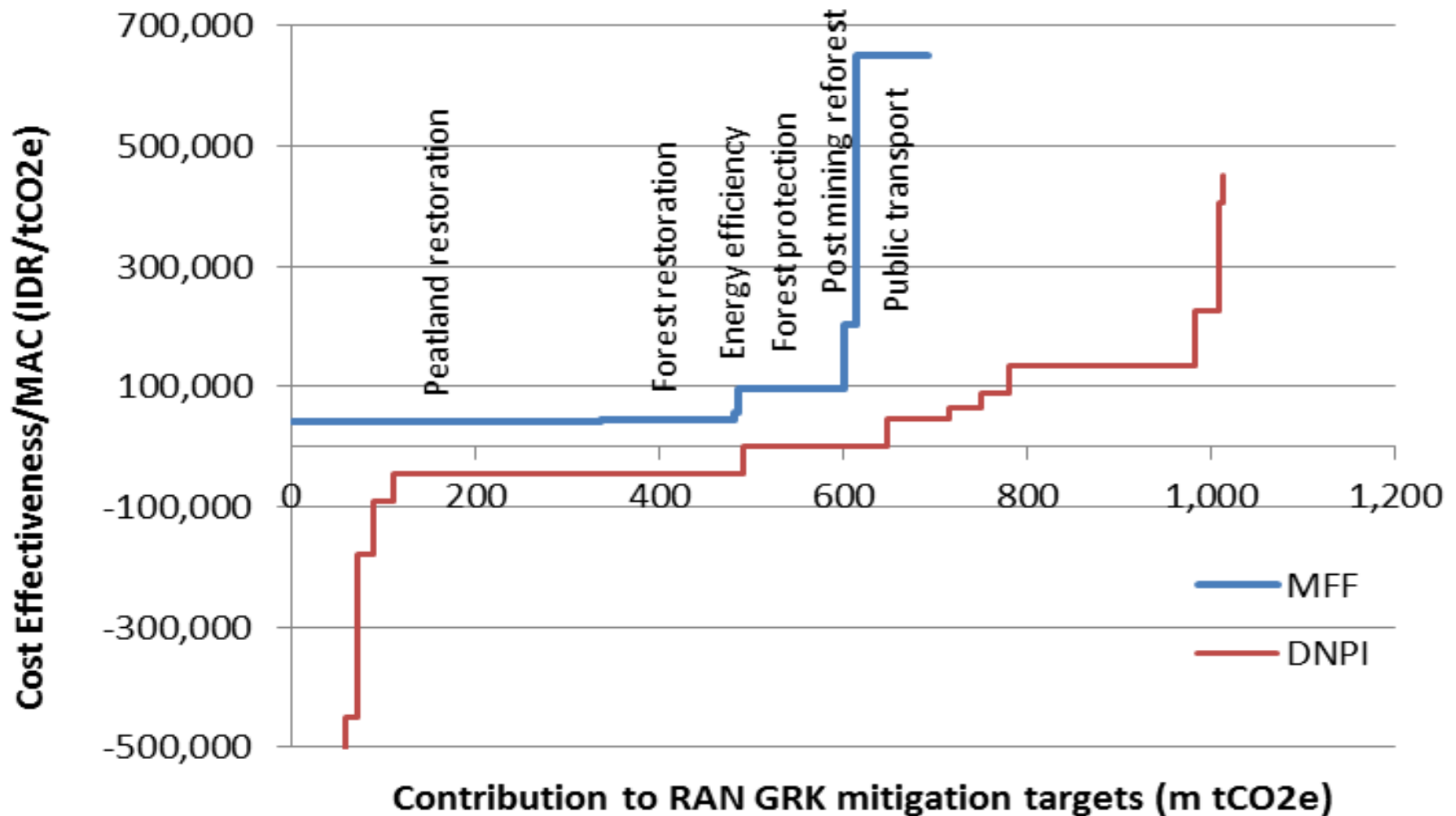
## Main Findings of the first MFF (2)

- + If deforestation could be limited to 450,000 ha/year, this action will deliver another 34% emission reductions
- + If mitigation from low carbon power generation is included in the RAN-GRK , it will add another 14%
- + The remaining gap of 23% emission reductions to be achieved in 2020 : from reforestation actions by the non-state actors, the private sector and CSOs
- + Total costs of achieving RAN-GRK targets for forestry, peatlands, energy & transport are estimated between Rp 100 and Rp 140 trillion should be shared by both the government and the private sector
- + There are costs to these actions, both for the budget and for private and CSO investors, and there are also implications for economic growth, both positive and negative

# Summary of possible sources of RAN-GRK emission reductions (excluding agriculture, industry and wastewater)



# Comparing Cost Effectiveness Estimates



# **Value of MFF for the Government (MoF)**

1. A framework for appraising, monitoring and promoting the most cost effective climate mitigation activities
2. Inter-ministerial cooperation to ensure that necessary budget, policies and practices are in place
3. Basis for introducing mitigation tagging and budget score
4. Guidance to inclusion of climate mitigation in the Medium Term Expenditure (MTEF) and performance-based budgeting
5. Prioritization of policies and funding for climate mitigation
6. Integration of mitigation in the national development budget and in the Medium to Long Term Development Planning
7. Use budgets and fiscal incentives for leveraging private investments
8. Supports greening the budget and the economy



# Financing Mitigation Action

- + Policies Supporting Green Economy
- + Fiscal Incentive
- + Budget Support
- + Enhancing Private Sector Participation

# Policies/Regulations Supporting Green Economy

- + The 2<sup>nd</sup> generation of 10,000 MW comes from renewable energy
- + Revision of long-term energy mix with more portion for R/E
- + Issuance of green building code by Jakarta Province
- + Forest moratorium

# Fiscal Incentive

- + Tax Allowance
- + Tax Holiday
- + Government Guarantee
- + Reduction and/or exemption of Import Duty (geothermal)
- + Feed in Tariff (biomass, geothermal, solar PV)
- + More incentives to be issued ....

# Budget Support (1)

## ❑ Central Government

- + Inclusion of environment degradation/depletion indicators into macroeconomic framework in preparation of State Budget (Toward green budget)
- + Enhancing National Economic Competitiveness to support inclusive and sustainable economic growth
  - Percentage of environment related budget in APBN/APBD (1,1% in 2012, to 1,5 in 2014, and 3 in 2025)
  - Percentage in reduction of Energy Elasticity (2,4 in 2012, to 2,2 in 2014, and 1 in 2025)
- + Introduction of Performance Based Budgeting for Climate Change Mitigation/Adaptation

# Budget Support (2)

## ❑ Fiscal Transfer

- + In short-run, to implement grant mechanism from central government to local government
  - Can be directed to finance the activities with ear-marking condition
  - The project can be suspended in case there is an inefficiency of the activities
- + Medium & Long Run
  - Optimization the implementation of DAK Kehutanan and DAK Lingkungan (special allocation fund based on performance)

# Enhancing Private Sector Participation

## □ Revolving Fund

### + Geothermal Revolving Fund

### + Energy Efficiency Revolving Fund

- Targeted: Small & Medium Enterprise
- Fund Source: APBN
- Final Interest Rate: 7-9%
- Fund Channeling: BLU
- Fund Execution Entity: Financial Institution

# Conclusion (also answer the session questions)

1. Mainstreaming green financing to national budget require the support of the institutions under the government and the legislations (central and sub-national) – it is not easy requiring time and same level of understanding
2. Indonesia will adopt the best global policies and practices (fiscal and subsidies) in green investment suitable to Indonesia emerging environment – challenges in regulations (laws) and national endowment
3. RAN-GRK (central government level) and RAD-GRK (sub-national) should be reviewed periodically and synergic – consider the characteristic of each sub-national

Thank You