

AFD AND INDONESIA

A partnership for climate change



INDONESIA, AN EMERGING COUNTRY

Indonesia, an emerging country with 240 million inhabitants, is made up of a vast archipelago of 18 000 islands (land surface area estimated at 1.9 million km²). The country has consolidated its democratic system, is back on the growth path (6.3% in 2007 and 6.1% in 2008) and has largely withstood the recent global crisis.



Indonesia ranks as the world's 3rd largest greenhouse gas (GHG) emitter after China and the United States. This is due to deforestation which accounts for 85% of its CO₂ emissions. The country is also particularly vulnerable to climate disturbances due to its specific geography and the relative poverty of its population.

Indonesia's energy sector is highly dependent on natural fossil resources which are abundant in the archipelago, yet it also enjoys a huge potential for renewable energies, particularly geothermal energy (27 GW, i.e. almost 40% of estimated global reserves).

Finally, Indonesia – along with Brazil – is one of the world's richest countries in terms of biodiversity, of both land and sea. This wealth is today seriously under threat from deforestation and climate change.



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AFD'S MANDATE FOCUSED ON CLIMATE CHANGE

AFD recently began its activities in Indonesia with the opening of a resident mission in Jakarta in mid-2007.

As in the other emerging countries (China, India, Pakistan and Brazil), AFD operates in Indonesia in the framework of a mandate focused on protecting "Global Public Goods":

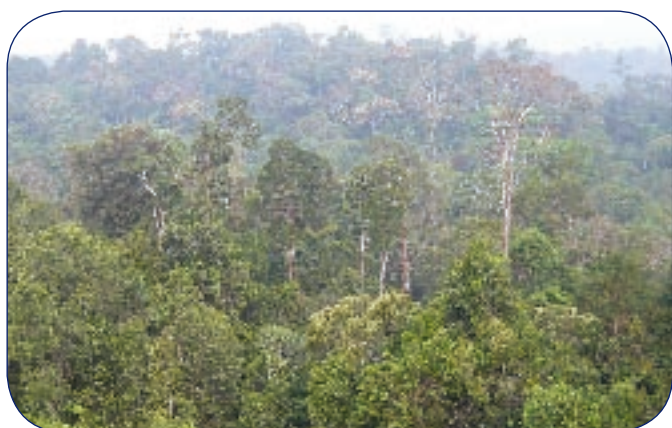
- fight against climate change, particularly by promoting energy efficiency and renewable energy development,
- biodiversity preservation,
- fight against emerging and communicable diseases.



Java paddy fields © Christel Le Goff

A VOLUNTARIST POLICY TO COMBAT CLIMATE CHANGE

- **1994/2004:** Indonesia ratifies the United Nations Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol;
- **December 2007:** Bali hosts the UNFCCC's 13th Conference of the Parties (COP 13); Indonesia marks the occasion by launching its "National Action Plan Addressing Climate Change";
- **July 2008:** publication of the "National Development Planning: Indonesia Responses to Climate Change", which integrates climate change issues into Indonesia's national development process and includes a Policy Matrix for actions. This forms the basis of the Climate Change Program Loan.



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Although Indonesia is a "non-Annex 1" nation under the Kyoto Protocol and is consequently under no obligation to reduce its greenhouse gas emissions, the country has firmly set out on a path of low-carbon development, in line with the UNFCCC's founding concept of "common but differentiated responsibilities" in fighting climate change.

A National Council on Climate Change (NCCC), composed of 17 ministers and chaired by the President, was set up in July 2008 to coordinate the government's action in terms of policies to combat climate change and define Indonesia's position in international negotiations. The NCCC has had a greenhouse gas abatement cost curve defined for Indonesia which, by collecting data and analyzing alternative scenarios, provides a basis for the authorities' policy.

On 25 September 2009 at the G20 Pittsburgh Summit, the Indonesian President announced Indonesia's will to reduce its greenhouse gas emissions by between 26% and 41% by 2020 (depending on the amount of support from developed countries) from a business as usual scenario.



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AFD'S SUPPORT TO INDONESIA'S CLIMATE POLICY:

➤ 1 – The "Climate Change Program Loan"

The Climate Change Program Loan (CCPL) is a three-year program (2007-2009) designed by the Indonesian government in consultation with Japanese and French donors. It aims to develop public policies to support climate change mitigation and adaptation.

The actions and indicators, set out in a Policy Matrix, are reviewed annually by the Indonesian government and donors. They are grouped into three categories:

- climate change mitigation, greenhouse gas reduction (forestry, energy and industry);
- climate change adaptation (water and agriculture);
- cross-sectoral issues (Clean Development Mechanism, etc.).

The Policy Matrix contains the reforms and public policies implemented by the government in order to combat climate change: publication of laws and decrees, launch of pilot projects, definition of Master Plans, etc.

Within the CCPL framework, AFD has granted two soft loans to the Government of Indonesia, of respectively 200 million US dollars in 2008 and 300 million US dollars in 2009, in order to support government policy to combat climate change. They correspond to the first two phases of this program which is cofinanced by Japan International Cooperation Agency (JICA). These long-term soft loans have been fully disbursed to the State budget.

2 – Technical assistance and targeted expertise

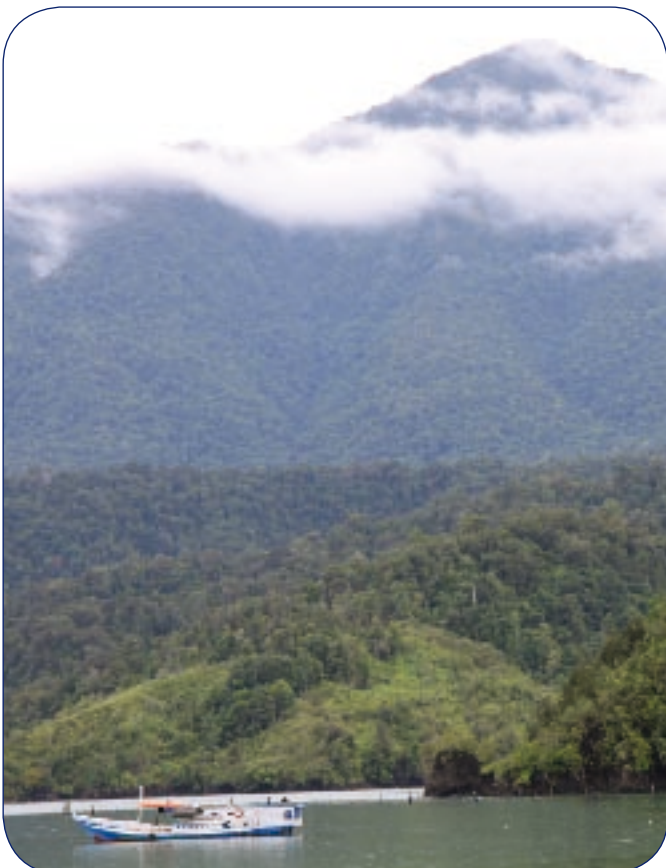
In order to facilitate the implementation of specific actions to combat climate change, AFD is financing targeted expertise to support:

- **the Ministry of Industry:** study for the implementation of a plan to reduce greenhouse gas emissions in the cement industry;
- **the Ministry of Forestry:** feasibility study for a small-scale green carbon market in order to give small-scale forest plantations access to the voluntary carbon market; development of a decision-making tool for land use planning;
- **National Council on Climate Change:** contribution to the second phase of the Indonesian greenhouse gas abatement cost curve study.

In the framework of the CCPL, AFD is also financing a forestry expert (under contract with the French research center CIRAD), who is a member of the supervision team in charge of monitoring progress in the implementation of the Policy Matrix and preparing the meetings of the CCPL Steering Committee.



Centrale géothermique © PGE



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3 – Financing public and private players

In addition to support to the State, AFD may also allocate financing to state-owned or private companies, either directly or via local banks.

Under its mandate, AFD's main potential partners are energy sector companies (electricity, gas, geothermal energy, etc.). Although Indonesia houses the highest geothermal potential in the world, it mainly uses fossil resources – coal and oil – for its energy needs. AFD's aim is to support investors in order to promote the production and use of low-carbon energies.

In terms of electricity sector, at the end of September 2009 AFD granted a 50 million US dollar loan to the Government of Indonesia (in cofinancing with the Asian Development Bank) which will be on-lent to Perusahaan Listrik Negara (PLN), the public electricity operator, for the rehabilitation of the electricity distribution network in Java and Bali. The project aims to improve the energy efficiency of the network by reducing line losses and, consequently, CO₂ emissions.

AFD has also allocated a 100 million US dollar credit line to the main local bank to refinance "Global Public Goods" projects, particularly energy efficiency and renewable energy projects, as well as projects to promote energy resources that emit less CO₂. AFD is planning to cofinance a staff training program with the bank for topics relating to sustainable energy management and climate change.

PROPARCO IN INDONESIA

PROPARCO is AFD's private sector financing arm. Its mission is to provide funding via a large range of financial tools (loans, equity investments, etc.) to support projects with positive impacts on development and environment.

In Indonesia, PROPARCO's operations focus on "Global Public Goods" management, microfinance, agribusiness, education and health.



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POST-TSUNAMI: BANDA ACEH URBAN DRAINAGE PROJECT

Under a specific mandate for post-tsunami construction, AFD has allocated a 36.8 million euro highly-concessional loan to the Government to finance the rehabilitation of the urban drainage system in Banda Aceh.

The project mainly provides for major rehabilitation works (150 km of channel repairs and construction, construction of pumping stations, creation of retention basins) for primary and secondary drainage infrastructure in five of the city's hydraulic zones which cover 80% of its territory. By balancing the budget for the drainage Master Plan for the whole of Banda Aceh, AFD's financing will contribute to both reconstructing infrastructure that was directly destroyed by the tsunami and equipping backlying areas where the city will be able to develop with better safety conditions. 23 000 people affected by recurrent flooding will directly benefit from the implementation of the project.



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AFD stands for the *Agence Française de Développement*. AFD is a public development-finance institution that has worked to fight poverty and support economic growth in developing countries and the French Overseas Communities for more than 60 years. AFD executes the French government's development aid policies.

With offices in more than 50 countries, AFD finances and supports projects that improve people's living conditions, promote economic growth and protect the planet. AFD-funded projects provide schooling for children, support farmers and small businesses, supply drinking water, preserve tropical forests and fight climate change, among other things.

AFD committed nearly €4.5 billion to financing aid activities in developing countries and the French Overseas Communities in 2008. The funds should help 7 million children go to school, give 4.4 million people access to drinking water and create or save jobs for 370,000 workers engaged in private enterprise; funding for energy efficiency projects will save 3.3 million tons of carbon dioxide emissions per year.



PROPARCO 

www.proparco.fr

Proparco is a Development Finance Institution jointly held by Agence Française de Développement (AFD) and by public/private shareholders from the North and South. Its mission is to catalyze private investment in emerging and developing countries in support of growth, sustainable development and achieving the Millennium Development Goals (MDGs). Proparco was created thirty years ago on the conviction that the private sector has a crucial role to play in development. It tripled its capital in 2008. PROPARCO finances operations which are economically viable, socially equitable, environmentally sustainable and financially profitable. It invests in a geographical area encompassing major emerging countries and the poorest countries. Africa accounts for 55% of its activity. PROPARCO provides a wide range of financial products tailored to the specific needs of private investors in developing countries. In 2008, PROPARCO allocated €800M for more than sixty projects in over thirty countries.



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