

Indonesia Carbon Market Workshop (A Summary Report)

I. Agenda Details

Time (WIB)	Activity	Speaker
14.00 - 14.05	Opening by MC	Sarah Wibisono
14.05 - 14.10	Welcoming remarks	Florian Eickhold (Climate Finance and Carbon Markets Expert)
14.10 - 14.15	Introduction of Su-re.co	Dr. Takeshi Takama (CEO of Su-re.co)
14.15 - 14.20	Introduction of the Biogas Initiative Project	Fabian Wiropnanoto (Su-re.co Researcher)
14.20 – 14.30	Keynote Speaker	Hugh Salway (Head of Markets Gold Standard)
14.30 - 15.20	Panel Discussion: National And International Finance Options for Sustainable Multi-benefit Mitigation Projects	• Florian Eickhold (Climate Finance and Carbon Markets Expert) • Hugh Salway (Head of Markets Gold Standard) • I Wayan Susi Dharmawan (National Research and Innovation Agency) • Joko Prihatno (Ministry of Environment and Forestry) • Noor Syaifudin (Ministry of Finance) • Qatro Romandhi (Ministry of Energy and Mineral Resources)
15.20 – 15.30	Concluding remarks	Panelists

II. Summary

• Welcoming remarks

I am currently assigned by IKI small grant to assist biogas initiatives projects in Su-re.co, especially the carbon market aspect. This workshop is a part of a feasibility study of the carbon market in Indonesia.

Introduction to the theme:

As mentioned in the Paris agreement, we have a global plan to reduce emissions, but we are still far from the track (1.5°C targets). What can we do? Public policy is the key to achieving the target

by regulating private actors to act as the needs of the Paris Agreement. Thus, huge changes are necessary, and these changes need finance.

There are three groups of financial options (Climate Finance):

1. Public funding from each government
Government can choose the most cost-effective options to reduce emissions, including building zero-emission technologies and establishing related policies and investment (cons: the fund is limited)
2. International funding (bilateral and multilateral climate finance)
For instance, IKI small grant and Green Climate Fund from Germany could cover the large strategies and policies within partner countries
3. Funding from the private sector
How to mobilize this fund? Carbon Market (VCM) is one of the tools to involve private actors. This kind of fund could support climate projects that cannot be granted either by the government or multilateral finance.

- **Introduction of Su-re.co**

Su-re.co is the Think, Do, Be Tank in sustainability and resilience issues. We conduct research (Think) in collaboration with international organizations like JICA, ADB, UN agency, SEI, etc. We work with the EU Commission under the Green-win, TransRisk, Tipping+ and Landmarc projects in the low carbon development plan and decarbonization. We develop biogas digesters and climate field schools for farmers and produce sustainable coffee and cocoa as part of our Do activities. We realize that current funding for biogas deployment is not scalable. Thus, we started doing a carbon offset feasibility study to discover opportunities.

- **Biogas Initiative Project**

Project overview:

Biogas initiative project is one of Su-re.co projects funded by IKI Small Grants. We installed biogas digesters for farmers and trained them to practice climate-smart agroforestry through the Climate Field School program. We currently have installed 40 units of biogas and are trying to upscale for more thousand units through the current market. So, this workshop is part of our study on looking for any financial mechanism that could support small-scale projects with multi-benefit outcomes.

What is the benefit of this project:

- Benefits for the environment:
 - Reduced emissions by capturing methane
 - Reduced deforestation and increased air quality because of less use of firewood
- Benefits for Socioeconomic:
 - Farmers could reduce the cost of LPG (used biogas) and chemical fertilizer (used bioslurry)
 - The government could save subsidies for LPG and Fertilizer

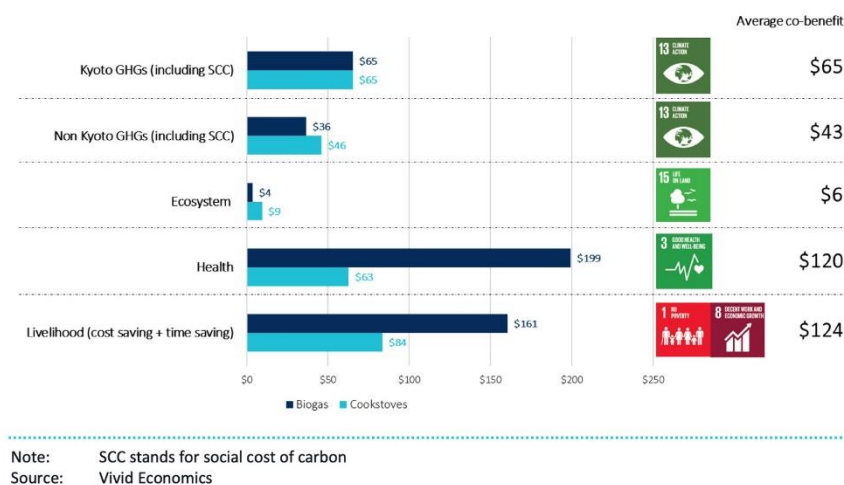
For instance, we can upscale this project into 20.000 biogas installations, which means we help farmers save 360.000 IDR (23.52 USD) annually and relieve 7.2 billion IDR (470,000 USD) per year from LPG subsidies (corrected from the slides).

Since most participants here have been involved in multi-mitigation projects like ours, the question is how these projects could be sparked and possibly upscaled through the carbon market scheme.

- **Keynote Speech by Hugh Salway**

Founded by WWF and other NGOs in 2003, Gold Standard tries to support projects that have *climate impact and SDGs benefits* outcomes. We set the standard of requirements and methodologies used by projects worldwide to reduce emissions, deliver SDGs, and receive a carbon price through the carbon market. We currently have 22 projects in Indonesia across different sectors, including renewable energies and safe water supply. The gold standard has a strong safeguard against energy, water, food, and potential human rights risks. One example of Gold Standard's projects is water purification in Cambodia. This project delivers clean water and sanitation, improves health and poverty alleviation, provides jobs for 90 people and leads to forest savings. So, a project with a broader impact or extra benefits is vital for us.

We are now working on digitalizing the measurement for projects' additional co-benefits through a new sustainable development tool. This tool provides a set of records and evidence to verify the projects' different development benefits in a quantified way. So, rather than just looking at the carbon value in the carbon market, we try to quantify societal benefit and look at it in monetary terms. Example of Biogas and Cookstove project co-benefit by Vivid Economics:



There were a lot of assumptions on this measurement, but it could help us discover the real benefits of the carbon market.

Currently, there is a big shift in the Voluntary Carbon Market (VCM) as the result of two major drivers:

- The Integrity Council for the Voluntary Carbon Market (IC) has the right to measure all elements and look at projects evaluation to ensure the quality and gain buyers' confidence
- Paris Agreement under Article number 6, emission reduction to be counted as NDC target

So, what do we do to support VCM in countries?

- Alignment of rules with Article 6 to robust Paris Agreement
- Increase government partnership
- Technical support for early movers
- Collaboration and Outreach

- **Panel Discussion**

Topics: International market, co-benefit, carbon market framework, project developer activity, alignments with national subsidies

Can the domestic market co-exist with the international market in Indonesia?

Florian Eickhold:

Many countries like Indonesia set up their carbon market and carbon tax rules, but there is also demand from the international market. So, I think both markets could co-exist, and they can cover different niches, price segments and levels of ambition. VCM could cover the costly project, and more cost-efficient projects could be handled by national markets, such as a cap for highly intensive emitters.

Joko Prihatno:

Indonesia has presidential regulation No.98, which is in line with the Paris Agreement Articles No.5 and 6 regarding result-based payment, carbon trading, carbon levy and other mechanisms (fourth mechanism, not limited to REDD+). How can we co-exist between domestic and international markets? We need to follow global regulation e.g., CMA 3 (decisions 2,3,4) article 6.2, 6.4, and 6.8. Several articles are not finished yet and need to be discussed in COP 27, for instance, the rules of reports and transfer. Indonesia will focus on how to authorize NDC (Nationally Determined Contribution) to gain environmental integrity to ensure carbon unit transfer based on the corresponding adjustment.

Indonesia also has the NDC roadmap that describes the baseline and targets for each sector every two years. So, the ministry, as a coordinator, should establish a carbon pricing roadmap as the basis for the carbon pricing mechanism. Every sector (ministry) is responsible for achieving the NDC targets as burden sharing. If the private sector is involved in the NDC target, it will be included as carbon trading based on its effort (no cooperation with the international entity)

Florian Eickhold:

How can we deal with the delay and clarification since many ongoing projects under Kyoto Protocols or different market conditions? What would you recommend for these projects (wait, stop or keep going)?

Joko Prihatno:

We have several issues, including CDM transition, certificate emission reduction, and a new investment procedure. So, this year is the year of transition because the regulation has not finished yet. Hopefully, everything will be clearer after cop 27.

Is there any plan to establish temporary regulation or support the pending progress?

I Wayan Susi Dharmawan:

We did not recognize any terminology of temporary regulation in our government. Besides, considering we have a binding commitment to achieve the NDC target, we must choose a safe option for Indonesia. Thus, we need a clear framework to regulate the opportunity from the domestic and international markets.

How co-benefit projects be valued in the pricing of the carbon market in Indonesia?

Hugh Salway:

There are two types of markets that could be served by carbon credits: voluntary market (voluntary purchase) and compliance (companies or governments being required to buy carbon credits). Gold standard or other projects with additional SDG benefits attract a higher price, so it typically costs more than normally. Those projects are valued in the venture capital market because there are buyers who want to purchase credits with SDG benefits. However, it becomes more difficult in a compliance context. If you're a company under a compliance obligation, you probably go for the cheapest credits that meet your compliance application. Why would you spend an extra dollar to comply to buy those credits and projects with real, grounded, sustainable living benefits that you don't need? So, that aspect will be really important for governments to consider if they are developing compliance requirements. Sustainable development should also be part of how governments think about article six. So, it's a really important part of how a government thinks about its approach to carbon markets, how best to incentivize sustainable development benefits from projects and not to accidentally lose them through the design of procedures.

How can our projects be valued in the pricing in the compliance market?

I Wayan Susi Dharmawan:

Two important aspects of developing co-benefit projects: Regulation and Potential. We also have many mechanisms to create co-benefit projects instead of the carbon market, such as ecosystem payment services and green development at the sub-national level, maybe through ecological fiscal transfer. So, we will not limit the co-benefit project development within the carbon market. The important thing is to establish mechanisms and development from the national to site level to ensure the benefits could be useful for the community.

Joko Prihatno:

I would like to answer regarding any possibility of the co-benefit project could get result-based payment under another mechanism.

- In the regulation of the Ministry of Environment and Forestry No.70, Article 16 mentioned that REDD+ recipients consist of national, sub-national institution and civil society organizations, private, research and energy entities, as well as communities
- In the regulation of the Ministry of Agriculture No.7 about REDD+, they also regulate the involvement of non-carbon benefits. For instance, Indonesia has granted 2.5% additional funds (result-based payment) from PCF as we report about the environmental services
- In the President regulation No.98, we regulate the result-based payment from international to approval by national and national RBP to the district, private entities and communities

Indonesia also has national issuance of emission reduction by Ministry of Environment and Forestry but not yet been published. In this regard, we might have a chance to make mutual recognition between Indonesian Standard, Gold Standard, Verra and other institutions.

Just a quick observation on this topic, could the certification cost be lowered when entering different market types? Would Standarization become one of consideration?

Hugh Salway:

I think the costs under the gold standard will generally remain the same regardless of which market you are entering. So definitely, you might see a cost difference, possibly different costs under a different standard.

What is the project type being prioritized for co-benefit deployment? Is there anything related to renewable energy or energy in general?

Qatro

Romandhi:

From the Ministry of Energy's perspective, we are waiting for the derivative of the president regulation No.98 for carbon economic values. So, we haven't had any idea at the moment about co-benefit projects and the international market. But we would like to emphasize the actions we've taken with the Ministry of Environment and Forestry. Currently, we are trying to make the integration on monitoring applications. We do understand that every kind of mitigation action should be put into a plan, called a drum mitigation action plan, and should be monitored and submitted to the application. Thus, these steps will be integrated with the system registry national (SRM). We expect to synchronize and integrate the roadmap targets from every sector. We are aware that NDC has an updated, namely enhanced NDC, and the energy sector has become one of the ambitious targets concerning CO₂ monitoring, validation and verification. We also have a mandatory task to build a cap-and-trade scheme, although we still need to wait for the emission reduction certificate. After all the requirements are clear, we can come up with the idea of an international market and a co-benefit discussion.

Right now, the basic idea of Indonesia's target is how to shift from energy transition to achieving energy availability that can be accessible to all communities in terms of sustainability, affordability, and supporting SDGs. And we all agree that the focus of Indonesia right now lies on the issue of the energy transition for sustainable energy.

What are the roles of carbon taxing in receiving the NDC target?

Noor Syaifudin:

First, we expect that carbon tax implementation could correct the market failure by allowing polluters or emitters to pay principal applications. We also see the government's good signals and seriousness in providing better carbon mechanisms policies. So, investors and communities will be changing behaviours toward green investment. We also hope that carbon tax could become an alternative financing option to develop the SDGs agenda, increase green and environmentally friendly projects and assist the community in terms of social support programs.

In your opinion, what is the impact of the Indonesian regulation on the current projects already registered in the gold standard, especially for the voluntary market?

Hugh Salway:

I would like to hear the answers from the Indonesian government side because that would discover how they see projects registered on the gold standard. But generally, in some countries, there are project developers and other participants in the carbon market who do have concerns about some changing regulations and how it would impact their projects. They worry that some regulation regulations could lead to particular pauses and issuances or restrictions on what project developers were doing already. I think a big part of what will be important is communication, so there will be a clear understanding of why certain things are happening.

Florian Eickhold:

Many project developers have questions about how we can discuss the opportunity with the Indonesian government. Could we just make a project proposal or request authorization? I think the dialogue on this topic will be very helpful for many investors at this stage.

Joko Prihatno:

1. There should be clear regulations on carbon emission transfer and reporting from Art. No. 6.2, 6.4 to avoid double counting and corresponding adjustment
2. We have president regulation No.98, which aligns with Paris Agreement, COP and CMA decisions. Indonesia will focus on land-based sector or REDD+

- **Concluding Remarks**

Florian Eickhold:

It is important to discuss the practical implication of a multilateral agreement and how it could be turned into national policy and aligned with ground actions. Today's discussion from ministries from different sectors shows the country's commitment to driving climate action. We also need to consider the technical experience of Gold Standard. I think it would be great to continue the dialogue between Indonesia and the Gold Standard to find the best technical framework. A similar project like Su-re.co biogas initiative delivers sustainable value for the country and is key for the energy transition from the bottom up. They also directly substitute the chemical fertilizer and LPG budget. But they need space to develop an investment framework in place, and through this discussion, we can discuss some uncertainties and find a good solution for the products we developed.

Takeshi Takama:

Today's discussion is about how we can align various limitation projects and achieve Indonesia NDC. I have homework to learn more about Indonesia's regulation in the carbon market and how the co-benefit project can be valued. The VCM tool is promising, and the Indonesian government is incorporating this new trend into clear regulation. We hope to see you again soon to synergize and collaborate with us.

III. Additional Information

Zoom Link:

<https://us02web.zoom.us/j/89480728041?pwd=c3RVVnlyUHN1WGpqVURuZjV5SUJoUT09>

Meeting ID: 894 8072 8041

Passcode: 617437

Sli.do Link:

<https://bit.ly/QnACarbonMarket>

Sli.do Questions:

1. What are the impacts of perpres 98 to Gold Standard projects in Indonesia? does the gold standard require corresponding adjustment to its projects?
2. My name is Adam, Founder and Managing Director of SIMTESIS. We're new foundation based in Malang which wanted to develop carbon project in waste sector. In Gold Standard previous presentation, it mentioned there's a technical assistance for the early mover. Could you please explain more about the mechanism or how it's work?
3. To Hugh, what are mechanisms for investments into mitigation projects that are important and have multiple benefits but do not provide sufficient level of non-permanence and additionality and are therefore problematic for carbon markets, like avoided deforestation? H. Böttcher

4. We are not really clear between The national government based project that will be allocated for NDC and international voluntary market. Through the regulation, the country seems to get all the benefits / all credit -carbon credit , from various carbon credit project/scheme.
5. What is your opinion, impact of Indonesia President Regulation 98/2021 for carbon project registered in Gold Standard especially for Voluntary Project?
6. I would like to ask about VCM. We know that VCM has the potential to increase benefits for project developers and revenues for the state (including transferring knowledge and technology), but this has problems related to claiming potential carbon credits for NDC in achieving emission reduction targets in 2030, particularly in developing countries. How should strategies deal with this issue? (Riko, South Pole)