



A Mitigation Fiscal Framework for Indonesia's National Action Plan on Greenhouse Gases Emission Reduction (RAN-GRK)

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Indonesia's Commitment to Reduce GHG Emissions

- Indonesia is among the first countries to ratify UNFCCC and Kyoto Protocol
- The host of COP13 UNFCCC in Bali 2007 : the Bali Action Plan
- Initiator & host of global Finance Ministers' dialogue on the economic cost & financial impact of climate change (2007) which then lead to the establishment of Global Climate Fund in 2010
- First developing country to announce voluntary commitment to reduce its carbon emissions by 26% by 2020 and up to 41% reduction with international support (COP15, 2010)
- Indonesia has translated its commitment into Presidential Regulation no.61 /2011 on National Action Plan on Greenhouse Gases Emission Reduction (RAN-GRK)

RAN-GRK: Indonesia's Mitigation Policy

- ❑ **Voluntary** commitment to reduce emissions by 2020 with:
 - 26% emission reduction using domestic resources
 - Up to 41% reduction with international support (COP15, 2010)
 - Based on BAU (2950 mT CO₂e in 2020) as defined in SNC
(26% = 767 mT CO₂e)

- ❑ **RAN-GRK** : Presidential Regulation No.61/2011 on National Action Plan to Reduce GHG Emissions as :
 - Implementation reference for mitigation actions by 5 priority sectors/ areas at the national & local levels
 - A reference of related investments for coordinated mitigation actions

Why developing a Mitigation Fiscal Framework (MFF)?

- ❑ Implementation of RAN-GRK across country and sectors will be highly complex , requires a lot of resources and well coordinated efforts to reach its diverse targets

- ❑ 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

How to develop a MFF?

- ❑ Indonesia uses the “Climate Public Expenditure & Institutional Review (CPEIR)” methodology to define the baseline : policy, institutions, and public expenditures
- ❑ This is combined with:
 - cost-benefit analysis of identified mitigation actions
 - Analysis of climate financing options
 - Defining scenarios
 - Identification of governance arrangements needed
- ❑ Initial MFF for Indonesia based on a 5-month study (June-Oct.2012) by MoF in cooperation with UNDP
- ❑ Initial focus on 26% emission reduction target by 2020 from domestic resources ; and on Forestry, Energy & Transportation sectors

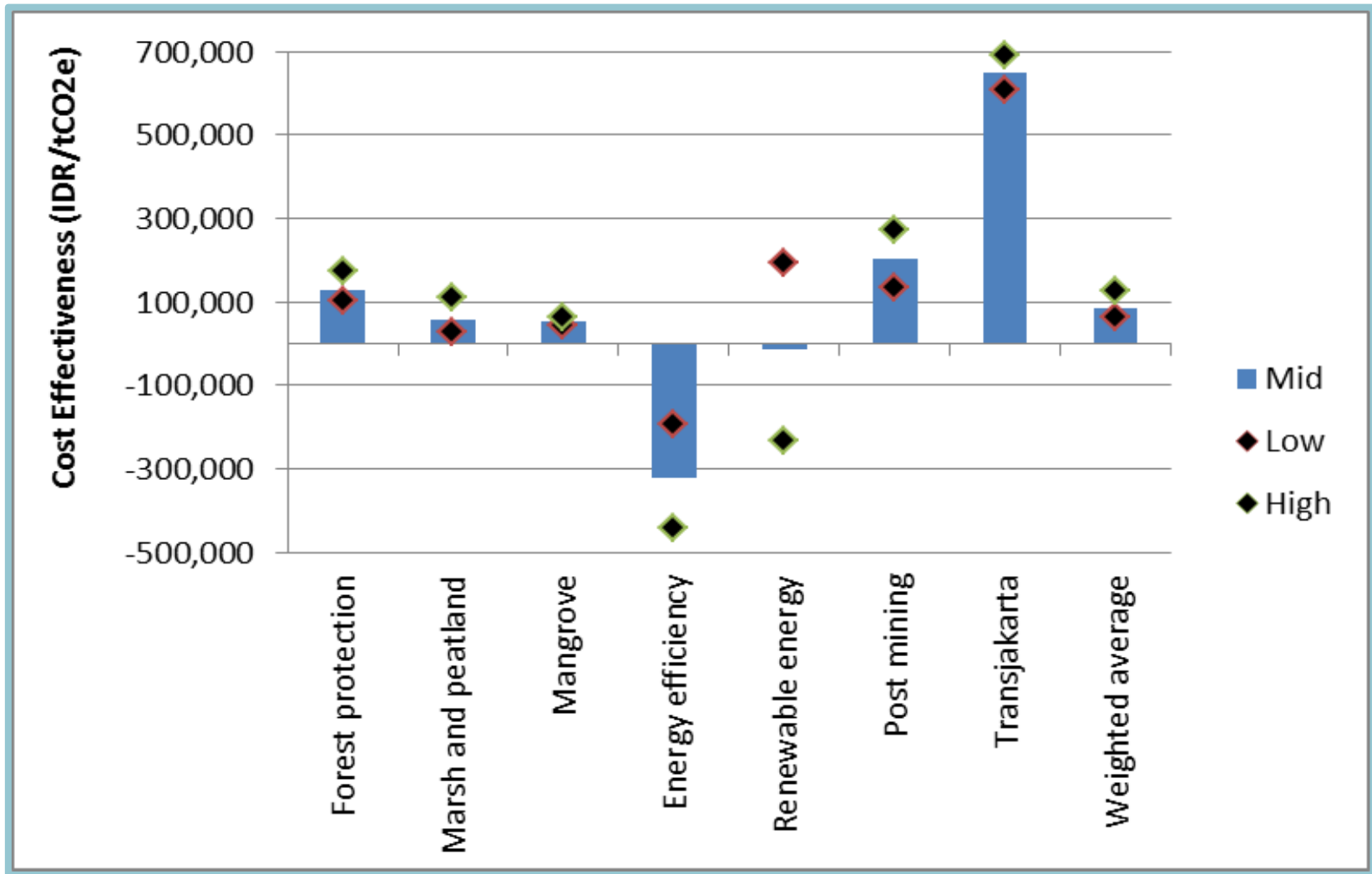
Main Findings of the first MFF (1)

- ❑ 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 mtCO₂e) of the RAN-GRK emission target of 767 mtCO₂e
- ❑ 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

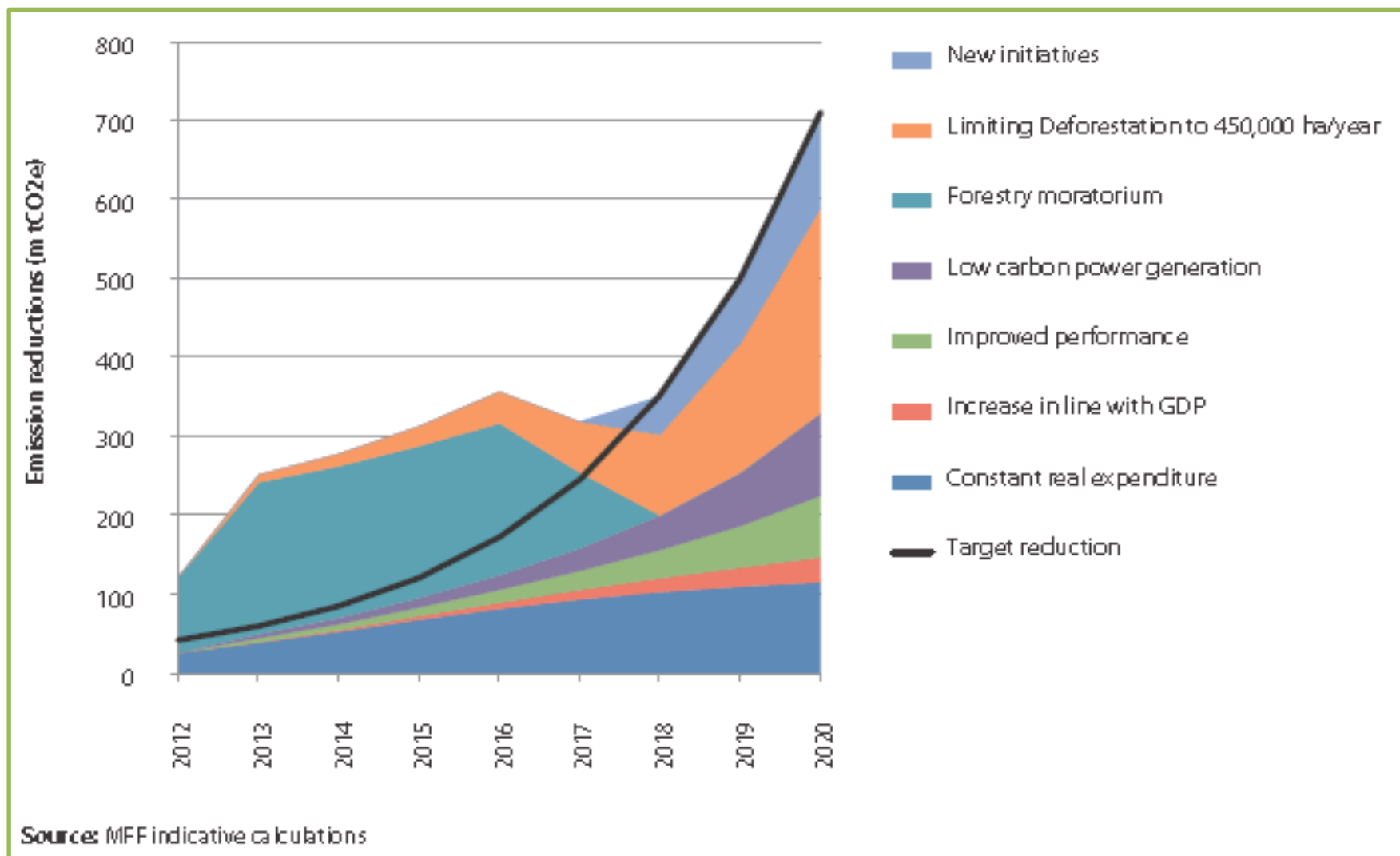
Main Findings of the first MFF (2)

- ❑ 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 16% 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

Comparing Cost Effectiveness estimates



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



Value of MFF for the 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 and CSO investments
8. Supports greening the budget and the economy

Next Steps

1. Improve the MFF model/methodology and expand to cover other sectors, revenue, international funding, local governments and links with economic growth.
2. Set up library of cost-benefit case studies on climate mitigation and finance
3. Define mitigation benefits when preparing Ministries' projects, workplans and budgets, at national and local levels.
4. Introduce mitigation budget tagging and budget scores to help MoF estimate the level and impact of mitigation expenditures
5. Include mitigation in the Medium Term Expenditure Framework (MTEF) and build the monitoring of emissions into the Performance-based Budget System

Continue...

Next Steps

6. Develop criteria and indicators for monitoring mitigation expenditures and emission reductions. Link it to international monitoring obligations.
7. Capacity building and direct assistance to Ministries' units and staffs in the use of cost-effectiveness analysis and the application of the MFF.
8. Consolidate institutional coordination around clear tasks.
9. Implementation of thematic approach and performance-based budgeting system for climate mitigation activities in the annual and medium-term of national budget planning.
10. Develop pilot fiscal incentive scheme for PPP or private and CSO investments in the forestry and renewable energy sectors



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