



OFFICE OF THE VICE PRESIDENT OF
THE REPUBLIC OF INDONESIA



Ensuring Equitable Access to Energy Subsidy in Fossil Fuel Subsidy Reform to Support Energy Transition (A Case of LPG Subsidy Reform in Indonesia)

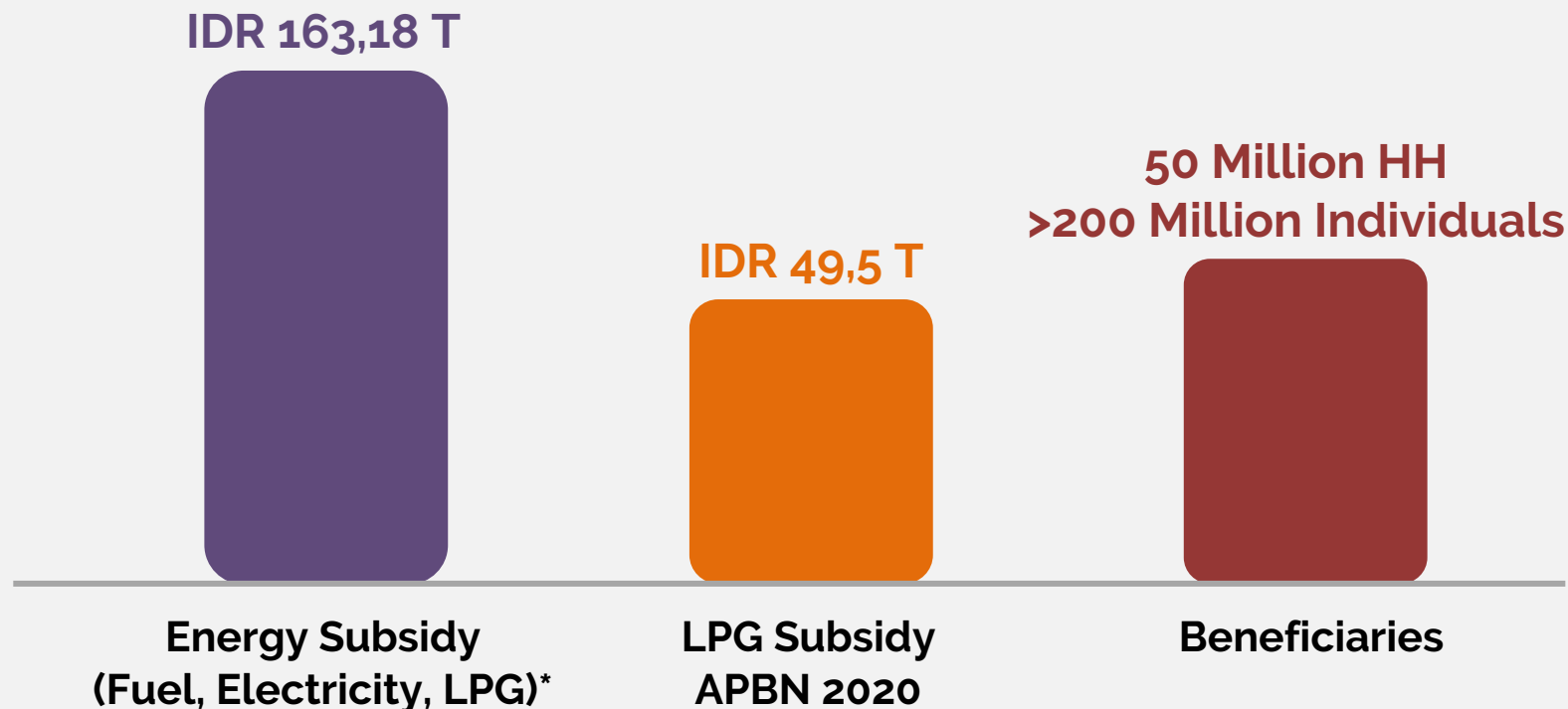
Office of The Vice President The Republic of Indonesia/
The National Team for the Acceleration of Poverty Reduction (TNP2K)

September 2021

The Magnitude of LPG Subsidy in Indonesia

Energy Subsidies, are the LARGEST government subsidies/assistance in the Government Budget
Much bigger than subsidies/assistance for food, education, health, and the economy.

Total Government Assistance and Subsidies IDR 390 T*



*) APBN 2019

Reducing the government's ability to finance other productive programs, such as education, health, poverty reduction and infrastructure development

Existing LPG Subsidy Policy: An Ironic Policy

The LPG subsidy policy is very ironic. Huge budget allocation, mostly imported, but more than 12 million poor and vulnerable households still using firewood as a source of cooking energy.

7.75 million*

Metric Ton
LPG Consumption

72%*

Imported

92%*

Subsidized

IDR 49.4 trillion*

Allocated Subsidy Budget



12.41 million HH**

(56 Million Individuals)
Still using firewood
for cooking

2.7 million HH**

Headed by Female
Not have access to LPG

4.1 million HH**

**have family members
with disabilities**
Not have access to LPG

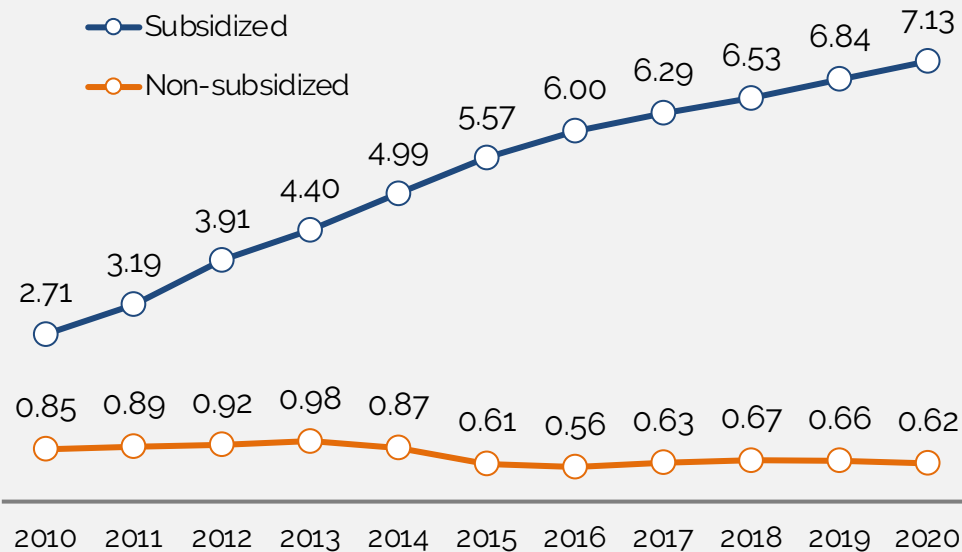
*Source: Processed by TNP2K, 2020 Figures

**Source: Poor and vulnerable households database (DTKS) 2020, processed by TNP2K

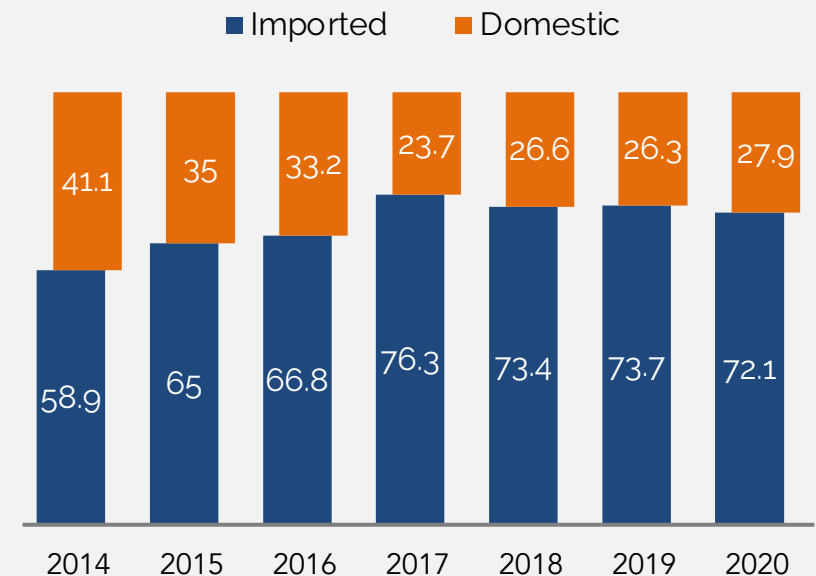
Existing LPG Subsidy Policy Encourages Imported Fossil Fuel Dependency

Since the kerosene to LPG conversion policy in 2007, LPG consumption has continued to increase, with most of the sources of LPG procurement from imports.

LPG Consumption (Million Metric Ton)



LPG Source (%)

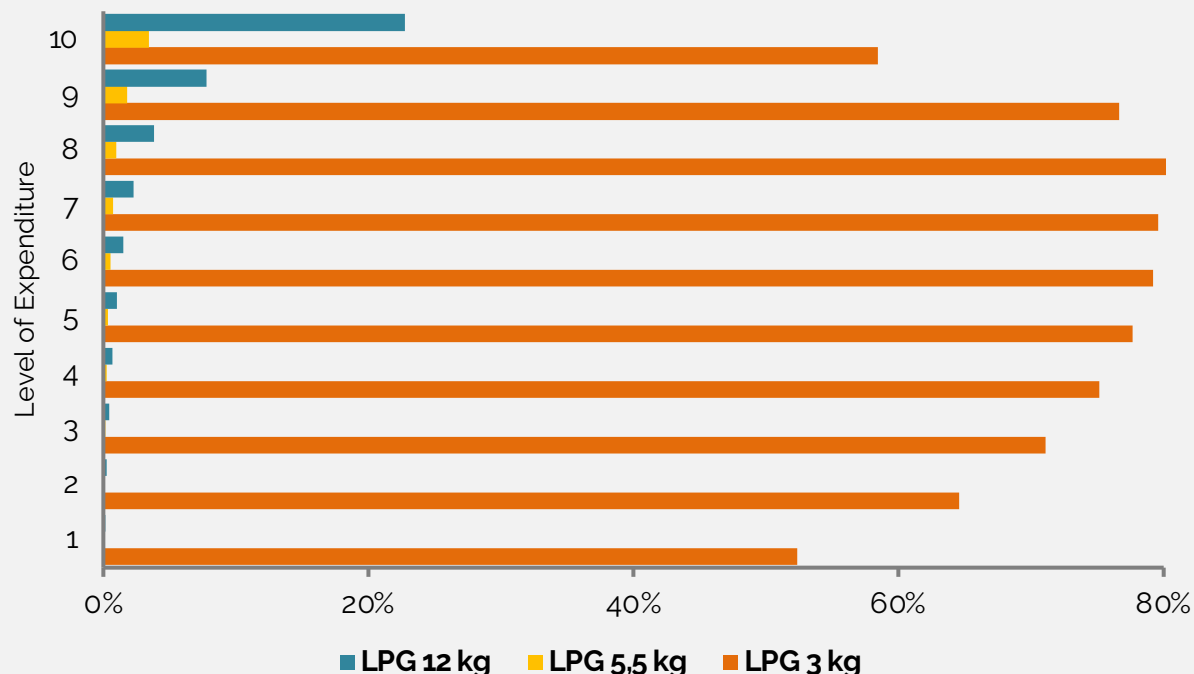


Source: Fiscal Policy Agency, Ministry of Finance

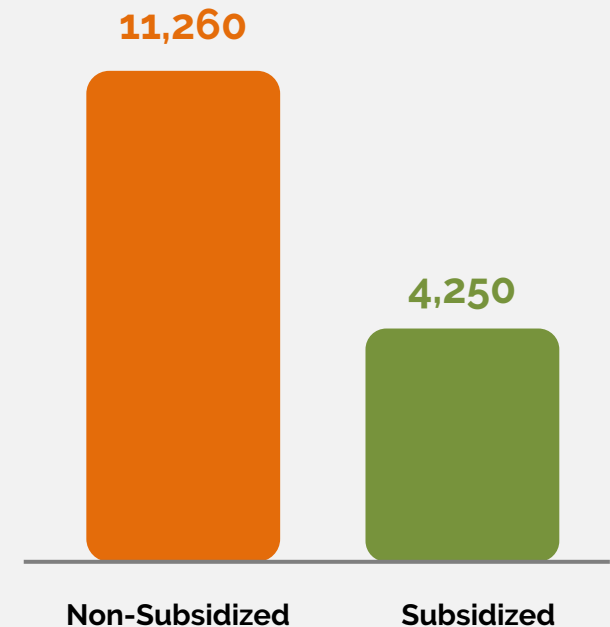
Existing LPG Subsidy Policy Encourages More Consumption of Subsidized LPG and Criminal Acts

Due to price disparity, all income groups prefer to consume subsidized LPG. Price differences also encourage criminal acts of hoarding and adulteration for subsidized LPG.

Proportion of LPG Use 3 Kg (Subsidized), 5 Kg (Non-subsidized) and 12 Kg (Non-subsidized) (in percentage%)



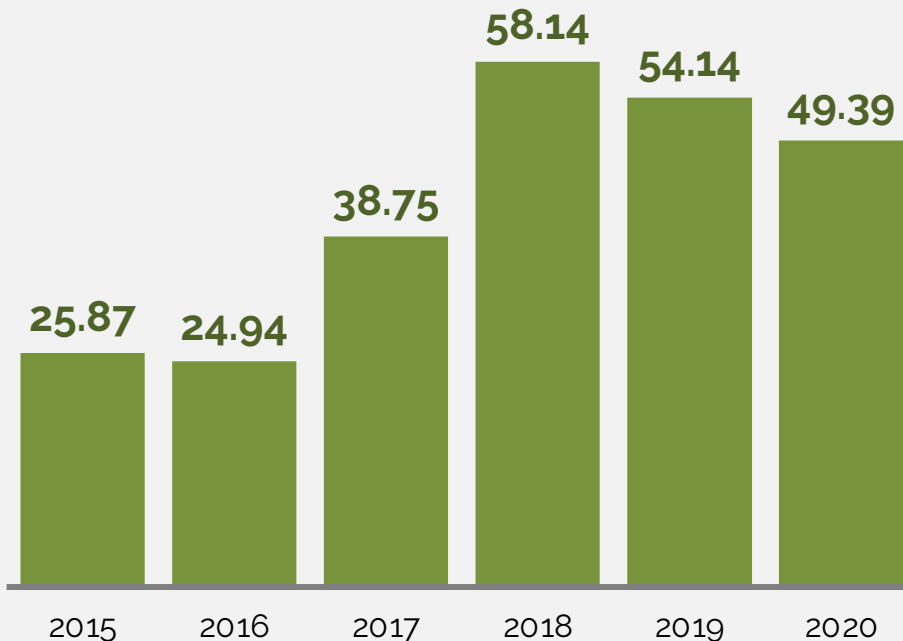
LPG Price Difference/Kg (In IDR)*



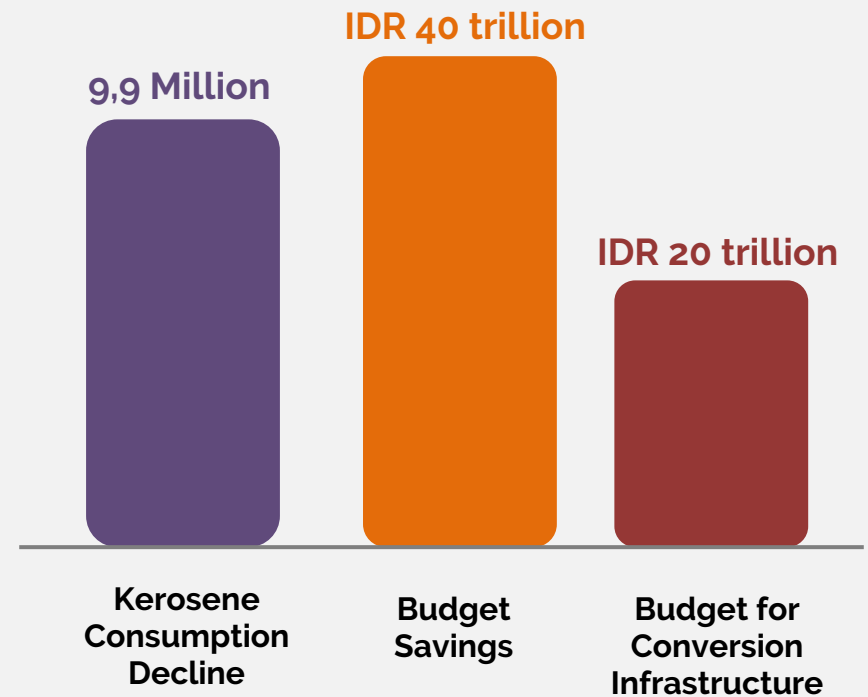
The Impact of Existing LPG Subsidy Policy on Government Budget

LPG subsidy budget and high consumption of LPG have outweighed the benefits of the kerosene to LPG conversion policy of 2017

**LPG Subsidy Budget Allocation
(IDR trillion)**



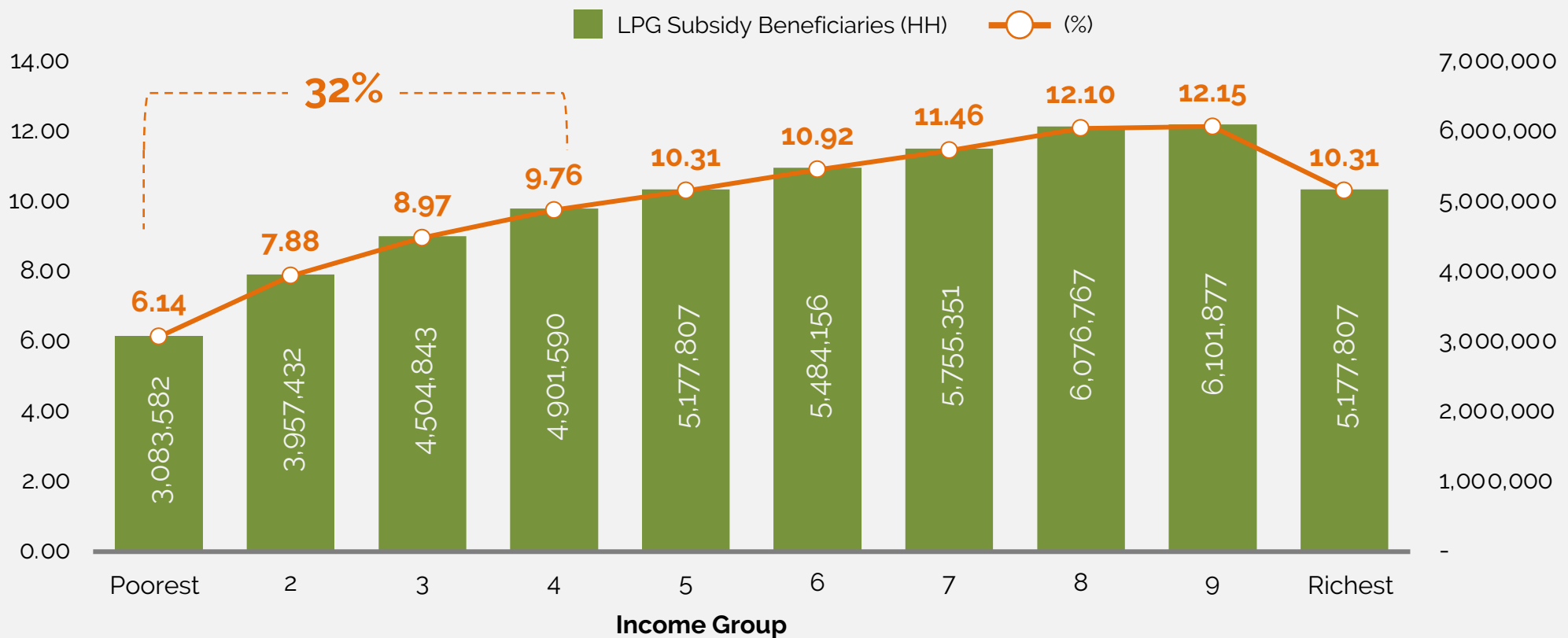
**Impact of 2007 Kerosene
to LPG Conversion Policy**



Source: Ministry of Energy and Mineral Resources

Existing LPG Subsidy Policy Gives More Benefit to Rich Group

40% of households with the lowest socio-economic conditions enjoy only 32% of the LPG subsidies, while 68% are enjoyed by the more affluent groups.

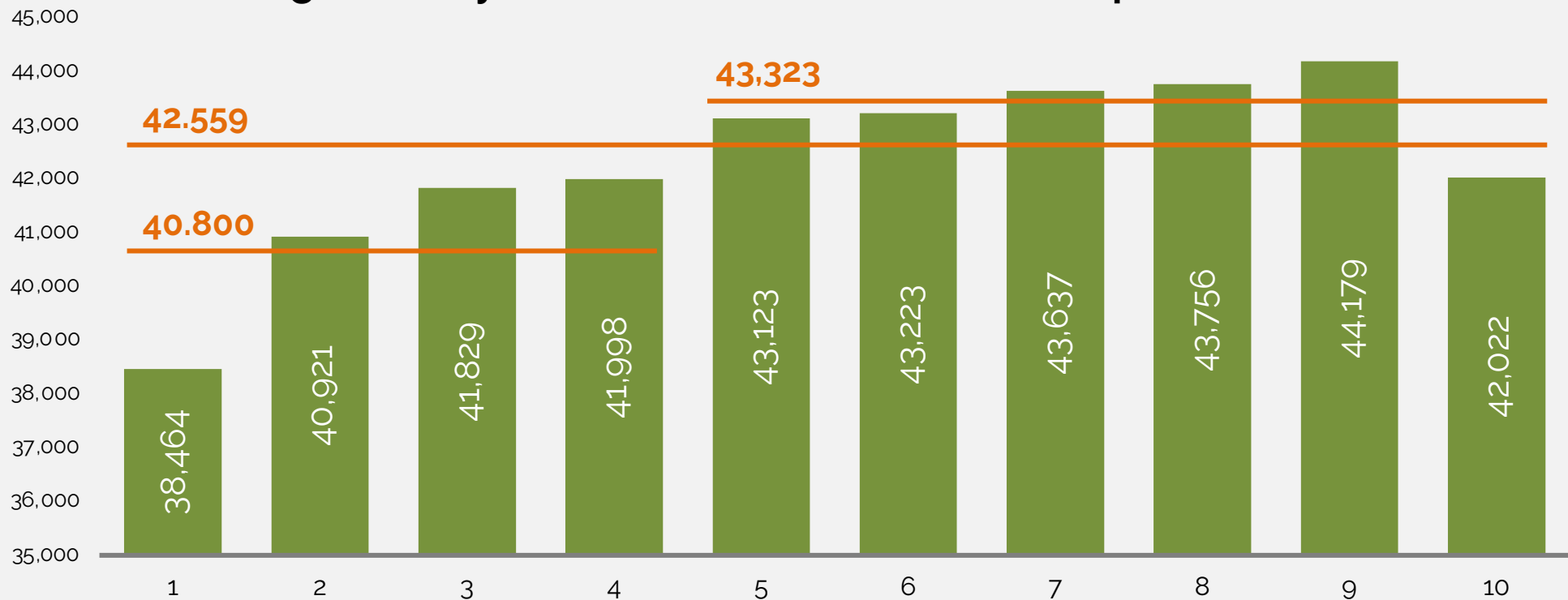


Source: National Statistics Agency, Processed by TNP2K, 2019

Existing LPG Subsidy Policy Gives More Benefit to Rich Group

The bottom 40% group receive less LPG subsidy than the richest 50%.

Average Subsidy Received Based on Income Groups (IDR/Month)



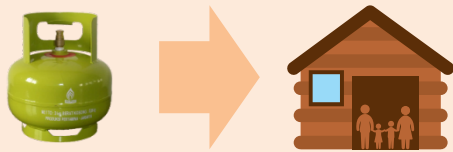
Source: National Statistics Agency, Processed by TNP2K, 2019

Policy Alternatives

- To limit the consumption of subsidized LPG, only for the poor and vulnerable households.
- Changing the subsidy mechanism, from price subsidy to direct targeted subsidy to poor and vulnerable household.

Policy In The Making

From Price Subsidy to Direct Targeted Subsidy



Direct subsidies are provided in non-cash form to eligible households / families.

Subsidized LPG to be sold at Economic Price



Subsidized LPG is sold based on economic price, like the price of non-subsidized LPG to eliminate price disparity in the market.

Fixed Monthly Subsidy



JAN FEB MAR APR

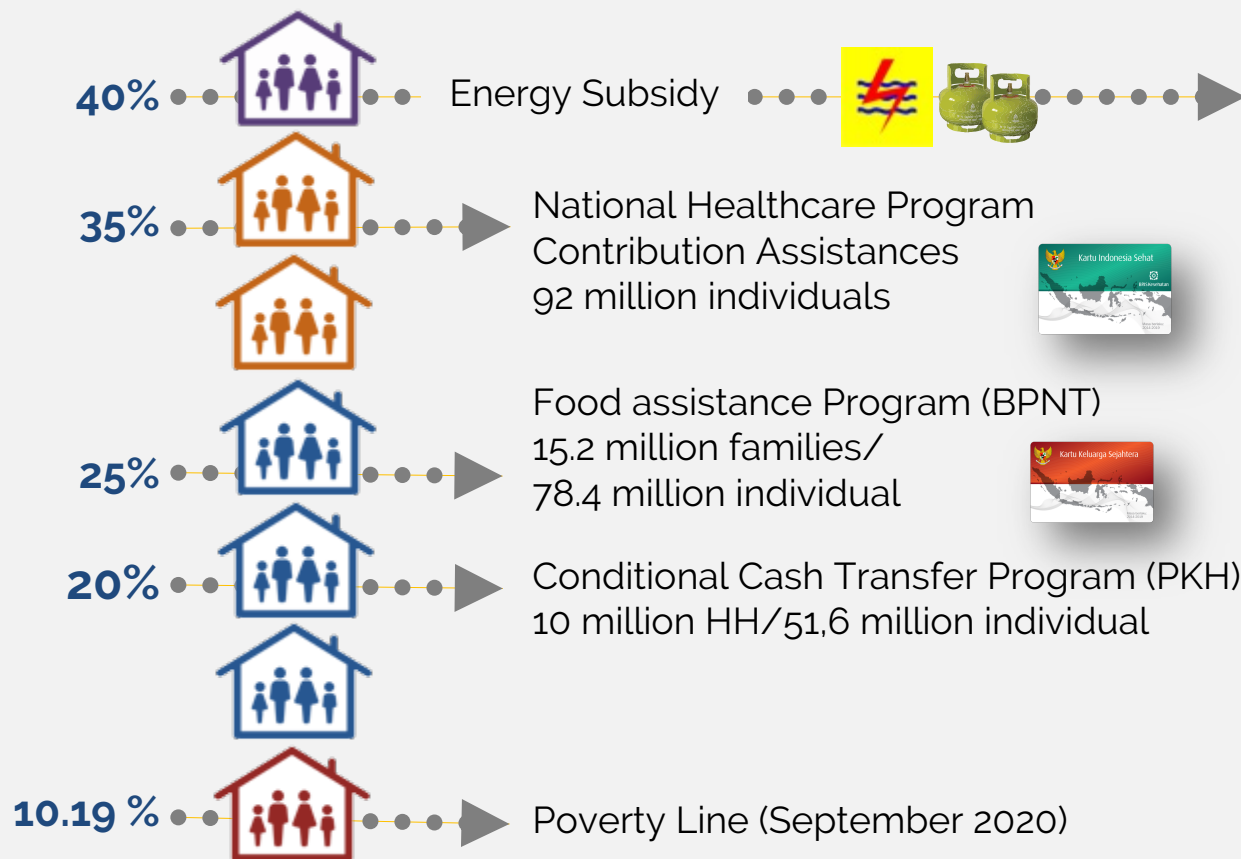
The amount of subsidy is given in a fixed amount each month and transferred directly by the Government to the beneficiary's account.

Work in Progress

- Data for targeting
- Mechanism of subsidy disbursement
- Technology of transfer
- Supported Regulations

Households Data for LPG Subsidy Policy Reform

The Government Has Unified Database of Poor and Vulnerable Households (DTKS) that can be used as targeting data for LPG Subsidy Reform



DTKS in 2019

Households

27.2 million

Families

29.3 million

Individual

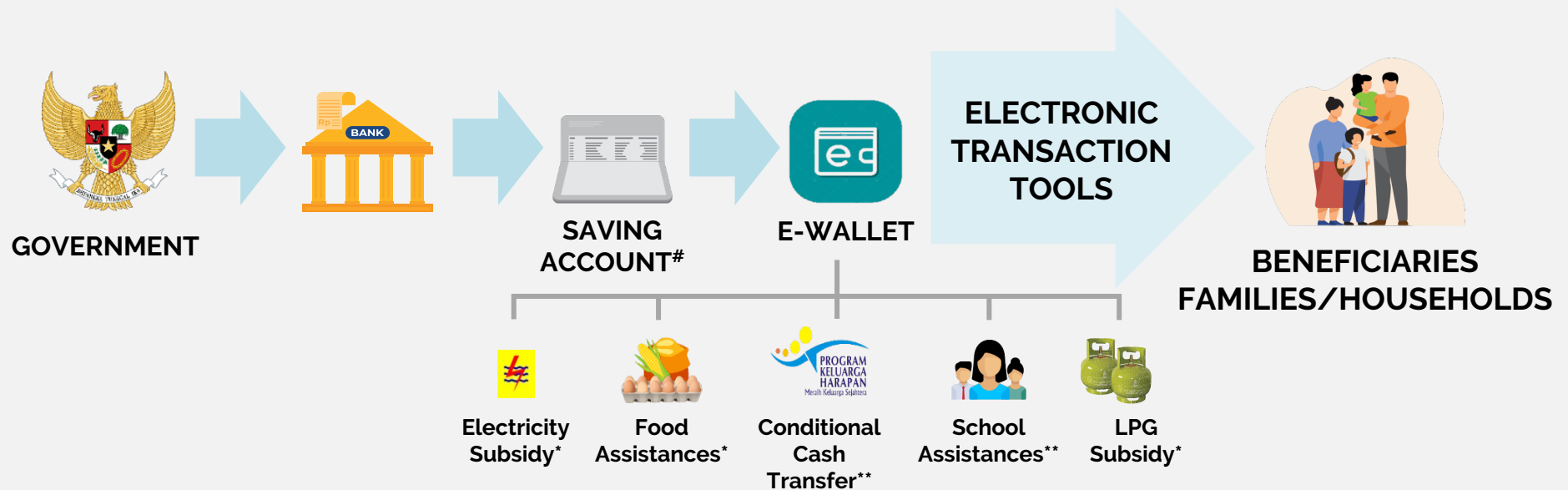
99.3 million

DTKS Contains
Name and Address of
40% Lowest Socio-Economic
Status. Integrated Data
authorized by the Minister of
Social Affairs.

Source: The National Team for the Acceleration of Poverty Reduction (TNP2K)

LPG Subsidy Disbursement To Use Existing G2P System

Through the Banking System and Using Electronic Transactions







Bank Savings Account Opening

* Restricted: only to be used for the program

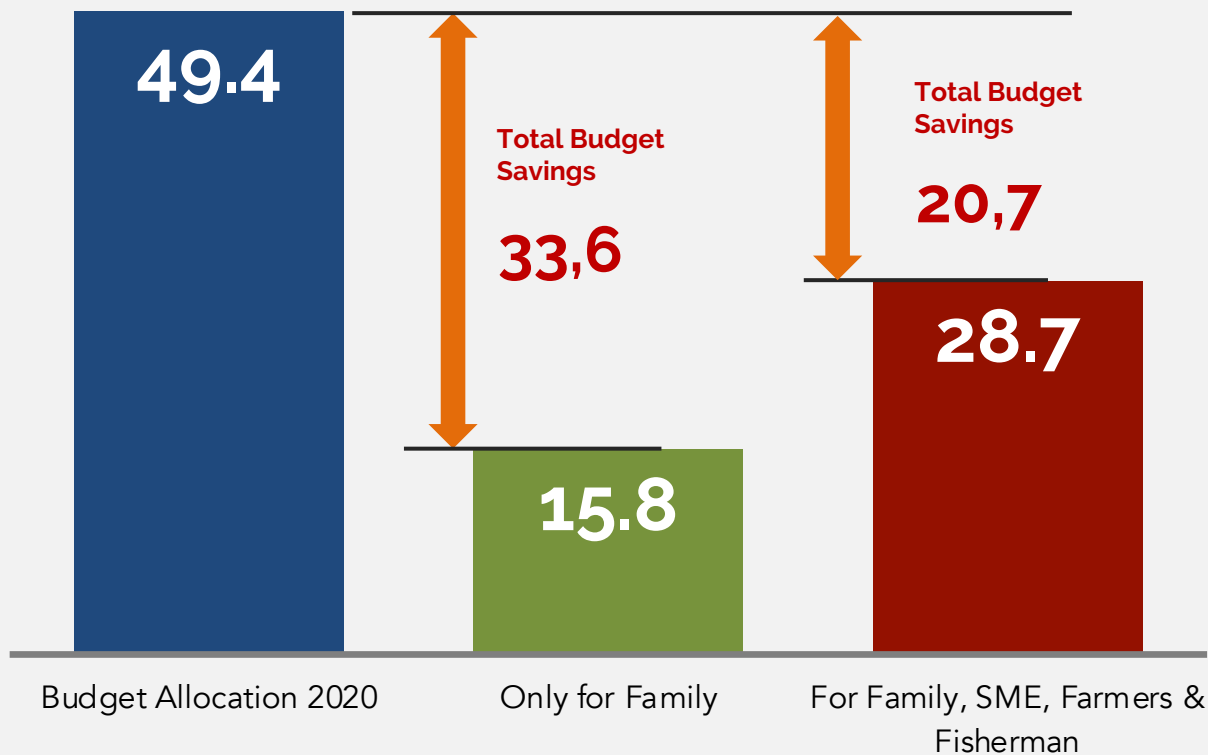
** Cash transfer

Policy Reform Expected Impact

- Government budget savings 
- Poverty and inequality reduction 
- Gender and social inclusion 
- Promoting the use of alternatives energy and support energy transition 

Government Budget Savings (IDR Trillion)

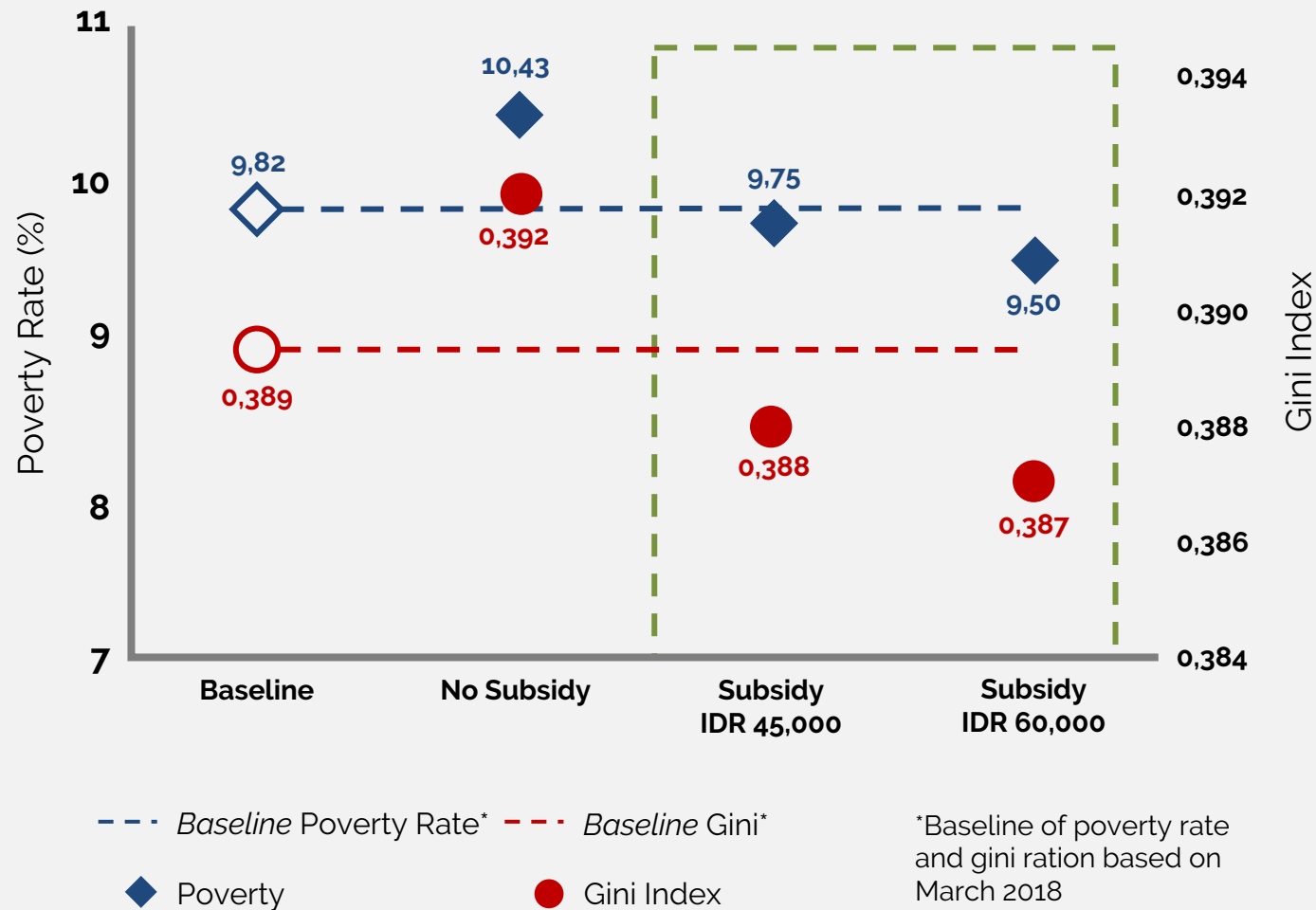
Subsidy IDR 45,000/Month



“The government can reallocate the savings to funds more productive programs e.g., Health, Education, Infrastructure (include energy access and renewable energy development).”

Source: The National Team for the Acceleration of Poverty Reduction (TNP2K)

Projected Impact on Poverty and Inequality



Source: Fiscal Policy Agency, Ministry of Finance

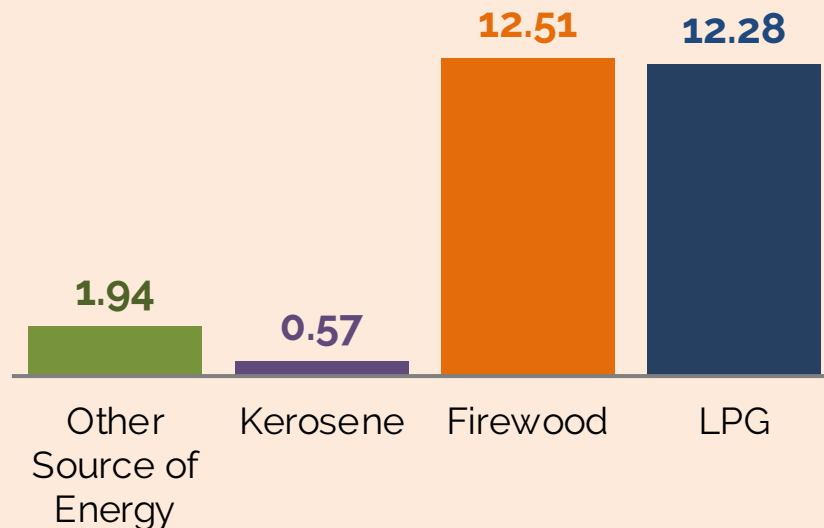
However, Direct Targeted Subsidy Policy Alone Will Not Solve Energy Inequality Problem

Only 12.28 million poor and vulnerable people have access to LPG and LPG subsidies.
Without further policy changes, inequality of access will continue.

Entry Barrier To LPG and LPG Subsidies

- Do not have money to buy LPG gas cylinders and LPG stoves
- There is no LPG available in the area
- Choosing to use other fuels that are more accessible and cheaper (e.g. firewood)

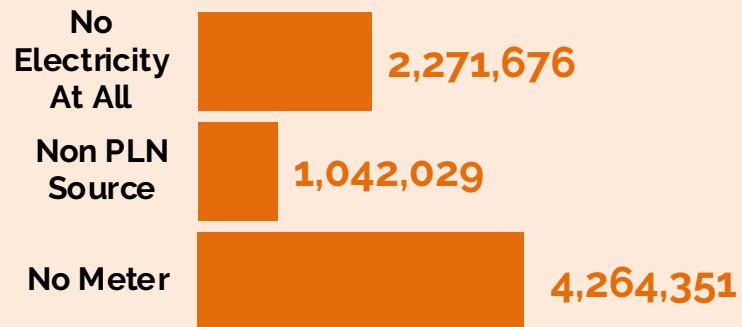
Energy Access for Cooking For Poor and Vulnerable Households (Million Households)



Source: Poor and vulnerable households database (DTKS) 2020, processed by TNP2K

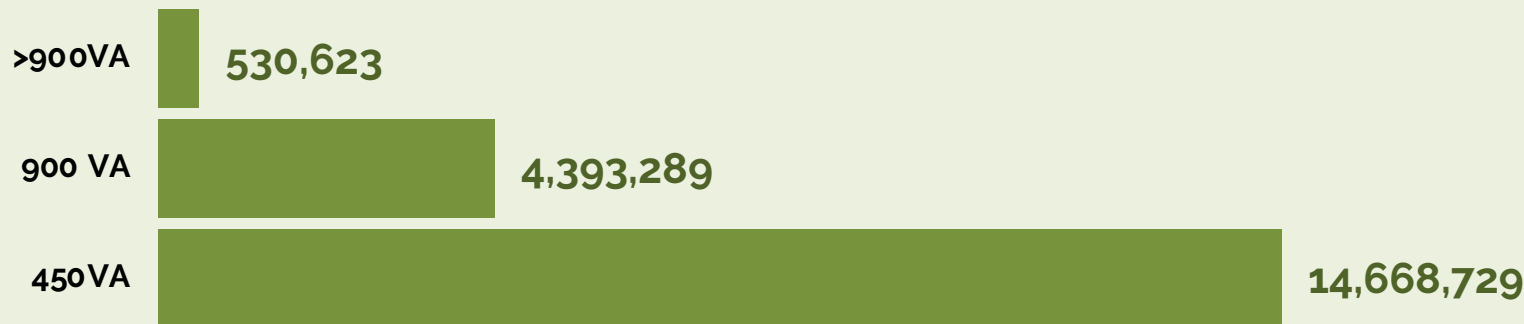
The Same Problem Also Happens In Electricity Subsidy

There are more than 7.6 million households, who do not have access to electricity or are not the customers of PLN (State-owned Electricity Company)



Entry Barriers to Access Electricity Subsidy

- Can't afford the installation fee
- Using other power sources that are not provided by PLN (Solar, micro hydro, biomass)
- PLN electricity network not available







Additional Reform to Increase Equitable Access to Energy

In addition to shifting subsidies from price subsidy to direct targeted household subsidy, policy modification is also required:

- 1** The value of the transferred subsidy can also be used to buy LPG cylinder, LPG stoves and tube regulators OR to pay installation fee for electricity.
- 2** If there is no availability LPG AND electricity in the area, encourage the use of the value of the transferred subsidies to access/purchase alternative energy sources that are available locally (solar, biogas etc.)

Policy Reform Expected Impact With Additional Policy Modification

- Government budget savings 
- Poverty and inequality reduction 
- Gender and social inclusion 
- Promoting the use of alternatives energy and support energy transition 

Potential Impact

The renewable energy mix increase by
0.021% to 0.0581%

Welfare Impact

Number of
children
attending
school



5,143,884

Number of
job creations



592,536

Girls
attending
school



2,471,516

Job
opportunities
for women



473,938

Preliminary findings, TNP2K study for the use of electricity and LPG subsidy to access alternative locally available renewable energy (2021)

Key Messages

- There is a huge inequality access to energy subsidy, creating more wealth disparity.
- Fossil fuel subsidy reform with direct targeted subsidy disbursement alone will not solve the problem of inequality.
- Better policy design and mechanism are required to address inequality problem, especially to those who have no access to existing energy.
- Addressing inequality access to energy subsidy is as important as energy transition.
- Solving inequality access to energy must start now, without it, inequality will remain, even in the successful energy transition.

Thank You
