Navigating Fuel Subsidy Reform: Indonesia’s Experience

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Fossil Fuel Subsidy Reform (FFsR) Webinar Series:
Protecting the Poor and Energy Access
Why Reforming Fuel Subsidy?
Fuel Subsidies are Not Fair: the richest households benefit almost five times more than the poorest households

Gasoline Consumption by Household Ventile

- Liter Avg Consumption (LHS)
- Percentage of HH who use fuel (RHS)

Source: Susenas March 2013
### Fuel and Electricity Subsidies Take Resources Away from Pro-Poor Development Sectors (in IDR trillion)

<table>
<thead>
<tr>
<th>Energy Subsidy (in IDR trillion)</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014 *)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel</td>
<td>45.0</td>
<td>82.4</td>
<td>165.2</td>
<td>211.9</td>
<td>210.0</td>
<td>246.5</td>
</tr>
<tr>
<td>Electricity</td>
<td>49.5</td>
<td>57.6</td>
<td>90.4</td>
<td>94.6</td>
<td>100.0</td>
<td>103.8</td>
</tr>
</tbody>
</table>

*) APBN-Revision
Fuel subsidy reductions, however, can hurt the poor by contributing to rising inflation...

CPI vs CPI Poverty Basket (% YoY)
...increase poverty line may significantly increase poverty rate due to welfare distribution that is left-skewed....

Poor and vulnerable communities make up 40% of the population.

Source: Susenas Sept 2012
**Fuel Price Increases and Necessary Compensation for the Poor**

<table>
<thead>
<tr>
<th>Premium Fuel Price Increase (IDR)</th>
<th>Fuel Price Increase (%)</th>
<th>Baseline + Additional Inflation Linked to the Consumer Price Index (pp)</th>
<th>Baseline + Additional Inflation Incurred by the Poor (pp)</th>
<th>Compensation for Poverty Line Increases (IDR)</th>
<th>Compensation Amount per month (IDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,000</td>
<td>30.77</td>
<td>1.8</td>
<td>3.861</td>
<td>695,077</td>
<td>115,846</td>
</tr>
<tr>
<td>3,000</td>
<td>46.15</td>
<td>3.2</td>
<td>6.864</td>
<td>1,235,692</td>
<td>205,949</td>
</tr>
<tr>
<td>4,000</td>
<td>61.54</td>
<td>4.6</td>
<td>9.868</td>
<td>1,776,308</td>
<td>296,051</td>
</tr>
</tbody>
</table>

- If fuel prices rise by IDR 3,000 to total IDR 9,500, it would be necessary to compensate +/- IDR 200,000/household/month for 6 months.
- A compensation period of 6 months is considered adequate because inflation tends to return to normal levels by that point.
FUEL SUBSIDY CUT

JUNE 2013

June 21, 2013 the price of gasoline rose from Rp.4.500 to Rp.6,500 while the diesel from Rp.4.500 be Rp.5.500.

NOVEMBER 2014

November 2014 premium gasoline price rose from 6,500 into Rp.8,500 while diesel from Rp.5,500 be Rp7,500.

Effectively since November 2014, the fuel subsidy as close to zero and fuel price was close to market price
The number of poor decreased 4.8 million in 5 years.

One of episodes with most dramatic decrease in number of poor since 1998 Asian Financial Crisis.
ENABLING INFRASTRUCTURES
SUPPORTING THE SUBSIDIES REFORM
UNIFIED DATA BASE was established in 2012 to improve targeting of social protection programs

UDB include names and addresses of bottom 40% of Indonesian population (~96 million individuals)

- # of Households: 25,771,493
- # of Families: 27,046,374
- # of Individuals: 93,026,921

Inclusion Error

40%

PBI-JKN (Health Insurance for the Poor)

35%

UCT, Education Rice

25%

Poverty Line (September 2016)

10.70%

CCT Program (PKH)

8%

Exclusion Error

Inclusion Error

Exclusion Error
Kartu Perlindungan Sosial (KPS)/Social Protection Card

2013 - 2014

For accessing:
BLSM, BSM, Raskin and the JKN card.

25% of households with the lowest socio-economic status or 15.5 million poor and near-poor households.
Availability of complaint handling
Mechanism: LAPOR!

Number of Complaints Until July 2014

- Complaints received: 174,316
- Being handled: 90,946
- Finished/completed: 80,708
Public Engagements for Addressing Resistances and Promote Approval

- Learning from parliamentary rejection on proposed subsidy reform in 2012, GoI was proactively more engaged with different stakeholders in 2013 and 2014.

- Public discussions and campaigns on subsidy reform were done more comprehensively, reaching out various audiences (parliament members, academicians, opinion makers and public) for wider acceptance of the proposed reform.

- Along with the discussions on how unfair and inefficient the fuel subsidy, the argument the important for pro-poor development by relocating fuel subsidy was also promoted.

- Socialization on benefit size and distribution mechanism of the compensation programs was done to avoid unnecessary hiccup in benefit access and distribution.

- Public sentiment on the proposed subsidy reform was monitored, and the results was used to to support the reform proposal.
REINVESTING SUBSIDIES CUT INTO TARGETED SOCIAL ASSISTANCE PROGRAMS
UNCONDITIONAL CASH TRANSFER (BLSM/PSKS)

Program description and size:

First launched in 2005 following fuel subsidy cut
Transfer Rp100,000 ($11) per month to eligible HH for period 6 months
The benefit equivalent to 17% of PCE of the poorest decile
Cover 19.5 million poor and vulnerable families equal to around 62 million people
The biggest coverage of any UCT program ~Brazilian’ UCT (Bolsa Familia) covers ± 8 million poor households

On June 2013 and then November 2014, following another fuel subsidy cut, the Government of Indonesia relaunched UCT program targeting 15.5 million poor and near-poor HHs ~ constitute bottom 25% of population.

Each eligible HH received IDR 150,000 per month for four months
2013 program budget was IDR 12 trillion
RICE FOR THE POOR / RASKIN

Program description and size:

Raskin carried out from 2002, as an evolution form of Rice Special Market Operation (OPK) in mid 1998

Target low income HHs, ensuring access to affordable rice price

70-240 kg/year amount benefits

In 2013 and 2014, 15 times/year frequency distribution, entititling 15 kg per eligible HH

Value of subsidy per household ~ IDR 100,000 per month

Rp. 20 trillion budget allocation in 2014

Gradually now shifted to non-cash food assistance
PBI-JKN Health Insurance
Program description and size:

Launched as Jamkesmas in 2008 from former Askeskin Program, with 76.4 Mn individual coverage

Establishment of target beneficiaries were not change until using the UDB as single data source in 2012

Jamkesmas was transformed into Jaminan Kesehatan Nasional (JKN) in early 2014 aimed at universal coverage in 2019

In 2013 and 2014, program covers 21.8 million households or 86.4 million beneficiaries and is equipped with Kartu Indonesia Sehat (KIS), with free access to outpatient and 3rd class inpatient cares.
Launched as BSM that carried out from 2008, as an evolution form of JPS Pendidikan during Asian Financial Crisis

Since it was first created until 2012, the targeting beneficiaries used the school-based targeting

In 2013, change to household-based targeting using UDB

11.1 million students covered (realization) in 2014 from 16.6 Million targeted

Each student received:
Rp. 450 Th per year (SD)
Rp. 750 Th per year (SMP)
Rp. 1 Mn per year (SMA)

BSM was transformed into the Program Indonesia Program, with its Kartu Indonesia Pintar (KIP) by Nov, 2014
CONDITIONAL CASH TRANSFER / PKH

Program description and size:

PKH began in 2007 as a pilot program in 6 provinces, 48 districts/cities, and cover only 390 Th very poor HHs

In 2012, by Plenary Meeting PKH lead by VP, PKH became a national program that covers all provinces

Since 2012, UDB used as a source of beneficiaries

In 2013, each family (in average) received IDR 1.8 Mn per year – increase from 1.4 Mn

Expand the program target to cover 3.2 Mn HHs/KSM in 2014
WAYS FORWARD
Ways Forward

• Indonesia has done major fuel subsidy reforms from 2005-2014: changing fuel commodity from highly subsidized commodity to market priced commodity, and use the saving to support more productive development agendas.

• Despite this success, some works on reforming energy subsidy remain:
  • For electricity subsidy, the targeting and distribution mechanism has been reformed such that it is now allocated and targeted only to bottom 40 percent.
  • LPG subsidy reform is still some ways to go with issues in distribution channels complexities.

• Last but not least, watch for some political motivated moves that can derail, even setback, this reform process.
Thank You