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Time for RI economy to go green

During a recent international summit, President Susilo Bambang Yudhoyono emphasized that his government was committed to the green economy concept. In Indonesia, he said, this concept could be applied to achieve economic growth of at least 7 percent, and reduce carbon emissions by 26 percent by 2020.

This ambitious target is based on a G-20 commitment to sustainable development and poverty eradication around the world. G-20 state leaders believe that a green economy can be an alternative paradigm, in which improving wealth does necessarily lead to an increase in environmental risks, ecological scarcities and social disparities (UNEP, 2011).

The importance of realizing a green economy in Indonesia is associated with problems of fiscal policy. As soon as Indonesia became a net importer of oil, its fiscal policy has consistently depended on fluctuations in world crude oil prices. This has made the state budget undergo revisions every mid-year and has generated multiplier effects on a wide range of areas. Official data reveals that over the last 11 years, fuel subsidies have averaged at Rp 104.84 trillion (US$12 billion) a year, equal to 17.8 percent of the state budget.

A green economy is expected to reduce fossil fuels consumption, both for motorized vehides, industry and electricity. At the same time, a green economy will push for the production and use of renewable energy resources.

To realize this goal, we could adopt the Threshold 21 world model recently introduced by the UNEP. This model assumes that every country allocates 2 percent of its GDP toward a green investment, particularly for renewable energy. Based on calculations and referring to the model, the green investment would reach Rp 26,186 trillion by 2050, increasing the portion of renewable energy to 90 percent of the total energy use. This composition will reduce fuel subsidies to 1 percent of the state budget.

Becoming a green economy by 2050 would affect the macro economy and alleviate social problems. With economic growth estimated to be 7 percent per annum, Indonesia's GDP will reach Rp 96,170 trillion by 2050, while carbon emissions can be reduced to about 17.5 percent and poverty would decline to around 6 percent.

However, these results could only be achieved under ideal conditions, while in reality there are many factors that will affect the targets. The decision-making process in a democracy like Indonesia will have to involve both the government and the House of Representatives. Therefore, strategy formulation to enable a green economy approach to work cannot dismiss political aspects.

Implementing the green economy model in Indonesia will take time. The UNEP has introduced guidelines to apply this model, i.e. (i) prioritize investment and spending to stimulate environment-friendly economic sectors; (ii) impose taxes and market-based instruments as tools to promote green investment and innovation; (iii) stop government spending in areas that sacrifice environmental assets; (iv) create a well-designed regulatory framework that offers incentives to drive green economic activities; (v) invest in capacity building and education to support a transition to a green economy; and (vi) strengthen international governance to assist governments in promoting a green economy.

Under this framework, the Indonesian government must be positioned as an effective regulator. The huge investment needed to bring about a green economy must be borne by the private sector under an ordinary business mechanism. According to our calculations, to implement a green economy, Indonesia needs green investment amounting to Rp 122 trillion by 2015, Rp 240 trillion by 2020, Rp 472 trillion by 2030 and Rp 1,827 trillion by 2050.

Major investment and finance institutions, such as private equity, venture capital, investment banks, banks and insurance companies — both local and global — will play major roles in adopting this green model. In the future, Indonesia is expected to become one of the largest green markets in the world, both from supply and demand sides, prompting investors and finance institutions to allocate money here (World Bank, 2011).

Currently, green direct investment in Indonesia, especially in renewable energy, has grown at an average rate of 15 percent per annum, which should convince investors of sustainable profit in Indonesia.

We also expect that in the coming years the Internal Rate of Return in green direct investment in Indonesia will increase gradually. Green policies, especially green incentives and green taxes, could gradually reduce fixed costs in exploration and build renewable energy, thus cutting production costs.

Data shows that total assets under management, bank deposits and other funds across the world exceeded $100 trillion by the end 2010. Worldwide green investment throughout 2011 will reach approximately $500 billion, which will allow for the allocation of green investment, particularly in Indonesia. Therefore, this year should be the right time for the Indonesian government to promote a green economy.

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