

## AFD and the Climate Change Program Loan (CCPL)



### Context

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Indonesia ratified the United Nations Framework Convention on Climate Change (UNFCCC) in 1994 and the Kyoto Protocol in 2004. In December 2007, Indonesia hosted the 13th Conference of Parties (COP 13) to the Climate Change Convention in Bali. As a non-Annex I country and therefore with no commitment to reduce its emissions of greenhouse gases, Indonesia is sharing the vision of a "common but differentiated responsibility" in the fight against climate change, a founding concept of the UNFCCC.

In preparation to the COP 13, the Government of Indonesia (GOI) launched in December 2007 its "**National Action Plan Addressing Climate Change**" which defines the Indonesian vision to tackle climate change issues. The plan is cross-sectoral (agriculture, forestry, industry, energy, infrastructure, etc.) and mobilizes the whole array of tools available to a Government (governmental organization, taxation, investment policies, awareness raising, etc.).

This National Action Plan was transposed into the development planning process under the coordination of the Ministry of Planning (Bappenas). To this end, the "**National development planning: Indonesia responses to climate change**" (also known as "yellow book") was officially released in July 2008. The document concludes with the presentation of a matrix of actions - the "Policy Matrix" - that constitutes the backbone of the Climate Change Program Loan (CCPL).

The GOI is therefore committed to developing a low-carbon development path. A **National Council on Climate Change** (NCCC, or DNPI), composed of 17 Ministers and chaired by the President, has been established in July 2008 to coordinate Indonesia's climate change policies and international positions. The NCCC has launched a study - performed by McKinsey & Company - to establish a "greenhouse gas abatement cost curve" for Indonesia.

Furthermore, President Yudhoyono has recently announced at the G-20 Summit in Pittsburgh bold move of greenhouse gas emission reductions ranging from 26% to 41% by 2020, depending on the level of international support. These targets are viewed as achievable by Indonesia according to the "GHG abatement cost curve".

### "Climate Change Program Loan" and "Policy Matrix"

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Building on the Indonesian willingness to fight climate change and on the "Cool Earth Partnership" initiative launched by the Government of Japan (GOJ), the "Climate Change Program Loan" was designed, and a policy matrix was agreed between GOI, AFD and GOJ, in the first semester of 2008.

The "**Climate Change Program Loan**" (CCPL) is a three-year program (2007 to 2009) whose purpose is to support policy reforms in favour of climate change mitigation and adaptation. Actions and indicators, which are reviewed annually between GOI (Bappenas and Ministry of Finance as well as line ministries) and the two donors, are aggregated into three blocks within a "**Policy Matrix**": (i) reducing emissions of greenhouse gases (forestry, energy and industry), (ii) adaptation to climate change (water and agriculture) and (iii) cross-cutting activities (spatial planning, CDM, etc.). The Policy Matrix is encompassing all the expected regulatory reforms and public actions carried out by the GOI to fight climate change: laws and decrees, pilot projects, master plans, etc.

In the framework of the CCPL, the AFD granted a **200 million dollar loan in 2008** and a **300 million dollar loan in 2009** to GOI as the first and the second tranches of the program, in cofinancing with the Japan International Cooperation Agency (JICA).

Based on the satisfactory achievements of the 2009 “Policy Matrix” and on the design of new specific targets for 2010, AFD granted in May 2010 a **300 million dollar** soft and long-term loan to GOI as a **third tranche**, which has been disbursed end of June 2010 and fully blended into GOI’s budget.

JICA has also granted a 300 million dollar loan to support this third tranche and the World Bank is joining the CCPL from this year on with a contribution of 200 million dollars.

## **Monitoring & Technical Assistance**

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The GOI established a specific “Steering Committee” for the implementation of the CCPL. Bappenas oversees the monitoring of the CCPL and maintains the dialogue with line ministries and the two donors. An AFD funded forestry expert is part of the **monitoring team**, which helps the GOI to monitor the progress towards the implementation of the “Policy Matrix” and prepare the Steering Committee meetings.

In addition, the AFD is directly financing targeted **technical assistance** to ease the implementation of specific actions related to climate change with:

- the Ministry of Industry : international expertise to introduce a greenhouse gases (GHG) emissions reduction scheme in the cement industry, which may be extended to other sectors such as steel industry;
- the Ministry of Forestry : i) Feasibility study of a “small-scale green carbon market” to give small scale forest plantations access to the voluntary carbon market; ii) Development of a spatial land use planning methodology for decision making (taking into account local development needs, forest resources dynamics and climate change risks).
- the National Council on Climate change (DNPI) : second phase of the “Indonesian GHG abatement cost curve” study by McKinsey & Company.

## **Contact**

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