Financial Instruments and Products to Mobilize Public and Private Finance: Economic Instrument for Environment In Indonesia

Dr. Kindy R. Syahrir
Deputy Director Climate Finance and International Policy
Ministry of Finance, Indonesia

Fifth Annual Meeting of the San Giorgio Group: Expanding Green, Low-Emissions Finance
25-26 February 2016
Island of San Giorgio Maggiore, Venice

A joint meeting organized by Climate Policy Initiative in collaboration with the World Bank Group, CLP and the Organisation for Economic Co-operation and Development
CONTENTS:
ECONOMIC INSTRUMENTS OF ENVIRONMENT LAW NO.32/2009

DEVELOPMENT PLANNING
- Environment & Natural Resource Accounts
- Green GDP
- Cap & Pay for Ecosystem Fiscal Balance

ECOSYSTEM SUSTAINABILITY FUNDING
- Environmental Performance Bonds
- Pollution Prevention & Restoration of the Environment Fund
- Trust Fund

INCENTIVE / DISINCENTIVE
- Deposit Refund System
- Fiscal/Financial Instruments
- Payment for Ecosystem
I. GPB Program and Instruments to be Prioritised in Budget
II.a. Policy on Mobilization of Private Finance for Environment

1. Grants.
2. Environment Concessional Loan
3. Bank Credit Access
   → PBI No 7/2/2005 dan SEBI No 7/3/DPNP
   Asset Quality Rating for Commercial Banks: banks need to pay attention to the efforts made by the debtor to preserve the environment;
   → Pollution Abatement Equipment - Japan Bank International Cooperation (PAE-JBIC)
   → Industrial Efficiency and Pollution Control-Kreditanstalt fur Wiederaufbau (IEPC-KfW)
   → Industrial Efficiency and Pollution Control-Kreditanstalt fur Wiederaufbau (IEPC-KfW)
   → Environmental Finance for SME;
4. CDM (*Clean Development Mechanism*)
5. PES (*Payment for Environmental Services*)
6. Green Climate Funds (GCF)
II.b. Draft Government Regulation on Climate Finance (RPP Dana Iklim)

**PRINCIPLES**: transparent, efficient, effective, proportionate and accountable

**Pasal 3**

- Source of Funds
  - Budget
  - Grants
  - Result-based Payment
  - Carbon Trade
  - Concessional Loan
  - Others

**Pasal 5**

- Steering Committee
  - BLU IKLIM
    - Mandat
    - Perbankan
    - Pasar Modal
    -Instrumen lain yang disepakati
    - a. Dewan Pengawas
    - b. Pejabat Pengelola
  - Pemupukan Dana
    - bunga/ interest/ gain/dividen
  - Hasil Pemupukan Dana
    - a. pembangunan rendah karbon;
    - b. pembangunan yang tahan terhadap perubahan iklim;
    - c. kegiatan mitigasi perubahan iklim;
    - d. kegiatan adaptasi perubahan iklim;
    - e. Inventarisasi gas rumah kaca, pengelolaan sistem monitoring, pelaporan dan verifikasi serta pengelolaan pencatatan/ registri;
    - f. peningkatan kapasitas institusi dan sumber daya manusia di bidang perubahan iklim;
    - g. pengembangan teknologi rendah karbon;
    - h. penelitian dan pengembangan bidang perubahan iklim;
    - i. penggunaan lainnya yang berkaitan dengan perubahan iklim.

**Pasal 10**

- Penyaluran Dana

**Pasal 11 ayat (1)**

- Cara
  - a. perdagangan karbon;
  - b. perjanjian kerjasama;
  - c. pinjaman;
  - d. subsidi;
  - e. hibah;
  - f. penjaminan;
  - g. layanan lain sesuai dengan peraturan perundangan

**Pasal 11 ayat (2)**

- PENANGGUNG JAWAB
  - a. Dewan Pengawas
  - b. Pejabat Pengelola

**Pasal 21**

- Bank Custodian as Trustee

**Pasal 22**

- Draft Government Regulation on Climate Finance (RPP Dana Iklim)
III. INCENTIVE SYSTEM FOR ENVIRONMENTAL MANAGEMENT IN INDONESIA

Instrument Fiscal
- Subsidy
- Tax Exempt
- Retribution
- Royalti
- P.E.S
- Tax on Goods
- Carbon Tax
- Tax Differential
- Tax Concession

Financial Instrument
- Concessional Loan
- Grants
- Hybrid Finance
- Interest Rate Subsidy
- Environment Funds
- Financial Guarantee

Market Instrument
- Technology Access
- Deposit Refunds
- Performance Bonds
- Performance Bonds
- Bulk Purchasing
- Deposit Refunds
- Liabilities Payments
- Penalty on Evasion
Closing: Guidelines on Policy Formulation for Climate Finance Mobilization

- Policymakers must have a clear understanding of the prevailing economic conditions and the ability to understand the future economic trends to avoid economic distortions.
- Prerequisite to their legal authority, it must be applied to the legal system to define where and how economic instruments can be applied.
- The necessity of a clear institutional framework, including institutions, human resources, and policies.
- Need for greater clarity in determining the subject of taxes/levies/dues/compensation, etc., based on the type of pollutant, the volume, the level of damage.
- A clear use of funds collected to ensure transparency and accountability.
Thank You

kindy@fiscal.depkeu.go.id
I.a. GPB: Priorities and Instruments to be prioritised in GOVERNMENT workplans

<table>
<thead>
<tr>
<th>Priorities</th>
<th>Policy Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Direct govt expenditure</td>
</tr>
<tr>
<td>Natural Resources Protection</td>
<td></td>
</tr>
<tr>
<td>Forest protection</td>
<td></td>
</tr>
<tr>
<td>Peatland rehabilitation</td>
<td></td>
</tr>
<tr>
<td>Coral protection</td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td></td>
</tr>
<tr>
<td>CC adapted crops</td>
<td></td>
</tr>
<tr>
<td>Plantation crops (esp oil palm)</td>
<td></td>
</tr>
<tr>
<td>Irrigation</td>
<td></td>
</tr>
<tr>
<td>Energy and Industry</td>
<td></td>
</tr>
<tr>
<td>Energy and resource efficiency</td>
<td></td>
</tr>
<tr>
<td>Renewable energy</td>
<td></td>
</tr>
<tr>
<td>Resource efficiency</td>
<td></td>
</tr>
<tr>
<td>Fuel pricing</td>
<td></td>
</tr>
<tr>
<td>Large scale power</td>
<td></td>
</tr>
<tr>
<td>Sustainable mining</td>
<td></td>
</tr>
<tr>
<td>Corporate social responsibility</td>
<td></td>
</tr>
<tr>
<td>Transport and Urban Planning</td>
<td></td>
</tr>
<tr>
<td>Public transport</td>
<td></td>
</tr>
<tr>
<td>Waste</td>
<td></td>
</tr>
<tr>
<td>Climate proofing roads/bridges</td>
<td></td>
</tr>
<tr>
<td>Regional infrastructure</td>
<td></td>
</tr>
<tr>
<td>Health</td>
<td></td>
</tr>
<tr>
<td>Green education</td>
<td></td>
</tr>
<tr>
<td>CC sensitive health services</td>
<td></td>
</tr>
<tr>
<td>Supporting Policies</td>
<td></td>
</tr>
<tr>
<td>Disaster reduction/management</td>
<td></td>
</tr>
<tr>
<td>GE coordination and M&amp;E</td>
<td></td>
</tr>
</tbody>
</table>

| MoF:                                |                    |
|-------------------------------------|                    |
| Budget guidelines for Line Ministries requiring GE smart budget proposals |
| Apply GE tagging/scoring system and weighted tables |
| Prepare GPB Annual Report |

| Bappenas:                           |                    |
|-------------------------------------|                    |
| Provide Guidelines for GE smart development expenditure |

| Line Ministries:                     |                    |
|-------------------------------------|                    |
| Prioritisation of Top 21 policies/programmes, plus any new GE related priorities |
| Move towards using higher leverage instruments |

| Sub-National Authorities:            |                    |
|-------------------------------------|                    |
| Apply and implement GE policies & programmes |
Revenue mobilisation
Incentives towards sustainable resource use
Objectives of Environmental Finance

Environment Fiscal Reform

Incentives set by the State
- Emission charges
- Product charges
- Environmental taxes
- Waste and water fees
- Reform and removal of adverse subsidies

Creation of markets
- Tradable permits
- Access and Benefit Sharing
- Certification
- Concessions or performance bonds
- Carbon Offsets
- Refund systems
- Funds from government and donors budgets
- Private donations
- Funds from outside resource management

Mechanisms for administrating funds
- Debt-for-nature swaps
- Carbon Offsets
- Refund systems

Funds linked to resource use (self-generated)

Agribusinesses and corporations have begun to recognize their exposure to climate change risks in their supply changes and business operations. Building the business case for change includes understanding physical, financial and technical risks and vulnerabilities on one side, amid growing calls for traceable and sustainable supply chains. A growing number of corporations have announced ambitious commitments to increase sustainability and improve livelihoods. However, implementing these can be challenging and expensive, and often involves integrating highly diverse groups of small holders into business operations.

Panelists will discuss how new financial instruments and products can blend public and private finance in ways that can help to:
- share risks and costs across multiple stakeholders,
- reduce negative environmental impacts and
- improve agricultural productivity.

Chair: Jane Wilkinson, Director, Climate Policy Initiative

Panelists:
- David Bresch, Head Business Development GP and Director, Global Partnerships, Swiss Re
- Annette Detken, Head of Division Competence Center, Financial Sector, KFW Bankengruppe
- Joshua Sawislak, AICP, Global Director of Resilience, AECOM
- Kindy Rinaldy Syahrir, Head of International Cooperation and Climate Change Financing Unit, Ministry of Finance, Indonesia