CLIMATE POLICY INITIATIVE

VCA
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Yayasan Humanis dan Inovasi Sosial

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Inclusive Climate Finance:

Improving Access for Marginalized Populations in Indonesia

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Authors and Acknowledgements
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Executive Summary

Being one of the largest archipelagic countries of the world, Indonesia is prone to rising sea levels and other climate-related disasters, exposing the marginalized groups living near high climate risk areas to physical harm. Moreover, the economic activities of marginalized communities are mainly based in the agriculture and fisheries sectors—both highly dependent on climate patterns. **As the phenomenon of global warming is most felt at the local level, access to climate finance must be significantly improved to be equitable and inclusive — especially for these vulnerable and marginalized communities**. Unfortunately, this is hindered by Indonesia's top-down climate finance approach that works through bilateral and multilateral cooperation, tending to place the financiers' agenda above local needs.

This Report on inclusive climate finance aims to assess the current climate finance landscape in Indonesia and explore possible ways in which climate finance can be mobilized to target the marginalized populations. The analysis herein focuses on assessing financing solutions in the three major funding sources—public, private, and philanthropy—along with recommendations of potential enablers in order to mobilize multiple fund sources and create impacts at scale.

Key Findings

Mainstreaming climate finance to include marginalized groups means we should rethink our climate finance mission to not only focus on environmental impact, but also on social change. Our analysis concludes that the domestic outlook on climate finance is positive, but climate strategy concerning marginalized populations is less discussed. Below are key takeaways that policymakers, financiers, and other stakeholders need to consider in order to design and implement an inclusive climate finance for Indonesia.

- **There needs to be an improved understanding of the structural barriers constraining access to climate finance by marginalized groups**. Catalyzing an inclusive climate finance means dealing with both the common and the specific barriers unique to marginalized groups. To overcome the barriers of **inadequate capacity, public policy, and finance appetite**, a more strategic approach is needed to mobilize funds and track their impacts among the marginalized populations.
- **Enablers are needed to shift the current financing trends (for vulnerable groups) from philanthropic finance to more commercial finance, to ensure increase in quantity and coverage**. Public and private capital, together, can scale up positive impacts to the environment and society. Deploying a blended finance approach can be the solution to achieving a truly inclusive climate finance.
- **Potential enablers need to address the existing barriers** of low-quality project pipelines, regulatory uncertainty and unfavorable policy environment, as well as information misalignment (Figure 1).

Figure 1. Risks vis-à-vis potential enablers

Barriers to climate finance access	Risk Level	Enablers
1 **Low-quality project pipelines**	High	Capacity Building or TA
High donor requirements/standards	High	
Lack of support to apply for funds and in meet the donors' requirements	Med-High	
Project pipelines tend to be high on social return, low on financial return	Med	Fiscal or non-fiscal incentives
Lack of incentives mechanism available	Low-Med	
2 **Regulatory uncertainly or unfavorable policy environment**	Med-High	
Local policy framework lack the means to support marginalized groups	Med	
Lack of government budget especially for assistance	High	
Lack of participatory decision-making process	Med-High	Policy reform/ certainty
3 **Awareness, biases, and visibility**	Med-High	
Limited prioritization of vulnerable groups over emission reduction	Med	
Limited database and/or platform on marginalized groups and climate finance impacts including assistantships available	Low-Med	Tools and platform

Finance as enablers

Vulnerable and marginalized societies contribute less to global warming, yet climate change impacts these populations the most. Indonesia can neither mitigate nor adapt to the environmental and social problems arising out of climate change without an inclusive climate finance. Prioritizing the aspirations of local beneficiaries, providing adequate information, and building local capacities are critical steps to improving the access to climate finance for those at the margin, and with the greatest immediate needs.

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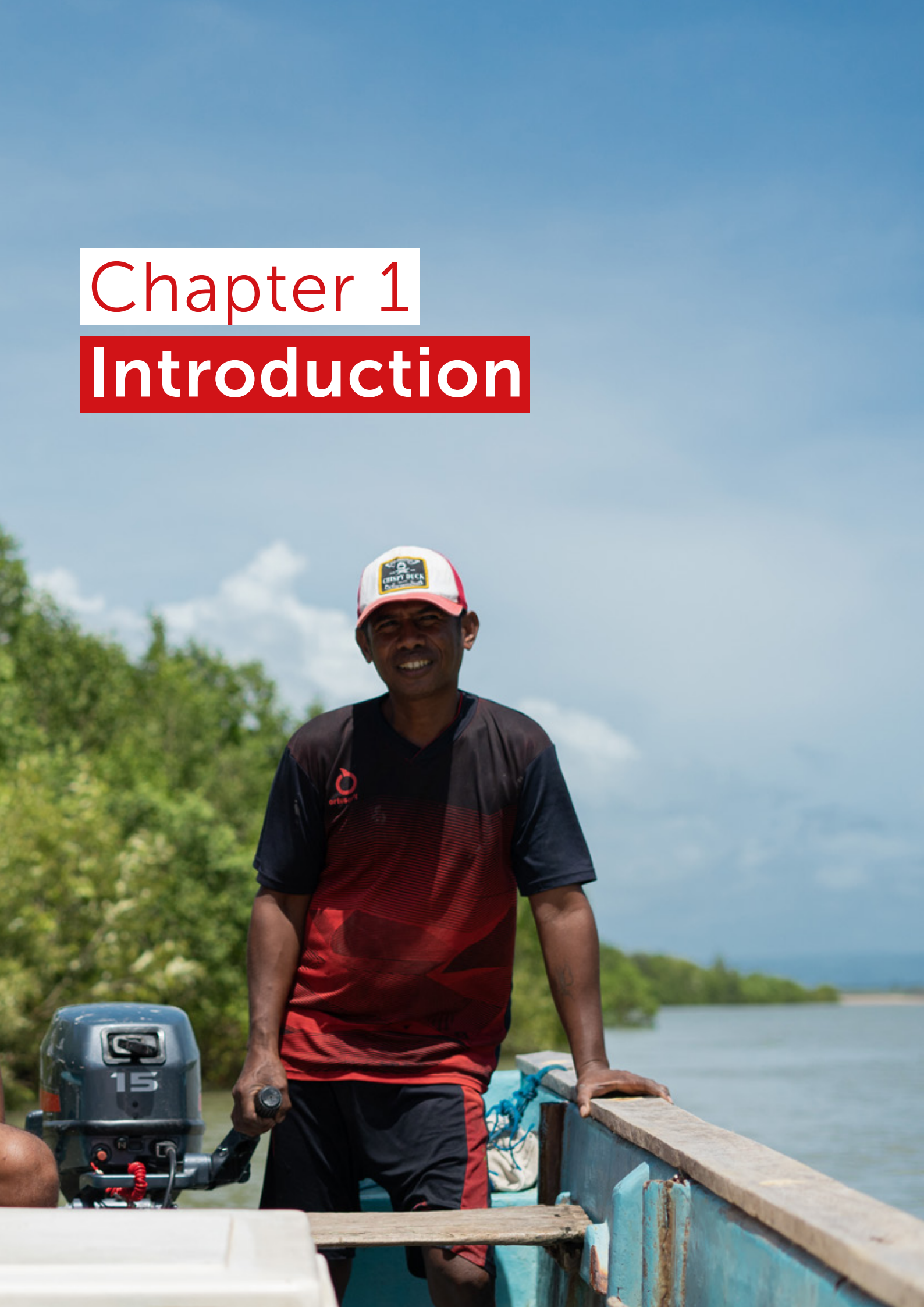
Chapter 1
Introduction



1.1. Background

'Climate action is needed at the international, regional and national level, but how can the delivery of international climate finance be improved so that it is more effective in reaching the local level' (Soanes et al., 2017). During COP 26 in Glasgow, 'accessibility' and 'inclusivity' were some of the most contentious issues on climate finance. (UK Government, 2021) stated that developing countries have long been calling for improvement in access to climate finance. Mechanisms for accessing climate finance are often slow, complex, resource intensive, uncertain, and project based. Despite the impacts of climate change being felt more acutely at the local level, climate finance decision-making continues to be made at a high level with local actors playing a minor role in defining the interventions and the subsequent management of funds (Coger et al., 2021).

At present, most local financing is reliant on public climate finance delivered in a top-down manner. The quantum of climate and development funding that reaches the local level is not known but it is estimated to be less than 10% or US$1.5 billion of international, regional, and national funds between 2003 and 2016. This indicates a major imbalance in the flow of these funds between national and local levels (Soanes et al., 2017). This is also demonstrated by access to current Green Climate Fund (GCF).. By the end of 2020, of the 103 Accredited Entities (AE), only six are Civil Society Organizations (CSOs), accounting for only 4% of approved projects (Hirsch, 2021).

In essence, climate finance should be able to address the most urgent local needs and support the most vulnerable populations impacted by climate change. The impact of climate change is most felt at the local level; hence climate finance must be able to respond to the needs defined at the local level, and cater to the priority of the beneficiaries, including those at the margin, with the greatest immediate needs and the lowest capacities to access funds.

1.2. Objective

The main objective of the report is to analyze how access to climate finance can be improved for the vulnerable and marginalized populations in Indonesia.

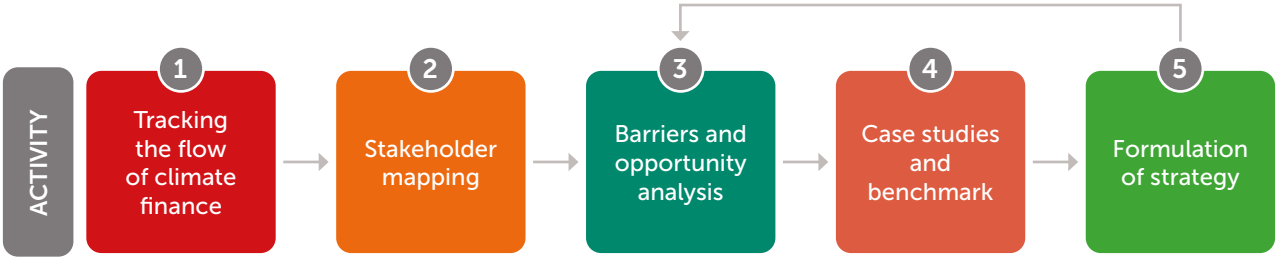
Other objectives include:

1. Mapping climate finance flows in Indonesia.
2. Mapping climate finance stakeholders in Indonesia.
3. Reviewing select climate financing case studies with regards to local financing in Indonesia.
4. Assessing the barriers and opportunities in the existing climate finance vehicles in Indonesia.
5. Proposing recommendations to improve access to climate finance for vulnerable and marginalized populations in Indonesia.

1.3. Methodology

Figure below describes the methodology of this research.

Figure 2. Methodology of the research



1. Tracking the flow of climate finance

We have used CPI's existing climate finance tracking database to illustrate the broad landscape of climate finance in Indonesia.

Box 1. CPI Climate Finance Tracking Methodology

The Global Landscape of Climate Finance (GLCF) series captures available data on primary financing supporting greenhouse gas emissions reductions and climate resilience activities. The Landscape consolidates data from a wide range of primary and secondary sources. It follows financial flows along their lifecycles, from the original source of financing, through financial intermediaries, their deployment in the form of financial instruments, and the recipients of finance, to how finance is ultimately used on the ground (see Buchner et al., 2011, 2012, 2013, 2014, 2015, 2017 and Oliver et al., 2018).

To combine data from various sources, CPI has adopted an operational definition of climate finance and a standardized accounting methodology to ensure data are comparable and consistent, and overlaps are avoided, to the fullest extent possible.

2. Stakeholder mapping

Stakeholder mapping analysis has been conducted through a simple multi-criteria analysis to determine the key climate actors in Indonesia, with specific focus on the marginalized population. The source of data includes but is not limited to, the actors previously identified in the climate finance tracking database.

3. Barriers and opportunities analysis

After the key actors who focus on climate-related finance, and the marginalized groups had been defined, we conducted a purposive sampling to identify several actors for in-depth interviews. Key questions in the interviews centered on:

- Financing modalities
- Barriers to access finance
- Strategies to improve their access to finance, including potential sources not yet explored, and general requirements for financing
- Strategy to measure finance-to-impact, especially the impacts on marginalized populations

4. Case studies and benchmarking

The carefully selected case studies provide successful financing models that could be used to bring in climate finance for local actions that benefit marginalized populations.

5. Formulation of strategy

A multi-criteria analysis was conducted to identify actors ocusing both on climate objectives and marginalized populations, who also need to improve their access to finance. At the next stage, it is used to devise recommendations based on the characteristics of institutions needing improvements, complemented by best practices from case studies that serve as benchmarks (point 4). 4.

Chapter 2
Landscape of climate finance in Indonesia

This section explores the landscape of climate finance in Indonesia, where we highlight climate finance allocation from public and private sources. Our analysis also includes international climate finance flows to Indonesia.

2.1. Climate finance allocation from public sources

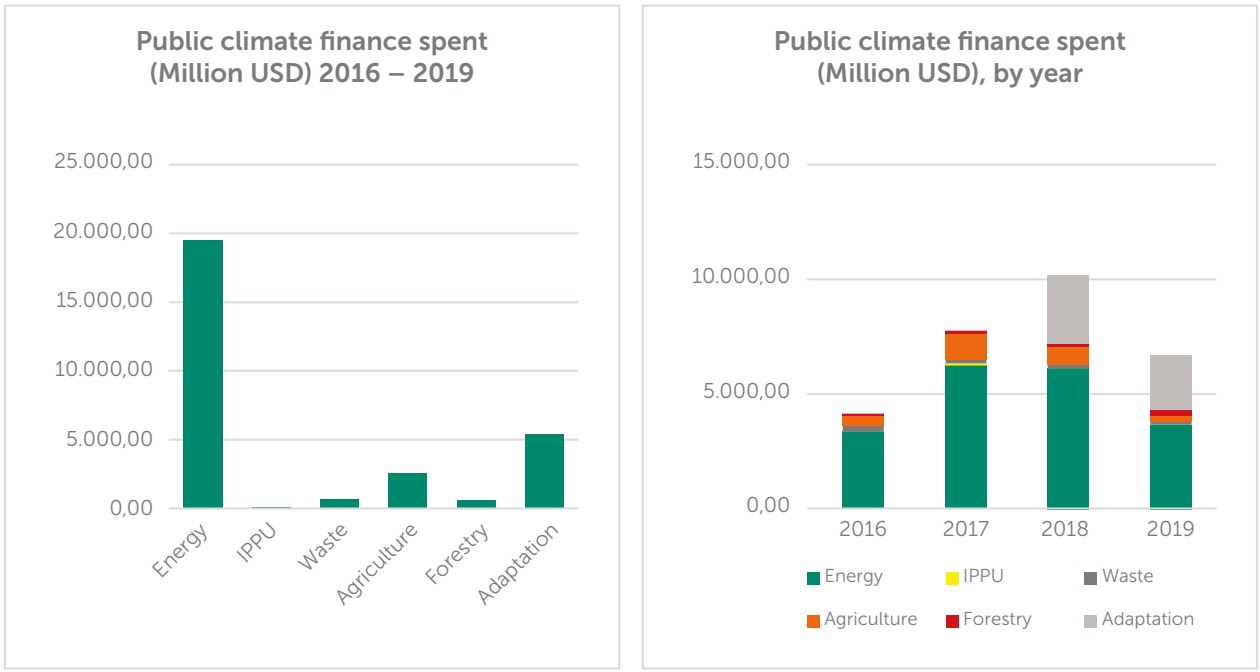
In Indonesia, most of the climate finance from public sources goes towards the energy sector and least to adaptation.

Based on the analysis from K/L (Ministry/Agency) data from climate Budget tagging, and non-K/L expenditure data (e.g., BUMN, BLU) from CPI tracking of 2016-2019, most of the climate finance from public sources in Indonesia go towards the energy sector. Energy is one of the most commercial sectors and requires the highest capital; it also impacts the economy most. Therefore, it gets the highest amount of climate finance.

In Indonesia, adaptation receives the least of public climate finance. However, there has been an increase in flows to adaptation in 2018 and 2019, compared to 2016 and 2017. Adaptation finance flows gained momentum, increasing 99.8% to an annual average of USD 3.010,33 million in 2018 and USD 2.366,86 million in 2019. However, adaptation still accounts for only 35,2% of total public climate finance in 2019 and remains well short of the estimated cost for 2020-2030.

The UNEP Adaptation Gap Report (UNEP, 2021) estimates that overall annual adaptation costs in developing economies alone could reach between USD 155 to USD 330 billion by 2030, and USD 310 to USD 555 billion by 2050. The 2021 Adaptation Gap Report notes that the actual costs are likely towards the upper end of these ranges, particularly if the Paris goals are not met.

Figure 3. Climate Finance Allocations from Public Sources



Notes:
- K/L Expenditure from Climate Budget Tagging (CBT) data
- Non-K/L expenditure (i.e., BUMN, BLU) from CPI tracking

Almost all adaptation finance tracked was funded by public sectors because of the barriers to mobilizing private sector investment towards adaptation. The main barrier is the concern of the private sector about the bankability of adaptation activities since adaptation sectors tend not to be commercial. Apart from that, there are other difficulties such as challenges related to context dependency, uncertain causality, and lack of agreement on impact metrics (Richmon & Hallmeyer, 2019).

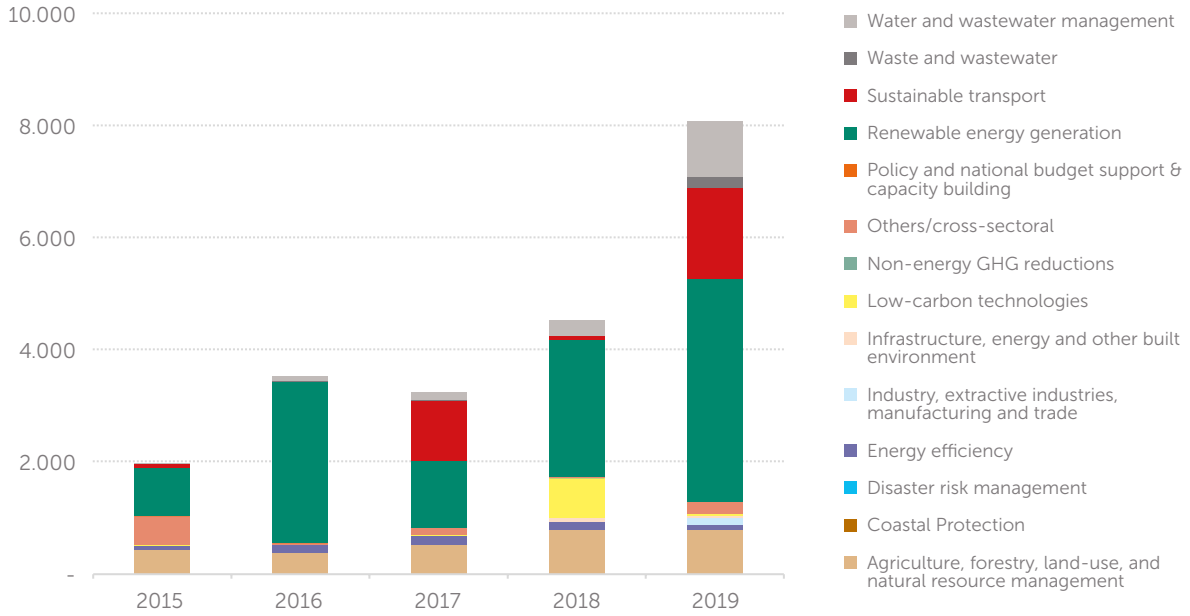
2.2. Climate finance allocation from private sources

Private climate financiers prefer renewable energy and sustainable transport.

The renewable energy sector dominates at 53.3% of total private climate finance, driven by hydro and geothermal expansion projects. In addition, 2016 saw the peaking of diversified renewable energy investment, including photo voltaic (PV) and wind. This reflects the appetite for increased private sector involvement in the renewable energy market, especially in small hydro and geothermal power plants, that are perceived to be less risky.

On the other hand, the land use sector sees a very stable growth year after year, with an average 13.6% of total financing. In addition, sustainable transport, water, and wastewater infrastructure are receiving a lot of funding from private players— averaging at 13.1% and 6.9% of total private climate finance respectively, in the last five years.

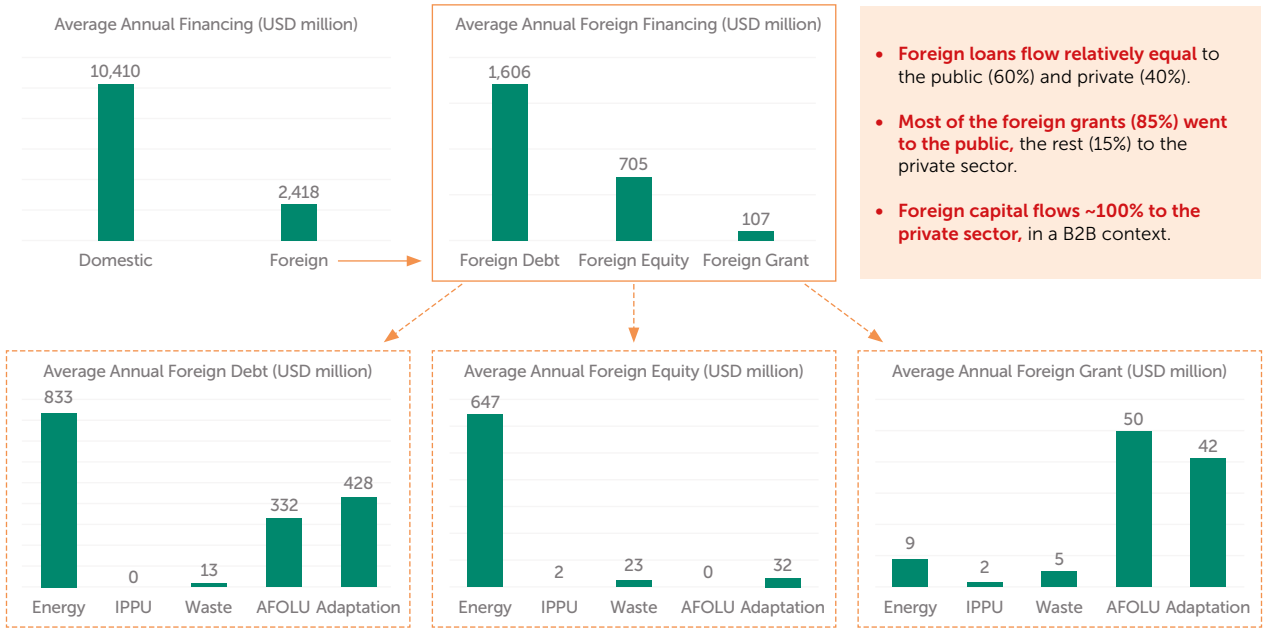
Figure 4. Climate Finance Allocations from Private Sources



2.3. International climate finance flows to Indonesia

Foreign financing is commercial-driven— majorly as loans (66%) for the energy sector, and least as grants (4%), most of which is for Agriculture, Forestry, and Land Use (AFOLU), and adaptation.

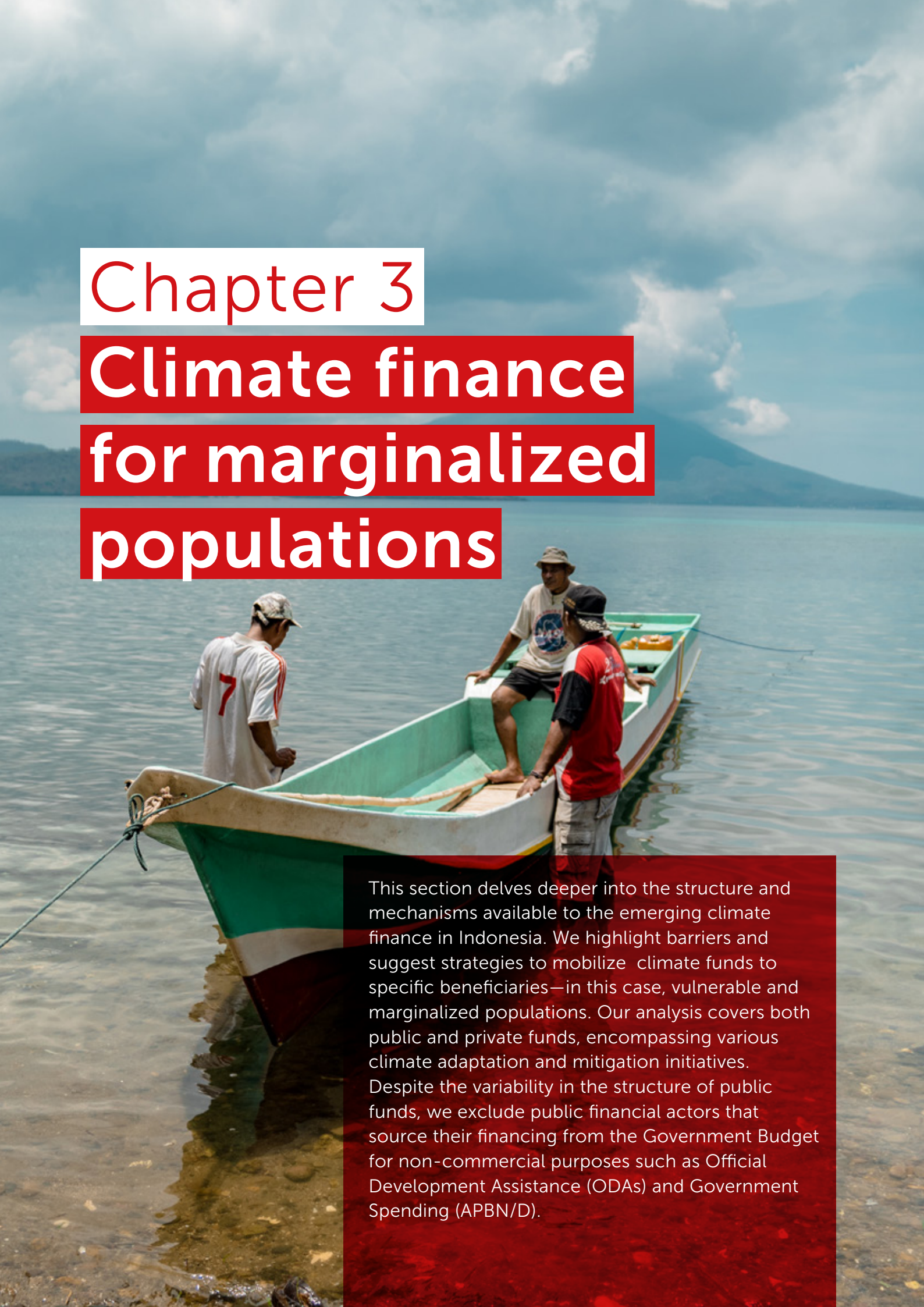
Figure 5. International Climate Finance Flows to Indonesia



Note: The scope for public (KL) is 2016-2019 (mitigation) & 2018-2019 (adaptation). For public (non-KL) and private, 2015-2019. Data were analyzed in annual averages. Source: CPI Analysis

Figure 4 shows that the majority of international climate finance was raised as debt on annual average (USD 1606 million). Equity investment, the next largest instrument, was USD 705 million, while grants featured the least with USD 107 million on average. While developing countries bear the disproportionate burden of climate change, developed countries which are historically responsible for the crisis could push the poorer nations to fall further into debt as they struggle with the impacts of climate change. Foreign loans were relatively equally distributed between public (60%) and private (40%) sectors. On the other hand, most of the foreign grants (85%) went to the public sector while the rest (15%) went to the private sector. As for foreign capital flows, 100% went to the private sector in the Business to Business (B2B) context. In terms of sectoral distribution, Energy continued to be the main recipient of foreign debt and equity. In contrast, Agriculture, Forestry, and Land Use (AFOLU) and adaptation sectors mostly received grants.

Chapter 3
Climate finance for marginalized populations



This section delves deeper into the structure and mechanisms available to the emerging climate finance in Indonesia. We highlight barriers and suggest strategies to mobilize climate funds to specific beneficiaries—in this case, vulnerable and marginalized populations. Our analysis covers both public and private funds, encompassing various climate adaptation and mitigation initiatives. Despite the variability in the structure of public funds, we exclude public financial actors that source their financing from the Government Budget for non-commercial purposes such as Official Development Assistance (ODAs) and Government Spending (APBN/D).

3.1. Climate financing based on project size and commercial orientation)

Climate project financing can be either commercially or non-commercially driven in nature. While large and medium scale projects may have the potential to attract commercial financiers such as banks and private capital, Economic Rates of Return (ERR) remains the main consideration of financiers, and often prevails over social impact considerations. On the other hand, social impacts serve as the foremost focus of non-commercial financing. Additionally, non-commercial financiers typically direct fund flows into small-scale projects.

Figure 5 depicts the source of funds that dominate climate financing in Indonesia, based on project size and commercial orientation.

Figure 6. Finance providers: Commercial and non-commercial projects

Since climate adaptation and mitigation projects addressing marginalized groups are small at scale and focused primarily on social outcomes, public and philanthropic funds are considered to be the most suitable finance sources.

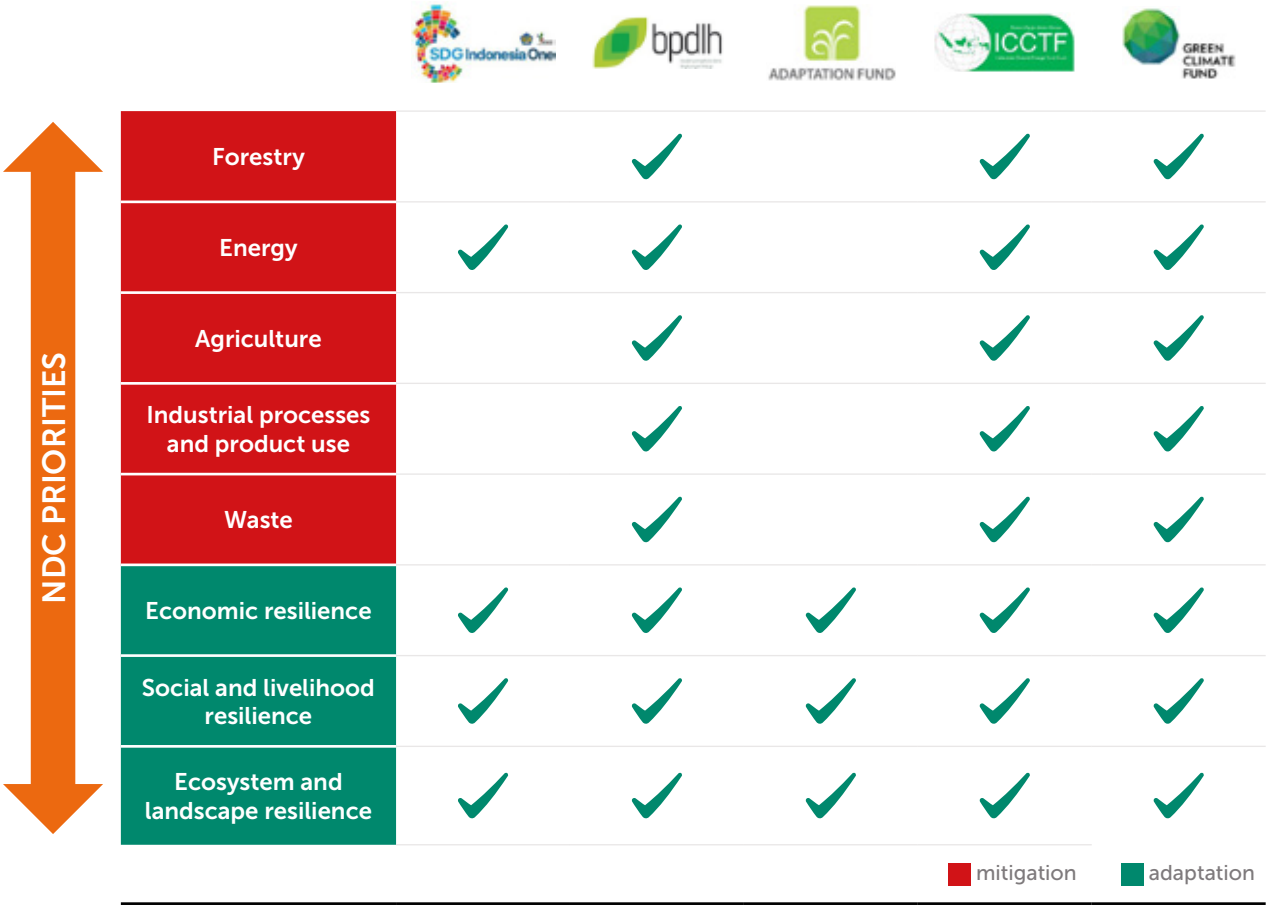
Keeping these variables in mind, we focus our analysis on mobilizing public and philanthropic funds, and aligning climate finance with social impacts to move towards an inclusive climate finance.

3.2. Public-owned agencies mandated to finance local communities

In Indonesia, climate funds for renewable energy, water supply infrastructure, energy efficiency, housing, and other related projects are managed and channeled by State-owned platforms. Each climate financing agency is equipped with frameworks and standards concerning local community engagement, generally in the form of Environmental and Social Management Framework (ESMF).

Specific focus on financing marginalized groups, however, remains unclear. Although mandated agencies obtain direct access to finance the communities, (Figure 6), they deploy generic frameworks dedicated to meet the Nationally Determined Contribution (NDC).

Figure 7. Four public-owned agencies mandated to serve



While Indonesia's adaptation objectives mention social and livelihood resilience, adaptation funds have not yet incorporated vulnerable societies in a specific manner. As a result, social and livelihood resilience financing could be interpreted as serving the general public, without appraising the holistic impacts of social and environmental issues among marginalized societies.

Additionally, funds for mitigation have not considered prioritizing the empowerment of marginalized communities to effectively reduce high-emission activities. Lack of prioritization will further widen the gap between the wealthy and the marginalized population in Indonesia's transition towards decarbonization. In the transition to clean cooking practice, for instance, as homeowners and businesses forego natural gas connections in favor of fully electrified buildings, maintaining existing natural gas appliances will become increasingly expensive for the marginalized communities that remain within the system.[1]

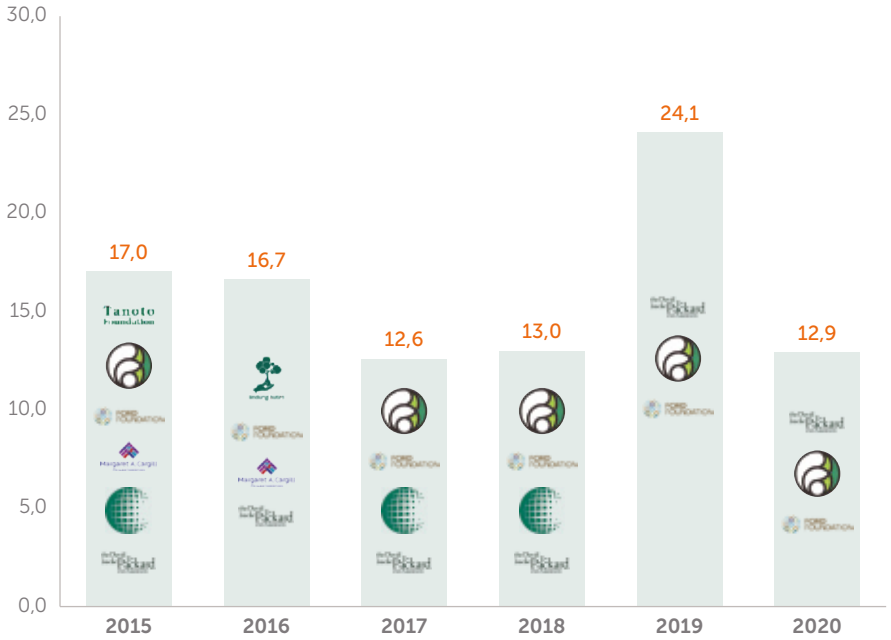
[1] Wara et al. 2020

3.3. Philanthropic funds for social impact of climate finance

Philanthropic organizations have the specific objective of reaching marginalized societies as targeted beneficiaries. In a similar vein, philanthropic funds expect greater social impacts from climate finance. Since philanthropic funds are not commercially driven and focus on social impact through small-scale projects, this type of fund can be the catalyst to seed climate projects among marginalized groups.

The David Lucile and Packard Foundation, Ford Foundation, and Cargill Foundation are listed as top highest donors throughout 2015 until 2020. Despite its significant value at USD 12.6 - 24.1 million, philanthropic climate finance trends have fluctuated, as shown in Figure 7.

Figure 8. Top philanthropic climate fund trends from 2015 to 2020



Though some domestic philanthropies were tracked in Indonesia's climate finance landscape back in 2015 and 2016, international donors represent majority of the funding, beginning 2017. Presumably, the dominance of foreign funds might signify the reliability of philanthropy as a single source of financing climate projects. Consequently, finding alternative sources of funds to complement philanthropic funds is essential to scale up and leverage the initiatives.

3.4 Overall pattern of climate finance for marginalized populations

Since philanthropic funds suit the objective of creating both social and environmental impacts, their limited size, scope and fluctuating trends should be reconsidered. This necessitates a blended finance approach to strategically structure commercial and non-commercial financiers in mobilizing climate capital. The blended finance approach combines philanthropy, Government, and private sectors, each with different appetites. Philanthropy can play many roles in increasing the scale of social impact through seed funds. Private funds would further complement the seed funds to scale up and leverage their impact.

We need to highlight the pattern of commercial financiers in Indonesia that consider social benefit as a single outcome rather than as an integration of environmental and social impacts. Social benefit is usually embedded into their Corporate Social Responsibility (CSR) Programs, which typically provide a limited amount of funds. For bigger funds, commercial banks use loans as vehicles for climate-specific goals. Accessing loans, however, cannot be treated in the same way as the approach to grants. Providing technical assistance to propose and implement bankable projects for marginalized societies is essential. Figure 8 demonstrates how financiers design success factors for climate financing.

Figure 9. Pattern of climate financing success factor among financial providers

Success Factor	BCA	BNI	MANDIRI	CIMB	SMI	PIP	BRI	ALTHELIA	MELOY	PACKARD	WALTON
Financial Return	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Sustainability	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Growth	✓	✓	✓	✓	✓		✓				
Loan disbursement	✓	✓	✓	✓		✓	✓	✓	✓		
Social Return					✓			✓	✓	✓	✓
Environment					✓			✓	✓	✓	✓
Education								✓	✓	✓	✓
Social Benefit, CSR, etc.	✓	✓	✓	✓	✓			✓	✓	✓	✓
Climate-specific objectives								✓	✓	✓	✓
Loan	✓	✓	✓	✓			✓	✓	✓		
Grants								✓	✓	✓	✓
Other instruments					✓						

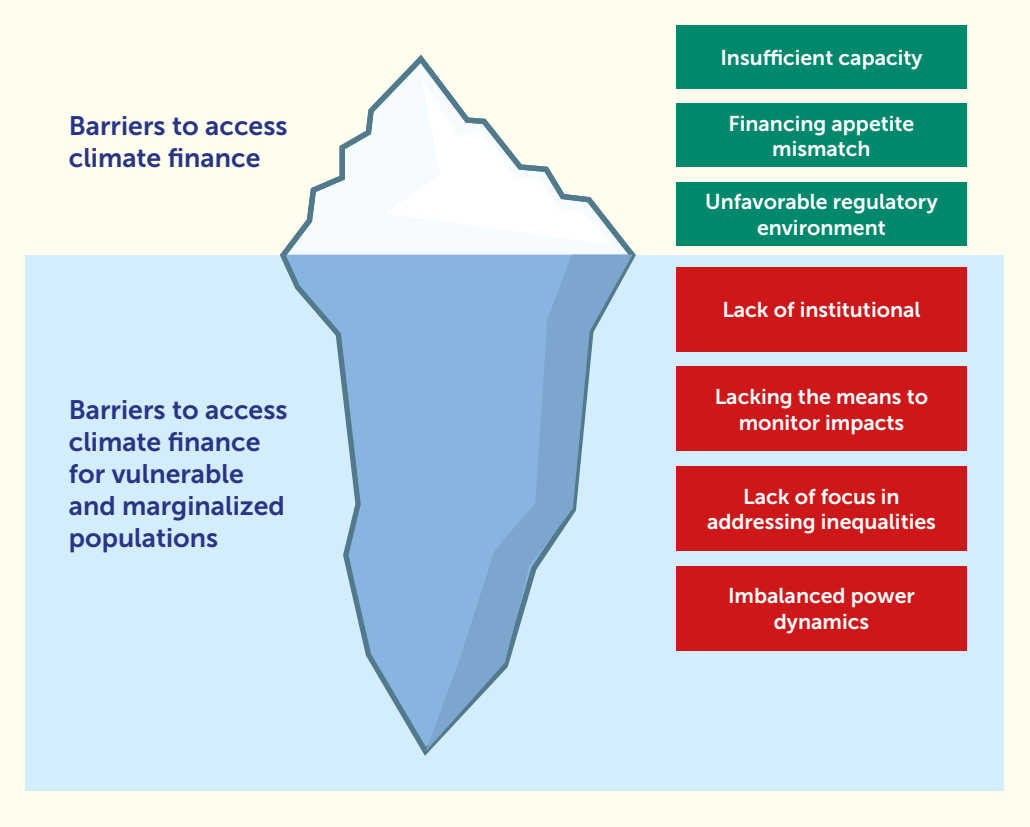
Apart from commercial banks, PT Sarana Multi Infrastruktur (SMI) has the potential to fill financial gaps between the limited coverage of philanthropic funds and the urgency to spread inclusivity. However, adjustments are needed to align with PT SMI's appetite that prioritizes medium and large-scale projects. As a State-owned fund manager, incentives from the Government may galvanize PT SMI to embark on inclusive climate finance projects.


Jeep

Chapter 4
Barriers to more inclusive climate finance

Mobilizing climate finance for marginalized groups is somewhat akin to the iceberg phenomenon. A deeper dive is needed to observe the hidden barriers that block the access of marginalized groups to climate finance. These barriers also create higher perceived risk in providing finance to marginalized groups because of— lack of capacity, mismatch of financial appetite, and uncertain regulatory support.

Figure 10. Iceberg phenomenon illustrates the barriers to climate finance for marginalized groups



Catalyzing an inclusive climate finance means dealing with both common barriers to accessing climate finance, and specific barriers unique to marginalized groups. Non-commercial financiers that are interested in developing climate projects may find obstacles in monitoring and evaluating the achievement of both social and environmental impacts. Likewise, commercial financiers may also limit their support because of insufficient fiduciary capacity. A detailed discussion on various barriers follows in the next section.

4.1. Overview of barriers

The following subsection elaborates our findings on the major obstacles to climate finance access in general, and those of Indonesia's marginalized communities in particular.

4.1.1. Common barriers to climate finance access

1. **Insufficient capacity**, including notably rigorous standards by donors; information and engagement asymmetry; and lack of fiduciary capacity among beneficiaries.
   To achieve their climate financing targets, donors standardize and regulate impact metrics on their climate funds. On the other hand, beneficiaries often perceive such standards as too complex. Fiduciary capacity plays a critical role in providing guarantee,

but beneficiaries may have insufficient capacity to meet those standards— a key barrier. Moreover, engagement asymmetry where there is lack of engagement quality among stakeholders especially towards marginalized group further hinders information from properly reaching beneficiaries.

2. **Mismatch of financing appetite** related to the Return on Investment (ROI), and prioritization of large-scale projects among financiers. Consider the principle of economies of scale—scaling up production creates efficiency because its cost advantages can then be reaped. To make climate projects economically viable, prioritizing large projects is often associated with higher financial return. For commercial companies that put profit above everything, climate projects in large and medium scale are thus more favorable. On the other hand, small-scale projects come with huge perceived risks because it/they may be inefficient in the short run. As financing appetite will likely eliminate unprofitable projects, access to finance providers for small-scale projects will remain limited to non-commercial financiers.
3. **Unfavorable regulatory environment** complicates access to climate finance. Regulatory uncertainty, combined with political instability, hinder the feasibility of adaptation and mitigation projects, and jeopardize market conditions, thereby affecting long-term financial return. Apart from these, the existing unfavorable legal framework is not only less encouraging for new investments, but also renders the measuring of socioeconomic impacts of climate finance a lot more challenging.

4.1.2. Specific barriers to climate finance access for marginalized groups

1. **Lack of support for capacity development is a major issue.** As some financiers have rigorous standards and procedures, the intended beneficiaries should also have sufficient capacity to prove their eligibility. Yet, marginalized groups have limited abilities to access technical support in the first place. While some support to help villages better manage their finances does exist, it is still insufficient.[2] For example, assistance regarding data collection, project planning, implementation, and monitoring of impacts is currently insufficient. Involving universities, cooperatives, and community-based organizations could be the primary solution for assisting in the technical aspects of climate finance. Developing human resources within local communities instead of relying on continuous external assistance, can build sustainable solutions for future climate initiatives, especially among the marginalized.
2. **Financial mechanisms lack monitoring and evaluation**, which, if resolved, would help financiers better understand the socioeconomic impacts of climate finance on beneficiaries. Funds flowing to villages, municipalities, or regions should have consistent patterns, which would help in tracking and evaluating their impacts.
   Though monitoring systems are relatively better organized for funds managed by ministries and national Government agencies, tracking the flow of allocated funds at the local Government level remains challenging. As effective targeting of marginalized communities requires impact assessment at the very grassroot level, climate finance should be equipped with intelligible monitoring and evaluation mechanisms.
3. **Financial mechanisms lacking focus in addressing existing inequalities often deepen the anomalies instead of bridging them.** For instance, the eligibility and reporting requirements of several public finance instruments are often stacked against women and the poor.[3] Such unfocused mechanisms are evident in existing climate finance patterns that mention generic beneficiaries instead of specifying the targeted marginalized communities. Despite the explicit goal of social benefit, the impacts of inclusive climate finance may depend largely on the financier's interpretation of the same. Thus, precise focus on improving access for marginalized communities is essential.

[2] CIFOR, 2020.

[3] CIFOR, 2020.

4. **Imbalanced power dynamics and visibility** leads to lack of policy priority, access to information, and capacity building on climate finance. These further result in problems such as the lack of gender-balanced Budget mainstreaming on public finance, and a robust database on vulnerable populations. In this case, representatives of the vulnerable populace are key factors in engineering the acknowledgement of the marginalized among policymakers and financiers. In other words, local participation must be made more granular, and the implementation needs to be flexible, taking into consideration local values.

Box 1: Case study on Public Environmental Fund (BPDLH) and Ford Foundation's Dana Terra

One of BPDLH's funding windows is supported by Ford Foundation, which has specific aims at local and customary community empowerment, including their natural-resources livelihood strategies. The programs run in 208 cities/regencies of 20 provinces across Indonesia.

Ford Foundation
acts as donors

The BPDLH
acts as trustee and provides guidelines for the fund such as on proposal, safeguard, and fiduciary terms

Intermediaries
such as customary communities, CS Os, Universities/ Research Institutions

Benericiaries
such as customary communities, CS Os, and faculties/ students

USD 1 million of Ford Foundation's committed funds are allocated into three main programs:
1. USD 100.000 for education fund (IDR 100 million/USD 8.000 for each beneficiary)
2. USD 200.000 for BPDLH
3. USD 700.000 for customary communities (IDR 500 -1.500 million/USD 30 - 100.000 for each beneficiary)

Despite its well-rounded design covering both social and environmental impacts, the fund has limited size compared to the annual track of USD 12.6-24.1 million of Philanthropic Funds in 2015-2020. Interestingly, funds addressed to customary communities share the majority portion of the committed funds, indicating the prevalence of local wisdom as a major consideration for the communities.

Still, the BPDLH-Ford Foundation model is unique in the sense that it provides a clear pathway for an inclusive climate finance. The relationship between BPDLH and intermediaries acts as an implementation strategy since intermediaries are expected to understand the local communities better. This works as an example of how positive environmental and social impacts can be achieved—most importantly, in de-risking small-scale projects through concrete guidance on proposal, safeguards, and fiduciary terms. Under this scheme, however, intermediary organizations should have sufficient capacity to propose funding and implement the projects to dedicated beneficiaries.

4.2. Multi-stakeholder perspectives and insights

The following subsection elaborates our findings on the main barriers to accessing climate finance from various perspectives— donors, intermediaries, beneficiaries, local community, and organizations.

4.2.1. Perspective of donors and intermediaries

Some of the main challenges for donors are discussed below

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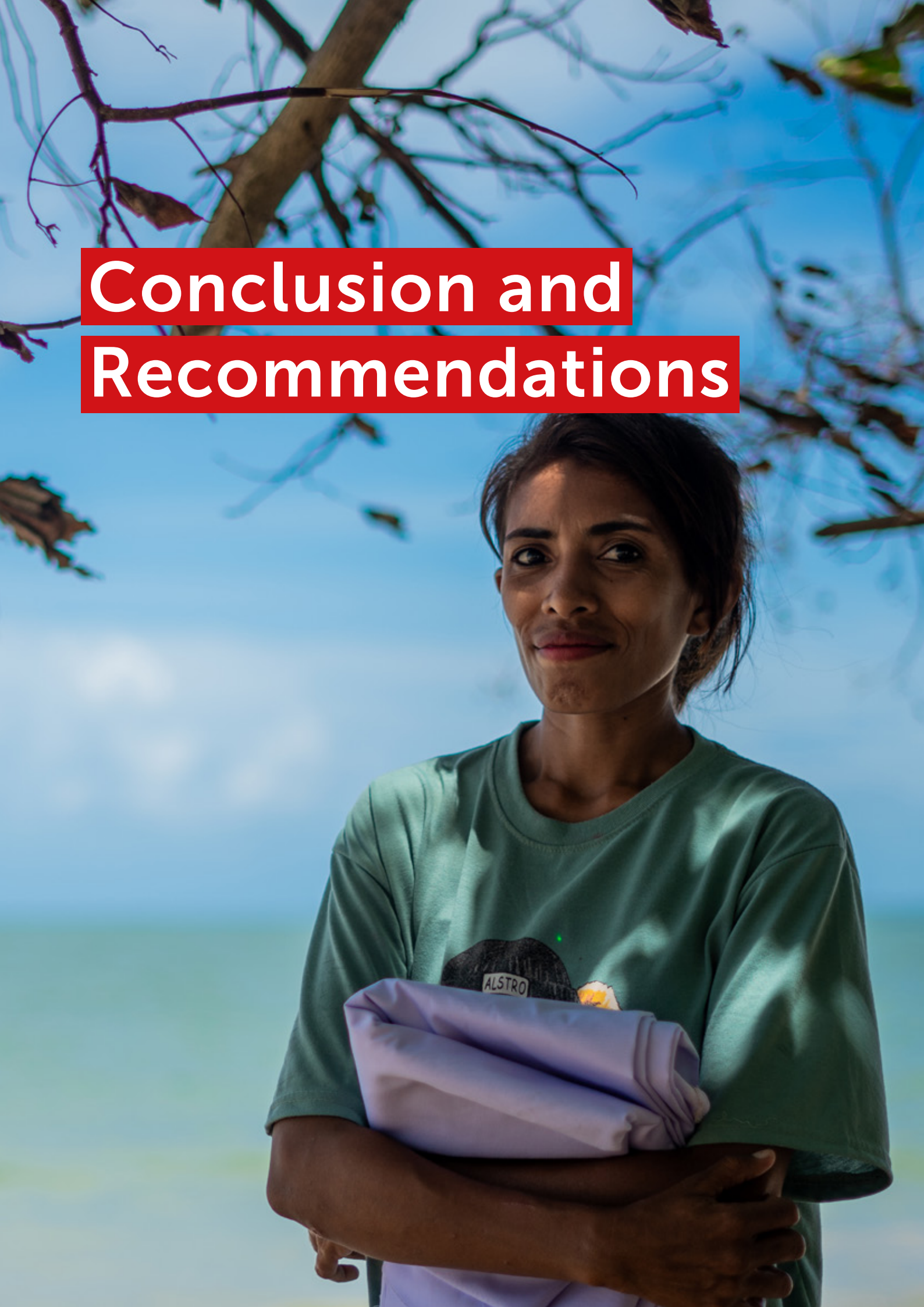
1. **Capacity gap between donor requirements and ability of intermediary organizations working with local organizations.** The assumption is: engagement with ground-level organizations such as local CSOs could be the bridge to better direct the flow of climate finance and related programs towards marginalized groups. This is because most donors do not have the capacity for direct engagement with the target community. However, community and local organizations are often not able to articulate their needs effectively, leading to funding proposals that do not mention any specific priority towards which finance flows can be directed to reach the local beneficiaries. Therefore, capacity strengthening and technical assistance are critical aspects required for better functioning at international, national, sub-national, and local entity levels..
2. **Lack of local institutional structures and capacities at local level (including local Government).** This not only prevents local actors from meeting the requirements of donors, but also constrains them from developing effective projects based on the needs of marginalized groups. Lack of capacity also includes missing mechanisms needed to ensure a certain degree of accountability and transparency required by donors. In sum, donors and intermediary organizations need to focus on building capacity and expanding their networks to the local level.
3. **Many small projects result in high transaction costs.** Funding diverse projects individually increases costs and may not seem viable to financiers Therefore, donors and intermediary organizations could recommend local organizations to form a coalition, so that they are able to access a bigger fund.
4. **Lack of alignment of funds/programs with more inclusive climate finance.** There is need for better alignment to specifically cater to local beneficiaries and communities. It is too difficult for local communities to follow the fragmented and numerous rules and conditions set by different international donors.
5. **There is no international goal or target for local financing, and often there are no specific frameworks for inclusive climate finance** within donors and financial intermediaries that could reach marginalized groups. Therefore, it is important to include fund allocation procedures and specific criteria to accommodate marginalized groups.
6. **Complex climate finance disbursement procedure** leads to ineffective and inefficient flow of money to local communities and most vulnerable groups. It is often hindered by Government red-tape and layers of administration within the country.
7. **Inadequate monitoring and evaluation system** gets in the way of ensuring meaningful participation of the marginalized community in funding decisions, appraisal, and evaluation. This includes lack of monitoring of fund flows to ensure it reaches the local level and positively impacts the target community.

4.2.2. Perspective of local communities and organizations

Some of the main challenges faced at the local level are discussed below.

1. **Complex procedures that are too onerous for local organizations engaging marginalized communities, often with short duration programs.** Because of this, many donors with limited staff prefer dealing with larger and more well-known (usual actors) organizations. The complex procedures needed to access climate finance take much longer than those required for processing investment permits; which may have a negative impact on the environment. Environmental damage occurs faster than the disbursement process of climate funds to the local level.
2. **Lack of technical, business, and financial management skills within organizations**. Local organizations are looking for support to develop the required skills, without which it is difficult for them to get finance. .
3. **Imbalance of power dynamics** among donors, intermediary organizations and local organizations, which leads to information asymmetry, low local ownership, and inability to have dialogues on equal footing in order to negotiate the priorities and requirements of the fund.
4. **There are very few opportunities for dialogue between marginalized groups and grassroots organizations, with financiers**. This lack of meaningful participation process could lead to lack of trust and incomplete or inadequate knowledge about the situation on the ground. This in turn leads to mismatch between the fund priorities and the actual needs at the community level.

Conclusion and Recommendations



Inclusive climate finance provides a unique opportunity for public and private financiers to significantly impact the betterment of the environment as well as society. While the domestic outlook on climate finance is positive, efforts to increase climate finance access for vulnerable and marginalized groups are hindered by several structural barriers. As public and philanthropic funds are not yet sufficient to meet the financing needs, private fund deployment can play an essential role here. To overcome the key barriers of inadequate capacity, public policy, and finance appetite, a more strategic approach is needed to mobilize funds and track their impacts.

Barriers on improving access to climate finance for marginalized communities include:

	Public Actors	Private Actors
Prediction of market trends	Aligning internal strategy with mandated tasks and functions in climate finance	Budget/investment increased based on internal target
Mobilizing climate finance	Depending on funding source e.g., APBN, APBD, grants prior year's climate budget	Following the industry trends, e.g., momentum: Investment increases because of market forces e.g., carbon pricing
Potential challenges ahead	• Changing priorities and climate mandate • Changes in fiscal capacity • Budget revision/ realignment	• Regulatory constraint • Weak coordination • Long tendering process

Before formulating recommendations for a more inclusive climate finance, it is important to understand the obstacles to access at a granular level:

Analyzing the barriers to better understand access issues

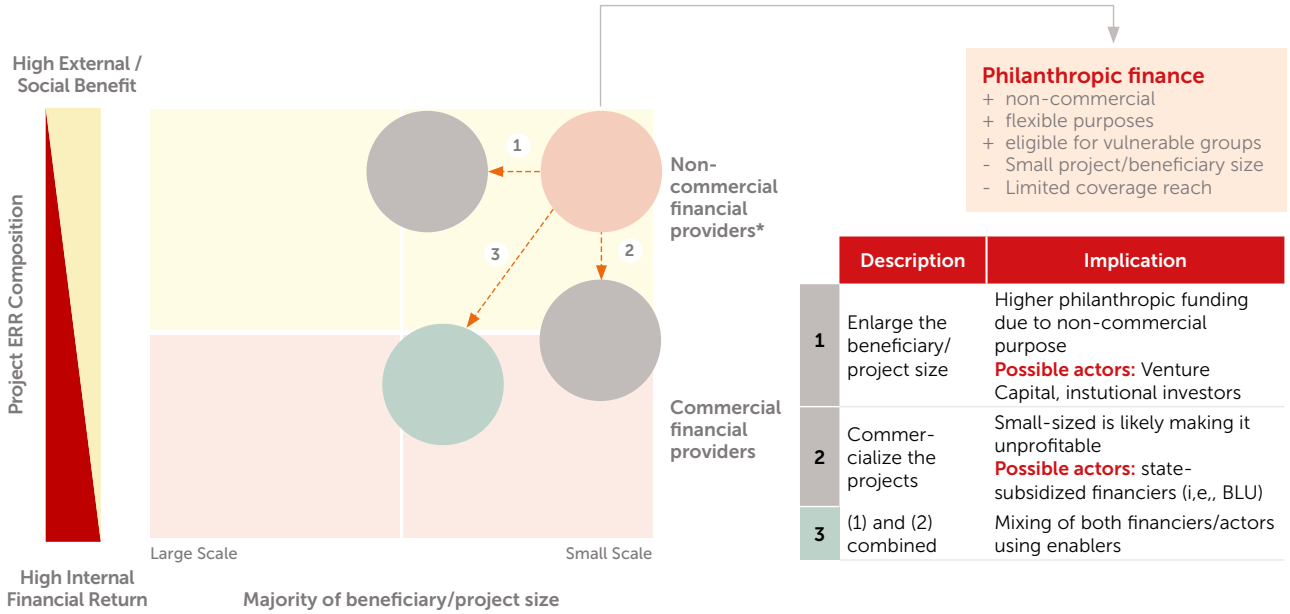
	General Barriers	Barriers, Redefined
Capacity	1. Each donor requires specific fiduciary standards and procedures, requiring potential beneficiaries to be capable of understanding and handling them.	• Lack of support available, and/or resources available, for marginalized groups to apply for funds and meet the mandated requirements • Such lack of support will result in low-quality pipelines, despite having high-impact potential
	2. Lengthy, bureaucratic process for disbursing funds often discourages potential beneficiaries because of their lack of capacity	
	3. Lack of engagement and information asymmetry on climate finance among local actors (i.e., SNGs, CSOs, etc.)	• Lack of visibility especially among women and minority groups, due to the lack of meaningful participation processes on leveraging climate finance
Appetite	4. Most climate financing is still dominated by low-cost loans to generate financial returns, without counting social returns	• Climate finance for marginalized populations is rarely able to generate financial returns, despite having the potential for high social return • Climate finance donors for vulnerable/ marginalized populations are mostly those that do not expect financial returns
	5. Available finance is not adequately adapted to local needs and context-specific vulnerabilities	Lack of participatory, representative processes through which climate finance is disbursed to support recipient's climate actions priorities
Public Policy	6. There is mismatch between project standards and local regulations	Local regulations are lacking the ability, tools, and the means to map and plan climate finance needs, that address inherent inequality issues
	7. There is a lack of government prioritization on helping bridge climate finance access	As the performance and impacts of climate finance disbursement are measured on the amount of investment flowing in, the prioritization of pipelines often leans towards big-sized projects and large beneficiaries, instead of measuring their impacts on marginalized, vulnerable groups

Recommendations

The following steps could be taken to move towards a more inclusive climate finance in Indonesia:

1. **Enablers are needed to shift current financing trends** from **philanthropic finance to more commercial finance** in order to increase the size and coverage of funds. To improve climate finance access for vulnerable societies, it is important to bring together public and private capital in blended finance mechanisms so that socioeconomic impacts can be maximized.

Figure 11. Mobilizing strategy for an inclusive climate finance



	Description	Implication
1	Enlarge the beneficiary/ project size	Higher philanthropic funding due to non-commercial purpose **Possible actors:** Venture Capital, instutional investors
2	Commer-cialize the projects	Small-sized is likely making it unprofitable **Possible actors:** state-subsidized financiers (i,e,, BLU)
3	(1) and (2) combined	Mixing of both financiers/actors using enablers

2. **Potential enablers to address existing barriers** by building local capacity; providing government incentives; improving legal certainty through policy reform; and establishing robust tools and platforms for engagement. With these enablers, access to climate finance and tracking its impacts on marginalized groups can be significantly improved. However, sufficient finance flows towards the deployment of such enabling instruments should come first. For example, providing incentive mechanisms to address low-quality project pipelines.

Figure 12. Risk level and key enablers

Barriers to climate finance access	Risk Level	Enablers
1 **Low-quality project pipelines**	High	**Capacity Building or TA**
High donor requirements/standards	High	
Lack of support to apply for funds and in meet the donors' requirements	Med-High	
Project pipelines tend to be high on social return, low on financial return	Med	**Fiscal or non-fiscal incentives**
Lack of incentives mechanism available	Low-Med	
2 **Regulatory uncertainly or unfavorable policy environment**	Med-High	
Local policy framework lack the means to support marginalized groups	Med	
Lack of government budget especially for assistance	High	
Lack of participatory decision-making process	Med-High	**Policy reform/ certainty**
3 **Awareness, biases, and visibility**	Med-High	
Limited prioritization of vulnerable groups over emission reduction	Med	
Limited database and/or platform on marginalized groups and climate finance impacts including assistantships available	Low-Med	**Tools and platform**

Finance as enablers

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