



Fiscal Policy for Green Economy

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Green Economy Policy Through Fiscal Instruments

- ▶ Tax / Subsidies Policies
- ▶ State Expenditure / Budget Policies
- ▶ Direct Regulation Policies
- ▶ Investment / Finance Policies



Fiscal Policy Focus in the Context of Green Economy Programs

- ▶ Tax / Subsidies Policies
 1. Provide incentives including: tax holiday, exemption of import duty incentives and VAT, Income Tax paid by the government
 2. Fuel Subsidy Elimination vs. increased carbon emissions
- ▶ Budget Policy
 1. Budget prioritization within line ministries
 2. Elimination of overlapping Budget of technical within line ministries
 3. Communication process with the Parliament's Budget Commission
- ▶ Investment / Finance Policies

Enterprise risk management, for example: increasing the attractiveness of investment climate in the field of forest management

Sources of Research Financing in Green Economy *)

- ▶ State Budget
- ▶ Non State Budget (potential):
 - Bilateral / Multilateral institutions (grants)
 - Non-public institutions (Foreign / Domestic)
 - Private (B to B or PIP)
- ▶ Note: in the context of Climate Change 63% of State Budget vs. 37% of Non State Budget

*) Singgih Riphath Global Green Growth Forum 2013, Copenhagen, October 2013

Current MoF Support in Financing the Green Economy

- ▶ Procurement Procedures on Foreign Loans and Grants (Govt regulation No. 10/2011)
- ▶ Approval Procedures on the realization of Actual Revenues and Expenditures sourced From Foreign Grants / Domestic Directly Received By Ministry / Agency in the form of money (Ministry Regulation No. 225/2010)
- ▶ Both regulations are intended to:
 - eliminate the perception on the existence of "off-budget on treasury" practices
 - speed up the administrative process of grant utilization
- ▶ Duty Exemption on ET components (geothermal), Sales Tax Exemption (PPN DTP) for ET components (geothermal and biofuels) and Investment Incentives (Investment Tax Allowance)

Tax Incentives for Renewable Energy

Type of instruments	Description
Investment Tax Allowance	Components of incentives may include taxable income reduction on the realized investment as stipulated on PP No 62/2008 ; accelerated depreciation and amortization; a loss carried forward facility ; a reduction on the level of income tax on dividends, and possibly lower if stipulated in the provisions of an existing particular tax treaty
Investment Tax Allowance	Taxable income reduction for the renewable energy industry (work-in-progress in MOF for internal review)
Import Duty Exemption	Free Import Duties on machinery and equipment, raw materials and supporting materials for the oil, gas and geo-thermal activities (see Permenkeu No 177/PMK.011/2007)
Import Duty Exemption	Free Import Duties on machinery and equipment, raw materials and supporting materials for industrial development and construction (including renewable energy industry) (Permenkeu No.176/PMK.011/2009)
Import Duty Exemption	Free Import Duties on Capital Goods for the development and construction of energy power generation that operate to serve public interest (Permenkeu No.154/PMK.011/2008)
Sales Tax Exemption	Sales Taxes on the imported machinery and equipment, raw materials and supporting materials for the oil, gas and geo-thermal activities are borne by the GOI (PPN DTP) (Permenkeu No 242/PMK.011/2008)
Sales Tax Exemption	Sales Taxes on the Bio fuels sold domestically in the 2009 fiscal year are borne by the GOI (PPN DTP) (Permenkeu No.156/PMK.011/2009)

Current Fiscal Incentives: Development of Geothermal Energy

	Jenis Insentif	Jenis Kegiatan		
		Ekplorasi	Konstruksi	Operasi
1	Import Duties parts and components of capital goods equipment	<ul style="list-style-type: none"> • MOF Degree No 177 / 2007 • MOF Degree NO 21 /2010 jo MOF Degree No 176 / 2009 	<ul style="list-style-type: none"> • MOF Degree No 177 / 2007 • MOF Degree No 21 /2010 	<ul style="list-style-type: none"> • MOF Degree No 177 /2007 • MOF Degree No 21 / 2010
2	Income Tax	PMK21/ 2010	MOD Degree No 21/ 2010	MOD Degree No 21 / 2010
3	VAT	<ul style="list-style-type: none"> • MOF Degree No178 / 2007 • MOF Degree No 21 / 2010 	MOF Degree No 21/2010	MOF Degree No 21 / 2010
4	Exploration costs	Budget allocation 2011		
5	geothermal electricity prices: a. highest price (USD 9.7 cent/kwh) b. Off-take guarantee (surety business PT PLN)			a.MOE Degree NO 32 / 2009 and MOE Degree No 2 / 2011 b.Presidential Degree No 4/ 2010 and MOF Degree No 77 /2011 (renew by MOF Degree No 139 /2011)

THANK YOU



Outline: Economics Green (Green Economy)

Economy that creates a better human life by reducing inequities in the long run by taking into account (not sacrificing) the needs of future generations on environmental risks and scarcity of resources



Green Economy Concept

- ▶ Nature is not free goods and provide a variety of environmental services (clean air, water, natural beauty, etc.)
- ▶ The diversity of many ecosystem services which have not been assessed economically
- ▶ Consequently give rise to externalities or dpl economic impact but as if is free:
 - Positive impact (benefiting)
 - Negative impacts (environmental damage)
- ▶ Need internalization (economic assessment) on "natural" assets into the economic system
 - Through market mechanisms and / or
 - Through government intervention

Three important things in the green economy is to protect and enhance biodiversity and ecosystems;

- ▶ Efficient use of resources (resource efficient)
- ▶ Low-carbon conditions (low carbon)
- ▶ All socially engaged (socially inclusive)

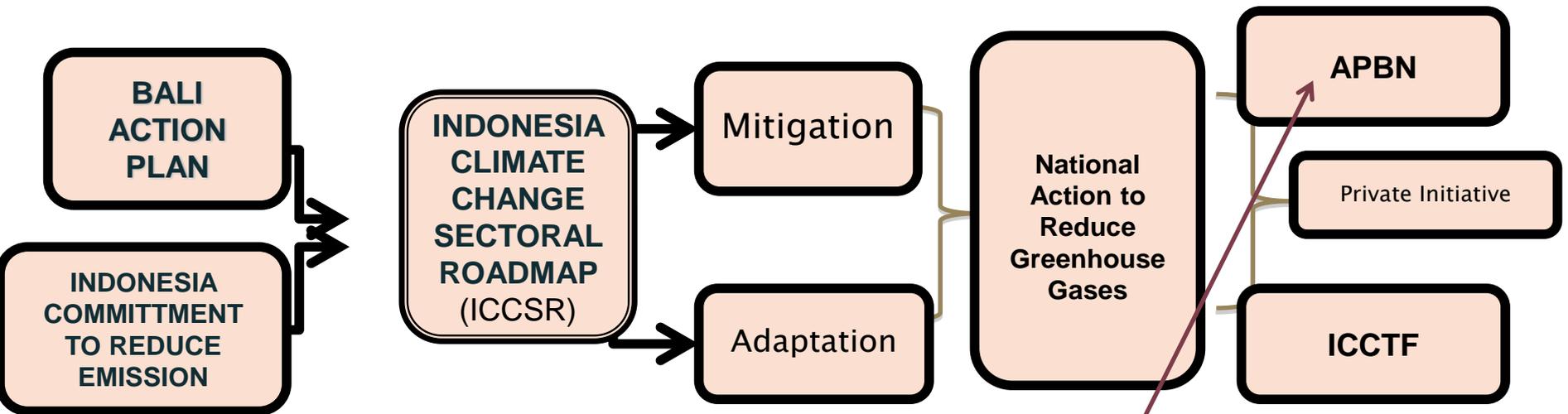
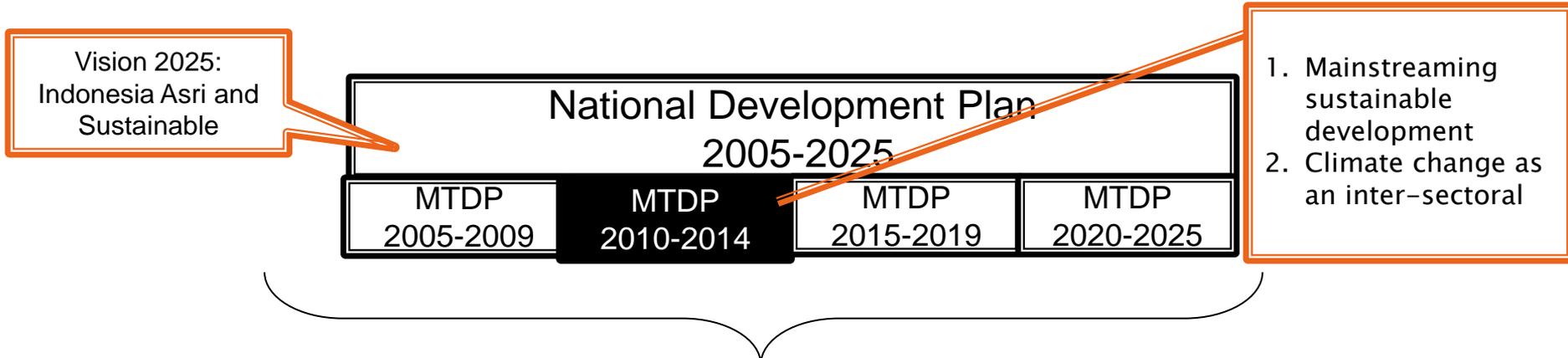
GREEN ECONOMIC DEVELOPMENT CHALLENGE

- ▶ Fuel subsidy status quo (BAU)
Fuel "pseudo" price < Renewable Energy Prices (ET)
Fiscal burden through the State Budget
- ▶ Society immersed in the "pseudo comfort "
 1. Climate Change mitigation as "cost" instead of "opportunities"
 2. Carbon emissions are not "internalized" as an economic cost ("Green Building" is not working)
 3. Lack of financial support for the development of ET (no upfront financing)
 4. High CDM transaction costs
 5. Carbon credits are not considered as income (revenue)

Ministry of Finance (MoF) Role as Treasury: Balancing

- ▶ Sectoral funds requirement increased, meaning Expenditure increased
- ▶ However, continuity of funding sources contain the risks of uncertainty:
 - 1.Economic cycles (economic crisis vs economic boom)
 - 2.Natural Disasters
 - 3.Political changes
- ▶ Perform efficient and effective fiscal management (rational and measured resource allocation and utilization of funds) through four (4) phases:
 - 1.Optimizing the allocation of state budget resources
 - 2.Proportional addition of funding source allocation
 - 3.Identification of foreign and domestic funds sources
 - 4.Development of funding mechanisms

MoF Support on RAN - GRK



SOURCE: BAPPENAS (2011)
 MTDP: MEDIUM TERM DEVELOPMENT PLANNING

FISCAL POLICY VIA PUBLIC EXPENDITURE AND TAX INVESTMENT

MEKANISME PEMBERIAN FASILITAS TAX HOLIDAY

(PMK No. 130 /PMK.011/2011)

