

10 THINGS YOU NEED TO KNOW ABOUT ELECTRICITY SUBSIDIES IN INDONESIA

Over the past two years, there has been a lot of back and forth on electricity subsidy reform in Indonesia—reforms are announced, delayed and then announced and delayed again. What does electricity subsidy reform even mean? And what makes it so hard anyway? The Global Subsidies Initiative has prepared a list of 10 things you ought to know about electricity subsidy reform in Indonesia.

1

MANY HOUSEHOLDS IN INDONESIA PAY ONLY A FRACTION OF THE FULL COST FOR ELECTRICITY.



Residential customers with connections sized 450VA and 900VA pay only 29% and 43%, respectively, of the estimated full cost of supply.



MOST OF THOSE HOUSEHOLDS ARE NOT POOR.

2

The poverty rate in Indonesia was 11.3% of the population in 2013. Most social assistance programs target benefits only to this group and the "near poor", together around the bottom 40% of the population. In contrast, over 70% benefit from electricity subsidies.



3



ELECTRICITY SUBSIDIES ARE EXPENSIVE

In the past 10 years, electricity subsidies have increased exponentially, from IDR 8.8 trillion (USD 666 million) in 2005, to IDR 58 trillion (USD 4.4 billion) in 2016¹.

4

MOST ELECTRICITY SUBSIDIES GO TO JAVA

Densely populated areas receive the bulk of the subsidies due to the greater number of consumers.

5

ACHIEVING UNIVERSAL ELECTRICITY ACCESS?

Remote regions with the highest cost of electricity supply are those with the lowest electrification ratios. They also receive less subsidies².



SO FAR, ELECTRICITY REFORM PLANS HAVE BEEN POSTPONED TWICE

7



Electricity subsidies were scheduled for reform in January 2016, but that was postponed by the request of President Joko Widodo. The second scheduled reform in the summer of 2016, did not receive parliament's approval.

8

ELECTRICITY SUBSIDY REFORM IS NOW EXPECTED TO BE IMPLEMENTED IN EARLY 2017

Reform is expected to focus on both 450VA and 900VA connection classes through which 22.8 million and 22.3 million customers respectively receive discounted electricity. Initial information suggests that reform will reduce the number of subsidy recipients to 19.1 million customers in the 450VA class and 4.05 million customers in the 900VA class.



INDONESIA'S SUBSIDIES ENCOURAGE WASTEFUL CONSUMPTION IN A COAL-DOMINATED ELECTRICITY SECTOR

6



It has been estimated that reforming all of Indonesia's fossil fuel subsidies could reduce the country's greenhouse gas emissions by 7 to 12 per cent³.

9

WHEN REFORM HAPPENS, THE POOR CAN BE PROTECTED

When households spend more on energy, their effective income is reduced and this may increase the rate of poverty. If impacts are properly understood, vulnerable households can be supported via other social programmes or direct cash transfers. In Indonesia reforms are expected to focus on better targeting of subsidies to poor households, who should continue to receive benefits without interruption.



PUTTING IN PLACE A COMPLAINTS MECHANISM IS IMPORTANT

10



No targeting system is perfect so the policy reform will require a good system for citizens to complain and to be added to the registry for subsidies if they are eligible. The extent to which the Government of Indonesia can monitor the impacts of reform, and react swiftly to ensure that the needs of the poor and vulnerable are met, will be the key test for the success of reform.