



Indonesia Energy Subsidy Briefing¹

JULY
2013

AS PART OF ITS WORK ON ENERGY POLICY AND SUSTAINABLE DEVELOPMENT IN INDONESIA, THE GLOBAL SUBSIDIES INITIATIVE (GSI) OF THE INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT (IISD) PUBLISHES A REGULAR BRIEFING ON ISSUES RELATED TO ENERGY SUBSIDIES. FOR MORE INFORMATION, CONTACT LUCKY LONTOH AT LUCKY.LONTOH@IISD.ORG AND CHRISTOPHER BEATON AT CBEATON@IISD.ORG.

New Fuel Prices and Fuel Quotas Introduced

Indonesia introduced a new subsidized fuel price on June 22, after the House of Representatives (DPR) approved the Revised State Budget on June 17.

The government readjusted the budget to prevent the deficit from exceeding 3 per cent of GDP. It is required to do so by the explanatory annex of Article 12 of the State Financing Act No. 17/2003. Without adjustment of the budget, the government estimates that the deficit this year will grow to US\$47.25 billion—3.38 per cent of GDP.ⁱ

Indonesia's low fuel price—the cheapest among all of the world's net oil importing countries—is the focus of ongoing and heated debate. It takes up an enormous proportion of the country's expenditure (see Table 1) and most benefits do not flow to the intended targets, the poor, but to Indonesia's richer households, who own private vehicles.

The government confirmed the new price at 22:00 on June 21 in a public announcement led by the Coordinating Minister of Economic Affairs, attended by the cabinet and broadcast live on every national TV station. The subsidized fuel price for Premium (gasoline RON 88) is to rise from US\$0.47 to US\$0.68 per liter, and for Solar (automotive diesel) from US\$0.47 to US\$0.57 per liter. This is the first price increase for both fuels since 2009.

Table 1. Economic Indicators in Indonesia Revised State Budget 2013

No	Indicators	State Budget 2013	Revised State Budget 2013
Macro Economic Indicators			
1	Inflation year-on-year	4.9%	6.2 - 6.5%
2	Growth	6.8%	6 - 7.2%
3	Government's Bond Interests Rate (3 month)	5%	5%
4	Oil Production	0.9 MMbd ²	0.84 mbd
5	Gas Production	1.36 MMboed ³	1.24 mbod
6	Exchange Rate (Rp/US\$)	9,300	9,600
7	Indonesia Crude Price (ICP)	US\$100/bl	US\$108/bl

¹ This briefing is using Rp9,600/US\$1 currency exchange rate.

² Million barrels per day

³ Million barrels of oil per day equivalent



No	Indicators	State Budget 2013	Revised State Budget 2013
Fuel Subsidy			
8	Fuel Subsidy (amount, Premium, Solar, Kerosene, LPG 3kg combined)	US\$20.19 billion	US\$20.82 billion
	Fuel Subsidy (volume; Premium, Solar, Kerosene combined)	46 mkl ⁴	48 mkl
	Fuel Subsidy (volume; LPG 3kg)	3,86 million ton	4.39 million ton
Fiscal Balance			
9	State Revenue	US\$159.34 billion	US\$156.46 billion
10	State Expenditure	US\$175.31 billion	US\$179.81 billion
11	Budget Deficit (amount)	US\$15.97 billion	US\$23.35 billion
12	Budget Deficit (Deficit to GDP ratio)	1.65%	2.38%

Source: Tempo (2012)ⁱⁱ; Kompas (2012)ⁱⁱⁱ; Cabinet Secretariat (2012)^{iv}

The revised state budget was first submitted to the parliament on May 17, after an abrupt cancellation of a previous plan to introduce a dual-pricing system for fuel. That cancellation led to a downgrading of the country's credit rating by Standard & Poor's, from a positive to a stable outlook, preventing Indonesia from being given an "investment grade" rating for at least another 12 months.^v

Pressure has also been building on the economy due to a trend of currency depreciation with respect to the US dollar.

Compensation Mechanisms Finalized

In addition to adjusting fuel prices and the quota for subsidized fuel, the Revised State Budget 2013 also proposed expenditure on a compensation package, designed to mitigate the social impact of increasing price (see Table 2). In total, a compensation package of roughly US\$ 2.9 billion is to be used to mitigate the economic impact on Indonesia's poor. It began to be disbursed at the same time as the price adjustment.

One of the plans is to provide a temporary cash transfer (BLSM). The BLSM proved the most controversial of the proposals, being debated in some depth by parliament. Opposition parties argued that the policy is not constructive and very short-term. They would prefer the money to be transferred to infrastructure development projects that could enhance the people's welfare more sustainably.^{vi}

In addition, they also expressed serious concern that the plan to hand out money to the poor is too close to the election, which is scheduled next year. Many observers argue that the distribution of cash assistance could enhance the popularity of the governing Democrat party in the forthcoming election. In 2008, a similar cash transfer before elections is commonly held to have increased the party's popularity.^{vii}

At the end of the plenary session, the House of Representatives reached a compromise: allowing the BLSM to be distributed for up to 4 months, instead of the 6 months previously proposed by the government.^{viii}

⁴ Million kilolitres



Table 2. Five Compensation Packages Related to Fuel Price Adjustment

No	Compensation Policies	Amount
1	Special Programs	
	- Temporary Cash Aid (BLSM, <i>unconditional cash transfer</i>)	US\$968.75 million
	- Basic Infrastructure (P4I, <i>Acceleration and Expansion of Infrastructure Development Program</i>) <ul style="list-style-type: none"> ▪ Housing infrastructure (P4-IP) ▪ Drinking water (P4-SPAM) ▪ Water system infrastructure (P4-(ISDA) 	US\$625 million
2	Acceleration and Social Protection Programs (P4S, Program Percepatan dan Perluasan Perlindungan Sosial)	
	- Poor Student Education Support (BSM, <i>tuition fee support</i>)	US\$ 781.25 million
	- Hopeful Family Program (PKH, <i>conditional cash transfer</i>)	US\$72.92 million
	- Rice for the Poor Program (Raskin, <i>food aid</i>)	US\$447.92 million
Total		US\$2,895.84 million

Source: ESDM, 2013^x

The government distributed Social Protection ID Cards (KPS, *Kartu Perlindungan Sosial*) to 15.5 million households eligible for compensation programs, especially for the rice program (Raskin), the BLSM and the tuition fee support program (BSM). The card is equipped with a bar code and enables card owners to withdraw any compensation packages entitled to them. The distribution of the KPS is handled by PT Pos Indonesia (the national postal service).

Picture 1. Samples of Indonesia's Social Protection ID Card



Source: Socialization Team on Subsidized Fuel Adjustment (2013).^x

The Compensation Package: Special Programs

The aim of the first special program, the BLSM, is to help poor families cope with the expected short-term inflationary impact of higher fuel prices. Poor households would each receive a total of Rp. 150,000 (around US\$15.63) each month within a period of 4 months. The fund will be distributed through post offices to 15.5 million households.^x

The basic infrastructure program will be carried out by the Ministry of Public Works through a program titled the Acceleration and Expansion of Development Program (P4, *Program Percepatan dan Perluasan Pembangunan*). P4 consists of three sub-programs that deal with housing (P4-IP) and water (P4-SPAM and P4-ISDA). Each of these sub-programs receives US\$208.33 million.

The P4-IP is the program for housing infrastructure development at the local scale. This program includes infrastructure projects related to transportation, sanitation, drinking water and irrigation networks. P4-IP targets new villages whose poverty rate is 40–50 per cent or above, and villages under the existing Rural Infrastructure Development Program 2013. The P4-SPAM will develop drinking water systems in fishing villages, areas recognized to be undergoing a water crisis and poor communities in urban and rural areas. The P4-ISDA is aimed to increase water capacity in areas vulnerable to water crisis, to increase protection on areas vulnerable to flooding and fishing villages vulnerable to sea erosion, and to develop or repair small irrigation systems for farming villages.^{xi}

The government expects that these basic infrastructure projects will provide short-term employment for millions of workers. The P4-IP projects alone are expected to require roughly 9.6 million construction workers and 7,350 community facilitators.^{xii}

The Compensation Package: Acceleration and Social Protection Programs

The acceleration and social protection program part of the compensation package is intended to expand the coverage of existing programs to support low-income households, in ways that are more targeted at providing an exit strategy from poverty by providing basic needs, especially in education and health.^{xiii} Although the budget for each program will need to be renegotiated and renewed in each year's State Budget,^{xiv} the government has indicated that the expansion of the different programs is intended to be maintained across future years.^x

Under the first of these programs, the government will extend the existing rice support program, Rice for the Poor, for 3 months from 12 to 15 months. This program is targeting 15.5 million households. The maximum rice that can be purchased by each household is 15kg per household at Rp1,600 (US\$0.17)/kg.^{ix}

The government also expands the coverage of existing support for students under the BSM program, from 8.7 to 16.6 million students that are coming from 15.5 million households. This program will provide financial support, books, stationeries, and school uniforms.^{ix}

The financial support for the existing PKH program is to be increased from an average of US\$144.79 to US\$187.5 per household per year and the coverage expanded from 2.4 million to 3.2 million households. The maximum cash incentive that can be distributed to a household under this program also increased from US\$229.17 to US\$291.67 per year,^{xv} depending on the size of their family. PKH requires its participants to maintain a regular health-check, continuous formal education for their children, a good standard of nutrition and a healthy lifestyle for pregnant mothers and children.



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Political Constellation

As was the case with the previous fuel price increase plan last year, the plan of the government met with heavy resistance from the main opposition parties, as well as one of the parties that belongs in the governing coalition, the PKS (Social Justice Party).

Yesterday, the house of representative (DPR) voted in favour of the government’s plan. As was the case last year, sporadic protests, mostly led by students’ and workers’ groups, have been staged across the country. Some of them ended in street clashes between the demonstrators and the police.

Table 3. Result of Voting Session on Revised State Budget on May 17, 2013

No	Political Parties	Number of Votes		
		Approve	Reject	Absent
Ruling Coalition				
1	Democrat Party (PD)	143	-	5
2	Golkar Party (Golkar Party)	98	-	8
3	United Development Party (PPP)	34	-	4
4	National Mandate Party (PAN)	40	-	6
5	Nation Awakening Party (PKB)	23	-	5
6	Welfare and Justice Party (PKS)	-	51	6
Opposition				
7	Indonesia Democratic Party - Struggle (PDI-P)	-	91	3
8	Hanura Party	-	14	3
9	Great Indonesia Movement Party (Gerindra Party)	-	25	1
Total		338	181	41

Source: KOMPAS (2013)^{xvi}; Detik (2013)^{xvii}

Mass Communication

The government is launching a large-scale communication program to inform the public about the policy changes taking place in the energy sector.

Public advertisements were aired on national TV stations at least a week before the parliamentary session that would decide the fate of the Indonesian fuel subsidy. These explained the policy to increase fuel prices and the related social protection programs.

Text messages and social media were also used to reach out to the public. The first text message deliveries were sent on June 17, distributed to 240 million active mobile phone numbers.^{xviii} Government mobilization on social media accounts included popular networking services such as Facebook, Twitter and YouTube. Informational advertisements have also appeared on ministries’ web pages.



The government’s communications campaign is being coordinated by the Socialization Team on Fuel Price Adjustment led by the Vice President. The team is a multi-agency team that involves ministries, police and army, regional governments, and other government agencies. It has produced a guidebook to explain the compensation programs titled, “Handbook of Socialization and Implementation of Compensation Programs Related to the Adjustment of Subsidized Fuel Price Policy 2013” (*Buku Pegangan Sosialisasi dan Implementasi Program-Program Kompensasi Kebijakan Penyesuaian Subsidi Bahan Bakar Minyak 2013*), and published it online.^x

No specific data has been reported on the amount of money spent on communications. The funding comes from the state budget allocated at individual ministerial treasuries. The Ministry of Communication and Information alone is reported to have allocated Rp. 1 billion (around US\$ 104,000)^{xix} for this campaign and the Ministry of Energy and Mineral Resources Rp. 25 billion (US\$ 2.6 million)^{xx}.

A coordinated public campaign is also being conducted by the Indonesian National Team for the Acceleration of Poverty Reduction (TNP2K), particularly targeted at procedures for accessing compensation packages. TNP2K distributes information in printed form and on its web site.

Picture 1. Public Ads on National Television Stations



Source: Ministry of Finance^{xxi}; Ministry of People’s Housing^{xxii}.

Picture 2. Public Ads at Pedestrian Overpass and Gas Stations



Public ads at the pedestrian overpass (left) and banner at PT Pertamina’s gas station. (taken by Lontoh, L., on June 22, 2013.)

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Published by the International Institute for Sustainable Development.

International Institute for Sustainable Development

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