



The coordination of climate finance in Indonesia

Aidy Halimanjaya and Martha Maulidia

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Key messages

- Indonesia has been through an intensive process of policy and institution building in the context of its efforts to respond to climate change. The adoption of a Mitigation Strategy (RAN GRK) and Adaptation Strategy (RANAPI) present a framework for action.
- Key institutions in efforts to implement these measures include DNPI, the National Council on Climate Change established by the former president, the Ministry of Finance, the planning Ministry Bappenas and its Indonesian Climate Change Trust Fund, and the REDD+ Agency. Financial regulators are also beginning to encourage green investment, and there are nascent efforts to engage the private sector to make environmentally and socially beneficial investments.
- While the ICCTF was intended to foster a coordinated approach on climate finance, in practice it is one of the smallest actors in the domestic climate finance architecture in part because of its modest levels of capitalisation, but also because the arrangements for the Fund did not give key actors other than Bappenas a clear role. The Fund has also struggled to meet international fiduciary standards.
- Existing international climate funds have been docked in one of the key ministries involved, and have rarely made proactive efforts to engage the range of relevant national stakeholders, notably from the private sector and local government.
- There is a recognised opportunity for new climate funds such as the GCF to work in collaboration with the NDA to take a more proactive approach to engaging diverse stakeholders, and put in place new operational processes that can foster progress in achieving mitigation and adaptation outcomes in the context of national climate and development priorities.

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The views presented in this paper do not necessarily represent the views of ODI or CPR. In particular, no responsibility for the opinions here expressed should be attributed to the Government of the Federal Republic of Germany or GIZ.

Abbreviations

ADB	Asian Development Bank
AFD	Agence Française de Développement
AMAN	Aliansi Masyarakat Adat Nusantara (Indigenous Peoples Alliance)
APBD	Indonesia regional budget
APBN	Indonesia state budget
BAPPEDA	The Local Development Planning Agency
BAPPENAS or PPN	Perencanaan Pembangunan Nasional (The Ministry of National Development Planning)
BI	Bank Indonesia (Indonesia's central bank)
BKPM	Indonesian Investment Coordinating Board
BRI	Bank Rakyat Indonesia (the Indonesian People Bank)
CCPL	Climate Change Program Loan
CIFOR	The Centre for International Forestry Research
CIFs	Climate Investment Funds
COP	Conference of Parties of UNFCCC
CSF	Civil Society Forum for Climate Justice
CSOs or NGOs	Civil Society Organizations
CSR	Corporate Social Responsibility
CTF	Clean Technology Fund
DEN	National Energy Council
DFID	Department for International Development
DKN	The National Forestry Council
DNPI	Dewan Nasional Perubahan Iklim (National Council on Climate Change)
FIP	The Forest Investment Program
FORCLIME	Forests and Climate Change Programme
FPIC	Free prior and informed consent
FWI	Forest Watch Indonesia
GAVI	The Vaccine Alliance
GCF	Green Climate Fund
GEF	Global Environment Facility
GFATM	The Global Fund to Fight AIDS, Tuberculosis and Malaria
GHG	Greenhouse gases
GIZ	Die Deutsche Gesellschaft für Internationale Zusammenarbeit (German's development agency)
GOI	The Government of Indonesia
HSCC	Health Sector Coordination Committee
IBRD	International Bank of Reconstruction and Development
ICAN	Indonesia Climate Action Network
ICCA	Indonesia Climate Change Alliance
ICCTF	Indonesia Climate Change Trust Fund
ICEL	Indonesian Centre for Environmental Law
ICRAF	World Agroforestry Centre
IESR	Institute for Essential Services Reforms

IHSA	Institut Hukum Sumber Daya Alam (Institute of law for natural resources)
IIEE	The Foundation of Indonesian Institute of Energy Economics
IPB	Institute of Agriculture in Bogor
IPF	Indonesian People's Forum
ITB	Institute Technology Bandung
JATAM	Jaringan Advokasi Tambang (Mining Advocacy Network)
JICA	Japan International Cooperation Agency
KEHATI	The Indonesian Biodiversity Foundation
KEMALA	Yayasan Kelompok Masyarakat Pengelola Sumberdaya Alam (Association of societal groups for natural resources management)
KfW	German's development bank
LATIN	Lembaga Alam Tropika Nasional (National institution for tropical nature)
LUCF	Land use change and forestry
MCAI	Millennium Challenge Account Indonesia
MDB	Multilateral Development Banks
MEMR	The Ministry of Energy and Mineral Resources (MESDM)
MOA	The Ministry of Agriculture
MOE	The Ministry of Environment
MOF	The Ministry of Finance
MoFin	The Ministry of Finance
MOFOR	The Ministry of Forestry
MOH	The Ministry of Health
MPBI	Masyarakat Penanggulangan Bencana Indonesia (Community for Indonesian natural disasters)
MPW	The Ministry of Public Works
MtCO _{2e}	Million tons of carbon dioxide (CO ₂) equivalents
NIE	National Implementing Entity
OJK	The Indonesian Financial Services Authority
PAKLIM	Policy Advice for Environment and Climate Change
PIP	Indonesia Investment Agency
PKK	Pembinaan Kesejahteraan Keluarga (Empowerment Family Welfare)
PKPPIM	Centre for Climate Change Financing and Multilateral Policy
PLN	Perusahaan Listrik Negara (State Electricity Company)
PT. SMI and PT PII	PT Sarana Multi Infrastruktur Persero and PT Penjaminan Infrastruktur Indonesia
RAD-GRK	Sub-national GHG Emission Reduction Action Plan
RAN-API	National action plan on adaptation
RAN-GRK	National GHG Emission Reduction Action Plan
REDD+	Reducing emissions from deforestation and forest degradation plus
RKUN	State Treasury General Account
SBIB	Sekretariat Bersama Indonesia Berseru (Common Secretariat for Indonesia's Voices)
SKK Migas	Special Task Force for Upstream Oil and Gas Businesses Activities
SNC	Second National Communication
SP	Solidaritas Perempuan (Women Solidarity)
SPI	Serikat Petani Indonesia (Indonesia Farmers Association)
tCO _{2e}	Tons of carbon dioxide (CO ₂) equivalents

UK CCU	UK Climate Change Unit Indonesia
UKP4	The Presidential Delivery Unit for Development Monitoring and Oversight, the Presidential Task Force on REDD+
UNDP	The United Nations Development Programme
UNEP	The United Nations Environment Programme
UNFCCC	The United Nations Framework Convention on Climate Change
UNIDO	The United Nations Industrial Development Organization
WALHI	Friends of the Earth Indonesia
WB	The World Bank
WFP	The United Nations World Food Programme
WWF	The World Wide Fund for Nature
YBUL	Yayasan Bina Usaha Lingkungan (Association for Business Environment)
YPB	Yayasan Pembangunan Berkelanjutan (Association for accelerated development)

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1 Climate change opportunity, institutions and policies

1.1 Introduction

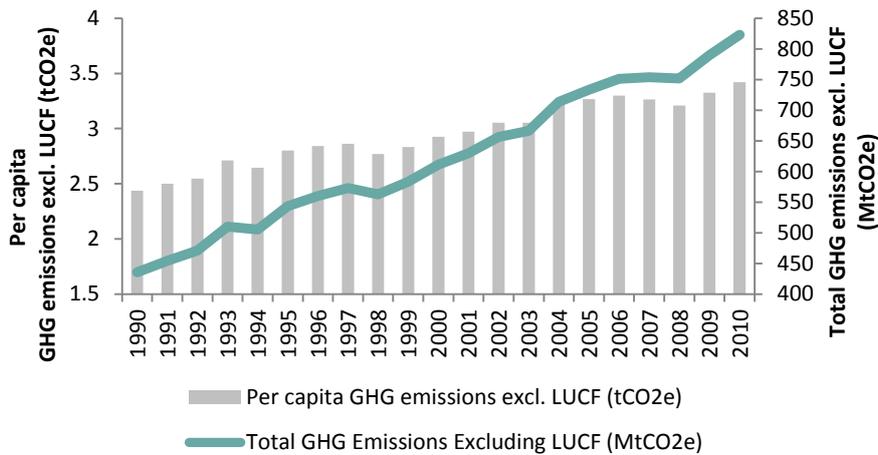
Indonesia has been through a period of enormous experimentation and innovation with institutional arrangements to respond to climate change. This study considers the evolution of these arrangements, in the context of efforts to access and manage finance to realise this response. The focus of the study is to look at the arrangements that are in place to facilitate collaboration and coordination across the diverse actors that will have a role to play in the national response to climate change. This study discusses the institutional arrangements that underpin climate finance flows in Indonesia. Other studies including the Indonesian Ministry of Finance and Climate Policy Initiatives' review of the landscape of climate finance in Indonesia (CPI 2014) and the Ministry of Finance of Indonesia UNDP review of a climate fiscal framework for Indonesia have presented comprehensive reviews of climate related spending. This report builds on those efforts to analyse the governance and institutional dynamics that underpin these financial flows. It takes stock of lessons learned, including from engagement with the international community, and highlights opportunities for continuing to strengthen practice going forward.

1.2 The context for climate finance: mitigation and adaptation in Indonesia

Mitigation

Over the past 20 years, Indonesia's GHG emissions have increased at a staggering rate. This increasing trend in domestic emissions has negative consequences for the country's development, as well as the global environment. Short, medium, and long-term solutions to mitigate Indonesia's emission growth are critical if the country wants to avoid the adverse effects of this uncontrollable emission growth and the resulting climate change. Economic growth is also one of the driving forces behind the increase of Indonesia's emissions, and demand for land and energy are growing. Indonesia's absolute GHG emissions increased at a faster rate than its per capita emissions (Figure 1).

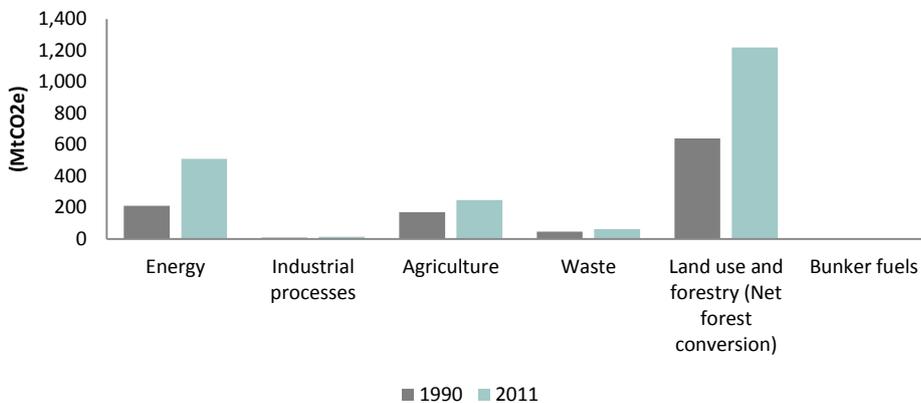
Figure 1: Trends in Indonesia's GHG emissions



Note: The emission data are adapted from cait2.wri.org. GHG emissions including LUCF is distorted therefore GHG emissions excluding LUCF is used.

Land use change and forestry (LUCF) sector has been the major emission source since early 1990s. WRI (2014) data shows that emissions from LUCF decreased slightly in 2010 due to lower forest conversion rate, but continue to be one of the major sources of Indonesia's GHG emissions. Emissions from energy consumption have seen the highest surge, increasing as much as 140% from 212 MtCO₂e in 1990 to 509 MtCO₂e in 2011. Thus, the LUCF and energy sectors are the two biggest contributors to Indonesia's total GHG emissions.

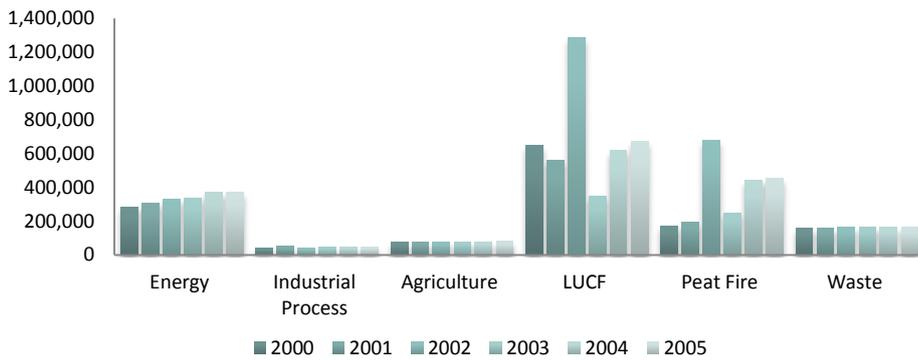
Figure 2: Indonesia's GHG emissions by sector



Note: All figures are by the authors unless otherwise indicated.

Indonesia's Second National Communication (SNC) identifies LUCF and peat fire as two major unstable sources of emissions. SNC data has been used as a basis for considering land-based sectors as one of the top priority areas in mitigating national GHG emissions. Over 87% of the total target set out in the National GHG Emission Reduction Action Plan (RAN-GRK) will be delivered by actions in these sectors.

Figure 3: Indonesia's GHG Emissions Profile

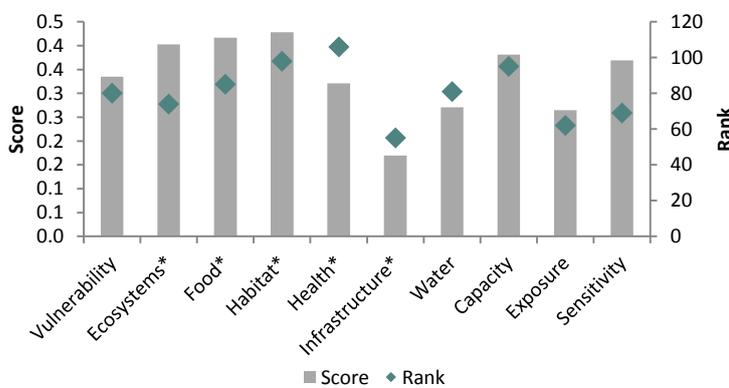


Adaptation

Indonesia is an archipelago-based country in the ring of fire that is vulnerable to sea level rise, volcanic eruptions and other natural disasters such as tsunamis. The tsunami in 2004 hit parts of Indonesia severely and the same is reflected in data which identifies 2004 the country was most vulnerable (ND-GAIN, 2013). To improve readiness, Indonesia needs more preparatory arrangement, continuous investments and innovations.

The Indonesian government is in the process of setting up a long-term action plan for building resilience and adapting to climate change impacts. The government is developing a national action plan on adaptation (RAN-API), launched in 2014. RAN-API identifies five key sectors for adaptation: economic resilience, livelihoods resilience, environmental service resilience, special regions resilience, and supporting systems resilience. The plan narrows down these five sectors into sub-elements, namely habitat, food, ecosystems, health, and infrastructure. While the Indonesian water sector is highly vulnerable to climate change, it is not comprehensively addressed in the RAN-API, suggesting it may not be prioritised for support and finance.

Figure 4: Vulnerability sectorial profile in Indonesia



Note: Data are adapted from DN-GAIN Index. * reported in RAN-API. The higher score indicates greater vulnerability

1.3 Indonesia's climate and development response

Indonesia's policy on climate change has historical roots in its preparations for the Bali UNFCCC COP 13. In 2009 then President of Indonesia, S.B. Yudhoyono announced that Indonesia would voluntarily reduce GHG emissions by 26% by 2020 compared to a business-as-usual scenario from own resources and a further reduction of 15% with international support at the G20 meeting in Pittsburgh. In addition, in the same year Indonesia adopted the "The Jakarta Commitment: Aid for Development Effectiveness", a road map to strengthen country ownership over development aid; to build effective and inclusive partnerships for development; and to deliver and account for development results (GOI, 2009).

Several important policy actions followed these high-level commitments, beginning with the release of the Indonesian Climate Change Sectoral Road Map developed by Bappenas in 2010 as an input into forthcoming development plans, as well as a climate finance needs assessment cor. *National Action Plan on GHG Emission Reduction* (RAN-GRK), regulated under Presidential Regulation No.61/2011, which is also complemented with Presidential Regulation No.71/2011 on GHG inventory. The national plan was followed by the *Regional Action Plan on GHG Emission Reduction* (RAD-GRK), which launched in early 2012. These plans guide the implementation of mitigation action.

As noted, efforts to reduce emissions from deforestation and degradation have been central to these efforts. In 2013, a new REDD+ agency was established under Presidential Regulation No. 62/2013 with the mandate to coordinate nationwide REDD+ strategy. The head of the REDD+ agency reports directly to the President, and has the status of a minister. The REDD+ agency was established in the context of the US\$1 billion Partnership between Norway and Indonesia on REDD+. The Presidential Delivery Unit for Development Monitoring and Oversight (UKP4) has been responsible for the preparation of the establishment of the REDD+ agency. In this context, in May 2011, the President issued a moratorium on new licenses for land-based activities, including logging, and establishing plantations in primary forest and peat land areas.

An official version of an adaptation strategy, the RAN-API was released in February 2014 for comment. It acknowledges that Indonesia does not have a specific policy on climate finance for adaptation. Finance for adaptation measures set out in RAN-API will mainly come from the state budget (APBN). The RAN-API also mentions other domestic sources of funding, such as regional budget (APBD), government bonds, private investment, and Corporate Social Responsibility (CSR) investments. Follow up efforts will be needed, however, to implement these options.

Key actors in the national climate change response

As noted there are a range of actors that are involved in the domestic response to climate change, including a number of government bodies with an presidential mandate to lead action on climate change. BAPPENAS, the Ministry of Finance, the Presidential Task Force on REDD+ (UKP4) – which has successfully assisted the establishment of the REDD+ Agency-- and DNPI are the major government bodies that take the lead on finance for climate change activities. Each plays its own role in supporting national and international stakeholders. In addition line ministries such as the Ministry of Energy, Forests, Health and others play a vital role in implementation, as do state owned enterprises who play a dominant role in providing electricity, as well as extracting and processing gas and coal. Partnerships with donors and civil society organizations (CSOs) as well as local and grass-root level NGOs are playing a key role in delivering climate actions. More recently, several powerful financial

institutions have joined in support of low carbon development in Indonesia. These arrangements, including the role of local government, are detailed in the subsequent section of this study.

1.4 Experiences with international funding for climate and development in Indonesia

A wealth of international partnerships seek to support climate action in Indonesia. These partnerships take different forms and approaches. A recent study by the Indonesian Ministry of Finance and the Climate Policy Initiative (CPI) on the *Landscape of Public Climate Finance in Indonesia (Indonesian Landscape)* identified at least IDR 8,377 billion (USD 951 million) of climate finance from public sources in 2011. It found that the majority of finance came from domestic sources (66%), with international finance playing an important supplementary role, contributing an estimated IDR 2,851 billion (USD 324 million). 55% of the identified funding went directly to state-owned enterprises and the private sector (mostly in the form of loans); 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. It echoed the finding that expenditure falls below estimates of the level of annual finance required by 2020 to meet emission reduction targets. This section of the report reflects on the dynamics of engagement with international funders in more detail, and their approach to stakeholder engagement and coordination across national actors.

In general, relationships with international public financial institutions have been constrained by the government's reluctance to borrow from these entities. In general relationships with the World Bank and the Asian Development Bank have been politically challenging, reflecting a sensitive history shaped by experiences with structural adjustment lending in the 1990s. In this section we seek to understand the role they have played in the national climate response.

Climate Funds

Global Environment Facility

Since 1991, Indonesia has received GEF grants totalling US\$ 150 million. This funding aims to leverage almost US\$1 billion in co-financing resources for 42 national projects.¹ The contribution of GEF to finance various environmental activities in Indonesia is increasing. In the period of 2010-2014 alone, Indonesia received US\$ 87.9 million to finance projects in biodiversity (62%), climate change (34%) and land degradation (4%). Indonesia has also been part of 44 regional and global projects financed by the GEF. Hundreds of small and micro projects in Indonesia have accessed the GEF Small Grants Programme. The programme began in 1992 and has provided grants totalling US\$ 6.6 million for 356 community-based projects, attracting US\$6.8 million in co-financing.

The GEF political focal point is the Minister Counsellor for Economic Affairs at the Embassy of Indonesia in the USA. The operational focal point is the Special Advisor to the Minister on Economic and Sustainable Development Affairs in the Ministry of Environment. The operational focal point endorses projects through a series of stakeholder consultation. Indonesia joined GEF in 1991 and works closely with multilateral agencies: UNDP, UNEP, ADB, WB, and UNIDO are key implementing

¹ 21 projects in biodiversity, 15 in climate change, three in multi-focal area projects, two in persistent organic pollutants, and one in international waters

agencies. The Indonesian foundation YBUL has managed the Small Grants Programme.

Since 2006 the GEF has communicated with non-government actors and key stakeholders through the GEF National Dialogue Initiative. More than a quarter of the participants are from academia and expert communities making it one of the most well-resourced platforms in Indonesia. Many NGOs actively participate in the Small Grant Programmes, hosted by YBUL since 1996. There has been relatively less engagement with a large and diverse community of private sectors in Indonesia.

CTF and FIP

Indonesia has signed an agreement with CIFs to implement climate friendly energy and forestry projects. Through the Clean Technology Fund (CTF), CIFs make US\$ 400 million available for energy efficiency (EE) and renewable energy (RE) projects mainly focusing on geothermal energy. More than 30% of this funding is channelled through IBRD Geothermal Clean Energy Investment and the rest is channelled through ADB (50%) and IFC (20%). Although the financial trajectory is well set, the disbursement of funding has been slow. The GOI's overall focal point for the Climate Investment Funds is the Directorate General of Loan Management/ Directorate for Loans and Grants or Fiscal Policy Office within the Ministry of Finance (MOF). MOF designates the Ministry of Forestry (MOFOR) as the Government's FIP focal point agency and it is managed under the office of MOFOR Secretary General. The designated focal point for CTF IBRD funded geothermal project Government is the Director of Geothermal Enterprise Supervision, Ministry of Energy and Mineral Resources and the Director for Energy, Telecommunication and Informatics, BAPPENAS.

Stakeholder consultations aiming to discuss the CTF Investment Plan have proven to be difficult and this may be one of the causes for the delay in disbursement of funds. In the initial phase, there was a lack of participation in the CTF investment planning process. The MDBs did convene one meeting with Indonesian civil society in developing the investment plan; but proactive efforts to consult key stakeholders by both the MDBs and their counter parts in government were not made, in part as a result of immense pressures to develop the plan quickly. However, the participation of various stakeholders including representatives of the private sector has slowly increased. Particularly in the context of revising the CTF investment plan, the MDBs sought to engage in informal and formal dialogue with various stakeholders both within and outside of government. The experience highlights the value of making concerted efforts to engage through both bilateral dialogues as well as stakeholder convening in developing strategies, and the need for both funds and their counterparts in government to take such initiative.

Through the Forest Investment Program (FIP) Indonesia is accessing US\$ 70 million for forestry and land use related development in Indonesia. This funding is expected to leverage at least three times more funding from MDB and private sector sources. Similar to the experience of CTF, the disbursement of funds is slow and its consultation process has been challenging. In the case of the FIP, REDD+ FPIC and Stakeholder Engagement principles and guidelines assisted the development of consultation process. Follow ups were taken through various means from safeguard workshop, field visits, individual meeting and dialogues with CSOs and to workshops led by the National Forestry Council (DKN). DKN is a multi-stakeholder body with five chambers: government, private, academia, NGO, and communities. This has helped to improve coordination and communication and ownership across FIP stakeholders. The MOF has been heavily involved. Nevertheless DKN capacity and networks are somewhat limited.

Adaptation Fund

Indonesia has not yet accessed finance from the Adaption Fund, although a project implemented by the World Food Programme was proposed in March 2014. DNPI serves as the Designated Authority for Indonesia's engagement with the Fund. Indonesia nominated its ICCTF to act as its National Implementing Entity (NIE) for the fund in 2011. The application was made, however, during a period when its trustee arrangements were in a period of transition. Since 2014, Bank Mandiri has taken over as the trustee for the fund has been taken over by Bank Mandiri. Concerns were raised about the adequacy of the fiduciary systems in place particularly in light of these transitions. Three years after the application was first lodged, the Fund has still not been accredited.

Lessons from non-climate funds

The experience of other multilateral funds with a non-climate focus in Indonesia also offers insights into options for coordination with national stakeholders. We briefly consider the experiences of the Global Vaccine Alliance (GAVI) and the Global Fund for Aid Tuberculosis and Malaria (GFATM) in Indonesia to this end.

GAVI

GAVI has been present in Indonesia since 2001. It provides support mainly in the area of health, i.e. immunisation. Indonesia has received funding from GAVI totalling US\$96.5 million for the period of 2002-2016. By 2012, more than 70% of this funding had been disbursed. Another US\$73 million was available for the period of 2011-2016. The Ministry of Health is the GAVI main funding channel. CSOs including grass root communities such as PKK and Indonesian Boy Scout organisation are selected to provide complementary services in supporting the programmes that are run by the Ministry of Health.

The fund engages national institutions through a HSCC (Health Sector Coordination Committee), chaired by BAPPENAS, and vice chaired by Ministry of Health. The members come from various directorates in BAPPENAS, MOH, Ministry of Finance, Ministry of Foreign Affairs, Ministry of Home Affairs and Ministry of Health. The Ministry of Health manages and channels the funds including the CSO support. This arrangement has given other key ministries for health purposes a prominent role in the inter-agency arrangement.

BAPPENAS and Ministry of Health have specific roles and responsibilities in GFATM in the country. BAPPENAS assigns Director Community Health and Nutrition serves as Chairman of HSCC to ensure supports to HSS (Health Strengthen System)/CSO Plan and National Health Strategy. BAPPENAS also assigns a Director of Multilateral Financing to provide input on financial management of HSS funding. The Ministry of Health assigns Head Bureau of Planning and Budgeting to serve as the Vice Chairman of HSCC. The Ministry also assigns the Director Surveillance, Epidemiology, and Immunization, Director Maternal Health, Director Child Health, Chief Centre for Health Promotion to be part of HSCC. Ministry of Finance assigns Chief Directorate of Loan Management. Ministry of Foreign Affairs assigns the Director of Socio-culture and International Organization of Developing Countries. The Ministry of Home Affairs assigns the Director of Empowerment of Tradition and Social Culture of Community.

GFATM

Since 2003, Indonesia has received substantial tuberculosis funding from GFATM. This makes Indonesia one of the top three GFATM recipient countries after China and India. Currently there are 13 active GFATM grant schemes in Indonesia covering four main health issues totalling approximately US\$ 693 million: 35% for tuberculosis, 34% for HIV/AIDS, 28% for malaria and the rest is allocated to strengthening health system. Up to January 2014, US\$ 536 million or 77% of total signed funding has been disbursed. Indonesia's Minister of Health was elected as the Chair of the Global Fund Board (2013-2015). Multi-stakeholder partnerships develop and submit grant proposals to the Global Fund based on priority needs identified at the national level. After grant approval, they oversee progress during implementation. To improve coordination in implementing its grants, the GFTAM has established a comprehensive multi-stakeholder network in Indonesia. Its representatives cover public and private sectors, including governments, multilateral or bilateral agencies, CSOs, academic institutions, private businesses and people living with the diseases. The GFTAM also builds engagement with grass root organisations and faith-based organisations and provides direct funding for them. Funding for Indonesia was temporarily suspended in 2008 as a result of issues raised in an audit. Measures have since been taken to improve procedures. At the same time it strengthens national institutions' capacity. Integrating the mechanism into an existing national institution (in this case the Ministry of Health), has also reduced costs.

Table 1: Summary table of multilateral funds in Indonesia

Fund	Committed amount so far (in US\$ million)	System used	Mechanism	Characteristics	
Climate-related funds					
GEF	149.9	Ministry of Environment and Counsellor for Economic Affairs at Indonesian Embassy in the US	The GEF National Dialogue Initiative	Long standing arrangement relatively trusted by stakeholders	No formal mechanism to engage private sector.
CIF-CTF	400	Ministry of Forestry and Ministry of Environment (MOE) MEMR - IBRD	Stakeholder consultations took place during the joint missions	CSOs including NGOs and Industrial Representative Organisations (IROs) are growing in number.	Coordination and engagement process of CTF has been less structured
CIF-FIP	70	MOF and MOE	Stakeholder consultations took place during the joint missions	National ownership is seen through the involvement of MOFOR in the whole process. Involving the forest agency DKN proved to be effective.	Reliance on DKN that has constraints on management capacity and network
Adaptation Fund	5.9 ²	Project-based Executing agencies: provincial government, ICCTF and Bappenas. DA: DNPI. One project is under evaluation: Implementing agency: WFP	WFP and Bappenas identified West Nusa Tenggara as province that has food security issues. Provincial government was involved in the beginning. Proposal was developed through inter-ministerial and inter-agency coordination and consultation. Discussions with multi stakeholders took place during proposal development.	An interim strategy before Indonesia has an NIE. Multilateral agency as implementing agency reduces risks borne by the government. Multilateral agency's strong data as the basis for theme and province selection. AF Board involves CSOs in a CSO dialogue alongside the AF Board meeting.	National ownership could be strengthened working through an NIE, and more participatory proposal development.
Non-climate funds*					
GAVI	73.2	Multi ministerial contacts	GAVI selects and appoints CSOs, gives funds to CSOs through the government	The Ministry of Health plays a central role in channelling all funds.	Additional bureaucracy leads to the delay in the disbursement
GFTAM	151	MOH		CSOs receive funding directly. CCM involves all stakeholders including grass root organisations, faith-based organisations and many others.	The Global Fund support for Indonesia was temporarily suspended in 2008 following an audit finding of mismanagement.

Source: Climate Funds Update and Fund Website, desk review based research and key informant interviews (one interviewee or more per fund). * Non-climate funds where their operations may provide lessons for climate fund operations.

² Indonesia is still waiting for its first adaptation project to be approved by the Adaptation Fund Board (in the view of lack of consensus, the consideration of this proposal was deferred to the 24th meeting in October 2014).

Bilateral relationships

Bilateral institutions have also played a central role in financing climate action in Indonesia. Since the early 60s, bilateral assistance and lending has been a substantial factor in Indonesia's foreign policy developments. Japan has been one of the largest players, and historically much of Japan's support has been provided as budget support, filling a need for a flexible aid arrangement (Pack and Pack, 1990). It also initiated cooperation on climate change with Indonesia, through its Climate Change Program Loan (CCPL) which started in 2008. Japan was the largest source of fast start finance for Indonesia.

German cooperation has also been an important element. The German development bank KfW has longstanding programs to support energy efficiency and other low carbon technologies. GIZ's two climate programmes: PAKLIM and FORCLIME were established in Indonesia in 2009 to support the Indonesian government achieving the RAN GRK objectives for the forestry and energy sectors. GIZ is supporting Bappenas to operationalise the Indonesian Climate Change Trust Fund with strategic advice and capacity development for climate finance.

The UK has supported various initiatives on climate change in Indonesia since 2007, and in 2011 after the main DFID office closed a Climate Change Unit was created to continue to finance national climate action. CCU focuses on supporting low carbon development, including programs to strengthen forest governance, and to support the ministry of finance to do more to encourage low carbon development.

Historically AUSAID has been an important player in Indonesia, and financed several programs to pilot REDD+. The progress of these efforts was mixed, and changes to the Australian aid and climate policy architecture raise questions about its continued role in Indonesia. Finally Norway has become a major player through its bilateral agreement on REDD+ with Indonesia which has been negotiated at Presidential level with support from DNPI. As noted, a dedicated Presidential unit on REDD+ has been created, led by a counterpart trusted by the government of Norway.

France has also been a significant actor in the landscape, including through its support for an Indonesian climate change policy loan. AFD continues to be active on low carbon and climate resilient finance. In addition the US has become a significant actor, including through a green development component of its Millennium Challenge Corporation agreement with Indonesia which will commit US\$ 367 million. The slow procurement and disbursement process of Millennium Challenge Account – Indonesia resulted in low absorption of the funds. (See Box 2).

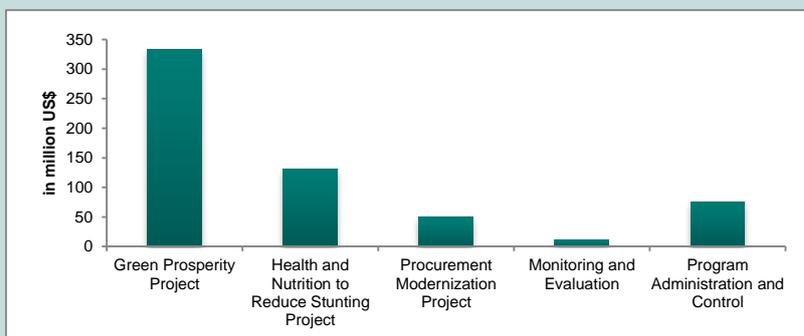
BOX 2: Millennium Challenge Account Indonesia: Green Prosperity Fund

Climate finance involving coordination with local governments

In 2011, the United States of America signed the Millennium Challenge Compact, a five-year US\$ 600 million aid on poverty reduction through economic growth for Indonesia. Both parties signed the implementation agreement in the following year. The compact will be used to fund three projects (US\$ 514 million) and the rest is for crosscutting support and program administration. More than 60% of the total project funding, US\$ 332.5 million is dedicated for the Green Prosperity Project, a funding facility that supports achievement of climate change targets including sustainable management of natural resources and renewable energy. MCAI cooperates with PT. Sarana Multi Infrastruktur (PT. SMI), PT. Indonesia

Infrastructure Finance (PT. IIF) and Bank Rakyat Indonesia (BRI) to explore co-financing arrangements.

Figure xx: MCA Indonesia budget <2011>



Until the third quarter of 2013, the disbursement for the Green Prosperity only reached US\$ 40,280 excluding program administration (Federal Register, accessed in 2014). The small disbursement amount was due to several delays in project procurement. One year after the signing of the implementation agreement, the project plan is not materialized yet. MCA Indonesia made a proposal to the Government of Indonesia to revise several regulations including Minister of Finance Decree and Minister of National Development Decree on grant management and procurement, which appear to hamper the progress of the project implementation (SATKER MCC BAPPENAS 2014). The project procurement was delayed partly because it had to follow strict procurement procedures of foreign grants and loans on implementing organisation, management and transfer of state-owned assets, regulated by Minister of Finance and BAPPENAS. In addition, proposal evaluation process has been time consuming and has required extensive human resources (MCAI Progress Report 2014).

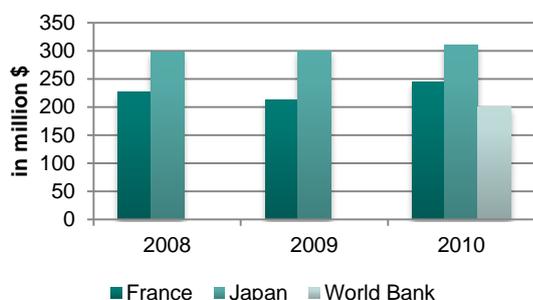
MCA Indonesia has a unique approach to achieve its poverty reduction and environment goals by working directly with provincial and district governments. It selected districts and provinces using several indicators, which encompass social, economic, environmental, and governance aspects. Up to now, 24 districts in 10 provinces spread over Sumatra, Kalimantan, Sulawesi and Nusa Tenggara have been selected. Specific criteria in selecting districts and provinces include poverty level, renewable energy potential, economic development potential, significant forest cover, and critical peatland. MCA used a District Readiness Assessment to select districts as partner. To get selected, districts or provinces have to have legitimate spatial plan. The process is participatory driven involving a series of stakeholder consultations and community mapping activities. Local government is actively engaged in the projects. This is a contrast to business as usual practice where most of the activities are donor driven and local government's involvement is minimum, usually to avoid lengthy bureaucracy.

Source: Federal Register 2013 (accessed in 2014), Satker MCC Bappenas 2014, MCAI Progress Report 2014

Development policy lending and budget support for climate change

In the past development policy lending for climate change action was a significant element of financing for the country. JICA, the World Bank and the French Development Agency have supported Indonesian climate policy and action through a climate change policy loan. Together a total of US\$1.8 billion was made available over a three-year period (2008-2010). Japan through JICA disbursed approximately US\$300 million per year from 2008 to 2010. France through AFD disbursed in average US\$227 million per year and the World Bank later contributed US\$200

million in 2010. The development policy loans were administered through the national budget with BAPPENAS and the Ministry of Finance as the two major counterparts. One of its objectives was to strengthen the incorporation of climate change into development planning, and institutional arrangements for coordination in the context of the national climate response and efforts to attract international finance. World Bank assessments concluded that the CCPL had been moderately satisfactory. Since 2010, however, government policy has been less open to public borrowing from international financial institutions.



2 Institutional arrangements for climate change and finance in Indonesia

2.1 Climate change and climate finance institutions

DNPI: A year after the 13th Session of the Conference of Parties (COP13) in Bali, the President established the National Council on Climate Change (NCCC, known as DNPI). The DNPI's mandate is: "to formulate strategies, programmes and activities on climate change, to play coordination function in the implementation of control tasks of climate change activities, to set up policies and procedures for carbon trading, to carry out monitoring and evaluation of policy implementation on climate change, and to strengthen Indonesia's position to encourage developed countries to take more responsibility in controlling climate change" (DNPI Website, 2013). The DNPI mandate is to create an overarching coordination framework for climate change, such as facilitating high-level discussions across relevant government ministries and mainstreaming climate change into their daily operations. DNPI has played a prominent role in international climate policy processes, including on finance, and in advancing attention to climate change across agencies within Indonesia. DNPI was designed to be an independent council. Initially, DNPI's

operation and staffing were funded through the Ministry of Environment's budget. In 2010, the regulation on DNPI was revised to accommodate greater freedom on budget and tasks support. It is placed under the Coordinating Minister for Public Welfare and has earmarked budget negotiated directly with the parliament.

BAPPENAS: DNPI's mandate to formulate strategies, programs, and activities on climate change control overlaps with BAPPENAS' mandate to lead national planning. As noted BAPPENAS led the development of Indonesia's emission reduction target (RAN-GRK). In this context it worked with other ministries to determine respective contributions to emission reduction targets with active participation from DNPI, MOE, and others including the Ministry of Forestry and Ministry of Energy and Mineral Resources. BAPPENAS is also the lead agency in designing and developing Indonesia's Nationally Approved Mitigation Actions (NAMAs) and National Adaptation Plan of Actions (RAN-API). BAPPENAS works closely with DNPI in formulating national development strategy and policies that will influence Indonesia's position in the climate change negotiation. MOE is the state ministry in implementing and coordinating the GHG Inventory as stipulated in the Presidential Regulation No. 71/2011. It supports BAPPENAS in accomplishing RAN-GRK successfully.

The directorate of Environment under BAPPENAS has the mandate to formulate policy of national development planning on biodiversity; environmental management; environmental institution and information; and weather and climate. The Sub-Directorate of Weather and Climate assesses policy on climate and weather; to carry out coordination and synchronization function in national development in climate and weather; formulates national development plan in climate and weather; to inventory and analyse policy and information related to national development plan on climate and weather; to formulate development financing plan in climate and weather; to implement inventory and analysis on policy and information related to development financing plan in climate and weather; and to monitor, evaluate, assess and report the implementation of the plans, policies and development programs on climate and weather. The JICA AFD and World Bank policy loans for climate change have also positioned Bappenas to play a more central role in Indonesian climate policy. BAPPENAS does not decide on budget allocations. The Law adopted a new approach of medium term expenditure framework (MTEF) aimed at improving fiscal management, and replacing the centralised budgeting system.

The Indonesia Climate Change Trust Fund (ICCTF) was established under the purview of Bappenas in 2009 following the creation of DNPI. The ICCTF is regulated by ministerial decrees of Bappenas.. The main objective of the regulations is to enhance the effectiveness of delivery of climate finance, which translates into the Fund's mandate to pool and channel international and national grants for funding climate change activities in Indonesia. The Fund has transitioned from being managed by UNDP to management by Bank Mandiri, a commercial bank partially owned by the government of Indonesia.

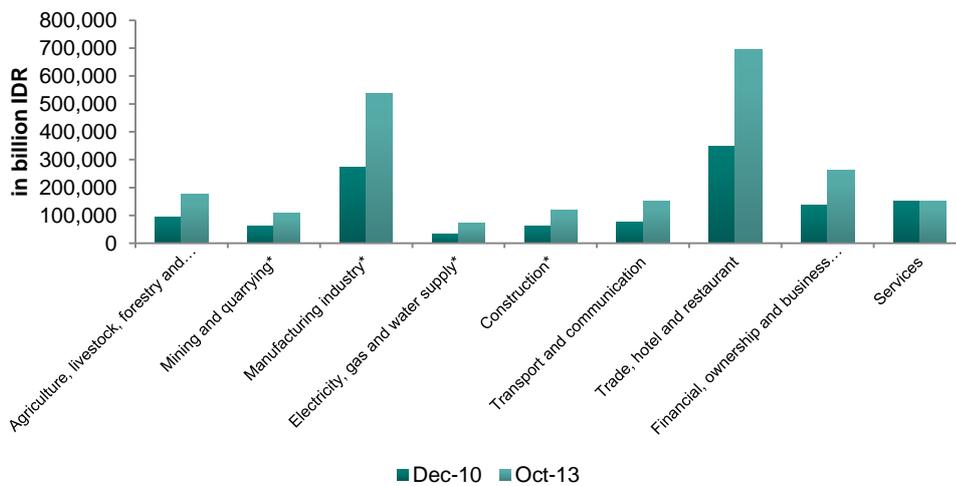
Finally, the **Ministry of Finance** plays a vital role. Within the Ministry, the Centre for Climate Change Financing and Multilateral Policy (PKPPIM) has been established as a research and think thank unit responsible for giving recommendations related to climate change policy to the Minister of Finance. The centre was initially designed to accommodate cross-ministerial and cross-departmental coordination with members from various ministries and agencies (MOF Green Paper 2007). However, in practice, it now only consists of members from the Ministry of Finance. Several bilateral agencies have supported technical advisors to the unit. However its operational mandate is less clear, and PKPPIM only has limited authority to prompt attention to climate action in the budget.

2.2 Financial institutions

The National bank of Indonesia has recently become involved in climate finance activities. In Indonesia, this institution has the experience and networks necessary for mobilising private investment. Its experience with the private sector has traditionally been focused on non-climate related sectors such as consumer credits. However, in order to shift private investment towards green sectors³, the central bank in Indonesia, Bank Indonesia (BI), has begun drafting a regulation on green banking or financing, including tax, soft loans and guarantee schemes. This effort seeks to encourage climate-friendly investments, although it is hard to gauge their impact since the regulations on green banking and financing are still in early stages of development.

The Indonesian Financial Services Authority (OJK) is a new financial institution that is increasingly turning into a respected regulatory body in Indonesia (Aziz, 2013). OJK has the mandate *inter alia* to develop national banking lending policies that can shift credits from traditional focus areas such as consumption credits to sectors where climate-friendly investments are most needed. Climate-friendly investments such as in agriculture, forestry, mining, electricity, gas, and construction have generally been overlooked (see Figure 6). OKJ, thus, has the opportunity to exercise its mandate to shift both public and private investments toward financing climate-friendly activities in priority sectors.

Figure 5: Outstanding loans of commercial and rural banks by economic sector



Source: Bank Indonesia, accessed in January 2014

Although small, the share of green lending in Indonesia has been increasing. A BI survey shows 24 conventional banks and 5 Islamic banks drawing on the green financial portfolio in 2013. However, it amounts to only 1.37% of the total financing provided by these 29 banks. Green financing occurs primarily through investments in mini hydro (26.1%), geothermal (25.7%), high efficient machineries (19.6%), organic cultivation (19.5%), and eco-label products (4.5%) (Siregar, 2013). These investments have increased by 59% in a three-year period from IDR 6.4 to 10.2 trillion in 2013 (equivalent to US\$ 580 million to 927.3 million). Islamic banks have been more open to providing green financing since sustainable and environmentally friendly activities are in line with its ethical principles. However, the share of green

³ Green financing sectors are: renewable energy, sustainable agriculture, green industry and eco-tourism (Siregar, 2013).

financing by Islamic banks remains relatively small at about 2.53% of the bank's total lending in 2013 (*ibid*). The green investment policies also indicate that a majority of private investment flows into mitigation activities, primarily in the energy sector. To date there has been limited private sector interest in financing adaptation activities, even though there is a growing potential for local and community development banks to play a role in the adaptation space.

Some banks in Indonesia have also focused on providing grass root financing and are well known for their work in microfinance. For decades these banks have provided financial services for the poor and in scale that is not economically attractive from the perspective of commercial banks focusing on large-scale industries. BI (2014) identified about a million local and community development bank branches from at least 26 different banks, which they have in-depth engagement with thousands of regents and villages across Indonesia across 33 provinces. These small branches have local wisdom in providing finance for daily economic activities of local small and medium enterprises and Indonesian farmers. Thus, local development banks hold an invaluable asset for climate finance to expand its outreach to the smallest territorial entity in Indonesia.

For example, the Indonesian People Bank or known as Bank Rakyat Indonesia (BRI) has local presence right down to the village level, making its microfinance division the world's largest and most profitable microfinance network (WF, 2014). Their close relationships with farmers and fishermen can be potentially be used in channelling adaptation finance and helping vulnerable communities to build resilience towards climate change impacts. Currently, the involvement of these local banks in climate finance activities is in very early stages. There is a potential to engage development banks like BRI to deliver climate finance and catalyse for private investments in adaptation and mitigation sectors at regional and local levels.

2.3 Key stakeholders

Local actors: district, regent, and provincial governments

In a decentralised government setting, the role of local governments is vital in implementing national and sub-national policies on the ground. Local governments at district and regent levels have the authority to set their own strategies in promoting investments in their territories, such as issuing land permits (BKPM, 2014) or local tax and retributions in which regulated under Law on Decentralisation No.32/2004 (Darmawan, 2008). These local authorities are relevant for the implementation of projects in some climate priority sectors such as energy, forestry and agriculture. These projects often take place in the most rural and remote areas in Indonesia, thus an alignment of local strategy and the higher-level regulation, such as provincial and national regulations is essential in fostering effective governance and coordination systems.

A basic lack of understanding of low carbon development, combined with financial and political interests reinforces high carbon activities such as deforestation and extractive activities. Working with local institutions to strengthen their understanding of climate change and the opportunities it can present is an important frontier for implementation of climate policy, and finance may play an enabling function in this regard. .

NGOs, CSOs and research institutions

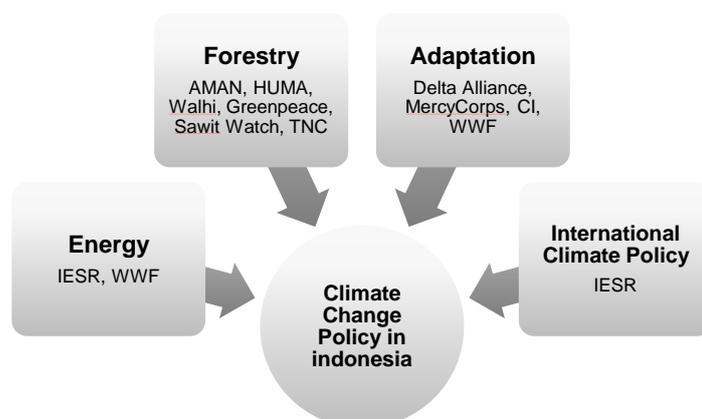
The role of CSOs within Indonesia's climate finance landscape has become increasingly important as they support climate finance activities at all levels. There are at least 30 CSOs that work on climate change issues in Indonesia. Many of these organisations are part of three big alliances: the Civil Society Forum for Climate Justice (CSF), Indonesia Climate Change Alliance (ICCA), and Indonesia Climate Action Network (ICAN). The focus and the level of influence of each of these alliances on national policies vary, and their relative expertise is also diverse covering areas such as international politics, energy, forestry and adaptation.

The first alliance, Civil Society Forum for Climate Justice (CSF) is led by KIARA and Walhi (see Annex 1). They engage in the national consultation processes, working closely with the government by providing inputs and recommendations, carrying out studies, advocating issues to stakeholders, lobbying decision makers, and taking part in international negotiations. The second is Indonesia Climate Change Alliance (ICCA) led by MercyCorps with a focus on adaptation. The third is Indonesia Climate Action Network (ICAN), which has engaged on both domestic and international policy. ICAN includes Pelangi, Kehati, and is led by Institute for Essential Services Reforms (IESR). Another CSO, HUMA, has a narrower focus on REDD+ finance and benefit distribution.

Some international CSOs work directly with communities towards land-use changes and adaptation projects. Delta Network projects, Indonesia Climate Change Alliance, and Mercy Corps work with communities to help them building resilience. Greenpeace, Asia Foundation, Tropenbos, AMAN, HUMA, Walhi, JATAM, Prakarsa Borneo, Stabil, Menapak and many more work on strengthening governance in climate change mitigation related to land-use changes.

The activities of NGOs and CSOs are often project-driven, and there has been a tendency for some NGOs and CSOs to focus on narrow issues linked to their areas of work. The sustainability of funding for NGO engagement is a substantial challenge.

Figure 6: Major CSO Groups Shaping Climate Change Policy in Indonesia



There are also a growing number of research institutions engaged on climate change and finance issues in Indonesia, for example the Centre for International Forestry Research (CIFOR) and World Agroforestry Centre ICRAF are carrying out studies on land use change and forestry and some universities like University of Indonesia,

Institute Technology Bandung (ITB), and Institute of Agriculture in Bogor (IPB) conduct studies related to climate science and coordination on climate change related activities such as climate finance.

NGOs, CSOs and research institutions have distinct views and approaches. Some collaborate with government's bodies such as the National Council on Climate Change, the National Energy Council, Indonesia Climate Change Trust Fund and the REDD+ Task Force. Despite differing views, all play a significant role in shaping Indonesia's climate policies and its financing system.

Private and state-owned companies

Several private companies, quasi private-public institutions and state-owned companies are involved in climate change activities in Indonesia. Chevron, Star Energy, and Supreme Energy are three independent power producers that also produce renewable energy including geothermal and hydro power (Chevron, 2014; Starenergy, 2014). In Indonesia, their work complements the geothermal work division of a state-owned oil company, Pertamina, which is known as Geo-DIPA (Geodipa, 2014). Chevron started the exploitation of the first Darajat Geothermal Power Project in 1994 and expanded to Darajat Unit III in 2006, generating 295 MW of electricity. In 2005, Chevron acquired Unocal and since then owns and operates Salak geothermal with total capacity of 377 MW. Supreme Energy develops Rajabasa 2x110 MW and Muaralaboh 2x110 MW Geothermal Power Projects, which receive government guarantee from the Ministry of Finance and benefit from the ceiling price regulation introduced by the Ministry of Energy and Mineral Resources. These companies have invested in geothermal development and generate income from selling power supply generated from geothermal power plants to PLN, a state led electricity company, which is the only company that has electricity distribution rights and current has 75% of total installed capacity of Indonesian electricity (KESDM, 2012).

PLN encourages individuals and communities to take an active role in being energy producers at all scales including medium and small scales (EBTKE, 2013). Any Indonesian national and companies (PT) and small firms (CV) registered in Indonesia could enter into an agreement with PLN to carry alternative energy development project. This agreement is formalised by a Memorandum of Understanding (MOU), which states that PLN will buy the power generated from the plants with the price regulated by PLN. In 2011, 28 new geothermal development MOUs have been signed (Wahyuni & Asmarini, 2011). Difficulties in operationalising this scheme are related to technical as well as political issues surrounding energy development.

Some large-scale renewable energy projects have technical problems such as road access, financing problems, performance of contractor, difficult negotiations between contractors and developers. There are also regulatory challenges with land concessions when it is located in the middle of a protected forest or natural conservation areas. For instance, geothermal development is considered as a mining activity (Law No. 27 2003) and is restricted in protected forest and conservation areas (Law No. 41 1999). This regulation fails to acknowledge geothermal mining activities as low carbon development as opposed to other mining activities, i.e. coal (Indonesia-investments, 2013). Small-scale or community-based projects are also prone to political intervention. The licenses can be sold and misused as a political campaign tool for parties to gain support of their potential electorates surrounding the potential geothermal power potentials.

2.4 Monitoring international climate finance received

Coordination of international support received and amongst donors has been challenging. Indonesia's Law No. 17/2009 on State Finances requires all revenues and expenditures within one budget year shall be recorded on State Revenues and Expenditures Budget (APBN) (on-budget). In addition, according to Law No. 1/2004 on State Treasury, all state revenues and expenditures should be recorded on State Treasury General Account (RKUN) (on-treasury). Foreign funding can use either on-budget on-treasury or on-budget off-treasury modality (funds are recorded on budget but not disbursed through government account). Off budget systems may offer greater flexibility and efficiency given the rigidity of the national budget system.

Nevertheless, there is a recognised need to strengthen donor coordination and information sharing with the government (Ministry of Finance and CPI 2014, UNDP 2014). Several ministries and agencies that managed donor-funded programs (direct grants) did not report the funds to the Ministry of Finance to be recorded on State Treasury General Account. Grant recording procedures that are time consuming may exacerbate this problem. Different budget cycles between donor and recipient and different accounting systems might also lead to different grant records between donor and recipient. Several programs were also managed using non-APBN mechanisms.

3 The implications of the arrangements that have been established

3.1 Emergence of arrangements

A wealth of climate-focused-institutions have emerged to support the government of Indonesia to deliver its commitment to mitigating national GHG emissions by 2020. Former President Yudhyono was a champion of such efforts. Presidential/ministerial decrees and regulations have been key legal instrument underpinning of the establishment of climate-focused institutions including climate funds. This approach has allowed quick action, whereas navigating parliamentary systems in Indonesia can be a slow, costly and lengthy political process.

The new institutions that have been set up to champion a response to climate change within Indonesia are playing an important role in focusing attention on crucial issues. To various degrees, these entities are supporting other sectoral agencies and ministries to take climate change into account. In creating new institutions it has been possible to set new standards of conduct that might be more difficult to advance in the context of broader environmental reform efforts. Informal networks of NGOs and

other actors facilitate communication and information sharing between climate and finance policy actors, as do good working relationships between individual representatives of different agencies. Perceptions of strong leadership and professionalism in official climate institutions in Indonesia has given them credibility and trust with both domestic and international actors. Relationships amongst institutions, however, affect the extent to which new entities are able to shape and set agendas.

One challenge, however, has been that the legal standing of some of the institutions created were championed by President Yudhyono. This has raised questions about their continuity when political cycles result in changes to leadership. In the case of the Indonesian REDD agency, special measures were made to institutionalise the agency as a Ministry like institution for legal purposes to safeguard against this risk. The newly elected President Jokowi Widodo has already begun a process of re-arranging how various agencies and ministries relate to each other.

The climate change policy arena in Indonesia encompasses a vast array of actors comprising multiple sectors, from land-based activities such as forestry, agriculture, and energy to marine development and aquaculture. Ideally, the presence of climate institutions facilitates crosscutting and cross-functional coordination function, which allows for having coordinated actions across sectors and ministerial functions. And in practice, there may be opportunities to strengthen stakeholder engagement, including by taking more tailored approaches. For example, issue-based-expert-groups, such as in water and/or energy experts or CSOs, can become advantageous counterparts of ministries and agencies working related issues.

3.2 Modalities of working

Several official domestic institutions related to climate change have received coordination role as part of their mandates. We compare the main coordination roles of these institutions in Indonesia's climate policy arena and the climate finance landscape (See Table 2 below)

Table 2: Snapshot of the key institutions involved in Indonesia's climate response

Institutional aspect	Bappenas or PPN	UKP4	DNPI	DKN	ICCTF	REDD+ Agency
Legal basis	Law No. 103 Year 1963 on National Development Planning Agency Presidential Decree No. 75 Year 1973 on National Development Planning Agency	Presidential regulation No. 54 Year 2009 on Presidential Delivery Unit on Development Monitoring and Oversight	Presidential regulation No. 46 Year 2008 on National Council on Climate Change	Law No.41 Year 1999 on Forestry, Article 70 on Forestry Observer Forum Decision of the Fourth Indonesian Forestry Congress Year 2006	Ministerial regulation followed by Presidential regulation regarding trust fund	Presidential regulation No.62 Year 2013
Lead	The Minister of Bappenas	Head of UKP4 (minister level)	The President	The President	The Minister of Bappenas	Head of REDD+ Agency (minister level)
Modality	Forum, formal meetings	UKP4-led cross-ministerial meetings, vice president-led meetings, President-led cabinet meetings	Working groups	Forum	Stakeholder engagement forum	Stakeholder Committee Meetings
Official stakeholders	Ministries and donor agencies	Ministries, NGOs, donor agencies	Ministers and NGOs	Ministries, NGOs, academia, private sector, indigenous community	Ministries, NGOs, academia, chamber of commerce representative, donors	Stakeholder Committee (experts and activists in environment, community and indigenous people empowerment, women empowerment, private sector role in development, good governance and science and technology)
Role in climate programming and financing	Oversee and mainstream climate change into development plans	Monitor and oversee the delivery of development priorities including climate, energy and forestry	The focal point of UNFCCC	National discussion coordinating platform on financing forestry projects/ programmes	Multi-donor financing pot, programme/ project selection, project and programme monitoring and evaluation	Support the President in coordinating, synchronising, planning, facilitating, managing, monitoring, overseeing, and controlling REDD+ in Indonesia. FREDDI is a funding instrument established by the Head of REDD+ Agency to ensure transparent, accountable, and effective funds management.
Source of budget for coordination	Central government budget	Central government budget	Central government budget	Central government budget	Overseas funding	Overseas funding and central government budget

BAPPENAS has both the mandate to coordinate government agencies, and some capacity to engage provincial government through the Local Development Planning Agency (BAPPEDA). Its planning encompasses all development issues including climate change. It has the potential to have an influence on short, medium and long-term national development policies and agenda, and mainstream climate change into the long-term national development agenda. It has a clear mandate to lead inter-agency coordination, and has supported efforts to this end in the context of developing the RAN GRK and RAD GRK out of its own budget.

But in practice the extent to which it has been successful in seizing a mandate of interagency coordination in the context of climate finance is mixed. The ICCTF (See Box 3) was established within Bappenas with the initial support of the Ministry of Finance with the goal of creating a clear platform for coordination of national action on climate change and international support for such action. As the operationalization of the Fund proceeds its potential to fill this role is increasing. The ICCTF is engaging stakeholders around priorities in the context of reviewing its strategic investment plan and policy windows. While the ICCTF has worked hand in hand with DNPI and UKP4 to further harmonise the coordination across official climate institutions, it continues to be perceived as anchored in Bappenas rather than a shared resource. Unlike with the Health Sector Coordination Committee set up for the GAVI, Bappenas have not given other key ministries a prominent or influential role in the governance of the ICCTF. To date, it has not been able to provide the national and international coordination function in the manner originally envisioned.

Box 3: ICCTF – The establishment of a national multilateral fund

Indonesia Climate Change Trust Fund (ICCTF) is the first Indonesian multilateral national trust fund designed to channel domestic and international grants for climate change policies and programmes in Indonesia. A unique joint bilateral and multilateral effort supported its establishment in 2009. DFID, Ausaid and SIDA provided US\$11.2 million for its initial set up where the UNDP acts as the Fund interim trustee. The German government through GIZ provides €3.5 million of technical assistance (Halimanjaya et al., 2014). While it as a pioneer in institutional design for climate finance, the Fund's start up capitalisation is small, and it has not attracted significant additional pledges of support. So far it is one of the smallest sources of international finance in Indonesia, and one of the smaller international climate trust funds. Its establishment has been slow due to lack of legal underpinning and incompatible system of public and private financial management. The Presidential Decree on government trust funds was signed two years after its establishment and since then has become the legal basis of the fund. The Decree only endorses the trust to receive grants.

The establishment of ICCTF also signals Indonesia's willingness to demonstrate its commitment to take more control and ownership over development and climate change programmes in Indonesia. Its bold approach to multi-stakeholder decision-making creates opportunities for strengthening collaboration across donors and key stakeholders. Its is also now engaging Bank Mandiri, the largest commercial quasi-state led bank in Indonesia, in its administration. In 2014, the Fund is about to be fully operationalised to blend in fresh elements into the relatively new way of implementing development project in Indonesia. ICCTF case shows that climate change can push Indonesian development practices to adopt new approaches.

Source: Halimajaya et al. The Effectiveness of the ICCTF. ODI 2014.

DNPI and the President's Unit on Development Monitoring and Oversight on REDD+ (UK P4) have often played an important role in prompting attention to key issues. UKP4 has focused on REDD+ related responsibilities⁴ that require cross-ministerial, cross-agencies, cross-spatial and cross-sectorial coordination.

⁴ Increase of power capacity and types of energy supply, improve resilience such as in food production and security, improve regulation and information in land, natural resources, and spatial planning (land-based/REDD+), improve resilience of infrastructure improve the effectiveness of financing and investment, strengthen Indonesia's contribution in climate change and environment, reform of public health, prepare for readiness in disaster management effort, and enhance the synergy between central and local governments.

It monitors development priorities of key ministries whose activities are related to its tasks. It seeks to reduce bottle necks, and works with relevant ministries and agencies in solving development problems. It has helped solve thorny issues such implementing the moratorium on forest permit issuance, steering the One Map Initiative (which seeks to create one definitive geospatial map of land uses across Indonesia), and establishing a REDD+ Agency. It is also trying to implement performance-based evaluation using Key Performance Indicators to monitor its performance key functions. The evaluation report is submitted to the President. The President has the sole authority to disclose the report.

DNPI for its part has emerged as a highly influential institution in Indonesia climate policy arena and in Indonesia climate finance landscape. It has a crosscutting function and a unique position as the focal point of UNFCCC. It holds a working Group coordination meeting at least once in a month. DNPI facilitates regular formal cross-ministerial focus discussions twice in a year to prepare Indonesia's focus and position in UNFCCC negotiations. DNPI's additional initiative expands its outreach to engage CSOs including KEHATI, WWF, CI and Pelangi. Through multiple working groups, DNPI collaborates with other ministries to formulate Indonesia's position in the UNFCCC negotiation. It has successfully shared responsibility with BAPPENAS to deliver the national climate change policy. It also has managed a complex transition from the Ministry of Environment in coordinating for domestic and international issues related to climate change. It remains to be seen whether these pivotal institutions will continue to enjoy support at the highest levels of political authority in Indonesia under the new administration.

In the forestry and land use sector, National Council on Forestry (DKN) established in 2006 complements the coordination function of UKP4 and DNPI. It has positive supports of CSOs and actively engaged in government policy making. DKN serves as a multi-stakeholder forestry forum embracing government, community groups, private, civil society, and academics. DKN focuses on harmonizing the *communication* among stakeholders and monitoring development outcomes in forestry sector. Indigenous communities have been a central focus of DKN congress. The last congress results in a proposal for DKN to become a constituent based institution whose future is determined by local and indigenous communities, NGOs and observers, business, and government. This early proposal requires more consultations with wider and higher level government bodies.

An overarching monitoring and evaluation system in the wider context is becoming increasingly relevant for Indonesia to track its development and emission reduction progress. The development of the existing arrangement may not diminish the intentions from growing numbers of stakeholders and general public audience to participate and to contribute to the development of Indonesia's climate change and climate finance landscape.

3.3 The way forward

Previous sections provide insights on the implications of the emerging climate change climate finance institutions. With strong presidential backing and some ministerial supports, these institutions shape development action specific to climate change context. There is much opportunity for developing coordination across entities under presidential and ministerial supervisions. Nonetheless harmonious and coordination climate responses across government entities that include the Parliament and the bureaucracies in Indonesia are key for the effective access and use of climate finance in the context of achieving national development goals (Luttrell, Resosudarmo, Muharrom, Brockhaus, & Seymour, 2014).

The institutional architecture for climate finance in Indonesia has evolved relatively quickly. A number of highly capable organisations are taking work forward on a number of important counts. But the mandate for coordination on climate finance is dispersed across multiple institutions, and there is no clear hierarchy amongst these efforts. For the most part, international climate funds and associated implementing agencies have determined the form and extent of stakeholder engagement that informs programming priorities. For example in the case of the CTF, stakeholder engagement has largely been shaped by the priorities of the lead MDBs, though more inclusive approaches have been adopted over time. In the case of the FIP, a collaboration with DKN and the adoption of structured guidelines has sought to respond to criticisms of inadequate consultation and attention to environmental and social impacts in programming available resources. The GEF supports national dialogues that engage a growing range of non-governmental stakeholders.

Learning from the experiences of existing funds such as the CTF, FIP, and GEF, active efforts to engage stakeholders particularly from government, local government and business right from the design phase would be beneficial. Robust stakeholder mapping efforts would facilitate targeted engagement. Linkages between climate change and development objectives might be strengthened by incorporating a social impact assessment component into the design, selection and execution of programs for which international support is sought. Sharing responsibility for such mapping and engagement with the national counterpart can be helpful.

A set of processes are beginning to emerge to facilitate domestic deliberation on climate related priorities and associated investments in the context of implementation of Indonesian climate change commitments. There may be opportunities to build on ongoing efforts to bring international processes and these domestic initiatives into closer alignment. The Ministry of Finance has the potential to wield substantial influence, and has already established a robust working relationship with DNPI through its engagement with the Green Climate Fund. This influence could be made more proactive as the Ministry adopts new systems to monitor spending and action to address climate change at various levels including national ministries and sub-national institutions. This will require engagement of other more operational units within the Ministry, including Budgeting, Debt Management, Treasury, and the Government Investment Agency/ PIP. These units of the ministry of finance are beginning to engage on climate issues to varying degrees, but continued efforts (and clear incentives for engagement) are likely to be necessary.

BAPPENAS, DNPI and to some extent the new REDD+ Agency have taken a relatively proactive approach to engaging stakeholders to forge common understandings of climate change as a priority issue for action. DNPI has now been nominated as the Designated National Authority to support engagement between Indonesia's diverse stakeholders and the GCF. This potentially presents a new opportunity to engage stakeholders, and establish greater convergence of vision about priorities and the respective roles that different stakeholders can play, in coordination with the Ministry of Finance, Bappenas, financial institutions, private sector actors and a vibrant group of civil society actors who are recognised to have substantial knowledge and expertise on climate finance by all of these groups. Continued support for DNPI and the REDD+ Agency at the highest levels of government would be valuable in empowering them to play this role.

There are also opportunities to build on efforts to engage financial institutions and relevant regulators. Furthermore, newly established regulatory institutions for the financial sector such as the Indonesian Financial Services Authority (OJK) have the potential to create new incentives and rules that support the banking sector to make more investments in climate change related activities and legitimise the national policy on green investment. There is a strong case for engaging the OJK in continued efforts to scale up climate finance in Indonesia. Such institutions could be included in national coordination processes and consultations over time.

There are also opportunities to deepen engagement with the private sector. For example, the KEHATI green index identifies Indonesian companies that are making positive environmental and social investments; these are potentially partners in efforts to scale up low emission and climate resilient approaches.

Different stakeholders will have different interests and levels of understanding of the opportunities that climate finance may offer (and the realities of accessing it). A clearer sense of the incentives for each government ministry and various stakeholder groups (notably financial institutions, and businesses) can help align individual institutional interests with the national objectives of coordination.

The identification of existing and potential fora to accommodate periodical and continuous coordination among climate finance stakeholders hence is detrimental. These formal forums and meetings will require the active and consistent participation of key stakeholders – and in order for them to prioritise such investments, there will have to be clear multiple gains to be obtained. Indonesia's engagement with the Green Climate Fund presents an opportunity to make progress to this end.

Policy recommendations for engaging with the Green Climate Fund

- Engagement with the GCF presents an opportunity for Indonesia to build on ongoing efforts to encourage action on climate change across diverse actors in government, the private sector, civil society, and at sub-national level.
- These processes could in theory build on the stakeholder engagement processes that have now been created to support the operations of the ICCTF, but this would require BAPPENAS to make more room for DNPI as the NDA and the Ministry of Finance to play a leading role in convening and shaping priorities. Specialised for a to engage Indonesian financial institutions and regulators could also be established in this context.
- Beyond creating incentives for intergovernmental horizontal collaboration, there is a recognised need to find new and proactive mechanisms to engage private sector organisations and parastatals entities to scale up their action to reduce emissions and strengthen resilience to climate change
- The opportunity for the NDA to develop country work programs that set priorities for national engagement with the GCF is one concrete process that might allow such progress to be made, which has already been recognised by DNPI as the NDA.

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Appendix

Table A1: CSOs working on climate change issues in Indonesia⁵

Name of Organisation	Issues	Website
Aliansi Masyarakat Adat Nusantara (AMAN)	Rights of Indigenous People	www.aman.or.id
Bali Climate Change (collaboration of Bali Organic Association, PPLH, Walhi Bali Chapter, Yayasan Wisnu)	BOA: Organic Consumption PPLH: Environmental Education Walhi: Deforestation/ climate change notably extractive industries practice; legal aid and advocacy. Yayasan Wisnu: Community empowerment; education on community-based natural resources management	https://twitter.com/YayasanBoa www.pplhselo.or.id Walhi.or.id http://www.wisnu.or.id/
CUSO Indonesia	Poverty and equality	http://cusointernational.org
Forest Watch Indonesia (FWI)	Good forest governance	fwi.or.id
GEF SGP Indonesia	Protection of biodiversity, reducing impacts of climate change, and protection of international water	www.sgp-indonesia.org/
Greenpeace South East Asia	Catalysing an energy revolution, Defending our oceans, Protecting the world's ancient forests, Working for disarmament and peace, Creating a toxic free future, Campaigning for sustainable agriculture	www.greenpeace.org/seasia/
Indonesian Centre for Environmental Law (ICEL)	Environment Law	www.icel.or.id
Indonesian People's Forum (IPF)		
Institut Hukum Sumber Daya Alam (IHSA)		
Institute for Essential Services Reform (IESR)	1. Access to Energy 2. Electricity Governance 3. Climate Justice 4. Extractive Industry Reform	http://www.iesr.or.id
Jaringan Advokasi Tambang (JATAM)	Impacts of mining, oil and gas activities in Indonesia	www.Jatam.org
Lembaga Alam Tropika Nasional (LATIN)	(1) People's sovereignty over natural resources, (2) sustainable forest management, (3) institutional and community capacity development, (4) independent institution and community	www.latin.or.id
Masyarakat Penanggulangan Bencana Indonesia (MPBI)	Disaster risk reduction	mpbi.org
NASTARI		
RACA Institute	-	www.raca.or.id Website = Suspent/error
Satu Dunia	Information, communication, knowledge and technology	www.satudunia.net
Sawit Watch	Palm oil	Sawitwatch.or.id
Sekretariat Bersama Indonesia Berseru (SBIB)	Rice, palm oil, fish/shrimp	desasejahtera.org

⁵ Note this list is not exhaustive

Serikat Petani Indonesia (SPI)	Farmers' rights	www.spi.or.id
Solidaritas Perempuan	Advocacy and campaign for women right	Solidaritasperempuan.org
TELAPAK	Natural resources and customary rights	Telapak.org
The Foundation of Indonesian Institute of Energy Economics (IIEE)	Environmentally friendly energy, stakeholder engagement in energy resources planning and management, and public policies of alternative energy resources and access to energy.	iiee.or.id
The Indonesian Biodiversity Foundation (Yayasan KEHATI)	Conservation & utilization of biodiversity and environment in equitable and sustainable manner	Kehati.or.id
TIFA Foundation	Democracy & governance, human rights & justice, Indonesian migrant workers protection, media & information	Tifafoundation.org
WALHI/Friends of the Earth Indonesia	Environment, bad practices of extractive industries, advocacy & legal defense	Walhi.or.id
World Wild Fund for Nature (WWF)	Indonesian biodiversity conservation	Wwf.or.id
Yayasan Burung Indonesia	Tourism , sustainable water and environmental sanitation, waste management, energy, agriculture, fisheries, mining, marine management, health, forestry and nature conservation , marine conservation , education , community development, cultural heritage preservation , disaster risk reduction , women's empowerment	Ecoflores.org
Yayasan Kelompok Masyarakat Pengelola Sumberdaya Alam (KEMALA)	Community-based natural resources management	
Yayasan Pelangi Indonesia (PELANGI)	Climate change, energy, forestry and sustainable transport	www.pelangi.or.id
Yayasan Pembangunan Berkelanjutan (YPB)	Environment and sustainable development in Indonesia	Ypb.or.id

Table A2: Focal points of multilateral funds

Position	Details
GEF Operational Focal Point	Special Advisor to the Minister on Economic and Sustainable Development Affairs Ministry of Environment
GFATM Principal Recipient	Chair person, Health & Environmental Division
GFATM Chair Country Coordinating Mechanism	Ministry of Health of RI, A Building, 9 th Floor
GFATM Local Fund Agent	PricewaterhouseCoopers, Indonesia
Focal Point CTF	Director of Geothermal Enterprise Supervision, Ministry of Energy and Mineral Resources
Focal Point CTF	Director for Energy, Telecommunication and Informatics, BAPPENAS
Focal Point FIP	Office of Secretary General, Ministry of Forestry

Box A1: State institutions relevant to the national Climate response⁶⁶

Abbre in Bahasa	Explanation	Background and function
Bappenas	Ministry of National Planning Agency	Bappenas has the mandate to formulate policy, to coordinate and align the design and evaluation of national development plan in trade, investment and international economic cooperation.
BKPM	Indonesian Investment Coordinating Board	The agency responsible for promoting domestic and foreign investment with a mission to seek quality investment that improve social inequality and reduce unemployment. The agency has identified four key sectorial investment opportunities, which include: infrastructure, food and agriculture, energy and industry. Although the agency still focuses on fossil-based energy notably on oil and gas and coal, it recognizes that investment in renewable energy is also important for the country, noting its effort in achieving low-carbon economy through carbon emissions reduction.
DEN	National Energy Council	The Council is mandated to design and formulate national energy policy to be approved by the government and the parliament; to establish national general energy plan; to establish emergency response plan in energy sector; and to monitor the implementation of cross-sectorial energy policies.
MEMR	Ministry of Energy and Mineral Resources	The MEMR sets out policy and regulations on investment in energy sector. The ministry has improved its policy to accommodate and promote opportunities and role of private sector investment in energy sector, particularly in power sector.
MOA	Ministry of Agriculture	The MOA establishes policy and regulations on investment in agriculture sector. Investment in this sector is derived from farmers, government and private. Private investment is minor compared to investment by government and farmers, however the growth in the last decade is quite significant, between 25% and 30% per year. (MOA, 2013).
MOE	Ministry of Environment	The MOE manages activities related biodiversity and ecosystem degradations.
MoFin	Ministry of Finance	The Ministry of Finance has the authority in approving government expenditures in annual budget.
MOFOR	Ministry of Forestry	MOFOR sets out policy and regulations relating to investment in forestry sector. The Directorate General of Forest Business Development) sets out investment procedures in forestry sector. It is responsible for reviewing application of forest licenses. Most investment in forestry sector is directed to investment in forest industries, natural forests, community plantation forests, and ecosystem restoration.
MOI	Ministry of health	The MOH formulates health policy, implementation plan, and procedures. One of its functions is to determine guidelines of health service financing including investment.
MPW	Ministry of Public Works	The MPW is responsible to set out policy, plan and guidelines in infrastructure, spatial planning, human settlement, building and water resources.
OJK	Indonesian Financial Services Authority	OJK performs its regulatory and supervisory duties over financial services activities in banking, capital markets, and non-bank financial industries sectors. The main function of OJK is to promote and organize a system of regulations and supervisions that is integrated into the overall activities in the financial services sector. OJK was established in 2011, it takes over several functions that were formerly embedded under the Central Bank (Bank of Indonesia).
PIP	Indonesia Investment Agency	The operational authority that is responsible for managing the investment of central government in accordance with policies set out by the Ministry of Finance. Its functions are among others: managing investment funds account; setting out business and budget plans, risk management, investment, financing and legal and agreements on investment.
PT. SMI and PT PII	PT Sarana Multi Infrastruktur Persero and PT Penjaminan Infrastruktur Indonesia	PT SMI and PT PII are the only two state-owned enterprises under the responsibility of Ministry of Finance. PT SMI and PT PII a role of catalysing for climate compatible private investment in infrastructure.
SKK Migas	Special Task Force for Upstream Oil and Gas Businesses Activities	SKK Migas is tasked to manage the upstream oil and gas business activities under a Cooperation Contract. It plays important functions as the representative of Indonesian Government in preparing and offering bidding, signing contracts, and granting an approval for development plan, work programs and budget.

⁶⁶ This list is not exhaustive



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Overseas Development Institute
203 Blackfriars Road
London SE1 8NJ
Tel +44 (0)20 7922 0300
Fax +44 (0)20 7922 0399



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