

Climate as a Catalyst for Development

Indonesia Economic Prospects, Dec 2023















What are the enablers of, and the impediments to, climate action in Indonesia?

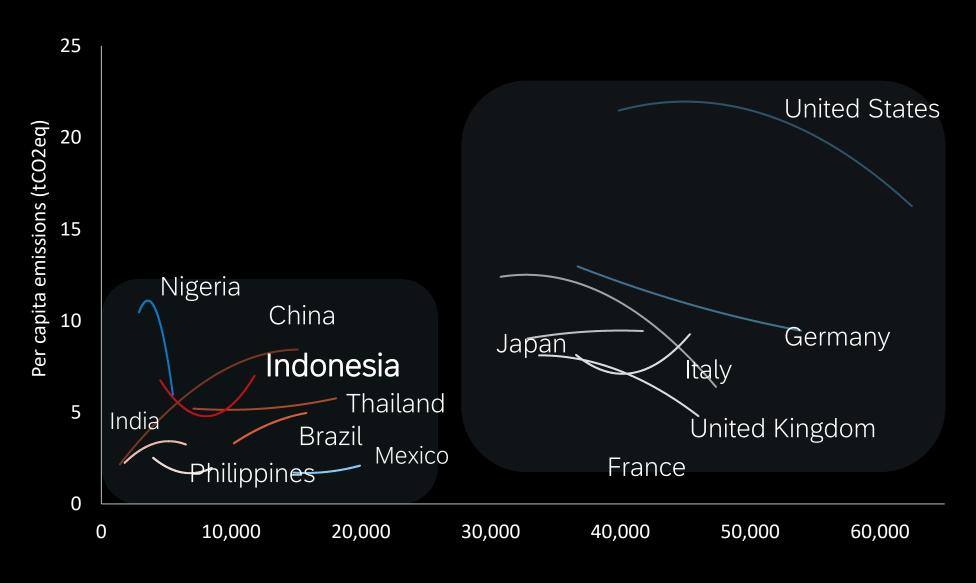
- 1. What is the trajectory of Indonesia's climate transition?
 - 2. How is the government responding?
 - 3. How could 'enablers' help these efforts?
 - 4. What would it mean for economic growth?

1.

What is the trajectory of Indonesia's climate transition?

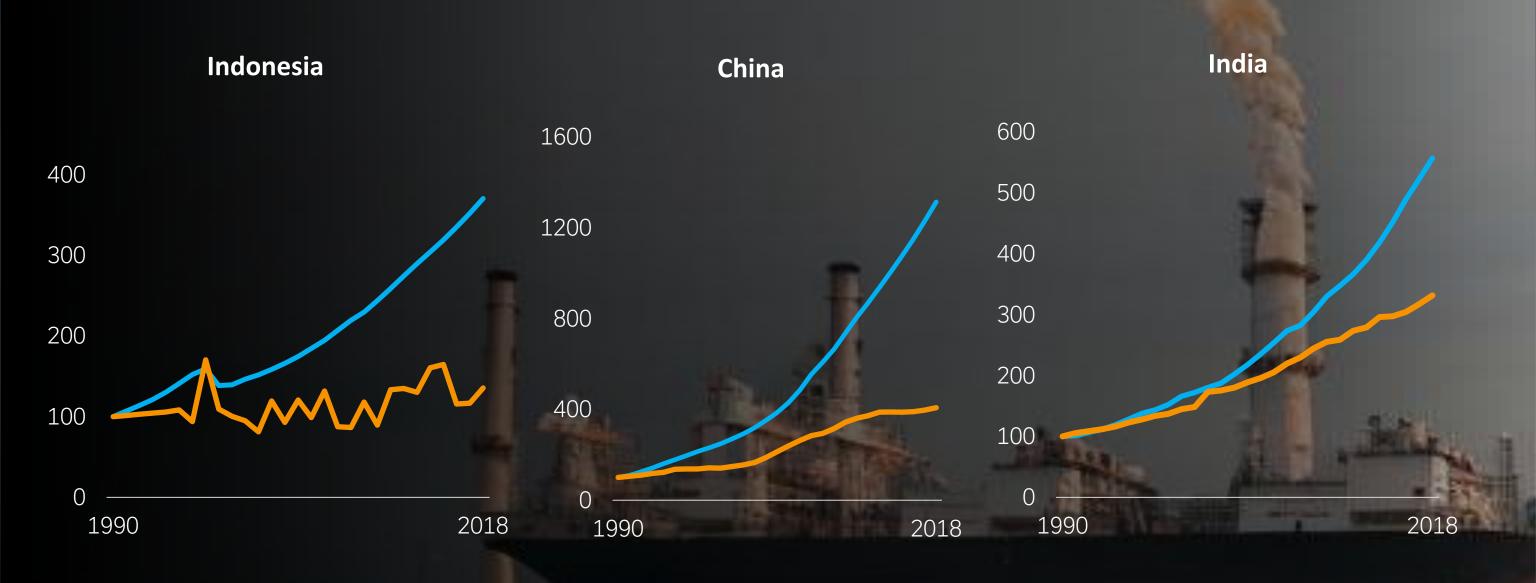
Per capita GDP vs. Per capita emissions: 1990-2019

Emissions have risen along with economic growth, in line with Indonesia's stage of development



Per capita GDP (2017 constant PPP)

There are signs of relative decoupling as emissions growth slows

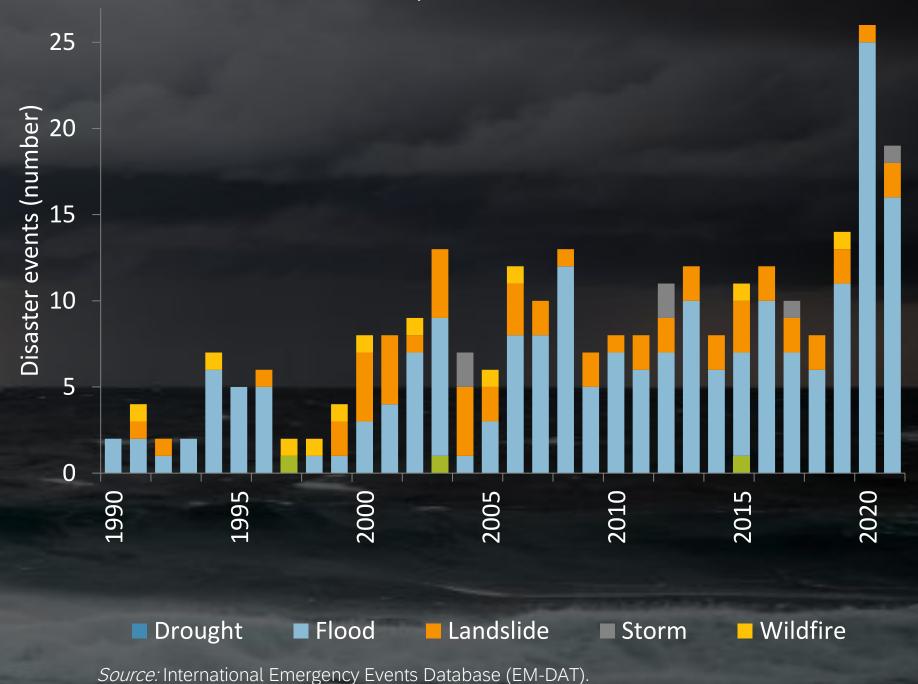


—All GHG (MtCO2e)

—GDP (constant 2015 US\$)

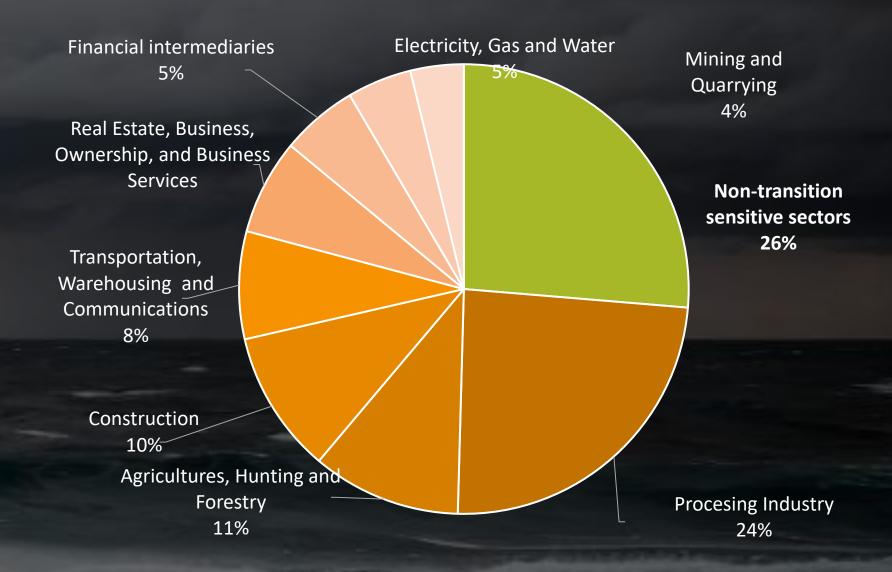
Rising incidence of climate-related disasters

Meteorological, hydrological and climatological disaster incidence in Indonesia, 1990-2020.



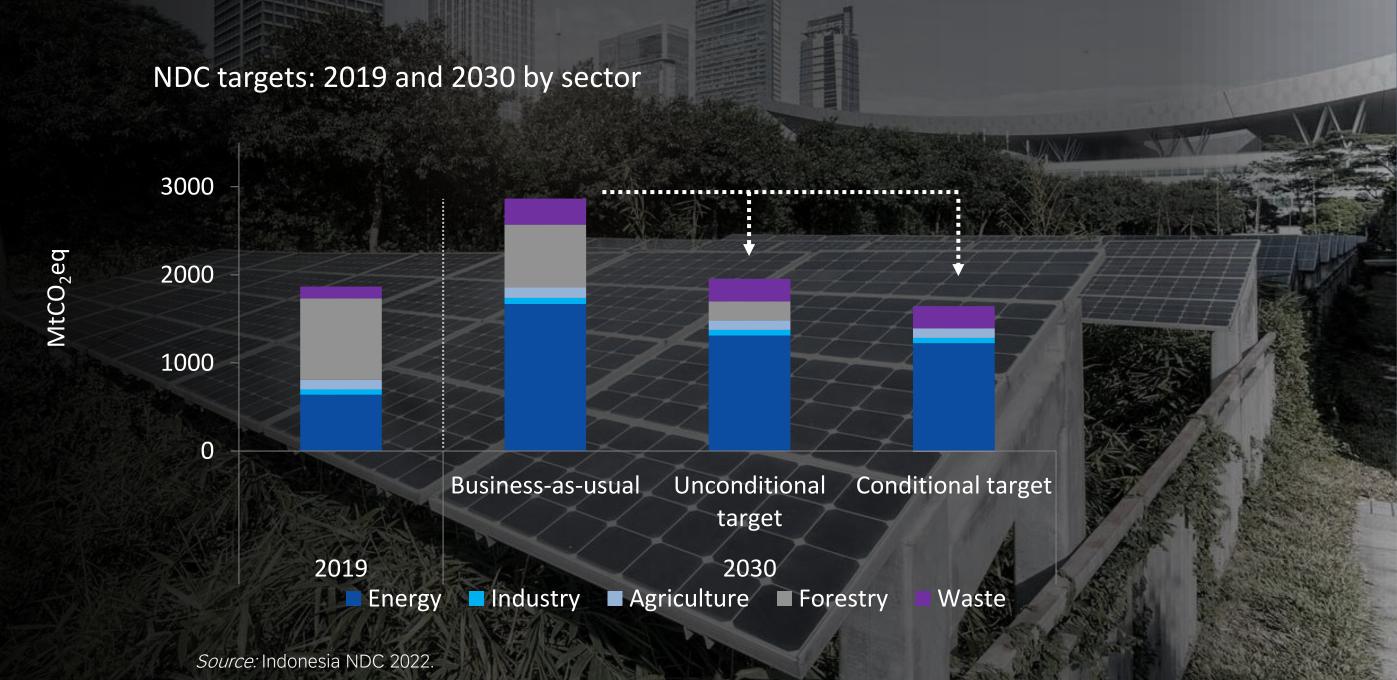
And with high lending and equity exposure, there are risks from the transition

Lending exposure of Indonesian banks to transition-sensitive sectors

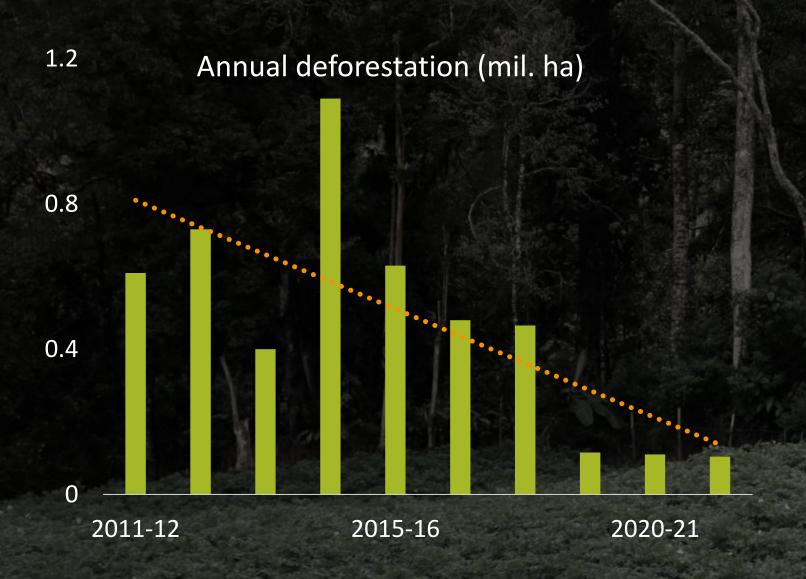


How is the government responding to the challenge?

A commitment to reduce emissions between 32 and 43 percent against business-as-usual projections



The rate of deforestation and land-based emissions has fallen



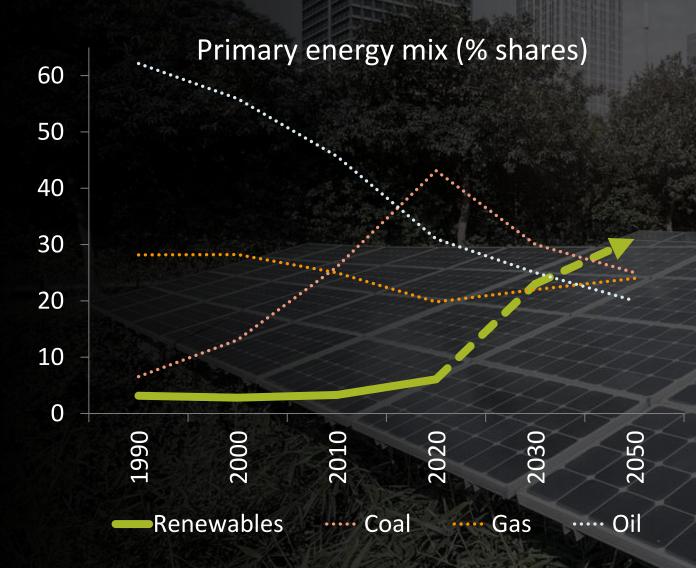
peatland and primary forest.

Moratorium on conversion of

- Reforestation and peatland rewetting.
- Fire prevention investments.
- Social forestry and land tenure reforms.

Source: MoEF 2022 data, based on years for which annual data is available.

New commitments to support renewables and shift from coal



- Emissions trading scheme operational.
- Improved price caps for renewable power.
- Commitment to no new coal in the electricity grid.
 - Challenges: domestic market obligation favors coal, off-grid coal expansion, tariff structure holds back grid-investment.

Source: Our World in Data, Indonesia NDC 2022.

3.

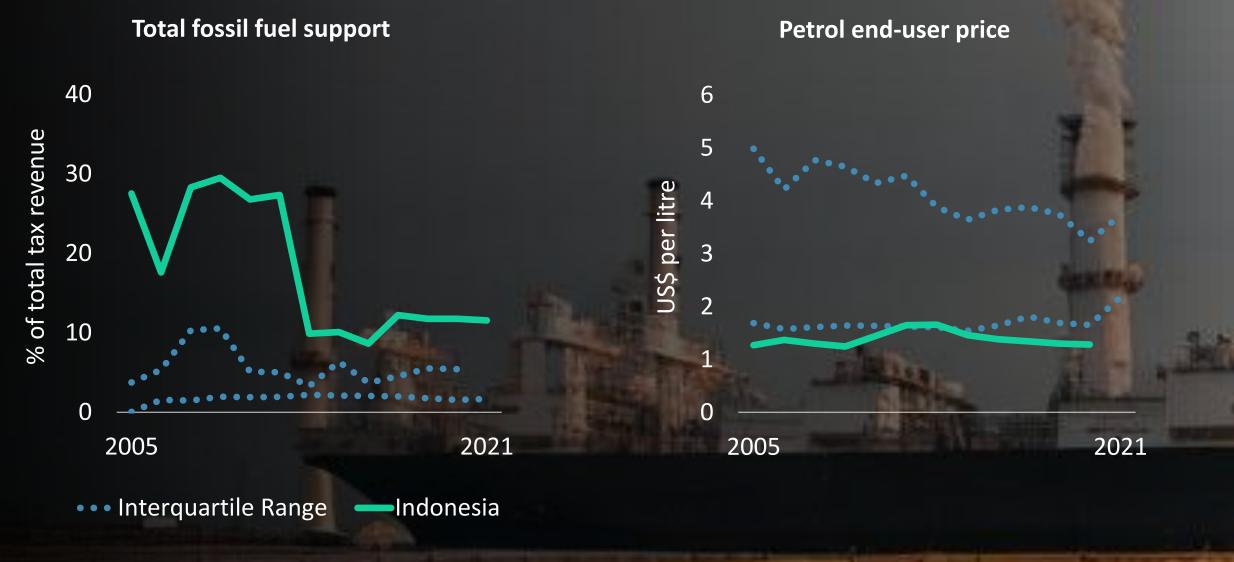
What changes to "economic enablers" could support these efforts?





Fiscal settings create incentives for investments and raise revenues

Fiscal reforms (e.g., subsidy redirection and carbon pricing) has reduced incentives for carbon-consumption; continued measures could further the benefits.



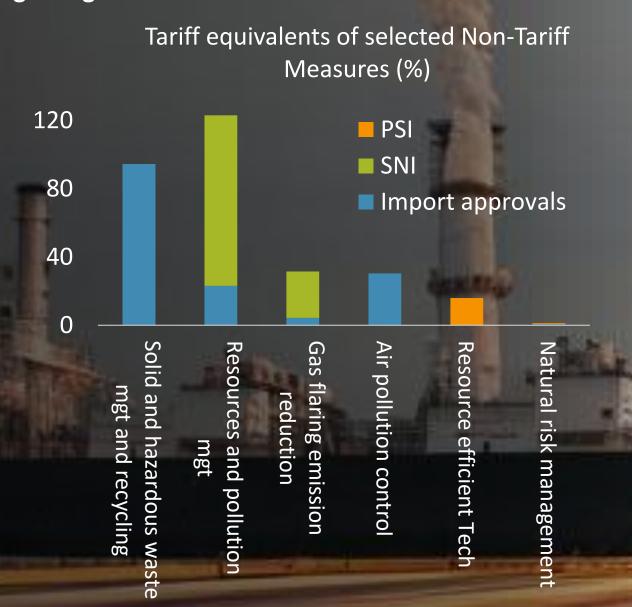
Financial deepening can ensure access to finance... ... and further streamlining trade can lower costs

Payback periods for efficiency measures are currently longer than the tenor of financing

Source: CCDR firm survey



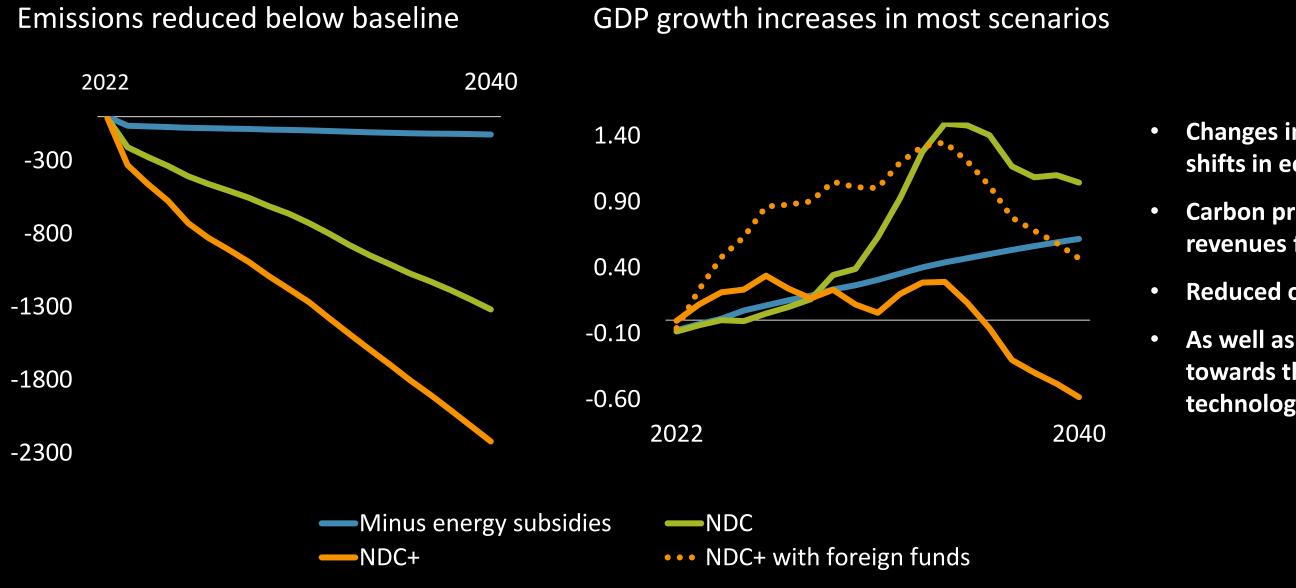
Non-tariff measures add equivalent of 20 percent tariffs on green goods





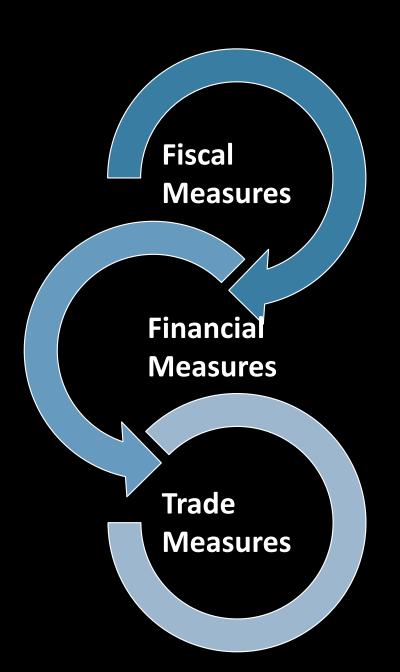
What could reforms do for economic growth?

Reforms projected to reduce emissions and accelerate growth



- **Changes in pricing leads to** shifts in economic sectors
- **Carbon pricing raises** revenues for investment
- **Reduced costs of pollution**
- As well as movement towards the trade technology frontier

In summary: A climate and development enabling policy framework (with important actions underway already)



- Develop a medium-term roadmap for carbon pricing.
- Expand the scope of the emissions trading scheme.
- Replace the electricity price subsidy (PSO) with targeted cash transfers.

- Develop further guidance on risk management approaches for banks.
- Incentivize use of green financing for the private sector.
- Reduce non-tariff barriers to environmental technologies.
- Reduce the stringency of local content requirements.

These are interconnected actions for development

Thank You

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