

Navigating Fuel Subsidy Reform: Indonesia's Experience

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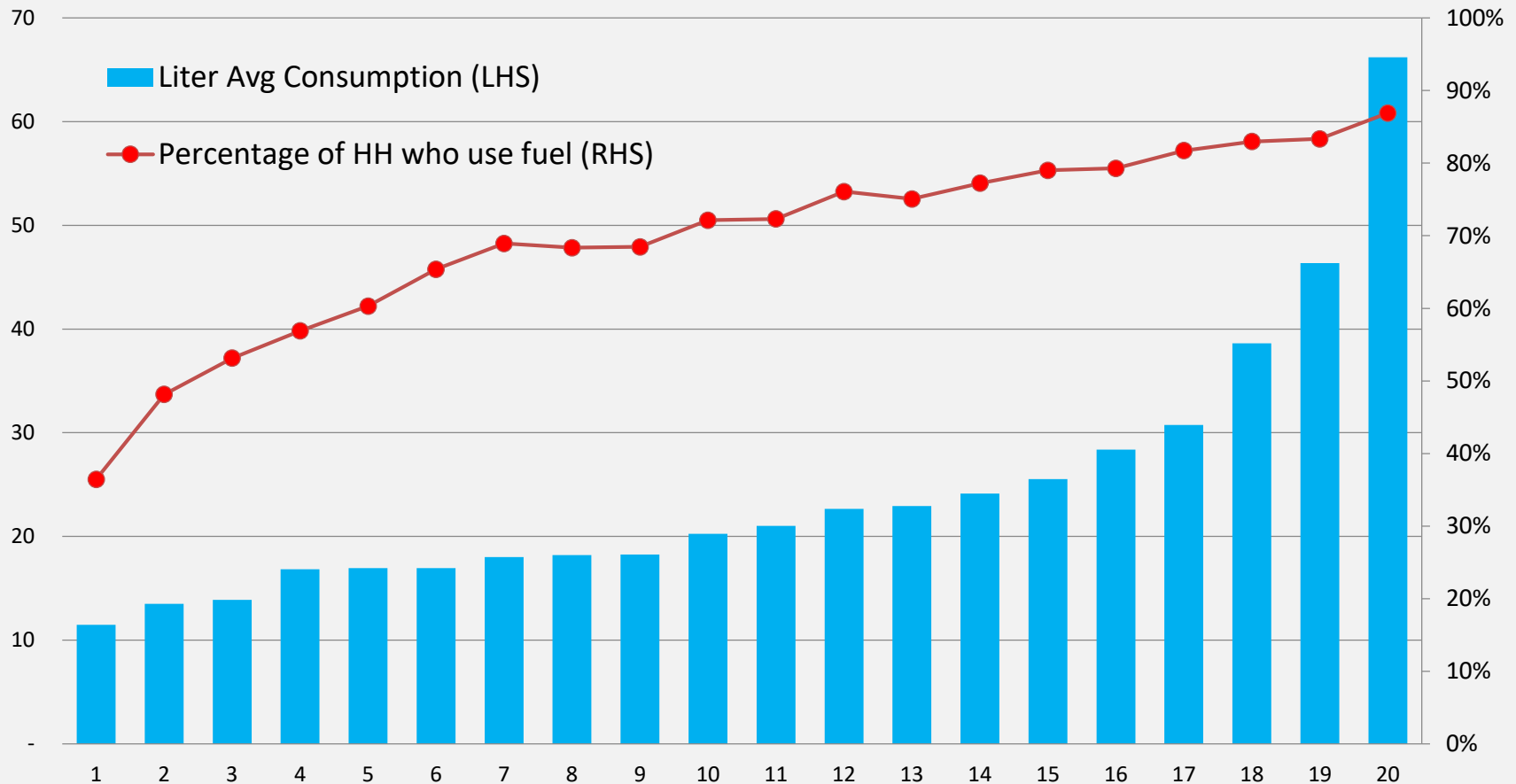
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Fossil Fuel Subsidy Reform (FFsR) Webinar Series:
Protecting the Poor and Energy Access

Why Reforming Fuel Subsidy?

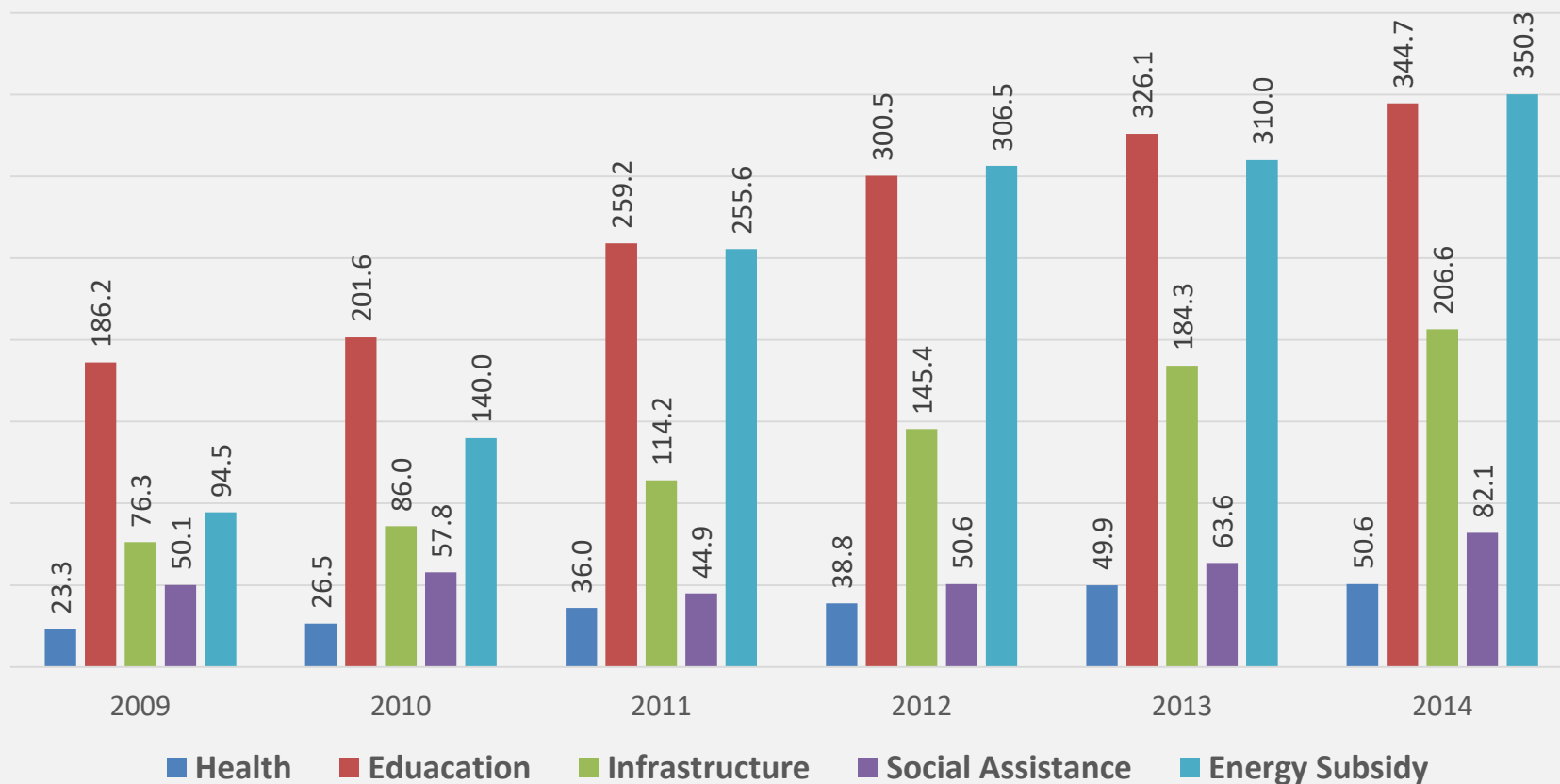
Fuel Subsidies are Not Fair: the richest households benefit almost five times more than the poorest households

Gasoline Consumption by Household Ventile



Source: Susenas March 2013

Fuel and Electricity Subsidies Take Resources Away from Pro-Poor Development Sectors (in IDR trillion)

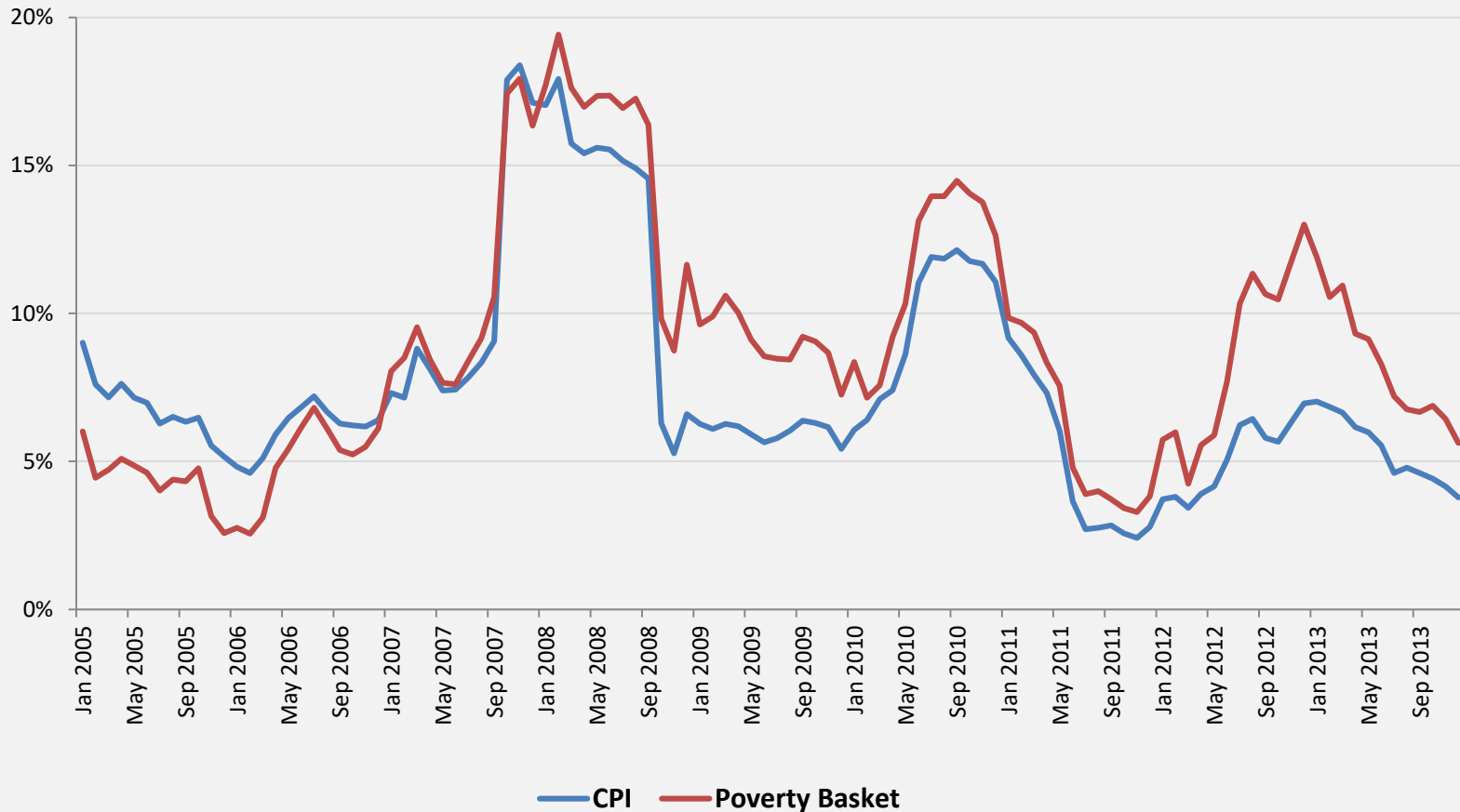


Energy Subsidy (in IDR trillion)	2009	2010	2011	2012	2013	2014 *)
Fuel	45.0	82.4	165.2	211.9	210.0	246.5
Electricity	49.5	57.6	90.4	94.6	100.0	103.8

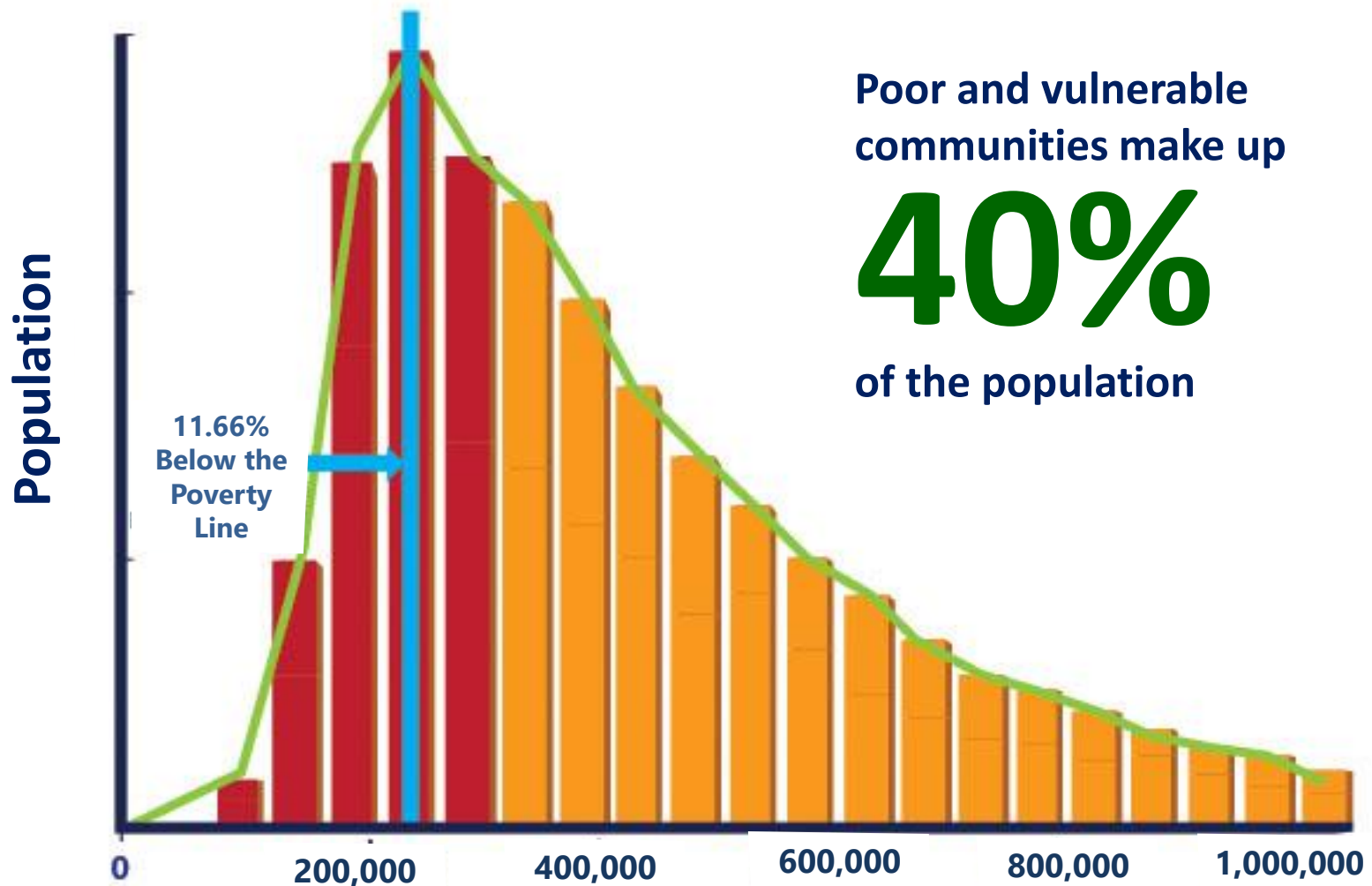
*) APBN-Revision

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....



Source: Susenas Sept 2012

Monthly Consumption per Capita (IDR)

Fuel Price Increases and Necessary Compensation for the Poor

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

- 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

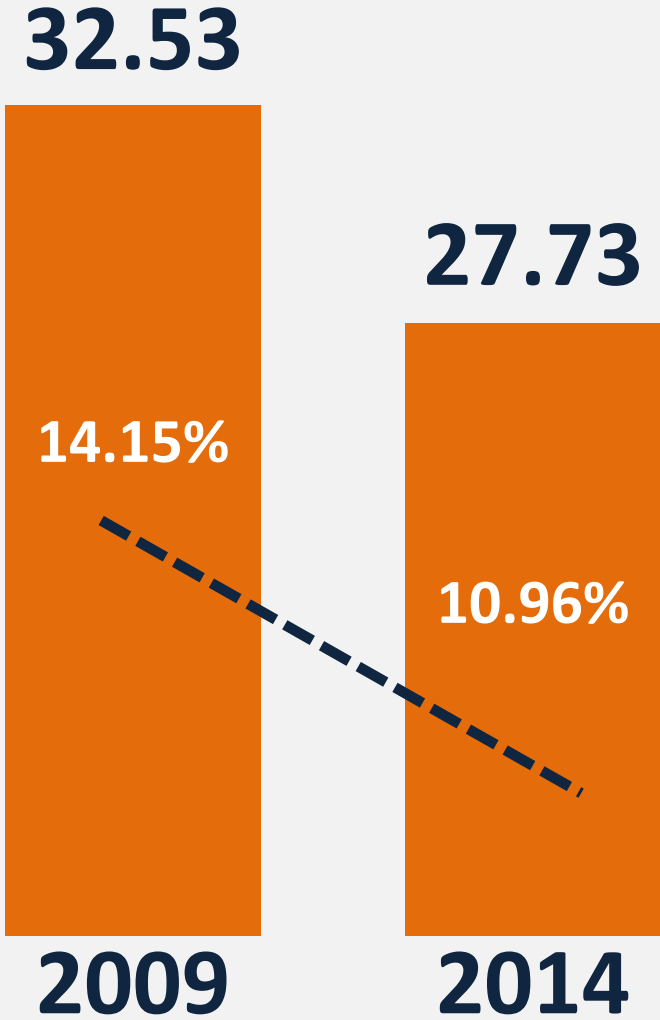
June 21, 2013 the price of gasoline rose from Rp.4.500 to Rp.6,500 while the diesel from Rp.4.500 to Rp.5.500.

NOVEMBER 2014

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

Effectively since November 2014, the fuel subsidy as close to zero and fuel price was close to market price

POVERTY IMPACT



The number of poor decreased **4.8 million** in **5 years**

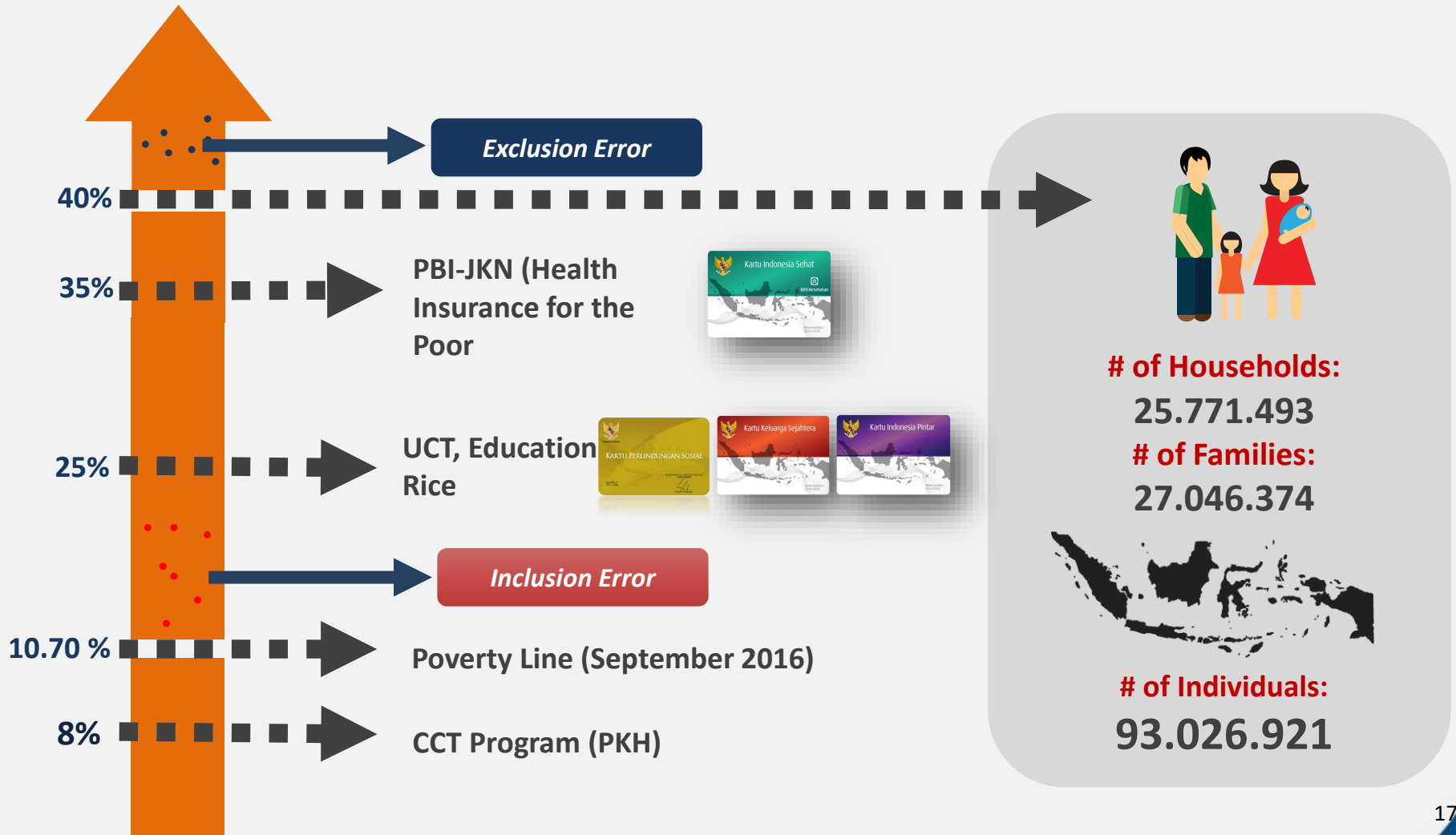
One of episodes with most dramatic decrease in number of poor since 1998 Asian Financial Crisis

Number of poor (million)
Poverty rate (%)

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)



Kartu Perlindungan Sosial (KPS)/ Social Protection Card 2013 - 2014



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

Kartu Keluarga Sejahtera (KKS) SIM Card Layanan Keuangan Digital Kartu Indonesia Pintar (KIP) Kartu Indonesia Sehat (KIS)

2014 - 2019



25% of households with the lowest socio-economic status or
15.5 million poor and near-poor households.

Availability of complaint handling Mechanism: **LAPOR!**

**KONTAK
PENGADUAN**

LAPOR!

LAPOR! Layanan Aspirasi dan Pengaduan Online Rakyat

Kunjungi situs www.lapor.ukp.go.id atau SMS ke 1708, ketik:
KPS [spasi] Nomor KPS [spasi] isi aduan (penerima KPS)
KPS [spasi] isi aduan (bukan penerima KPS)

Contoh SMS:
KPS 388bdf56789009 Rumah tangga di desa saya hanya menerima 5kg Raskin (penerima KPS)
KPS Rumah tangga di desa saya hanya menerima 5kg Raskin (bukan penerima KPS)

Number of Complaints Until July 2014



Public Engagements for Addressing Resistances and Promote Approval

- Learning from parliamentary rejection on proposed subsidy reform in 2012, Gol 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 \pm 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, entitling 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 in-patient cares.

KARTU INDONESIA PINTAR

Program description and size:

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