



# **Defining Role of Ministry of Finance in Low Carbon Strategies**

**Irwanda Wisnu Wardhana and  
Dhani Setyawan**

**Fiscal Policy Office, MOF of Indonesia**

**The 17<sup>th</sup> AIM International Workshop NIES  
Tsukuba, 17 February 2012**

# Outline

1. Introduction
2. Policy Instruments Options
3. Policy Instruments Options: Financing
4. Incorporate Fiscal Policy Measures into the AIM Modeling
5. Conclusions

# Introduction

1. Primary national development target: **pro-growth, pro-poor, pro-job, and pro-environment**
2. Indonesia needs to grow to promote jobs & alleviate poverty
3. At the same time, we are committed to mitigation and adaptation on climate change and low carbon economic development
4. We believe that fiscal policy can be very powerful in achieving this end and linking solutions with development path

# Policy Instruments Options

Ministry of Finance's policy instruments:

1. Domestic Financial and Investment Sector Policies.
2. Fiscal Policy Instruments (Taxes, subsidies and related instruments).
3. Expenditure and Budget Policies.
4. Direct Regulation.
5. International Flows of Funds and Investment.



# Ministry of Finance

## Policy Instruments to Influence Low Carbon Economic Development

### Management of

- Investment climate
- Pricing (fiscal) policies
- Direct spending
- Risk and financial markets
- Sector rules & law

### Can influence:

- Incentives
- Investments
- Industry
- Int'l Financial Flows
- Pro Poor Approaches

### Financial/ Investment Policies

- Investment Climate
- Banking Sector/ Non Bank Finance Institutions
- Local Government Finance Rules

### Fiscal Policies

- Tax/Fees/ Charges
- Royalties/Rents
- Subsidies/Tax breaks
- Relative Prices/ Incentives
- Emissions trading

### Budget/ Expenditure Policies

- Budget Priorities
- Direct Investment
- Green Procurement
- Education Awareness

### Direct Regulation

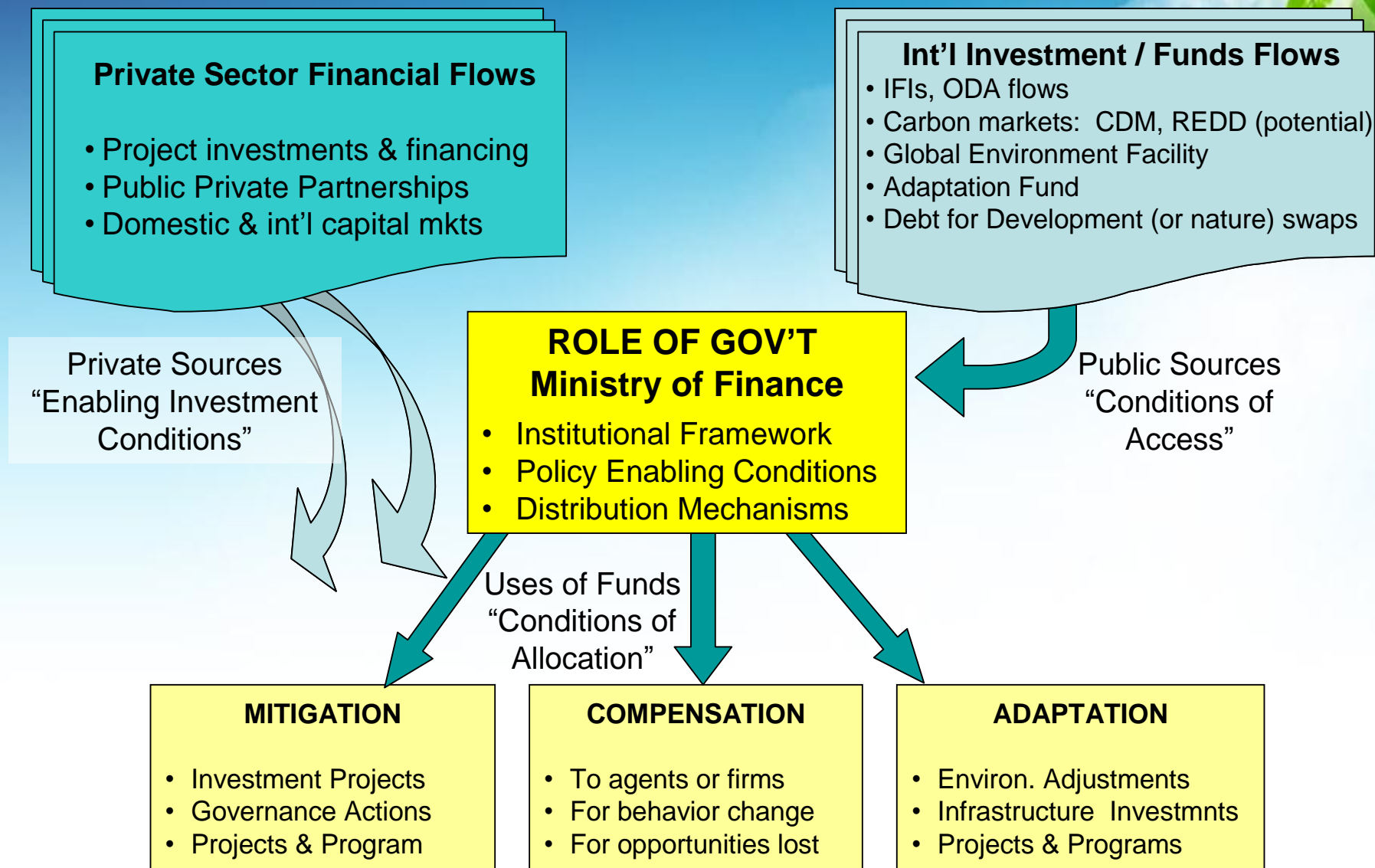
- Enforcements/ Incentives
- Zoning/Land Use
- Environmental Management
- Building/ Design Standards
- Emission Standards

# Policy Instruments Options: Financing

Ministry of Finance role in financing side:

1. Enabling the environment for private sector investments.
2. Condition of access to international financing
3. Distribution Mechanisms of funds within the country:
  1. Mitigation
  2. Adaptation
  3. Compensation

# Role for Ministers of Finance in Climate Change Capitalizing on Private and Public Financial Flows





# Incorporate Fiscal Policy Measures into the AIM Modeling

1. How the AIM modeling could incorporate a fiscal policy action and measure which change the economic market structure?
2. E.g. Shifting the fuel subsidies to other forms of subsidies:
  - ❖ Investment incentives on renewable energy development
  - ❖ Agriculture subsidies
  - ❖ Cash transfer



# Conclusions

1. Ministry of Finance's authority in the fiscal policy side should be utilized in a more optimum way.
  - ❖ MOF involvement in Low Carbon Strategies is INDISPENSABLE.
2. AIM Modeling might be improved to put more attention on fiscal policy measures.
3. To ensure the implementation effectiveness in national level, Low Carbon Strategies should be treated as an integrated economic policy rather than an environmental issue alone.

# Thank You

**Center for Climate Change Financing and  
Multilateral Policy, Fiscal Policy Office**

Radius Prawiro, 6th floor, Dr. Wahidin Raya No. 1  
Street, Jakarta, Indonesia 10710

Ph. +6221-3431675 Fax. +6221-34831677

Email: [irwanda.wisnu@fiskal.depkeu.go.id](mailto:irwanda.wisnu@fiskal.depkeu.go.id)  
[dsetyawan@fiskal.depkeu.go.id](mailto:dsetyawan@fiskal.depkeu.go.id)

