



# CLIMATE FINANCE IN INDONESIA

3 December 2020

**"Just Transition to a Low Carbon Economy: Accelerating Indonesia's Recovery and Green Economic Growth"**

**Center for Climate Finance and Multilateral Policy  
Fiscal Policy Agency, Ministry of Finance**

# Our Commitment to Tackle Climate Change

Indonesia actively participates in controlling climate change at global level through United Nations Framework Convention on Climate Change Conference of the Parties (UNFCCC COP)








By 2030, Indonesia is determined to reduce its Green House Gasses Emission by:

- 29%** Unconditional emission reduction against BAU scenario
- up to 41%** conditional emission reduction subject to international support

Source: Indonesia's NDC

## Emission Reduction Target Per Sectors

	 FORESTRY	 ENERGY & TRANSPORTATION	 WASTE	 AGRICULTURE	 INDUSTRIAL PROCESSES AND PRODUCT USE
<b>29%</b>	497	314	11	9	2.75
<b>41%</b>	650	398	26	4	3.25

note: data is in Mton CO2e

# Fiscal Policies and Climate Finance

## Fiscal Policies Related to Climate Change Actions:



TAX and INCENTIVES

- *tax holiday* for pioneering industry,
- *tax allowance* for renewable energy sector,
- VAT and Exemption on Import Duty for geothermal development activities.
- LGT on electric vehicle



Central Government Spending on Climate Change

- Climate mitigation and adaptation spending in Line Ministries;
- Regional Incentives Funds (Dana Insentif Daerah/DID), one of the performance category that related to environment and climate change is waste management performance category.



Climate Budget Tagging

Climate Budget Tagging is a mechanism in our national planning and budgeting system to track and identify climate change related output and budget in central government.

## MoF's Innovative Financing Related to Climate Change:



**Green Sukuk** is an instrument to finance climate change actions and also achieve the SDGs target. Climate Budget Tagging data is used as reference / underlying asset for the issuance of Green Sukuk.



### Green Climate Fund



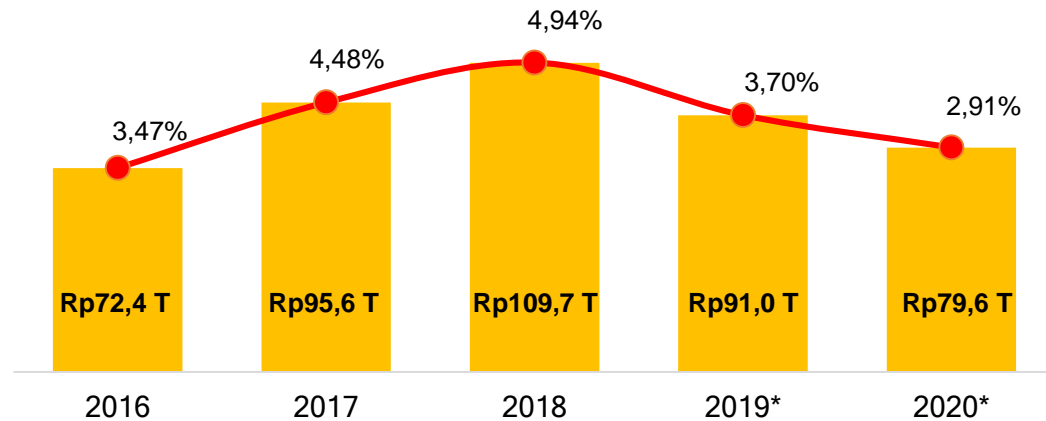
**Badan Pengelola Dana Lingkungan Hidup (BPDLH)** aims to support conservation and environmental management, biodiversity management, and addressing the impact of climate change



**SDG Indonesia One** is a blended finance platform managed by PT. Sarana Multi Infrastruktur (SMI) to facilitate philanthropic involvement, international donor agencies, aid allocation, green investors, commercial banks, Multilateral Development Banks (MDBs), etc.

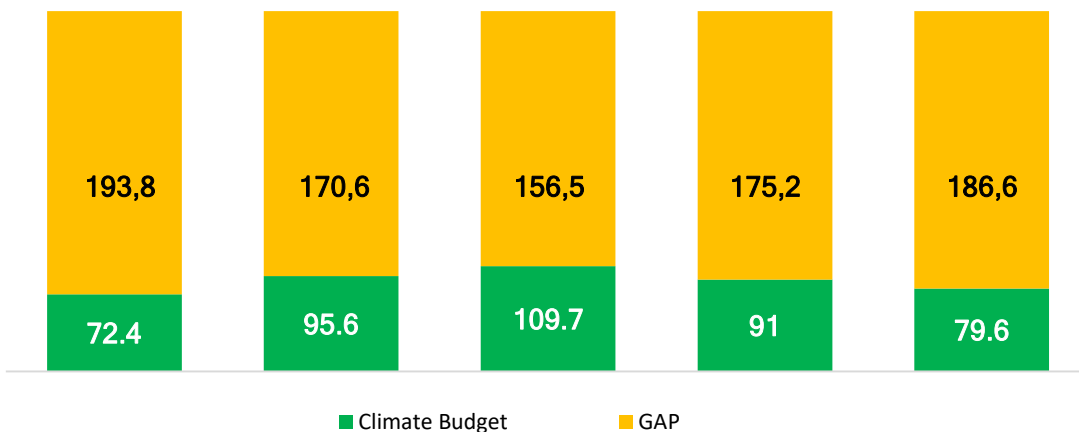
# Central Government Spending on Climate Change

Climate Spending (Trillion Rupiah) and Portion on State Budget (%)



\* Interim Data (Still on Reconciliation with Line Ministries)

Climate Financing Needs per Year Based on Second BUR (Trillion Rupiah)



- Based on the 2018 *Second Biennial Update Report* (BUR), Indonesia submitted an estimated financing needs to achieve the emission reduction target in 2030 reaching USD247,2 billion or around Rp3.461 trillion (Rp266,2 trillion/year).
- Climate budget tagging is a process of marking, tracking and identify climate change outputs and budgets in planning and budgeting documents.
- Over the past 5 years, the average climate spending was IDR89,6 trillion per year or 3,9% allocated from the State Budget per year.
- State budget have funded 34% of the total climate financing needs based on Second Biennial Update Report which is valued IDR3.461 trillion (IDR266,2 trillion per year) to achieve NDC target in 2030.
- In 2020, the climate spending decline due to budget reallocation and refocusing policies. This makes our fiscal capacity to funds climate financing needs getting lower. In 2020, climate spending consists of 55% of mitigation spending and 45% of adaptation spending.
- Government of Indonesia needs to mobilize other climate finance sources outside the state budget to achieve the NDC target.
- Government of Indonesia is currently exercising and discussing on the possibility of fiscal instruments through some studies and regulatory frameworks formulation, including the possibility of the implementation of carbon pricing, excise on plastic bag and purchasing price for RE.

# Fiscal Transfer to Encourage Green Development in Sub-National Level



## PUBLIC FINANCE

### Domestic

GOVERNMENT  
SPENDING ON  
CLIMATE CHANGE

BPD LH

GREEN SUKUK  
(GLOBAL &  
RETAIL)

SUB-NATIONAL  
GOVERNMENT  
SPENDING ON  
CLIMATE CHANGE

SOEs  
(PT. SMI)

ICCTF

### International

GREEN  
CLIMATE  
FUND

GLOBAL  
ENVIRONMENT  
FACILITY

ADAPTATION  
FUND

Regional and  
Bilateral Agency

Multilateral  
Development  
Banks

- Based on FPA and Climate Policy Initiative Joint Reports (2014), climate financing in Indonesia is dominated by domestic funding (66%), and the rest from international public finance.
- Domestic fund mostly came from state budget, sub-national government spending, revolving fund investment, and SOE's equity fund and green bonds.
- Participation from private sector was encouraged by OJK through the issuance of the Sustainable Finance Roadmap (2014) and OJK Regulation no.51/2017 regarding the Implementation of Sustainable Finance for Financial Service Institutions, Securities Emitter, and Going Public Company.

## PRIVATE FINANCE

SUSTAINABLE  
FINANCE (BANK  
& OTHER  
FINANCIAL  
INSTITUTIONS)

PHILANTHROPY

DOMESTIC  
PRIVATE  
INVESTMENT

PRIVATE GREEN  
BONDS

FOREIGN  
DIRECT  
INVESTMENT

Monitored by OJK

# Take Aways

## **The Government creates innovative financing and improves policy, for instance:**

- The issuance of the 3rd Global Green Sukuk in June 2020, in the midst of pandemic Covid-19, raising a total of USD2,75 billion from three global green sukuk issuance (since 2018 to 2020). And currently, the Ministry of Finance is discussing the potential issuance of SDG Bond and other thematic Bond.
- Indonesia has proven its mitigation action through GCF approval of its REDD+ Results-Based Payments proposal worth for USD103.78 M. This fund will be used to support its state budget for climate actions.
- To achieve its NDC, the Government is currently drafting Presidential Regulation on Carbon Pricing. On achieving its energy sector target in particular, the Government is finalizing Presidential Regulation on Feed-in Tariff for Renewable Energy Generation. This regulation is expected to enhance the development of renewable energy power plants in Indonesia.
- On fiscal policy, MoF is currently developing Climate Change Fiscal Framework that will set out fiscal policy strategy to meet the NDC, SDG and Low Carbon Development Initiative.