

Financing strategy for a climate-resilient Indonesia

On the sidelines of the United Nations General Assembly last week, I spoke with business leaders at the Bloomberg Forum to underscore Indonesia's commitment to its climate-resilient future. As finance minister, the climate financing aspect of this development challenge is within my purview and something I am deeply passionate about.

There is continued support and growing expectation for the private sector's increased role in developing creative and innovative financing – including concessional sources – for adaptation and mitigation projects. The function of local governments is also widely recognized as more important to solve the challenges related to their critical role at the grassroots level.

By 2050, the world will need to feed 9 billion people while reducing emissions and ensuring climate-resilient food security. An additional 1.1 billion people will require access to electricity while transitioning from fossil fuels. Climate change remains the top concern of global leaders per last year's World Economic Forum survey. These challenges and more are just over the horizon.

As the fourth largest nation in

the world, Indonesia will play its part in meeting this global challenge. The medium-term objective of Indonesia's climate change mitigation and adaptation strategy is to manage risks in all its development sectors by 2020 through strengthening local capacity, better knowledge management, convergent policies on climate change adaptation and disaster risk reduction, and the adoption of adaptive technologies.

Its pre-2020 financing needs – to the tune of Rp 931.4 trillion (US\$69 billion) – must come from various funding sources: the national budget, the private sector and international support. Over the period, the budget would only be able to finance Rp 621 trillion.

In line with the post-2020 Paris Agreement and to achieve our target of a 41 percent reduction in greenhouse gas (GHG) emissions by 2030 in our Nationally Determined Contributions (NDC), Indonesia requires international support not only for financial resources, but also expertise, knowledge and technology development to sustain our effort. Thus, an innovative financing strategy to achieve sustainable development goals, environmental conservation and GHG

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emission reduction activities is essential.

The government encourages the private sector to participate in climate change financing through their own funding or public private partnerships. As part of the budget instrument, the Finance Ministry has provided several fiscal incentives to support the NDC and to promote investments in renewable energy. These fiscal instruments include tax holiday and allowance, income tax facility for the geothermal sector, as well as VAT and import duty exemption for capital goods.

In addition, the ministry has also produced various instruments to support investors in mobilizing climate finance, namely the viability gap fund, guarantee fund beyond the tax instruments, project feasibility fund and private sector facility in conjunction

with the Green Climate Funds under the UN Framework Convention on Climate Change.

With regards to innovative financing instruments, the ministry is considering issuing thematic bonds, which cover not only green-related instruments but also support a broader set of objectives in achieving the Sustainable Development Goals (SDGs) by 2030. The proceeds of the bonds will help finance Indonesia's NDC, such as climate-smart agriculture, forestry and land use, renewable power generation, water management and sanitation, industrial waste processing, urban management, as well as sustainable consumption – all of which are pertinent issues to addressing economic inequality.

To map out the financing support of the national budget, Indonesia has been developing a mechanism to identify all related green programs through budget tagging since 2015. This budget-tagging data will be an important consideration of budget allocations to match government priorities for climate change finance.

In addition, the data will serve as a reference point for the international community to demonstrate Indonesia's commitment to

this agenda – namely on finance mobilization and provision.

Toward the post-2020 climate finance architecture, the role of the ministry will be more critical in formulating key policies, namely in harmonizing international climate finance and fiscal policies as well as concentrating and allocating public funding to areas with financial gaps. In addition, there needs to be reassurance that climate change-related investments include the proper assessment of environmental and social safeguards when seeking public co-funding.

Developing green energy sources is an essential factor to achieve the targeted NDC. Indonesia has set its energy mix strategy and the government aims to significantly decrease the percentage usage of oil and coal to substitute it with renewable sources. In addition, Indonesia has also identified key priority sectors in its current climate adaptation program.

The Environment and Forestry Ministry has ascertained the main source of emissions in the provinces and regions, which varies from agriculture, forestry, energy, transportation, industry and waste. These bring in business challenges and opportunities

to intensify the impact of GHG emission reduction by means of green technology over the major emitting sectors in those regions.

Most emissions at the provincial level come from land use change and forestry – as does the nation's overall emissions. Energy-based emissions dominate in at least 10 provinces, including East Java, West Java, Central Java, South Sulawesi, Banten, Yogyakarta, Riau Islands, North Sulawesi, Maluku and Jakarta.

We should do more to help local governments come up with the most efficient approaches in reducing emissions and provide room for non-state actors in developing business cases to support this process. The World Resources Institute in 2016 summed up a table of primary sources of emissions in provinces across Indonesia and could easily serve as a reference for investment opportunities in support of the NDC.

Indonesia is committed to its climate-resilient future. It is time for the private sector, the international community and this committed government to synergistically move forward together.

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