## Executive Summary

**Indonesia's desire to drive economic growth and reduce climate risk is reflected in the sweeping policy reforms it has introduced in recent years to meet targets announced in 2009 to reduce greenhouse gas emissions. It is aiming for a reduction of 26% on business as usual levels by 2020, or of 41% with international support.**

Public policy and finance will play a crucial role in meeting these targets. International and domestic public actors are now scaling up investment, and different levels of Indonesian government are setting up frameworks to incentivize the private finance that will undoubtedly also be required. Understanding which public actors are investing, through which instruments, what they are investing in, and for what reasons, is therefore essential. By identifying what is already happening on the ground in Indonesia through this report, we provide a baseline against which to measure progress and plan scale up. We also reveal investment patterns that allow us to pinpoint where the biggest barriers and opportunities are.

*The Landscape of Public Climate Finance in Indonesia*, conducted by the Indonesian Ministry of Finance's Fiscal Policy Agency and Climate Policy Initiative (CPI) breaks new ground. It is the first time CPI has undertaken a landscape in a developing country. It is valuable both as an overview of public climate flows in Indonesia, and an insight into the significant methodological challenges in tracking and collecting this information.

**At least IDR 8,377 billion (USD 951 million) of climate finance from public sources was disbursed in Indonesia in 2011.** This figure of 2011 expenditure falls below Indonesian government estimates of the level of annual finance required by 2020 to meet emission reduction targets. However, both domestic and international public flows are expected to grow in the next few years as comprehensive national policies on climate change mitigation (RAN GRK) and adaptation (RAN API) are fully implemented.

### Domestic Public Climate Finance

National public resources sit at the center of Indonesia's climate finance landscape. **In 2011, the Government of Indonesia contributed by far the largest share, disbursing at least IDR 5,526 billion (USD 627 million) or 66% of public climate finance**, through budget transfer instruments.

**The bulk of domestic climate finance (almost 75%) supported essential "indirect" activities**, such as policy development, research and development, establishment of measuring, reporting and verification systems, and other enabling environments. These activities will drive the future scale up and effective allocation of finance by laying the foundation for "direct" mitigation projects. The Government of Indonesia's focus on indirect activities makes sense given its role in developing and implementing policies and frameworks to stimulate direct investments. With the RAN-GRK framework only introduced in late 2011, high spending on indirect activities was to be expected in this period while national policy frameworks were established, but could be expected to reduce in the medium term.

**In terms of indirect activities, most support was targeted at the forestry sector (73%)**, with another 10% targeted at agriculture and 7% focused on energy. This focus aligns with the fact that a high percentage of Indonesia's emissions come from the land sector. Finance for direct mitigation was also targeted to some of the highest emitting sectors, including transport (35%), waste and waste-water (26%), agriculture and livestock management (27%), and energy (10%). However, to date, little finance for direct mitigation has flowed to forestry and land use. Direct adaptation finance went mostly to disaster risk management.

**In 2011, the principal instrument used to transfer money from the state budget was budget expenditures (IDR 5,975 billion or USD 678 million).** This amount included international money received by central government and channeled directly into the state budget. These flows were disbursed

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mainly to central government ministries and agencies (97%), with expenditures to local governments making up a very small proportion. Despite the fact that most climate actions will need to be implemented at the local level, available information indicates that there are blockages to the smooth flow of domestic climate finance to local government. Urgent work is needed to understand how to support timely, efficient and effective scale up of climate finance at the provincial and district level.

**In addition to budget transfers, the central government made investments, mostly through equity participation in state-owned enterprises (not estimated in this study) and revolving funds (IDR 1,266 billion or USD 144 million)** to support projects and activities that generated revenues. However, only IDR 30 billion were disbursed out of the revolving funds to project activities in 2011. This gap between financial transfers into the revolving funds and realized disbursements suggest they are not currently operating as intended. Further work is needed to understand why, and what improvements might unlock flows.

## International Public Climate Finance

**International development partners added significantly to domestic public resources by contributing an estimated IDR 2,851 billion (USD 324 million) to public climate finance flows.**

**The majority (68%) of international climate finance went to fund direct mitigation and adaptation projects happening on the ground.** A large share of this (55%) went directly to state-owned enterprises and the private sector (mostly in the form of loans). The remaining 32% of international public climate finance went to support indirect activities by central and local governments (e.g. policy development) and organizations involved in capacity and knowledge building, including private consultancies, international organizations and NGOs.

**International resources were split almost evenly between grants and loans**. Loans went to support infrastructure projects with direct mitigation and adaptation benefits (e.g. a geothermal power plant, and a drainage rehabilitation project), while grants were directed to building enabling environments and other forms of readiness. Disbursements were lower than commitments reflecting challenges for development partners operating in Indonesia and for the Government of Indonesia to absorb resources at scale or pace.

## Alignment of Climate Finance with National Priorities

**Overall, domestic and international public finance resources appeared to be well aligned with Indonesia's future policy needs and priority sectors.** The sectoral focus of mitigation activities in 2011 was already closely aligned with emerging national level plans, such as the RAN GRK. Some of the most emission-intense sectors benefit from the highest share of direct and indirect climate finance, including forestry (41%), energy (19%), agriculture and livestock management (10%), transport (9%), and waste and waste water (7%). As early finance flows favor indirect actions such as policy development and enabling environments, this preference suggests Indonesia is positioning itself well to scale up action in the most important sectors.

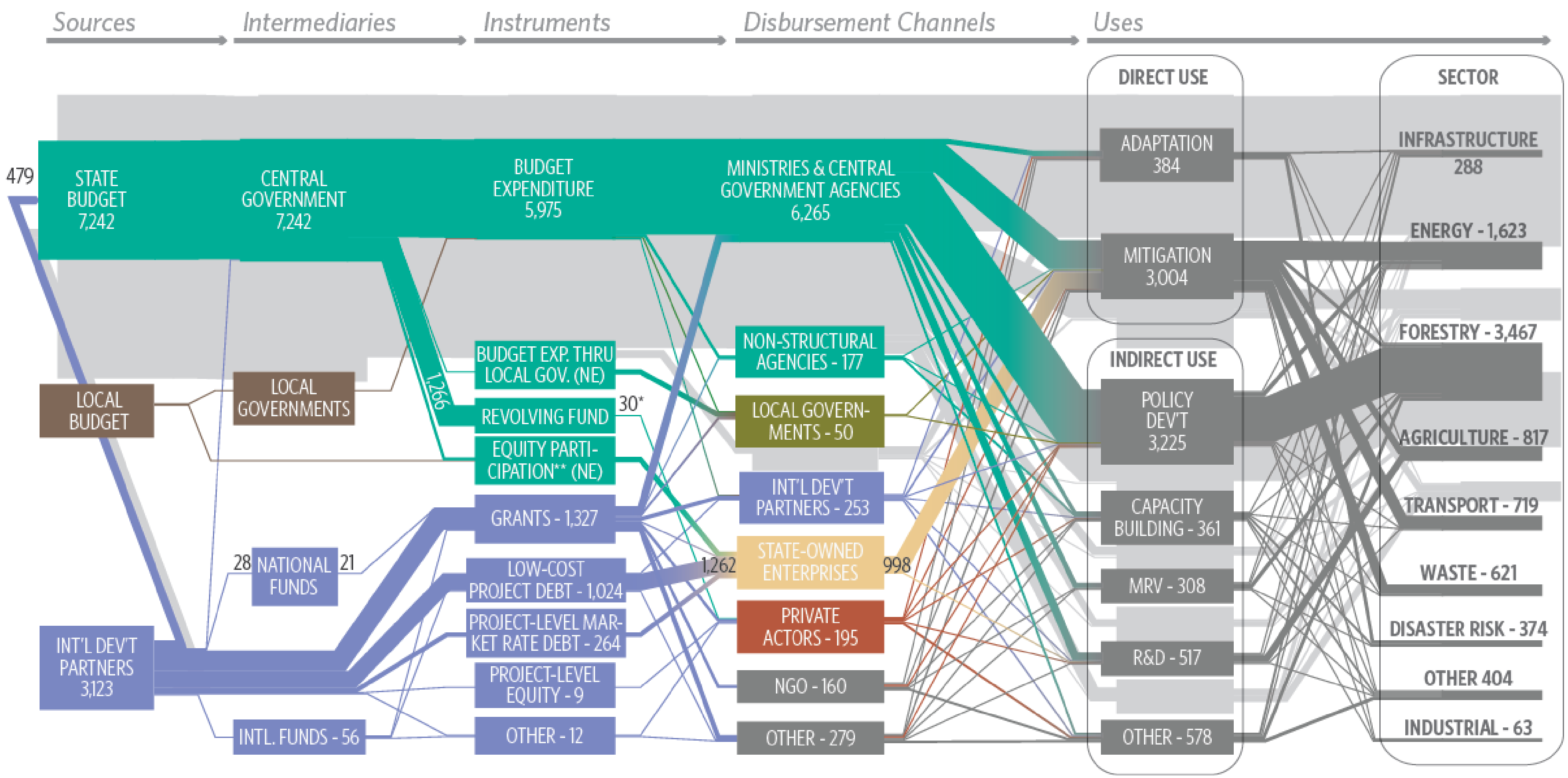
## Recommendations

Taking into account these high-level findings, we offer the following recommendations:

Opportunities to increase the flow of climate finance into projects

- **Designing a dedicated instrument to link national government climate plans and sub-national expenditures may accelerate delivery of flows to Indonesia's regions.** National public resources have the potential to drive and impact the future effectiveness of the overarching system. Central and local governments can play complementary roles - policy is decided at the national level, while outcomes are delivered and tracked locally. In this respect, readiness at subnational level is an important issue. The bulk of future climate actions will need to be implemented at the local level, but there are challenges in disbursing funding to regions to support climate activities, and currently, no dedicated instrument or mechanism.
- **Indonesia's public financial management framework provides a foundation for ensuring that international public grants and loans support country-led priorities.** In 2011, international development partners directed the bulk of their spending at priority sectors, clearly trying to align support with Indonesia's priorities. However, most international climate finance was disbursed through non-government actors (68%) and was often not reported appropriately within the Ministry of Finance system. As such, the Indonesian Government had limited scope to oversee how and where international climate finance was

# THE LANDSCAPE OF PUBLIC CLIMATE FINANCE IN INDONESIA IN 2011




Notes: Figures are indicative estimates of annual flows for 2011. All data presented relates to transfers or disbursements during in 2011. Flows are expressed in IDR billions and rounded to produce whole numbers, and as such due to rounding for presentation displayed values might not add up. We show finance that we could identify clearly as climate-specific as "solid" flows. The diagram captures upfront capital investment costs for low carbon and climate resilient activities, plus activities that indirectly support mitigation or adaptation, such as policy development, capacity building, setup of MRV systems or research and development. We only track upfront investments and not lifetime inflows. There is significant uncertainty around how much climate-specific finance is being disbursed from the state budget to support indirect activities in general, and adaptation activities in particular. We represent the full range, including the band of uncertainty (up to an additional IDR 10,008 billion), in the diagram as a "shadow", reflecting the scale of climate-specific finance and portion of potentially relevant finance that we could not verify.

* We included transfers where we know they happened (ICCTF, Geothermal Risk Mitigation Fund, Eximbank), although there were not disbursements to projects in 2011.

** Equity participation is comparable to what we call balance sheet financing in the global landscape.

directed. Reporting international climate finance through the existing governance framework would enable the Ministry of Finance to better direct international finance to support priority sectors.

- **Designing emerging multilateral funds to effectively link both developing countries' climate change priorities (including Indonesia's) on one side and funders' objectives on the other may help to scale up multilateral flows.** Our analysis shows that bilateral finance flowed more readily in 2011, suggesting partner countries' respective interests were better aligned. Ongoing efforts to finalize governance arrangements for the Green Climate Fund (GCF) may benefit from a closer examination of bilateral governance frameworks and lessons they may offer for the new international climate funding framework.

### Opportunities to improve climate finance tracking

**There are multiple opportunities to improve how climate finance is tracked and reported in most sectors and at most levels of activity.** Efforts are already underway to strengthen current reporting systems. Based on our experience with tracking climate finance in Indonesia we highlight the following measures that could support efforts to raise the level and standard of reporting, and help to more comprehensively track flows:

- **Detailed guidance on how to determine what activities are climate specific, particularly in relation to adaptation**. This challenge is not unique to Indonesia. However, urgent work is required to clarify definitions and how they should be applied at the activity level in Indonesia. In the absence of such guidance, our study showed that key actors were unable to verify potentially large amounts of climate specific finance.
- **A single national system or database for systematically collating comparable information from the full spectrum of actors**. Such a system would greatly increase the comparability of information on climate finance, and also enable the Ministry of Finance to direct different finance flows more effectively.
- **Clearer, more detailed, and more readily accessible guidelines to explain existing and emerging reporting requirements, including simplified and consistent reporting templates**. Further simplification and training on reporting requirements for all actors would lower barriers to accurate reporting. Tailored guidelines would be especially beneficial for international development partners and local government, where it is currently most challenging to track expenditure and its impacts.

## Methodological Issues

Understanding the significance of our findings on public finance flows in Indonesia we must also highlight three crucial limitations:

- **We anticipate the introduction of the national action plan for climate change in late 2011 and roll out to the sub-national level will stimulate an increase in climate-specific finance in the coming years.** Our study is focused on the year 2011 because it was the most recent year for which a comparatively comprehensive data set on public spending was available for all actors, and as such also provides a useful baseline for future similar studies.
- **The scope of our study captures only the public part of the overarching climate finance and hence, only part of total climate finance flows in Indonesia.** CPI's Global Landscape of Climate Finance reports confirm that private finance contributes a majority of total climate finance flows, a situation that may also be the case in Indonesia. One study by the Pew Environment Centre estimated more than USD 1,000 million of investment in clean energy assets in Indonesia in 2011.
- **Although this study makes significant inroads in coding state budget for climate action, building on and expanding the Ministry of Finance's Mitigation Fiscal Framework (MFF) 2012, we were unable to verify a large volume of public climate flows that may be highly relevant.** This was largely due to challenges in classifying certain development activities as climate specific. In particular, the uncertainty regarding adaptation activities is very significant, reflective of a larger global issue in tracking adaptation versus development finance. **In total, we identified, but were unable to verify, approximately IDR 10,008 billion (USD 1,136 million) that may be contributing to climate outcomes.**