

*Green Growth
Policy Review*



Indonesia 2017-19

REVIEW PROCESS



About the OECD

OUR MISSION

The Organisation for Economic Co-operation and Development (OECD) provides its 35 Member countries with a forum to work together, share experiences and seek solutions to common problems.

We work with governments to understand what drives economic, social and environmental change. We analyse and compare data to predict future trends. We set international standards on a wide range of subjects, from agriculture and tax to chemicals safety.

The common thread of our work is a shared commitment to market economies backed by democratic institutions and focused on the well-being of all citizens.

Peer reviews

Among the OECD's core strengths is its ability to offer its members and partners a framework to compare policy experiences and examine "best practices" in a host of areas.

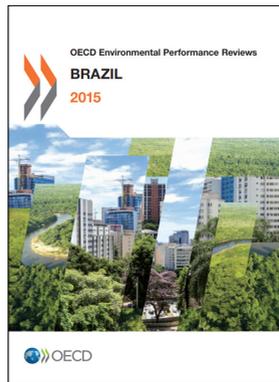
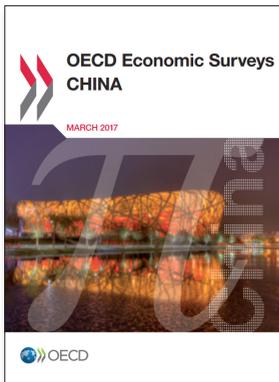
Peer reviews, where each country's policy is examined by fellow members and partners on an equal basis, have been used at the OECD for more than 50 years.

A country seeking to reduce pollution, for example, can learn valuable lessons from its peers on what has worked and what has not. This can save time and costly experimentation, and help governments gain support at home for difficult measures.

As everyone goes through the same exercise, no country feels singled out.

Reports prepared by the OECD Secretariat serve as a basis for countries to examine and assess one another's performance. The reviews provide an independent, fact-based assessment and targeted recommendations to encourage further reforms from a whole-of-government perspective. Reviews are conducted to:

- Help countries measure their progress against domestic and international commitments.
- Promote dialogue between countries and peer learning.
- Stimulate greater accountability to the public and to other countries.



The OECD publishes several types of country reviews, including *Economic Surveys*, *Reviews of Innovation Policy*, *Investment Policy Reviews*, *Development Assistance Reviews* of member and partner countries.

Green Growth at the OECD

“Inclusive green growth offers an optimistic, realistic alternative to countries looking for new sources of growth that make economic, environmental and social sense. Green growth is not a replacement for sustainable development. Together with innovation, going green can be a long-term driver for economic growth.”

Ángel Gurría, OECD Secretary-General

Governments asked the OECD to develop the 2011 Green Growth Strategy to help OECD countries and partner economies alike achieve economic recovery, along with environmentally and socially sustainable growth. A growth agenda must take account of the consequences of productivity growth for the supporting physical environment, and of the need for inclusivity. Five years after publication of the Strategy, this report examines common challenges experienced by OECD countries and partner economies, and highlights where there is scope for progress.

OECD (2015), *Towards Green Growth? Tracking Progress*
<http://doi.org/bbgkvg>



The OECD also supports green growth at the city level. Together with the city of Bandung, for example, it analysed challenges such as traffic congestion, air pollution, municipal solid waste and water access and management. This economically attractive city faces several acute disaster risks related to flooding and seismic activity. The report identifies both internal and external opportunities the city might consider to overcome urban challenges and increase its economic growth in the long term.

OECD (2016), *Green Growth in Bandung, Indonesia*
<http://doi.org/cfpg>



Buildings cover **30% more land** than in 1990

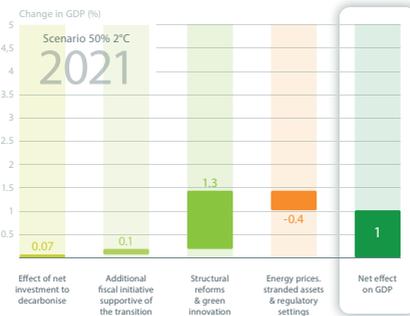
Built-up area in a selection of countries, in 2014 and new constructions since 1990



Green Growth Indicators 2017 charts the progress that OECD countries and G20 economies have made since 1990. The 2017 edition places emphasis on productivity gains and on the role of policy action, with enriched analysis on environmentally related taxes and subsidies, technology and innovation, and international financial flows.

OECD (2017), *Green Growth Indicators*, <http://oe.cd/ggi>

Combining climate action with economic reforms will lead to an increase of 1% of GDP across G20 economies by 2021



The OECD contributed to progress in the G20 discussions on climate change and energy with *Investing in Climate, Investing in Growth*. The report shows that integrating measures to tackle climate change into regular economic policy will have a positive impact on growth. Adopting an inclusive, low-emission and climate resilient growth agenda would be an opportunity to reorient G20 growth objectives.

OECD (2017), *Investing in Climate, Investing in Growth* <http://oe.cd/25D>

Read more about green growth on www.oecd.org/greengrowth

Indonesia: Key partner since 2007

In addition to green growth and environmental policy, the OECD supports the Indonesian government in implementing its reform agenda in macroeconomic policy, tax, investment, regulatory policy, budgeting, financial education and financial affairs, education, agriculture, trade and anti-corruption.



“Indonesia welcomes the OECD’s commitment to be our strategic partner in achieving social and economic development goals.”

Sri Mulyani Indrawati, Minister of Finance of the Republic of Indonesia.



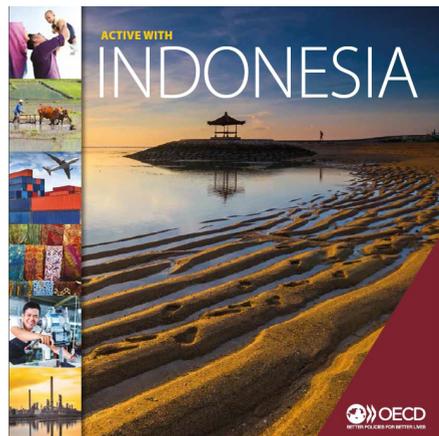
Joint work programme

On 24 October 2016, the OECD Secretary-General Angel Gurría launched the second OECD-Indonesia Joint Work Programme for 2017-2018 with Minister Sri Mulyani Indrawati. He discussed priorities with President Widodo and key government ministers during his visit.



The Programme targets 15 priority areas framed around four themes:

- developing the business climate and fostering dynamic growth
- improving social policies and inclusive growth
- **promoting green growth**
- supporting governance.



A Green Growth Policy Review

The OECD has over 25 years of experience conducting Environmental Performance Reviews of its member countries and selected partner countries, including Brazil (2015), South Africa (2013) and China (2007). The Green Growth Policy Review of Indonesia will be the first of its kind.

- **The Green Growth Policy Review (GGPR) will examine Indonesia's performance since 2010.** It will focus on assessing its policy framework for green growth and how effectively green growth aspects have been integrated into economic policies and planning processes. Performance since 2010 is measured in terms of intentions, actions taken, and results achieved.
- **The review is forward-looking:** policy recommendations aim to help Indonesia meet its green growth objectives and low-carbon economy targets.
- The GGPR will be developed within the same **peer review framework** as OECD Environmental Performance Reviews (EPR). It will also be an independent, evidence-based assessment. The review process is similar, with the addition of expert workshops.
- As with EPRs, the **OECD Green Growth Indicators** will be at the core of the analysis. The review will also examine progress in implementing the Sustainable Development Goals (SDGs).
- Its structure will follow closely that of EPRs. However, it will not include a detailed chapter on environmental governance. Instead, the chapter "Towards Green Growth" will be expanded and there will be only one in-depth chapter.





Indonesia's context

Indonesia is endowed with outstanding natural wealth. However, sustained economic growth and rising global demand for commodities have strained the natural asset base.

- **Indonesia's forest covers more than half of total land area** and hosts mega-rich biodiversity and ecosystem services, supporting the livelihoods of local communities. Natural capital provides abundant commodities, which make up half of the country's exports.
- **The rapid expansion of land-based sectors** has had adverse effects on the environment and livelihoods of local communities. Unsustainable practices in the land-use sector have been major causes of environmental degradation and greenhouse gas (GHG) emissions.
- **A growing population and rapid urbanisation** put further pressures on the environment. To meet rising energy demand, Indonesia plans to increase the share of coal in its energy mix. Meanwhile, the country's renewable potential remains largely untapped. Rapid urbanisation also calls for improved water and sanitation, waste management, infrastructure and public transportation. Heavy road traffic remains a major cause of air pollution and GHG emissions.
- **Indonesia is already putting efforts into reversing these trends.** It has committed to reducing GHG emissions by 29% below business-as-usual projections by 2030 and 41% with international support, and has sought to mainstream green growth concerns into its planning processes and sectoral policies. The OECD's GGPR of Indonesia will build on the country's efforts to examine progress achieved and provide tailored recommendations that will support Indonesia's transition to a green growth pathway.

Chapter 1

Key trends and developments

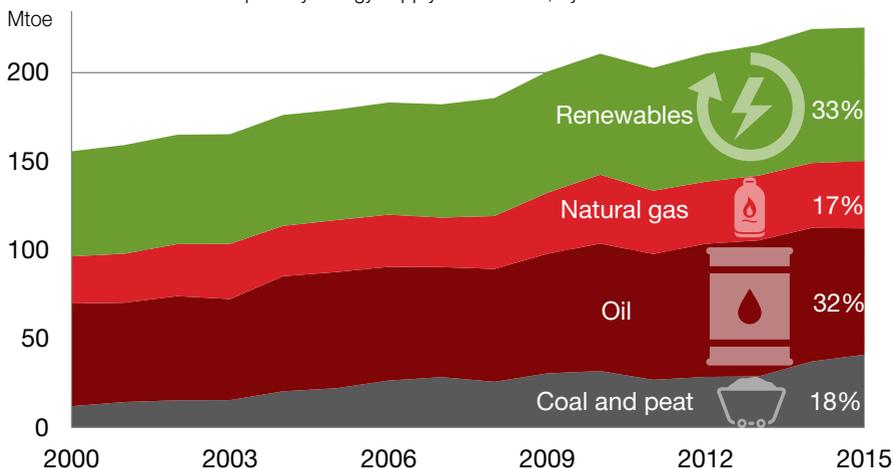
Indonesia, a resource-rich, mega-biodiverse country with a growing population and favourable economic prospects, provides an interesting case to be examined from the green growth perspective.

The first chapter of the report is dedicated to a description of the key environmental and socio-economic trends. It includes data and analysis on:

- the prevailing economic, sectoral and social conditions
- selected **key green growth indicators** for (i) resource productivity (ii) the natural asset base and (iii) environmental quality of life, as well as environmental indicators on air, energy, water, biodiversity, land use, waste, resource use, climate and health impacts
- the main trends (including decoupling) and what is driving them
- the main policy measures, in particular regulations and standards
- the status of environmental information, monitoring, reporting, education and public participation.

Fossil fuels dominate Indonesia's energy supply.

Breakdown of total primary energy supply in Indonesia, by source



Source: IEA (2017), *World Energy Statistics* (database).

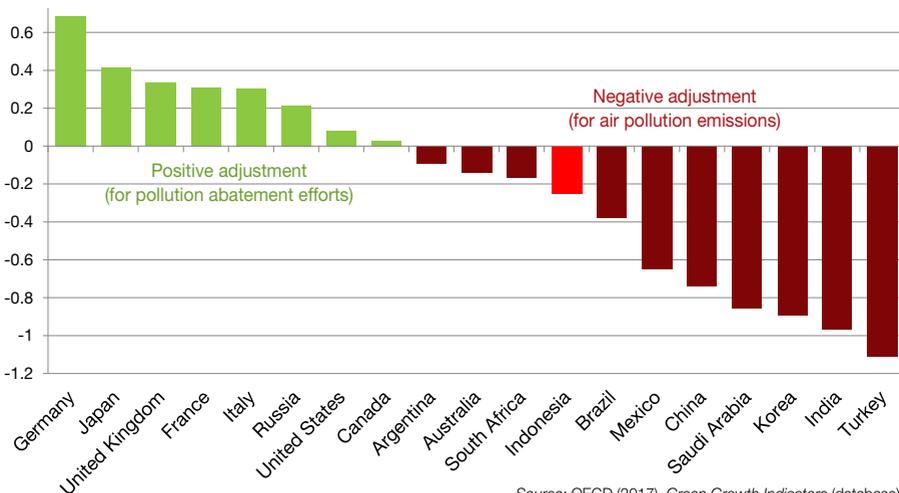
Chapter 2

Towards Green Growth

Sustainability challenges could hamper economic growth and threaten Indonesians’ well-being. The review can help shape policies that would better align economic and environmental targets, through reforms in taxation, investment policy, urban planning, infrastructure, energy, agriculture, forestry and social development.

- The chapter “Towards Green Growth” will highlight key policy developments in fiscal, economic, social and sectoral policies (e.g. energy, transport, mining, agriculture) that either undercut or support environmental objectives and the effectiveness of green growth policies. It will identify opportunities, barriers and complementarities.
- The chapter will review the strategic setting and institutional framework for green growth policy; the influence of competitiveness concerns on environmental policy; the system of taxes and charges, subsidies, and economic instruments; expenditure and investment in water and waste infrastructure and services, renewables, energy efficiency, public transport, promotion of circular economy, and mechanisms for mobilising private sector investment, eco-innovation, and the social aspects of the transition towards green growth.

How would GDP growth be adjusted if pollution was taken into account?
percentage points of output growth, G20 countries, annual average 2000-13



Source: OECD (2017), Green Growth Indicators (database).

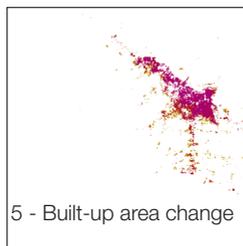
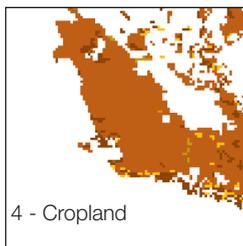
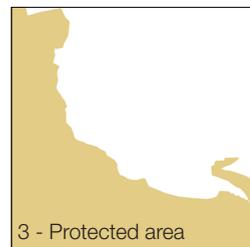
Chapter 3

Land Use-Ecosystem-Climate Nexus

Natural resources are a pillar of Indonesia's development. The land-use sector contributes to half of Indonesia's greenhouse gas (GHG) emissions and drives environmental alteration. Achieving a sustainable land-use sector will be pivotal to unleash Indonesia's full green growth potential.

- Land use refers to arrangements, activities and inputs that people undertake in a certain land cover type. Some examples of land use include forestry, agriculture, mining, construction or settlements.
- This chapter will assess policies in Indonesia's land-use sector, highlighting the linkages with challenges and policies related to climate change and ecosystems. It will analyse the trends, environmental pressures, policy and institutional framework, and existing instruments, with a view to highlight opportunities and challenges or better policy alignment.
- The potential trade-offs and complementarities between different land uses, and between land use, climate and biodiversity objectives, will be explored, to promote more effective and efficient land use.

Use of earth observation for land-use analysis. These six images show the same area: a border of the old-growth rainforest in the Taman National Park, near the city of Palangka Raya, in Indonesia. The datasets shown can be used to quantify and identify patterns of agricultural land use (4), urbanisation (5) or forest change (6), within and around the boundary of the protected area (3).



Sources: Hansen et al Global Forest Change (2013); JRC HSL (2016); ESA-CCI Land Cover 2015; UNEP; WCMC World Database of Protected Areas (2016) Esri, DigitalGlobe, GeoEye, Earthstar Geographics, CNES/Airbus DS, USDA, USGS, AeroGRID, IGN, and the GIS User Community OSM & Contributors 2017

Collaboration with four ministries



The ministry of Environment and Forestry will be the lead co-ordinator of the GGPR. The Ministry of National Development planning (BAPPENAS), the Ministry of Finance and the Coordinating Ministry of Economic Affairs will be key contributors and members of the core co-ordination group.

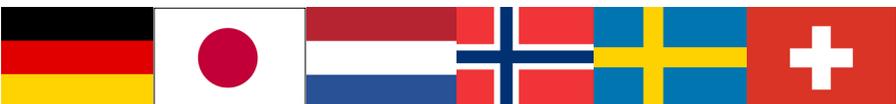
At the OECD, the Environment Directorate will lead the process, with contributions from the Economics Department and other Directorates and agencies, including the International Energy Agency and the International Transport Forum.

Partners and sponsors

- Consultations have been carried out with different partner organisations. The Asian Development Bank, the Climate Policy Initiative, the Global Green Growth Institute, the World Bank and the World Resources Institute (and New Climate Economy initiative) are partners of the Review, contributing knowledge, research and skills to the process.



- The OECD is grateful to Germany, Japan, the Netherlands, Norway, Sweden and Switzerland for providing financial contributions, and therefore making the Green Growth Policy Review possible. Other contributions are being confirmed at time of printing.



Key steps of a review

PREPARATION OF THE REVIEW AND INFORMATION COLLECTION

May-Dec.
2017

- **Meetings** with the selected Ministries
- **Preparation of information material** on the review with relevant ministries and agencies, by December 2017.
- **Assembling a team** of analysts and specialists, including experts from two reviewing countries.
- **Data and documentation compilation.**

FIRST WORKSHOP

29 Nov
2017

- **Bringing the different actors together to discuss priorities and focus areas of the GGPR.**
- The Workshop is organised back-to-back with the OECD Seminar on *Investing in Climate, Investing in Growth*.

REVIEW MISSION

May
or July
2018

One-week review mission, by the OECD Review team, including:

- **Meetings with green growth policy stakeholders**, organised by the Indonesian government: representatives of ministries, agencies, independent experts, representatives from NGOs, industry, private sector, trade unions and local governments.
- **Field visits to two regions.**
- **Second workshop.**



POLICY MISSION

Nov-Dec
2018

- One week before the Policy mission, draft Findings and recommendations are sent to Indonesia for comments.
- Discussion of the draft Findings and recommendations with high-level representatives of Indonesia
- **Third workshop**

PEER REVIEW

February
2019

- One week before the meeting, Indonesia provides comments on the report.
- A Delegation headed by the relevant Ministers, plus officials and experts, is invited to **the OECD Environment Policy Committee (EPOC)** and present the report.
- **Delegates from peer countries discuss**, ask questions and exchange good practices on the subjects covered in the review.
- **The Committee approves the Findings and recommendations**, which reflect the collective views of the Committee.



The OECD Environment Policy Committee (EPOC) brings together high-level Delegates from member countries once or twice a year, to implement the OECD Environment Programme. The Committee meets at Ministerial level every four years. The report is published under the responsibility of the OECD Secretary-General.

LAUNCH

Second
quarter
2019

- **The report is published** and made freely accessible on line for all, including civil society and the media.
- Indonesia organises **a press conference and the fourth workshop** to present the key findings to the public.



The OECD proposes to conduct a first-of-its-kind review of Indonesia's green growth policies, with the co-operation of four Ministries.

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2 - November 2017

<http://oe.cd/epr>

