Uncovering the Landscape of Private Climate Finance in Indonesia

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Supported by: Federal Ministry for the Environment, Nature Conservation and Nuclear Safety
Indonesia has ambitious targets to mitigate climate change, and financing these efforts is a key aspect for success

- Government of Indonesia has pledged to reduce national greenhouse gas emissions by 29% in 2030 unconditionally, or 41% in 2030 with international assistance.

- Indonesia has enacted various policies to support the financing of activities in mitigating emissions and to adapt to climate change: OJK has issued POJK No.51/2017 on Sustainable Action Plan and Reporting to mobilize more private funding in sustainable projects and investment.

- Climate Policy Initiative is a global leader in climate finance tracking and analysis globally, including in Indonesia. CPI Indonesia is currently conducting climate finance tracking in Indonesia for both public and private sector. Tracking climate finance flows can provide critical insight to stakeholders.
Climate Finance Flows

Understanding the climate finance challenge, the trend of global climate finance flows, and the role of public and private investment
Climate investment is increasing, but falls short of global needs

- $4 Trillion
- $3 Trillion
- $2 Trillion
- $1 Trillion
- $500 Billion
- $360 bn
- $342 bn
- $388 bn
- $472 bn
- $455 bn
- $579 bn (2017 & 18)

Range of supply-side energy system investment required each year through 2050 to keep warming within a 1.5° scenario (IPCC)

Annual average tracked finance for climate change mitigation and adaptation in 2017-18
Preliminary Findings

• Globally, private investment covered 56% of total finance flow in 2017-2018

• This marks the importance of private sector in driving climate finance, with the possibility of blended finance with public actors

• In this context, scarce public and other concessional financial resources must be used in a more transformative way.

• CPI Indonesia analyzes the current situation of climate financing from both public and private sector in Indonesia

Private sector plays a bigger investment portion in climate finance globally

Breakdown of global climate finance flows by public and private actors, 2013-2018 (two-year average, USD billion)
In 2014, CPI and MoF launched a report, “The Landscape of Public Climate Finance in Indonesia”

- First attempt to develop and pilot methodology to understand the public climate finance landscape in Indonesia
- Used primary data including national-level data on government spending, foreign aid and donors investments.
- Indonesia is the first in the world to have adapted a new climate finance tracking and reporting system which is based on the Landscape of Public Climate Finance in Indonesia study by CPI. All ministries are now required to implement the green budget-tagging system for climate mitigation activities (Finance Ministerial Decree Number 94/PMK.02/2017)
Preliminary Findings

CPI Indonesia is attempting to track private finance for the first time, parallel with the latest public finance landscape update.

Last public climate finance landscape used 2011 data and CPI is currently in the process of data collecting for 2015-2019 public climate tracking.

The first study that maps out the private climate finance landscape in Indonesia (period 2015-2018)
Methodology

Establishing a robust system for private climate finance tracking, in line with the previously conducted public tracking
Defining climate finance

- **Mitigation finance**: finance directed to activities contributing to
  i) reduction of GHG emissions
  ii) maintaining/enhancing GHG sinks/reservoirs.
- **Adaptation finance**: finance directed to activities aimed at reducing the vulnerability of human/natural systems to the impacts of climate change.
- **Dual benefits**: finance directed to activities contributing to both “climate change mitigation” and “climate change adaptation” and meeting the respective criteria.
- The definition used in CPI’s study is aligned the National Action Plan on GHG Emission Reduction (RAN-GRK) and Indonesia National Action Plan on Climate Change Adaptation (RAN-API).
- Our tracking study examined the flow of climate finance from private sector that took place in **2015-2018**.
Scope of accounting – Commitments or Disbursements

- **Finance commitments**: finance flows marked by a commitment or contract that finance will eventually be directed to climate-related activities.
- **Finance disbursements**: actual finance disbursed to climate-related activities.
- Our current study on Finance flows includes all project costs: including investment costs, financial costs and components of activities directly and indirectly contributing to mitigation and adaptation efforts.
- CPI does not track public subsidies or other policy supports whose primary function is to decrease investment costs.
Sectoral Coverage

CPI has a set predefined sector and subsector related to climate finance, developed from its Global Landscape of Climate Finance 2019

Mitigation
- Renewable energy
- Energy efficiency
- Industrial GHG reduction
- Sustainable transport
- Sustainable agriculture
- Sustainable forestry
- Reforestation
- Natural resource management
- Waste and wastewater

Adaptation
- Waste and wastewater management
- Agriculture, forestry, land use and natural resource management (AFOLU)
- Resilient infrastructure
- Disaster risk management
- Coastal protection
Financial Instruments and Resources of Private Climate Finance

**Private actors**
- Project developers
- Corporate actors
- Households
- Commercial financial institutions
- Institutional investors
- Philanthropic foundations
- BUMN

**Source of information**
- Sustainability reports
- Company Annual reports
- Statistics report from authority
- BNEF
- Micro surveys
- Bond/equity prospectus
- News and press releases

**Instruments identified in the study**
- Debt financing (market rate and concessional)
- Equity financing
- Grant
Key methodological challenges

- Limited data source for private finance data
- Private finance data collected by authorized public institution may not be detailed enough or not accessible under certain condition.
- Data may be presented in different forms (i.e. some data source provide finance commitments, while others only provide finance disbursements)
- Differences between private and public fund may be nuanced and confusing, e.g.: state-owned companies already listed on stock exchange can be considered both public and private
- Private finance directed to energy efficiency, land-use and overall adaptation activities is difficult to track
- Possibility of double counting
Private Climate Finance

Understanding the present state of private climate finance flows in Indonesia and their trends
Business sector in Indonesia shows strong appetite on bigger climate action, but less commitment on the more detailed issues

Data: SDSN Indonesia, WBSD 2019
Private sector contributes USD 326 bio (56%) of the global climate finance flow, with an increase of 30.9% from previous cycle.

USD 579 billion annual average

Global climate finance flows along their life cycle in 2017/2018. Values are average of two year’s data in USD billions.

Source: Global Landscape of Climate Finance 2019, CPI
Our preliminary tracking study finds that majority of private climate finance in Indonesia (2015-2018) comes from commercial FIs in the form of debt financing.

For the last 2 years, the amount of debt financing on climate investment has stagnated. Policy amendments on RE electricity prices during this period is a likely cause.
Preliminary Findings

Distribution of private finance in Indonesia is “skewed” towards renewable energy projects

- RE accounts for **more than half** of private finance recipients, mostly from hydro and geothermal.
- Commercial debt is the main financing instrument across different sectors amounting to **three quarters** from total finance flow.
Private finance on adaptation is lacking despite tremendous potential economic value

Summary of Tracking Use in Private Sector (2015-2018)

<table>
<thead>
<tr>
<th>Sector</th>
<th>% of Tracked Private CF</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFOLU</td>
<td>54.96%</td>
</tr>
<tr>
<td>Waste &amp; Wastewater</td>
<td>25.48%</td>
</tr>
<tr>
<td>Policy Support &amp; Capacity Building</td>
<td>0.25%</td>
</tr>
<tr>
<td>Coastal Protection</td>
<td>0.09%</td>
</tr>
<tr>
<td>Disaster Risk Management</td>
<td>0.01%</td>
</tr>
<tr>
<td>Others</td>
<td>19.21%</td>
</tr>
<tr>
<td>Total</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

- Several sectors are severely underfunded by private sector: coastal protection and disaster risk management.
- These sectors are traditionally considered as “government responsibility”, however there is potential for private investment in these sector. E.g. Improvement in coral reef state by 2030 could unlock an additional value of USD 37 billion (or USD 2.6 billion per annum) in Indonesia (Coral Reef Economy, UNEP, November 2018)
Potential future work

Regulatory framework on private climate finance in Indonesia and future plan on the landscape study
Understanding the sources of climate finance in Indonesia is essential to reach the GHG reduction goal (29% in 2030) set by GoI

- Estimated USD 247 billion is needed to reach the 2030 goal - falls far short from the current private climate finance flow tracked in 2015-2018.
- Private climate finance tracking will help the government as a primary map on developing policies and regulations that will mobilize more active participation from the private sector in climate related activities.
- Data transparency and access to available climate finance information is one aspect that can be improved by the authorities. At the moment there is no regulation specific on this subject. POJK No.51/2017 on Sustainable Action Plan and Reporting could be used as the regulatory foundation for private climate finance reporting.
Collaboration with data owners is essential to precisely measure the impact of private climate finance.
Preliminary Findings

CPI is engaged with other works with government and financial institution that can intersect to optimize the impact of public and private finance on climate change

- CPI Indonesia is providing technical assistance and advisory for SMI on the development of innovative financial instruments and business case for RE and EE investment. SMI is the operator of SDG Indonesia One Platform which has secured of USD 2.3 billion of commitment for SDGs related infrastructure investment.
- CPI Indonesia has been assigned to assist the steering committee of BPDLH (Environment Fund) on developing the financial structure of the fund. This fund will be available for environment protection and enhancement programs not covered by the existing ministries.
- CPI’s tracking work will be used to optimize the use of such funds and other available funding resource in order to leverage more private financing in climate-related investment.
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