CLIMATE POLICY INITIATIVE

Indonesia Environment Fund: Bridging the Financing Gap in Environmental Programs

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A CPI Report

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Descriptors

Sector	Climate Finance
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Executive Summary

International development partners have recognized Indonesia's efforts to better meet its climate and environmental goals by pledging their financial support. Indonesia has pledged to reduce 29% emissions by 2030 on its own and 41% with international assistance[1] . However, without adequate delivery mechanisms for climate finance that are capable of navigating the complex arrangements of development cooperation, the collective efforts towards these goals could be ineffective and inefficient.

The *Landscape of Public Climate Finance*—a 2014 report published by the Ministry of Finance and Climate Policy Initiative—pointed to significant challenges faced by development partners in delivering finance, and by the Government of Indonesia in absorbing international climate finance at scale. A funding mechanism capable of accommodating these challenges is necessary for Indonesia to meet its climate and environment goals.

Recently, the Ministry of Finance and the Ministry of Environment and Forestry has established a public service agency (*Badan Layanan Umum* or **BLU**) as a non-structural entity under the Ministry of Finance to manage funds for environmental protection and management, including climate change mitigation and adaptation efforts. The regulatory framework of a BLU provides solid legal basis for a robust and flexible vehicle to fund activities for public interest, including managing money from international donors.

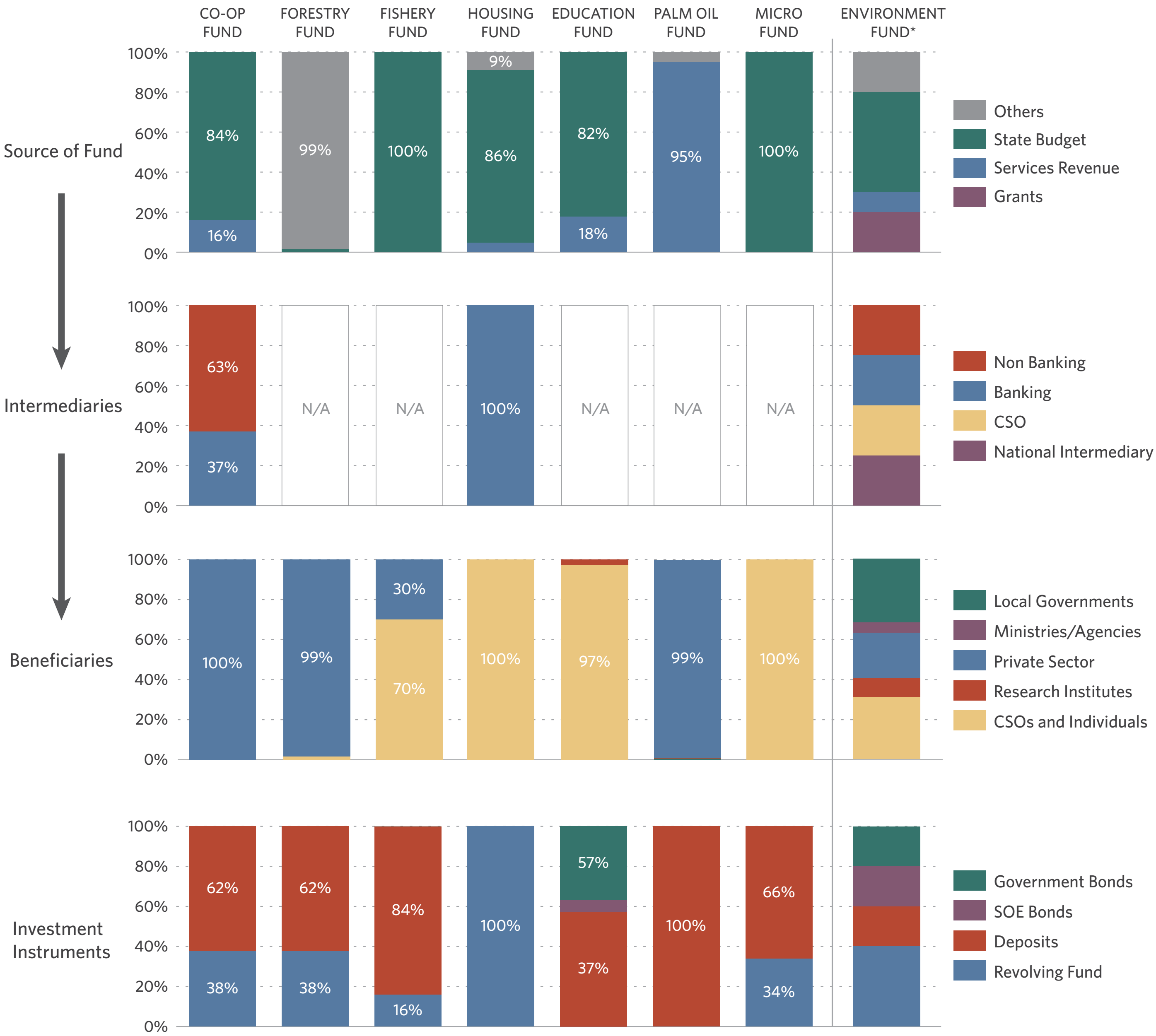
This paper aims to unpack the Public Agency for Environment Fund Management (*Badan Pengelolaan Dana Lingkungan Hidup*—**BPDLH**) and analyze its role and potential as the "financing hub" for environmental programs in Indonesia. The analysis is supported by a review of the BLU regulatory frameworks, and includes a comparison with seven fund-managing BLUs already in operation, namely:

1. Agency of Revolving Fund Management for Cooperatives and Micro, Small, and Medium Enterprises (*Lembaga Pengelola Dana Bergulir Koperasi, Usaha Mikro, Kecil dan Menengah*–LPDB KUMKM) under the Ministry of Cooperatives and Micro, Small, and Medium Enterprises;
2. The Forestry Fund or the Center for Forest Development Financing (*Pusat Pembiayaan Pembangunan Hutan*—P3H) that is being dissolved to BPDLH, under the Ministry of Environment and Forestry;
3. The Fisheries Business Capital Management Institute (*Lembaga Pengelola Modal Usaha Kelautan dan Perikanan*—LPMUKP) under the Ministry of Maritime Affairs and Fisheries;
4. The Center for Housing Financing Management (*Lembaga Pengelola Dana Pembiayaan Perumahan*—LPDPP) under the Ministry of Public Works and Housing;
5. The Palm Oil Fund managed by the Agency for Palm Oil Fund Management (*Badan Pengelola Dana Perkebunan Kelapa Sawit* –BPDPKS) under the Ministry of Finance;
6. Education Fund managed by the Agency for Education Fund Management (*Lembaga Pengelola Dana Pendidikan* –LPDP) under the Ministry of Finance;
7. The Ultra Micro Financing under the Center of Government Investment (*Pusat Investasi Pemerintah*—PIP).

In this paper, we also analyze the two funding windows to be managed by BPDLH as it begins its operations, namely the Reducing Emissions from Deforestation and Forest Degradation (REDD+) Fund and Forest Rehabilitation Revolving Fund.

1 Indonesia's Nationally Determined Contribution (NDC) submitted to UNFCCC (2016)

Figure ES1: Comparison of Fund-Management BLUs in Indonesia .



*Hypothetical Scenario

Key Findings

The BLU legal vehicle offers flexibility in terms of the sources of finance it can accept, and the funding instruments it can offer. However, in its current form it requires a dual financial reporting system to manage funding sourced from the state budget and those from other sources. Managing this, combined with the financial risks posed by having various revenue sources and funding instruments that will each require a rigorous risk management strategy, will present a challenge. The good news is that the government is well-rehearsed in these practices due to having managed hundreds of BLUs, seven of which were established specifically to provide fund-management services. The flexibility allows for some interesting managerial traits. Procurement, for example, might follow government procurement guidelines for revenues sourced from the state budget, or it might follow donor guidelines for donor funds managed in trust. BLU regulations also allow BPDLH to look for the appropriate people to manage these challenges by permitting the staffing to involve a mix of civil servant and non-civil servant professionals. Exceptions exist, notably only civil servants can gain access to the BLU treasury as BLU revenue is considered state revenue. This rule upholds the fiduciary standards of a BLU while still being able to attract non-government professionals for strategic or business decisions.

While most sources of revenue for past fund-managing BLUs in Indonesia are from state budgets, BPDLH could have diverse sources of revenue, including revenues from international donors and carbon markets, as well as a diverse project portfolio. Through a rigorous investment and risk management strategy, not only will BPDLH have more secure and diverse sources of funds, but also more diverse beneficiaries. As a result, BPDLH has potential to achieve bigger impacts. That being said, the effectiveness and efficiency of each of the seven fund-managing BLUs varies from each other. Some, such as the Cooperatives Fund, have managed to run its entire mandate and disbursed most of the funds that it manages. Others, such as the CPO Fund, have several mandates but have only managed to disburse funds to a few of them. Since BLUs have a public impact objective as well as a financial objective, effectiveness, and efficiency must be seen through the lens of both, implemented programs and financial performance against impact.

While BPDLH shares the same characteristics with the other fund-managing BLUs in Indonesia on leveraging public and private funds for public services, it is the first BLU with flexibility to source both state funds and international financing. In other words, BPDLH can act strategically as a “funding hub” for various funding mechanisms and act on the principle of additionality by bridging the gap between existing funding mechanisms for various environmental programs. There are various financing gaps that could potentially become the project pipelines for BPDLH, which could be explored as a follow up from this study.

1. Introduction

In 2016, Indonesia pledged to reduce its emissions by 29% by 2030 on its own and 41% with international assistance. Three years later in October 2019, Indonesia's Coordinating Minister of Economy, Minister of Finance, Minister of Environment and Forestry, and the other ministry officials launched the Public Service Agency for Environment Fund Management (*Badan Pengelola Dana Lingkungan Hidup*—**BPLDH**). The public service agency aims to become the "funding hub" for various funding mechanisms focusing on environmental protection and management in Indonesia. Although it will initially focus on the forestry sector, the agency has mandate to cover a wider range of sectors, including energy, carbon trade, ecosystem services, transportation, agriculture, and marine and fisheries. In the larger sense of governance, the agency aims to mainstream environmental and climate change issues in the national development plan[2].

In Indonesia, hospitals, schools, toll-roads, and other public facilities are often managed by public service agencies. BPDLH is a public service agency that manages funds meant for environmental purposes. It is unique compared to the other fund-managing public agencies because it is the first designed to receive funds from international donors.

This paper presents an analysis of BPDLH. We begin by explaining the concept of a public service agency as a legal vehicle in Indonesia, providing an overview on how it works in its capacity to prioritize public services, how it can make efficient use of its funds, and how it may obtain revenue from various sources. Then, we compare seven existing fund-managing public service agencies to understand their similarities and differences with BPDLH. Lastly, we analyze BPDLH's internal structure, specifically on how BPDLH manages specific funding mechanism.

In this study, we use both a quantitative and qualitative approach. The analysis was built on publicly available data, including official websites and online media, interviews with key stakeholders, and group discussions. The study narrows down from a broad concept on the legal framework of public service agencies to more specific fund-managing public agencies, then goes further into the internal funding mechanisms of BPDLH.

2 For detail see Ministry of Finance press release SP-64/KLI/2019 on *Pemerintah Tingkatkan Pengelolaan Dana untuk Perlindungan Lingkungan* (in Bahasa)

2. Regulatory Framework for Public Services Agency in Indonesia

Traditionally, there were two entities through which the Government of Indonesia could disburse state funds: First by using the conventional state budget collection, allocation and disbursement mechanisms; and second, through placing funds in a limited liability company, thereby stripping the fund from its "state-fund" status and thus creating a state-owned enterprise. Government institutions are completely dependent on state funds, return all collected revenues back to the state, and may only receive and disburse funds as specified in the state budget (APBN) determined in the annual cycle. State-owned enterprises, in contrast, have complete autonomy, do not depend on state funds for their operations, and have the ability to manage their day-to-day finances in a for-profit manner.

Figure 1: Government institutions and their autonomy

Between these two extremes lies the Public Services Agency (*Badan Layanan Umum* – **BLU**). It is a government institution partially supported by state funds but has autonomy to receive and manage its own funds in order to improve its operational productivity, efficiency, and effectiveness. Article 1 of Government Regulation No. 23/2005 defines BLU as "a government agency set up to provide services to the public in the form of goods and/or services without prioritizing profit and implemented based on the principles of efficiency and productivity."

The concept of the BLU was first developed in 2004, because the bureaucracy associated with traditional regulatory and policy-making roles of the government proved inefficient for public services such as healthcare and transportation. The BLU was formed in an effort to "enterprise the government" by enabling the creation of government units managed on a semi-commercial basis to deliver better non-profit services.[3]

There are three types of BLU functions, each of which has distinct characteristics: A BLU that provides public goods and services, A BLU that manages special areas or regions, and a BLU that manages special funds. The most common of these is the BLU that provides public goods and services, of which there are hundreds existing today, for example in the form of hospitals and universities. A BLU that manages special areas or regions can be found managing special industrial zones or tourism zones. The BLU relevant to the Environmental Fund is the BLU that manages special funds.

2.1 Governance

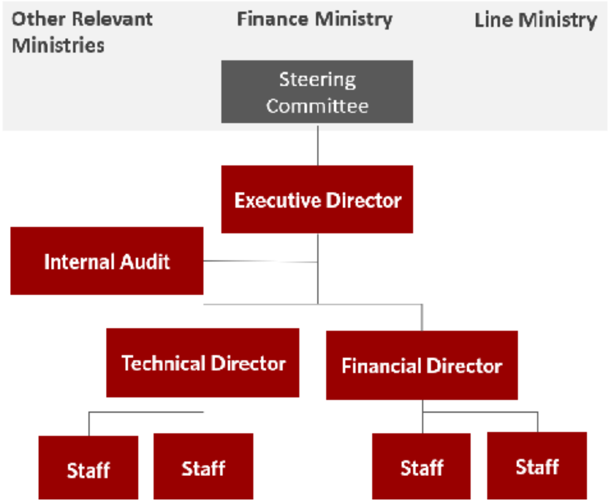
A BLU's management body is in charge of day-to-day operations and consists of, at minimum, an executive director, financial director, and technical director. An internal auditing unit reports directly to the executive director.

A Steering Committee comprising representatives of key ministries is appointed to oversee and provide strategic guidance to the BLU. The Ministry of Finance supervises financial matters, and a line ministry is usually appointed to supervise programmatic matters. Other relevant ministries, or even non-government individuals in their personal capacity, can be appointed to the Steering Committee.

A BLU differs from conventional government working units because their management and staff can be appointed from outside the government. However, any manager or staff member with access to the BLU treasury must be a civil servant. This is because any revenue to the BLU will be considered state revenue, so more strict fiduciary measures are in place to govern those who have access to its treasury. This rule upholds the fiduciary standards of a BLU while still being able to attract non-government professionals for strategic or business decisions.

3 The term "enterprising the government" was referred to in the Preamble, Descriptive Addendum to Government Regulation No. 23 / 2005 on Financial Management of Public Service Agencies.

Figure 2: Typical BLU governance structure



The executive director can either be appointed in his/her capacity as a public official (*ex officio*), or in his/her own personal capacity. BLUs which are led by an executive director appointed in his/her ex-officio capacity as an echelon-1 (director general) or echelon-2 (director) level official are called structural BLUs. Decision making in structural BLUs will be heavily influenced by the host ministry, and the responsibilities that the director must uphold in his echelon.

BLUs that are led by an executive director appointed in his/her personal capacity as a professional are called non-structural BLUs. Within these BLUs, management can recruit more professionals, enabling BLUs to operate with the most competent person for the job.

2.2 Financial Management

2.2.1 FLOW OF FUNDS

2.2.1.1. Source of Funds

BLUs can receive state revenue as determined by the allocated amount in the APBN. They may receive a one-off injection of state funds as start-up capital, or they may receive an annual allocation. The GoI allocates annual funds through the legislative budgeting process; however, BLUs do not necessarily receive an annual budget.

Most importantly, the BLU is a special entity that can receive other sources of revenue from the provision of its services, or from grants, investments, and other legal measures in accordance with existing laws. These sources are categorized as Non-Tax State Revenue (*Penerimaan Negara Bukan Pajak* – **PNBP**).

Usually, APBN state funds are used to fund the start-up, daily operations, and civil-servant salaries. In many cases, the APBN becomes the dominant source of funding in the BLU.

There is no requirement that the APBN funds match a certain proportion of the BLU's own-sourced revenue. However, APBN funds become especially important when other sources of revenue are in flux or earmarked for specific non-operational purposes. It is important that the BLU has enough initial capital to reach the desired performance. APBN start-up capital needs to be considered and calculated carefully in order to achieve this goal.

2.2.1.2. Disbursement of Funds

The BLU may disburse funds in the form of spending or investments. Spending refers to procurement, cash payments, grants, short term loans, and so forth. There are no strict limitations on how BLUs can spend funds.

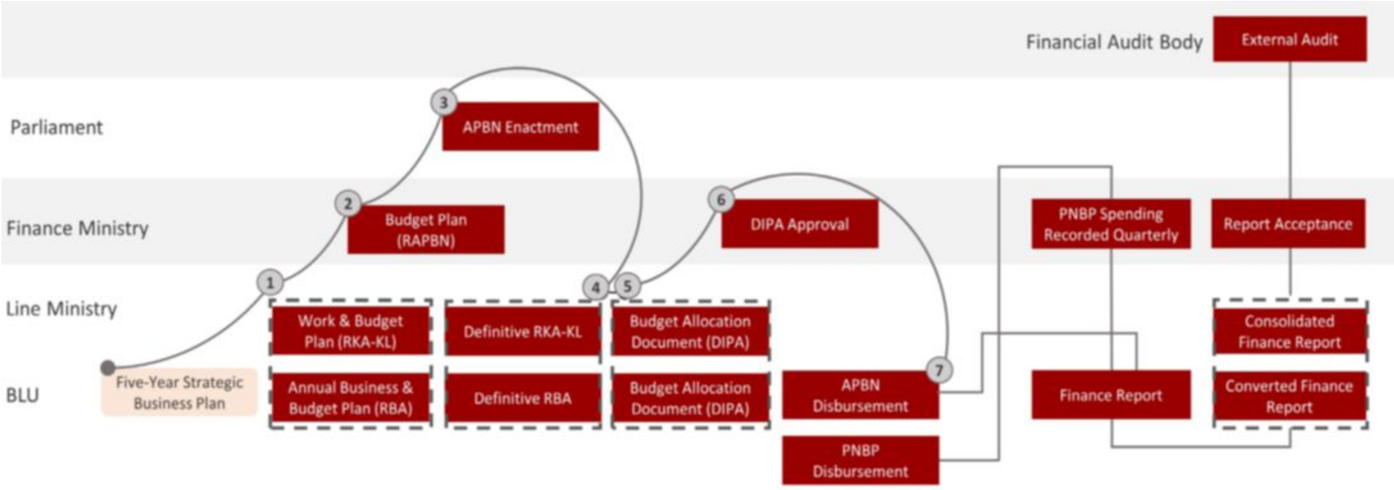
Investment refers to long term investments and must be specifically mandated by the rules that set up the BLU, or allowed by the Ministry of Finance. For example, the CPO Fund regulation specifically allows the CPO Fund to invest in blue chip stocks traded in capital markets, investment grade government or private bonds, or deposits in national banks.

2.2.1.3. Budget Planning and Flow of Funds

From the outset, the BLU must create a Five-year Strategic Business Plan. Subsequently, the core operations and activities of a BLU are defined and reflected in an Annual Business & Budget Plan (*Rencana Bisnis dan Anggaran* - **RBA**). The RBA becomes the basis for the BLU to justify its budget needs and allocations, and is quite heavily scrutinized through several stages of the government approval process.

First, the BLU must create an RBA Plan and consolidate that into its host ministry's annual work plan (see Figure 3, step 1). The budget needs indicated in the RBA are then incorporated into the national budget plan (step 2), and once approved by the parliament, become enacted in the State Budget (*Anggaran Pendapatan dan Belanja Negara* – **APBN**) (step 3). Any revisions made by parliament are reflected in the final, definitive RBA (step 4), which becomes the basis for a budget allocation document approved by the host ministry (step 5). Once the Finance Ministry approves the budget allocation document (step 6), it authorizes the BLU to withdraw APBN funds from the state treasury (step 7).

Figure 3: BLUs' budget planning, disbursement, and reporting process over a financial year



Thus far, the budget planning process for a BLU resembles the conventional ministerial budgeting processes. Yet the BLU may also collect revenue itself (PNBP), and then disburse that revenue directly without depositing it into the state treasury. Importantly, the BLU must report its PNBP receipts and disbursements every quarter to the Ministry of Finance in order for the state to record it as government spending. This step separates BLUs from conventional budgeting processes.

The flow of funds process of a BLU differs in many ways from the normal government flow of funds. The following table highlights some examples of how BLU disbursements and reporting differs from conventional government units.

It is important to note that the BLU is still a government entity and part of its finances still come from the state budget (APBN). Because of this, the BLU operates a dual financing system with two consequences:

1. **Dual systems for sourcing and disbursing funds:** The funds sourced from APBN go through a conventional budgeting cycle, whereas the part of its funds marked as Non-Tax State Revenue go through a business-like budgeting cycle. When using APBN funds, the BLU relies on the Budget Planning Process (illustrated in Figure 3) and the resulting Budget Allocation Document (DIPA), as a basis to withdraw state funds from the state treasury. When using their own PNBP funds, a BLU may use it directly but must record its use with the Ministry of Finance.

Table 1: Comparing funding disbursement and reporting by BLU and a conventional government unit

	BLU	Conventional Government Unit
Use of Funds	BLUs can directly manage and spend their own-sourced money (PNBP) in accordance with their business plan without the obligation of transferring that money to the government's account beforehand.[4]	Conventional ministries also collect PNBP but cannot directly use it. They must transfer it to the state account and can only use it once it has been allocated in the state budget.
Flexible Budgets	BLU spending can exceed the budget ceiling as long as their PNBP revenue is sufficient to cover it.	Conventional ministries cannot exceed the budget ceiling and must rely on shifting allowable budget allocations.
Performance Appraisal	BLU budget formulation is output based and calculated on an accrual basis. Output-based performance emphasizes the achievement of performance indicators.[5] Accrual accounting provides a better indication of business performance within a financial year than cash-based accounting.[6]	Conventional government budget formulation is input-based and calculated on a cash basis. Input-based performance places emphasis on budget absorption.[7]

2. **Dual systems for reporting:** A BLU is required to report its use of PNBP funds so that it is recorded as government spending using the Financial Accounting Standards (FAS), published by the Indonesian Accountants Association and calculated on an accrual basis. However, they are also required to create a financial report to be consolidated with the home ministry's financial report using Government Accounting Standards (GAS), which is calculated on a cash basis. (See Figure 3)
   In practice, this results in a highly complicated operational standard that is often confusing to less experienced officers (Susilo, 2012). However, it also creates a robust financial standard that goes through additional checks and balances due to the dual reporting requirement.

2.2.2 PROCUREMENT

The BLU also differs from conventional ministries by the flexibility it has in relation to procurement processes, making and receiving grants, as well as giving and receiving loans.

When procuring goods and services, government entities are obligated to follow Government Procurement Rules under Presidential Regulation Number 80 of 2003, which also outlines the needs to follow e-procurement protocols. The BLU may choose to use the same rules, or it may set up its own internal procedures in accordance with good business practices.[8] Flexibility to use its own internal procedures is only afforded to procurement of goods and services using PNBP funds. For grant-sourced procurement, the BLU may even use the grantor's procurement procedures if required under the grant agreement.

2.2.3 GRANTS

BLUs are able to receive general grants and earmarked grants. To date, no BLU has ever received a grant for financing from an international donor, although nothing in the law prohibits this.[9] The BPDLH is the first to have an explicit mandate to do so, as will be explained in the next chapter. BLUs can also receive grants in the form of assets, for example, the government could grant office equipment as start-up capital.

BLUs are also able to give grants. Procedures for giving grants are set up by the BLU itself and do not need to conform with existing regulations on government grants. If the BLU is channeling a grant that comes from an earmarked grant source of funding, such as from a donor with specific requirements on how to disburse the grant, then the grant channeled by the BLU must follow the rules mandated by the grantor.

2.2.4 LOANS AND INVESTMENT

BLU may also obtain and provide loans, including both short-term or long-term loans. This differs from technical implementing units of ministries, who are not able to enter into loan agreements.

The BLU may enter into short-term loans without collateralizing its assets. Loans must be for immediate and urgent matters to fund deficits in their operational funds, and for activities that are already included into their annual business plan. The loans must not exceed 15% of the BLU's PNBP revenue from the previous year (less earmarked grants). Loans can only be obtained from domestic entities such as banks, financial institutions, companies, or another BLU.

For long-term loans and investments, the BLU must first obtain permission from the Ministry of Finance. So far only BLUs with a mandate to channel funds into long-term investments have done this (e.g. *Pusat Investasi Pemerintah*). BLUs that are not specifically mandated

4 Article 2(1), PERDIRJEN 50/PB/2007. It should be noted that if the BLU receives a surprisingly large PNBP revenue exceeding its flexible threshold, the surplus cannot be used immediately until the DIPA (authorized budget disbursement document) is revised.

5 Performance appraisal for BLUs will rely on a BLU's annual business plan as a baseline to measure whether the BLUs performance reflects their targeted achievements

6 Cash based accounting refers to a method of accounting in which spending and revenue is recorded the moment the actual spending and revenue is paid in cash. With accrual-based accounting, spending and revenue is recorded when the revenue is earned or when the expense occurs, not when the cash is paid.

7 Performance appraisal for conventional ministries will rely on the ministry's budget plan to evaluate whether the budget absorption at the end of the year reflects their targeted budget allocations. If a lot of budget surplus is left at the end of the year, performance is rated poor and will likely decrease the budget that will be allocated to that ministry in the following year.

8 PMK 08/2006 on the Authority of BLU to Procure Goods and Services

9 Based on interviews with the BLU Directorate of the Ministry of Finance, there is no public information on whether BLUs receive grants for non-financing activities, e.g. studies and technical assistance.

to enter into long-term loans can be considered as not being given permission from the Ministry of Finance to do so. (Apriany, Dir. BLU, 2016).

2.2.5 RECEIVABLES

The BLU may also provide loans. In order to do so, the BLU must have a procedure for receivables management, accounting, debt-collection, and reporting.

In practice, BLUs often use intermediaries to deliver loans to end-users. BLU's are free to enter into agreements with banks and financial institutions to deliver services to end-users. The Cooperative Fund, for example, disburses its services either directly to cooperatives and Micro, Small, and Medium Enterprises (executing funds), or indirectly through banks (channeling funds).

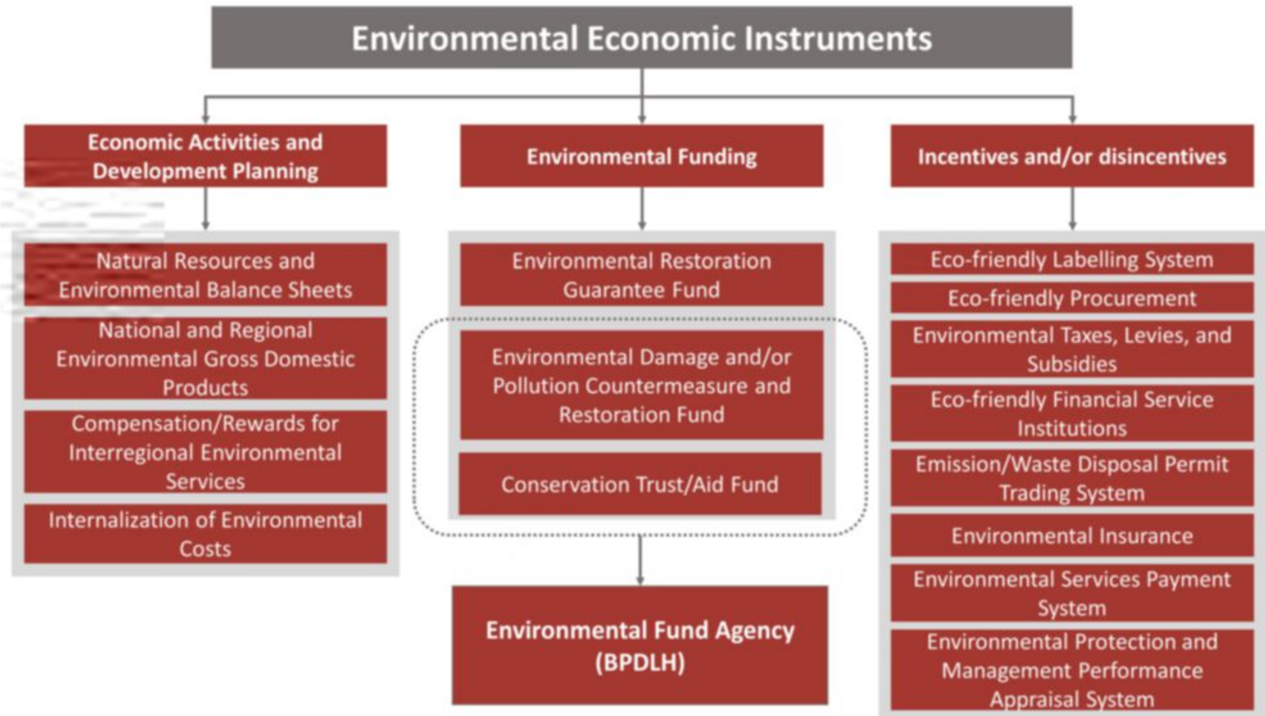
In some cases, where receivables are still left outstanding after maximum effort to collect, the state can write off the receivables from the BLU's books.[10] The state can then take over the right to collect the receivables and delegate the matter to the State Receivables Handling Committee (*Panitia Urusan Piutang Negara*).

2.3 Indonesia Environmental Fund Agency (BPDLH)

The Indonesia Environmental Fund Agency (*Badan Pengelola Dana Lingkungan Hidup* – **BPDLH**) was established to manage funds for the protection and management of the environment. The fund deploys environmental economic instruments with the overarching purpose of ensuring the accountability and compliance of environmental conservation and management; altering various stakeholders' mindset and behavior in economic activities; managing finance for the environment in a systematic, consistent, structured, and measurable way; and building public and global trust in the management of environmental funds.[11]

The process for establishment of BPDLH was initiated by the Ministry of Environment and Forestry in 2015. The funds being managed under BPDLH are part of a larger framework of environmental economic instruments envisioned under Government Regulation Number 46/2017 on Environmental Economic Instruments. The following table illustrates this context.

Figure 4: The Environment Fund in the Indonesian Environmental Economic Instruments



10 PMK 230/2009 on Write Off of BLU Receivables
11 See Article (2) Government Regulation 46/2017 on Environmental Economic Instruments

BPDLH's mandate is not limited to efforts to reduce greenhouse gas emissions. The Environment Fund is designed to manage multiple financing schemes to finance multiple programs and recipients from multiple funding sources. Historically however, the main reason why the fund was established was because of the need to have effective fund disbursements in place to reach targets to reduce emissions from land-use change and forestry. The Environment Fund's full mandate is broad, encompassing two kinds of funds: (1) Conservation Funds, and (2) Pollution and Restoration Funds.[12]

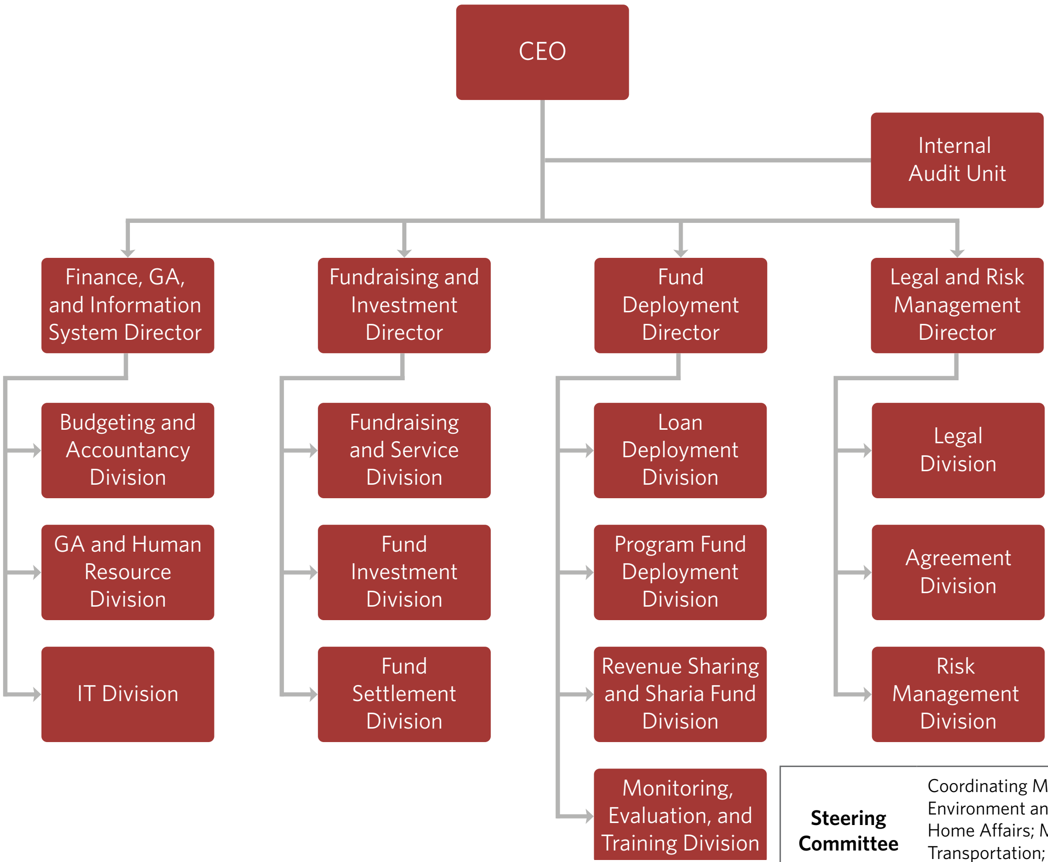
2.3.1 GOVERNANCE

BPDLH is a non-echelon public service agency accountable to the Ministry of Finance through the Directorate General of Treasury[13]. A Steering Committee (SC) consists of 9-line ministries that oversee BPDLH general policy, technical policy including asset allocation, and overall evaluation with the help of a secretariat and, if necessary, the help of non-governmental parties.[14]

BPDLH is mandated by regulation to manage environmental funds specifically in the field of forestry, energy and mineral resources, carbon trading, payment for ecosystem services, industry, transportation, agriculture, marine and fisheries, and other fields related to environment.[15]

Under a Chief Executive Officer (*Direktur Utama*), it has one internal audit unit and four directors, under which each has three or four divisions. The detail on the governance structure can be seen in Figure 4.

Figure 5: Environmental Fund (BPDLH) Governance Structure.[16]



Steering Committee	Coordinating Minister of Economic Affairs (Chair); Minister of Environment and Forestry (Vice); Minister of Finance; Minister of Home Affairs; Minister of Energy and Mineral Resources; Minister of Transportation; Minister of National Planning; Minister of Industry; Minister of Fisheries and Marine Affairs
Secretariat	Ex-officio Ministry of Environment and Forestry

12 See Article (29) and (30) Government Regulation 46/2017 on Environmental Economic Instruments
13 Article (1) Finance Minister Regulation 137/PMK.01/2019 on The Governance of Environmental Fund Agency
14 See Article (10) on Presidential Regulation 77/2018 on Environmental Fund Management
15 Article (2) Finance Minister Regulation 137/PMK.01/2019 on The Governance of Environmental Fund Agency
16 See Article (3) on Presidential Regulation 77/2018 on Environmental Fund Management and the attachment on Finance Minister Regulation 137/PMK.01/2019 on The Governance of Environmental Fund Agency

Use of Proceeds

The Fund Deployment Director will be responsible for determining eligible programs and recipients. In detail, they will be responsible to budget the program expenditures, analyze proposal feasibility, determine eligible recipients, present the program analysis to line ministries and/other parties including donors, disburse the fund, monitor and evaluate programs, and are responsible to conduct training activities for the recipients of the fund.[17] In other words, they will be responsible on matters related to Use of Proceeds.

The director determines which financial instrument will be disbursed to potential recipients. For example, the Loan Deployment Division will manage all environmental/climate change programs using loan instruments, while the Program Deployment Division will be responsible to manage grants, and the Revenue Sharing and the Sharia Fund Division will be responsible for disbursing revenue sharing and sharia funds. In addition, the director can also create results framework for all environmental/climate-change programs funded by BPDLH.

2.3.2 FINANCIAL MANAGEMENT

Fund Raising

BPDLH can source funding from state funds (APBN) and non-state funds as non-tax revenue (*Penerimaan Negara Bukan Pajak*, **PNBP**). Non-state funds may be sourced from:[18]

- Conventional grants
- Results-based payment grants
- Donations
- Return on investment
- Carbon trading
- Other legitimate sources (interest, penalties, taxes, service fees, etc)

So far, BPDLH is the only BLU in Indonesia that may actively solicit funds from donors in accordance with donor mechanisms, including to design logical results frameworks, create proposals for funding programs, and submit proposals to prospective donors. Funds received from donors must be managed in accordance with contractual arrangements with the donor.

Fund Investment

Following BLU Regulation, BPLDH may be able to enter into short-term and/or long-term investments, depending on its strategic direction. For long-term investments, BPDLH must first obtain permission from the Ministry of Finance.

Fund Deployment

The environmental funds managed by BPDLH will be allocated to finance the programs/projects/activities that achieve the objectives and targets of BPDLH and/or cooperation contracts with donors. In addition, they can be allocated for management support, subsidy, grant, guarantee, and financing/loan expenditure.

The distribution of funds through subsidy, grant, guarantee, and financing/loan expenditures is made through BPDLH custodian accounts at the custodian bank,[19] while expenditures for management support are paid through operational accounts of BPDLH at operational banks.

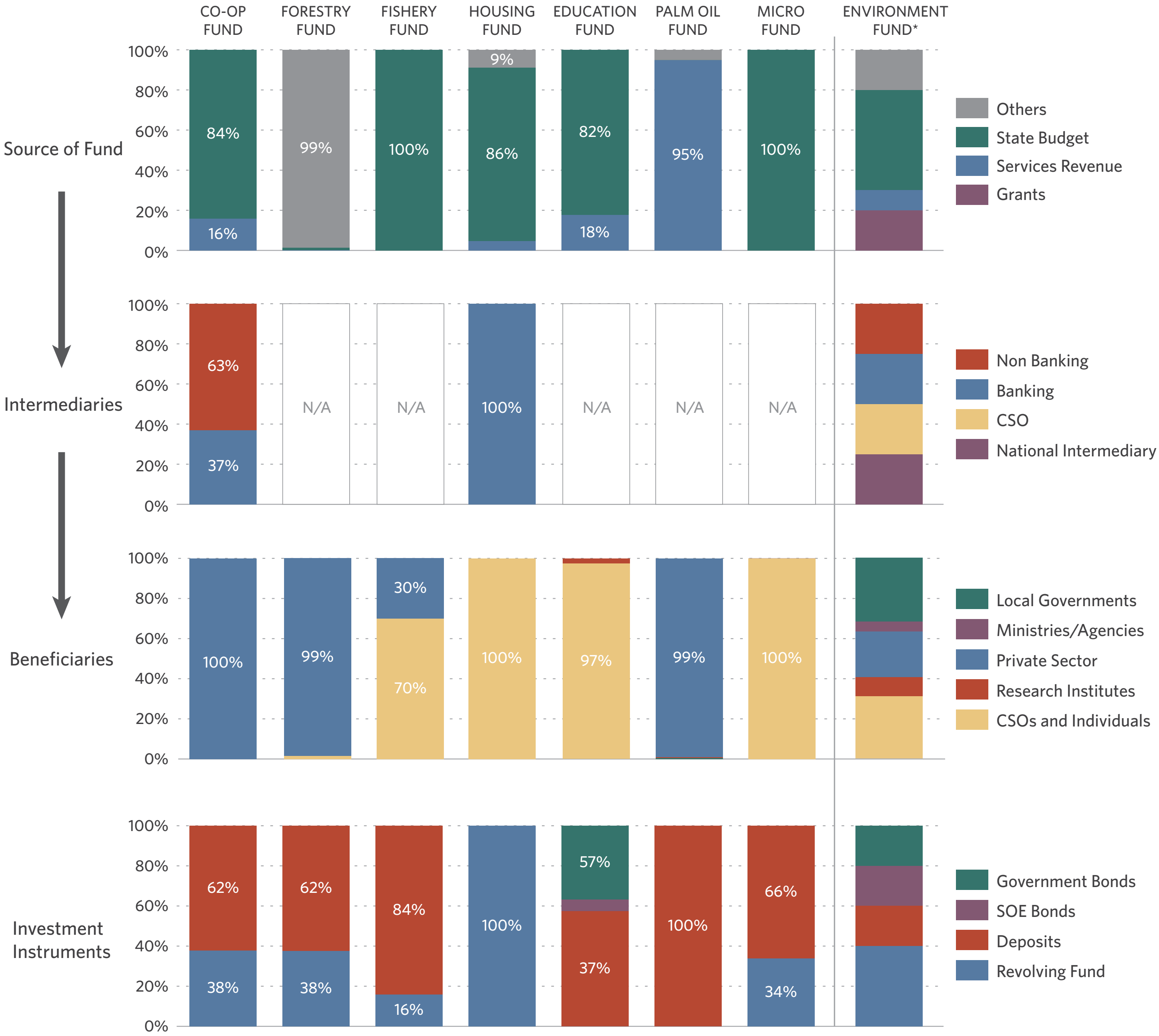
The Environment Fund can be disbursed through the following financial mechanisms:[20]

- Conventional grants
- Results based payments
- Loans
- Subsidies
- Carbon trading
- Other mechanisms

17 Article (13) Finance Minister Regulation 137/PMK.01/2019 on The Governance of Environmental Fund Agency
18 Article (6) Government Regulation 46/2017 on Management of Environmental Fund
19 Article (5) on Presidential Regulation 77/2018 on Environmental Fund Management
20 Article (6) of Presidential Regulation 77/2018 on Environmental Fund Management; Article 20(3) of Minister of Environment and Forestry Regulation No P.70/2017 on Guidelines for Implementation of Reducing Emissions from Deforestation and Forest Degradation, Role of Conservation, Sustainable Management of Forest and Enhancement of Forest Carbon Stocks.

3. Comparison between the Environmental Fund and Other Fund-Management Public Service Agencies (BLUs)

Figure 6: Comparison of Fund-Management BLUs in Indonesia .[21]



*Hypothetical Scenario

This chapter compares the existing fund-managing BLUs in Indonesia. For this, we looked at seven different BLUs, using actual data, to compare them with the Environment Fund (*Badan Pengelolaan Dana Lingkungan Hidup* –**BPDLH**) using a hypothetical scenario. Depending on the mandates, each BLU has varied proportions of sources, intermediaries, and beneficiaries. Figure 6 illustrates the flow of funds for these. Note that most of the funding are sourced from the state budget and that intermediary data are not available for all BLUs.

21 Data from National Public Procurement Agency (2019)

The proportions of revenue source, intermediary, beneficiaries and investment instruments for BPDLH are hypothetical and meant only to illustrate its potential diversity based on its mandate. The illustration makes clear that BPDLH has a more diverse portfolio compared to other BLUs.
The effectiveness and efficiency between the seven BLUs vary from each other. This is not only because each BLU has different mandates and objectives, but some of its objectives are public impacts, so an assessment using the lens of standard financial return is incomplete in assessing all BLUs. Rather, an assessment that measures the mandates against deliverables and impacts for each BLU would provide a more complete picture.

For example, the Education Fund's mandate is to utilize the education endowment fund in order to bring access to education for Indonesians—whose effectiveness and efficiency is not only based on the amount of money disbursed in scholarships, but also how the funds have helped build the capacity of Indonesian human capital. Another example is the Palm Oil Fund, whose mandate is to promote the sustainable palm oil industry in Indonesia, which until 2018 had allocated 70% of its spending for biodiesel subsidy, leaving very little room for R&D and increasing the productivity of oil palm smallholders. Another example is the Cooperatives Fund, which has a very focused mandate and has managed to run its entire mandate as well as disburse most of the funds that it manages. These examples show that the effectiveness of BLUs' efficiency is highly variable, and assessing them would require a specific lens for each BLU, looking at both implemented programs and financial performance against impact.

3.1 Revolving Fund for Cooperatives and Micro SMEs (LPDB)

Established in 2006, the Public Agency of Revolving Fund Management for Cooperatives and Micro, Small, and Medium Enterprises (*Lembaga Pengelola Dana Bergulir Koperasi, Usaha Mikro, Kecil dan Menengah* –LPDB KUMKM) is a public service agency that manages the fund through a revolving scheme—a mechanism where the fund is continually withdrawn for loans and replenished through debt-collection and interest. The LPDB gives easy-to-access and affordable loans to cooperatives and micro-enterprises through conventional and/or sharia loan instruments.[22] The mission of LPDB is to build the capacity and improve

Table 2: Summary of cooperatives and Micro SMEs Fund

Purpose / Mandate	The LPDB operates a revolving fund to provide easy-to-access and affordable conventional and/or sharia loans for cooperatives and Micro SMEs.
Services / Products[23]	• **Direct loan/financing:** LPDB channels funds directly to its beneficiaries based on the contract agreement between both parties. The agreement requires Cooperatives/Micro SMEs to repay the loan in a fixed tenor and interest/service fees. • **Executing loan/financing:** LPDB disburses loans through intermediaries that function as executor. The intermediary is the executing entity that select creditors and bear the risk of loan defaults. • **Channeling loan/financing:** LPDB disburses loans through intermediaries that only channel the funds and do not the bear any risk of loan defaults
Financing	LPDB's revenue comes from the state budget (APBN) and service revenue—most of which comes from the APBN at 84.15%. The service revenue is the interest rate from LPDB's revolving fund. As of December 31, 2018 LPDB-KUMKM had received a trust fund (*Dana Kelolaan*) from the State Budget of about IDR 5 trillion (USD 367 million).[24]
Investment	From 2008 to 2018 (as of 30 September 2018) the LPDB-KUMKM distributed IDR 8.5 trillion (USD 627 million) in revolving funds to 4,300 partners and was able to absorb 1,850,724 workers.[25]

22 See KUKM Ministerial Regulation 7/2018 on Governance of Revolving Funds for Cooperatives and SMEs

Table 3: Summary of Forestry Fund

Purpose / Mandate	The Forestry Fund/P3H operates the revolving fund by disbursing loans and revenue sharing instruments for reforestation and forest rehabilitation.
Services / Products	There are three modalities for the disbursement of the forest fund: (i) loan schemes, (ii) revenue-sharing scheme, and (iii) sharia financing scheme. The fund supports actors in the following type of business: • Industrial Forest Plantation (*Hutan Tanaman Industri*—HTI) • Smallholder Forest Plantation (*Hutan Tanaman Rakyat*—HTR) • Private Forest (*Hutan Rakyat*—HR) • Village Forest (*Hutan Desa*—HD) • Community-based Forest (*Hutan Kemasyarakatan*—HKm) • Non-timber Forest Products (*Hasil Hutan Non-Kayu*—HHBK) • Intensive silviculture • Ecosystem Restoration
Financing	As of December 31, 2018, P3H had received managed funds from the Reforestation Fund of IDR 1.25 trillion (USD 92.3 million). Revenue from other sources in 2018 was recorded at around IDR 182 billion (USD 13 million).[26]
Investment	Until June 2018, P3H has succeeded in establishing financing commitments under the Revolving Fund Facility (FDB) program of up to IDR 1.3 trillion. The realization of the distribution reached IDR 651 billion (around 50%) of which was distributed to 16,235 individual debtors, 16 cooperative debtors and 30 business entity debtors.[27] Other investments are deposits in state-owned banks (BNI and BRI) around IDR 1.25 trillion (USD 92 million).[28]

the role of cooperatives as well as micro, medium, and small enterprises in expanding job markets and bringing additional values to goods and services.

3.2 Forestry Fund (P3H)

The Forestry Fund or the Center for Forest Development Financing (*Pusat Pembiayaan Pembangunan Hutan*—**P3H**) was established in 2015, and is now being dissolved into the Environment Fund. Similar with the Cooperatives Fund (see subchapter 3.1), the Forestry Fund uses a revolving fund mechanism to disburse loans to smallholder farmers, cooperatives, and Micro SMEs in agroforestry business. Most of its revenue comes from the Reforestation Fund—a levy from forestry business permits whose overarching objective is helping reforestation and forest rehabilitation activities.

3.3 Revolving Fund for Maritime and Fisheries SMEs (LPMUKP)

The Maritime and Fisheries Business Capital Management Institute (*Lembaga Pengelola Modal Usaha Kelautan dan Perikanan*—**LPMUKP**) was established by the Ministry of Maritime Affairs and Fisheries in 2009 to improve access to capital for marine and fishery communities. LPMUKP became a Public Service Agency (BLU) in 2016 and since 2017, it has been receiving state fund allocations for BLU.[29] LPMUKP's main task is to

23 See Executive Board of LPDB Regulation 35/PER/LPDB/2010 on Technical Guidelines on Loans/Financing for Cooperatives and Micro SMEs and its addendum on 009/PER/LPDB/2011

24 Government Accountability Report (*Laporan Akuntabilitas Kinerja Instansi Pemerintah—LAKIP*) LPDB KUMKM, 2018

25 ibid

26 Government Financial Report (*Laporan Keuangan Pemerintah Pusat*—LKPP) 2018

27 See The Asia Foundation Publication by Putra, et al (2019): *Financing Social Forestry in Indonesia*

28 Government Financial Report (Laporan Keuangan Pemerintah Pusat—LKPP) 2018

29 Based on Decree of the Minister of Finance (KMK) Number 710 / KMK.05 / 2016

Table 4: Summary of Revolving Fund for Maritime and Fisheries SMEs

Purpose / Mandate	Carrying out revolving fund management for micro, small and medium businesses in the marine and fisheries sector.
Services / Products	Providing loan facilities to marine and fisheries businesses through both direct and through cooperatives and bank and non-bank financial institutions. Loan facilities are provided to fishermen, fish cultivators, fish processing, and salt refinery businesses.
Financing	LPMUKP received IDR 500 billion (USD 36,7 million) in funding from the state budget in 2017 and IDR 850 billion (USD 62,5 million) in 2018.[31]
Investment	In 2018, LPMUKP will channel revolving funds to fishermen in the amount of IDR 675 billion (USD 49.6 million), fish farmers IDR 270 billion (USD 19.8 million), fish processing IDR 216 billion (USD 15.8 million) and salt business IDR 189 billion (USD 13.8 million).[32]

Table 5: Summary of Housing Fund (LPDPP)

Purpose / Mandate	Carrying out distribution and management of housing funds.
Services / Products	Providing housing finance through the provision of long-term and low-cost funds originating from the state budget or other long-term funding sources that are mixed with the loans from the issuing bank for housing finance, using the blended financing method.
Financing	From 2010 to 2018, the accumulated transfers from the state budget reached IDR 29.8 trillion (USD 2 billion). Meanwhile, the accumulation of PNBP revenue in the same period reached IDR 1.59 trillion (USD 116.9 million).[34]
Investment	The total housing funds (FLPP) from 2010 to December 2018 reached IDR 36.82 trillion (USD 2.7 billion) for 577,767 housing units.[35]

manage loans or revolve fund financing for micro, small and medium enterprises in the marine and fisheries sector.[30]

3.4 Housing Fund (LPDPP)

The Ministry of Public Works and Housing, via the Center for Housing Financing Management (*Lembaga Pengelola Dana Pembiayaan Perumahan*—**LPDPP**), rolled out the Housing Financing Liquidity Facility (*Fasilitas Likuidasi Pengelolaan Perumahan*—**FLPP**) in 2010. This financing facility is provided for low-income communities with gross income of IDR 3.5 - 5.5 million/month (USD 256—402) or less, to help them access housing mortgage (*Kredit Pembiayaan Perumahan*—**KPR**). The mortgage has a low interest rate at 7.5% per year in comparison with the average commercial bank interest at 10-12% per year in Indonesia, and light and fixed installments throughout the credit period (up to 15 years). [33]

30 Based on Regulation of the Minister of Maritime Affairs and Fisheries Number 3 / PERMEN-KP / 2017 concerning the Organization and Work Procedures of the Maritime and Fisheries Business Capital Management Institution

31 See news article from Mongabay (in Bahasa): https://www.mongabay.co.id/2018/06/13/lembaga-keuangan-mikro-harapan-baru-nelayan-untuk-bertahan-hidup/

32 LPMUPK Website, last accessed in January 21st 2020 10:41 AM https://blulpmukp.id/publikasi/infografis/mengenal-lebih-jauh-blu-lmukp__trashed/attachment/infografis-new/

33 See more detail on https://www.arsitag.com/article/rumah-flpp

34 LPDPP Annual Report (2018)

35 ibid

Table 6: Summary of Education Fund

Purpose / Mandate	Manage the education endowment fund from state budget and other sources to ensure the intergenerational equity on access to education.[37]
Services / Products	• Service Expenditure: scholarship and research funding • Operational Expenditure: internal service (overhead), fund development, office services, and capital expenditure.
Financing	The main source of LPDP revenue is the state budget (APBN) transfer in a form of the National Education Development Fund. Cumulatively, the total transfer until 2018 reached IDR 46.1 trillion (USD 3.3 billion). Another source of revenue is service revenue in the form of investment profits and interest. Cumulatively, services revenues from 2012 to 2018 reached IDR 9.91 trillion (USD 728 million).
Investment	The education endowment fund invested by LPDP until 2018 reached IDR 46.2 trillion (USD 3.39 billion), which consists of deposits, IDR 26 trillion (USD 1.9 billion); SOE Bonds, IDR 2.6 trillion (USD 197 million); and Government Bonds, IDR 17 trillion (USD 1.2 billion).

3.5 Education Fund (LPDP)

The Indonesian 1945 Constitution mandates for at least 20 percent of the state budget be endowed for education purposes. The Public Agency for Education Fund Management (Lembaga Pengelola Dana Pendidikan – LPDP) is mandated with the task of managing the Education Endowment Fund. LPDP invests the Endowment Fund in various deposits and obligations and disburses scholarship and research funds for students and/or academic institutions.[36]

3.6 Palm Oil Fund (BPDPKS)

The Public Agency for Palm Oil Fund Management (Badan Pengelola Dana Perkebunan Kelapa Sawit – BPDPKS) imposes export levy and retribution on Crude Palm Oil (CPO) products and its derivatives.[38] The amount of export levy is determined by the Ministry of Finance, while the retribution is determined by BPDPKS and the Trade Ministry. The source of funds, or in this case the subject of export levy and retribution, are oil palm plantation companies, oil palm financing companies, community funds, and other sources related to palm oil business. After that, the Palm Oil Fund will be disbursed for activities related to improving oil palm business, including the downstream of the business, such as subsidizing biodiesel fuel market price.[39]

3.7 Ultra Micro Financing (PIP)

The Ultra Micro Financing (UMi) is an advanced stage of the social assistance program that assists micro businesses in the lowest economic strata, especially those who are not bankable to become independent business owners. UMi provides a maximum financing facility of IDR 10 million (USD 735) per customer. The government has appointed the Center of Government Investment (*Pusat Investasi Pemerintah*—**PIP**) as a fund coordinator of UMi. UMi financing is channeled through non-bank financial institutions. The source of funding comes from the state budget, contributions from local governments, and both domestic and global financial institutions. In 2018, UMi is targeted to reach 800,000 non-bankable microentrepreneurs.[43]

36 LPDP Annual Report, 2018

37 See Finance Minister Regulation No. 143/PMK.01/2016 on Governance of Education Fund and Finance Minister Regulation No. 238/PMK.05/2010 on Education Endowment Fund

38 See Presidential Regulation 61/2015 on CPO Fund Sourcing and Disbursement and Finance Minister Regulation No. 113/PMK/05/2015 on Governance of BPDPKS

39 See Article (18) on Presidential Regulation 61/2015 on CPO Fund Sourcing and Disbursement

40 LKPP 2015-2018

41 See news report from Kontan (in Bahasa), https://industri.kontan.co.id/news/bpdpks-telah-himpun-dana-pungutan-sawit-sebesar-rp-14-triliun

42 See news page from Katadata (in Bahasa), https://katadata.co.id/berita/2019/12/26/dana-kelolaan-sawit-bakal-mengalir-ke-surat-utang-negara-mulai-2020

43 See more detail at the Ministry of Finance website https://www.kemenkeu.go.id/umi

44 See UMi PIP report (2019): https://umi.id/wp-content/uploads/2019/08/Pembiayaan-UMi-EBA-UMi.pdf

45 ibid

Table 7: Summary of Palm Oil Fund

Purpose / Mandate	Collect export levies and retribution to promote sustainable palm oil business.
Services / Products	The activities that the Palm Oil Fund supports include: • Capacity building, including human resource development on sustainable palm oil production. • Research and Development (R&D) on seed genetics, pre- and post-harvest improvement, supply chain efficiency, and business development. • Promotion activities to disseminate the significance of palm oil as strategic value products. • Replanting to improve plantation productivity. • Infrastructure and equipment relevant to palm oil business, including seeds, fertilizer, pesticides, transportation, market infrastructure, etc. All of these activities are tangential to the development of palm oil downstream business, including biodiesel subsidy.
Financing	From 2015 to 2018, total palm oil levies reached IDR 47 trillion (USD 3.4 billion), or around IDR 11.8 trillion (USD 869 million) per year.[40] Most of the palm oil funds (70%) are used for the biodiesel program, and only a small portion for the farmers' oil palm development program. Until the end of November 2018, BPDPKS had channeled IDR 390 billion (USD 28.6 million), or around 3% of 2018 revenues for the people's oil palm replanting program. The funds are distributed to a land area of 15,000 hectares (ha) of community oil palm plantations and involved around 7,121 oil palm farmers.[41]
Investment	BPDPKS will expand investment instruments in Government Bonds starting in 2020. So far, funds have only been placed in the form of deposits in state-owned banks.[42]

Table 8: Summary of Ultra Micro Financing (UMi)

Purpose / Mandate	Carry out coordination in the field of financing for micro, small and medium businesses
Services / Products	Provide financing to individuals or groups that are not bankable according to banks' financing facilities, with a maximum loan of 10 million (USD 735) per person.[44]
Financing	In 2017-2019, the managed fund from the state budget reached IDR 7 trillion (USD 514 million).
Investment	In 2017, PIP distributed loans of IDR 750 billion (USD 55 million) to 307,000 debtors. While in 2018, loans disbursed reached more than IDR 1 trillion (USD 73.5 million), which were distributed to more than 400,000 debtors.[45]

3.8 Environment Fund

The Public Agency for Environmental Fund (*Badan Pengelola Dana LIngkungan Hidup* – **BPDLH**) was first initiated by the Ministry of Environment and Forestry in 2015. The overarching objective of BPDLH is to fund environmental protection and management efforts.[46] BPDLH utilizes funds from both the state budget and international donors, and has a mandate that covers various sectors encompassing forestry, energy, carbon trade, ecosystem services, transportation, agriculture, and marine and fisheries. Therefore, it will operate by having more than one funding mechanism, each with specific modalities. At the time this paper was written, BPDLH has absorbed The Forestry Fund (P3H) to be one of its internal funding windows.

46 See Presidential Regulation 77/2018 on Management of Environment Fund

Table 9: Summary of Environment Fund

Purpose / Mandate	To deploy Conservation Funds into Trust, Pollution Handling Funds, and Restoration Funds. There are four main objectives of the BPDLH: (i) manage funds so it can be sustainable; (ii) mobilize funds optimally; (iii) mobilize funds in accordance to its mandates/agreements made with donors; and (iv) align all environmental protection and management program funding
Services / Products	• Environmental Funds are allocated to finance the programs/projects/ activities that achieve the objectives and targets of BPDLH and/or cooperation contracts with donors. • Environmental funds can be allocated for management support, subsidy, grant, guarantee and financing/loan expenditure. • The distribution of funds through subsidy, grant, guarantee, and financing/ loan expenditures is made through BPDLH custodian accounts at the custodian banks, while expenditures for management support are paid through operational accounts of BPDLH at operational banks.
Financing	• The Environment Fund can receive state funds (APBN) and non-tax revenue such as: o Conventional grants o Results-based payment grants o Donations o Return on investment o Carbon trading o Other legitimate sources (interest, penalties, taxes, service fees, etc.) • Funds received from donors must be preceded by an agreement between the donor and BPDLH. • BPDLH may actively solicit funds from donors in accordance with donor mechanisms, including to design logical results frameworks, create proposals for funding programs and submit proposals to prospective donors. • Payers shall deposit funds directly to the custodian account of BPDLH at the Custodian Bank. • There are five types of eligible recipients of the Fund: o Central government o Regional government o Civil society o Donor countries / institutions, private sector or other parties concerned with the environment o Intermediaries and BPDLH partner organizations
Investment	• BPDLH may invest their funds through these following financial instruments: o Banking o Capital market o Other financial instruments according to national regulations • In terms of funds investment from Trust/Conservation Funds, a specific agreement or contracts involving respective donors shall be written in accordance to national regulations.

4. Comparison between different funding mechanisms managed by the Environment Fund (BPDLH)

BPLDH is unique in the way it facilitates different funding windows at once. Figure 6 illustrates how different funding flow from sources to finance prospective beneficiaries. Depending on the instrument modalities, it is possible for the fund to flow back to BPDLH as revenue. For example, for the revolving funds mechanism, loans disbursed to beneficiaries will later be collected by BPLDH through intermediary or the custodian bank.

Furthermore, BPDLH is also unique in its ability to receive international grants, invest, and disburse funds to specific beneficiaries in accordance to the agreement contract with donors. Since each donor normally has specific requirements, how BPDLH will manage the donor's money is decided on a case-by-case basis.

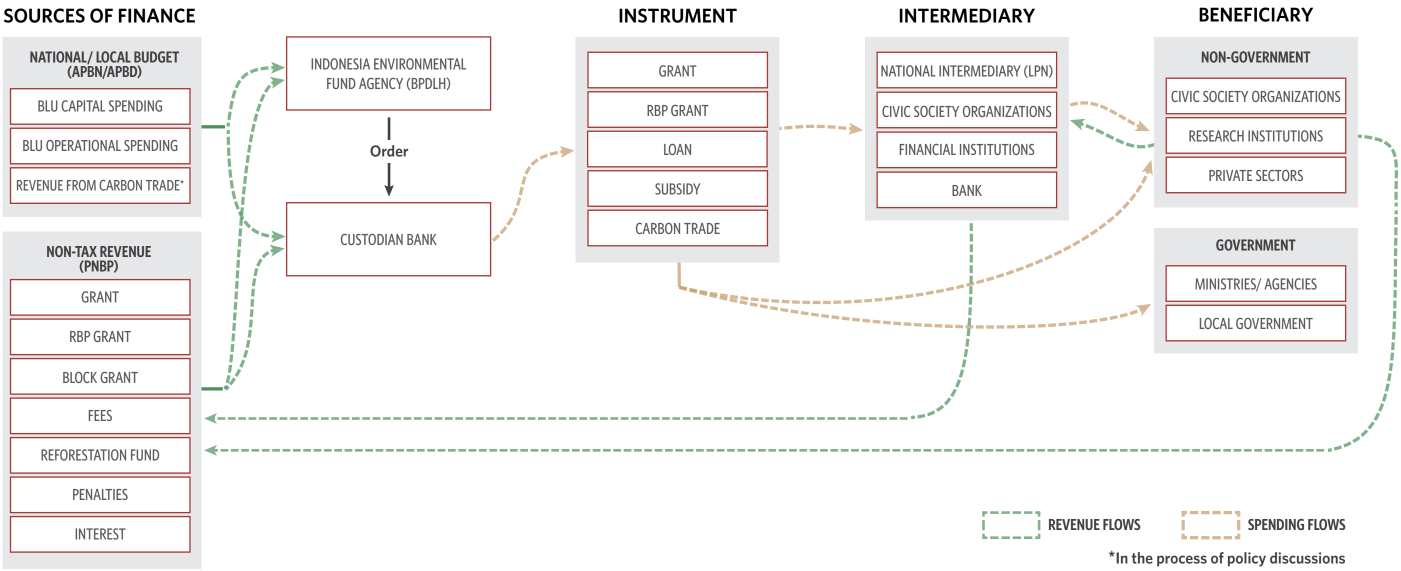
This chapter looks at a specific funding mechanism and illustrates how each funding could flow from sources to intended beneficiaries. Current discussions on BPDLH have centered around two initial funding windows that are to be managed by BPDLH, beginning from its early stages of operation. These two funding windows are explained in this chapter, namely the Reducing Emissions from Deforestation and Forest Degradation (REDD+) fund, and The Forestry Fund or the Center for Forest Development Financing (P3H)

4.1 Reducing Emissions from Deforestation and Forest Degradation (REDD+) Fund

REDD+ is a series of climate mitigation actions in the forestry and land-use sector that aim to lower the emissions from deforestation and forest degradation, conserve forest carbon stocks, and improve the sustainable management of forest and its carbon stocks.[47] Regulated by the Ministry of Environment and Forestry,[48] the funding for REDD+ program is being managed by BPDLH.

Under this funding mechanism, REDD+ funds will be disbursed in either of these instruments: (i) Result-Based Payment (RBP) Grant; (ii) Grants; (iii) Carbon Trade payments; and (iv) other financial instruments. The fund will be disbursed either directly from the custodian bank to REDD+ beneficiaries, or, in the events where beneficiaries are unable to access financial institutions, the fund will be disbursed through national intermediaries (*Lembaga Penyalur Nasional* – **LPN**). The beneficiaries for this funding window can range from the national and/or sub-national levels of governments, Civic Society Organizations (CSOs), the private sectors, research institutions, and local communities.

Figure 6: Flows of All Funding Managed by the Environment Fund (BPDLH)



47 This definition refers to point c in the Minster of Environment and Forestry Regulation P.70/MENLHK/SETJEN/KUM.1/12/2017 on REDD+ Guidelines
48 See Article 16-20 on Minster of Environment and Forestry Regulation P.70/MENLHK/SETJEN/KUM.1/12/2017 on REDD+ Guidelines

Carbon Market

Carbon markets are one of the economic instruments being considered by Indonesia to accelerate emission reductions. This mechanism comprises of voluntary and mandatory mechanism. Voluntary mechanisms are already being practiced in Indonesia to some extent.

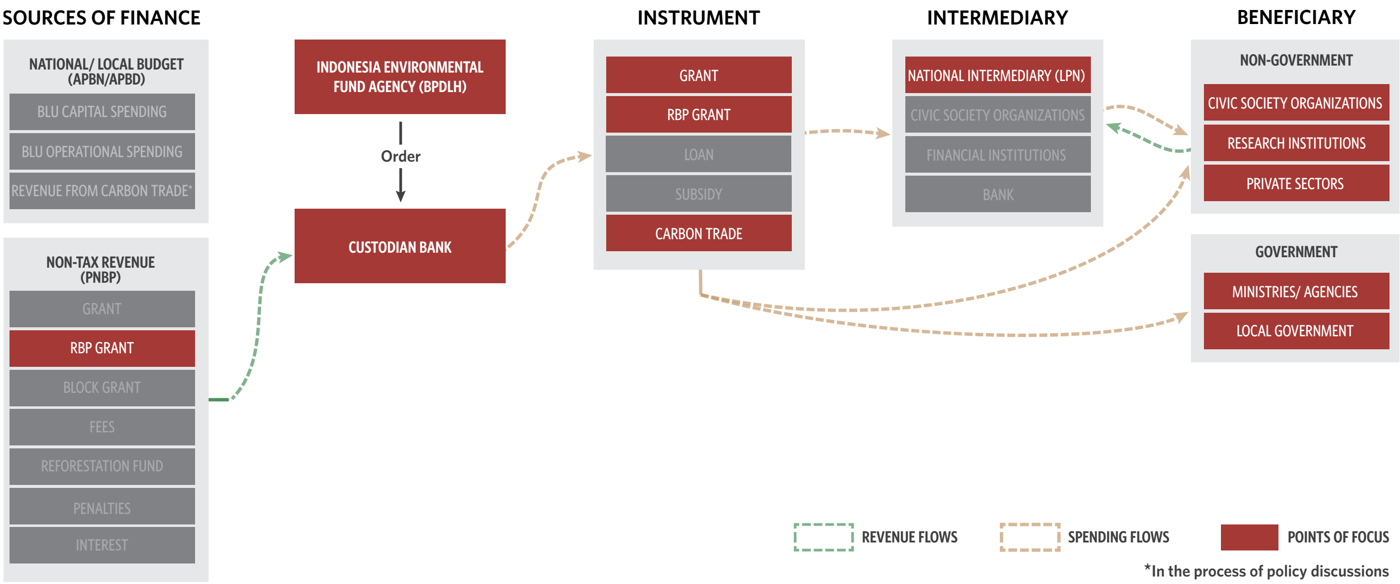
A mandatory mechanism is currently being discussed in parallel with discussions around the role of BPDLH in the carbon market. Mandatory mechanisms could be in the form of Emission Trading Scheme (ETS), carbon tax, or carbon offsetting. Indonesia has already set up a National Registry System (SRN) for carbon reduction projects.

4.2 Revolving Fund for Forest Rehabilitation

The Revolving Fund mechanism under BPDLH is the Forestry Fund/Center for Forest Development Financing (P3H) BLU that is absorbed into BPDLH. Consequently, the operational modalities under BPDLH will be similar to the operational modalities when it was still under the former BLU (see Table 3 for reference).

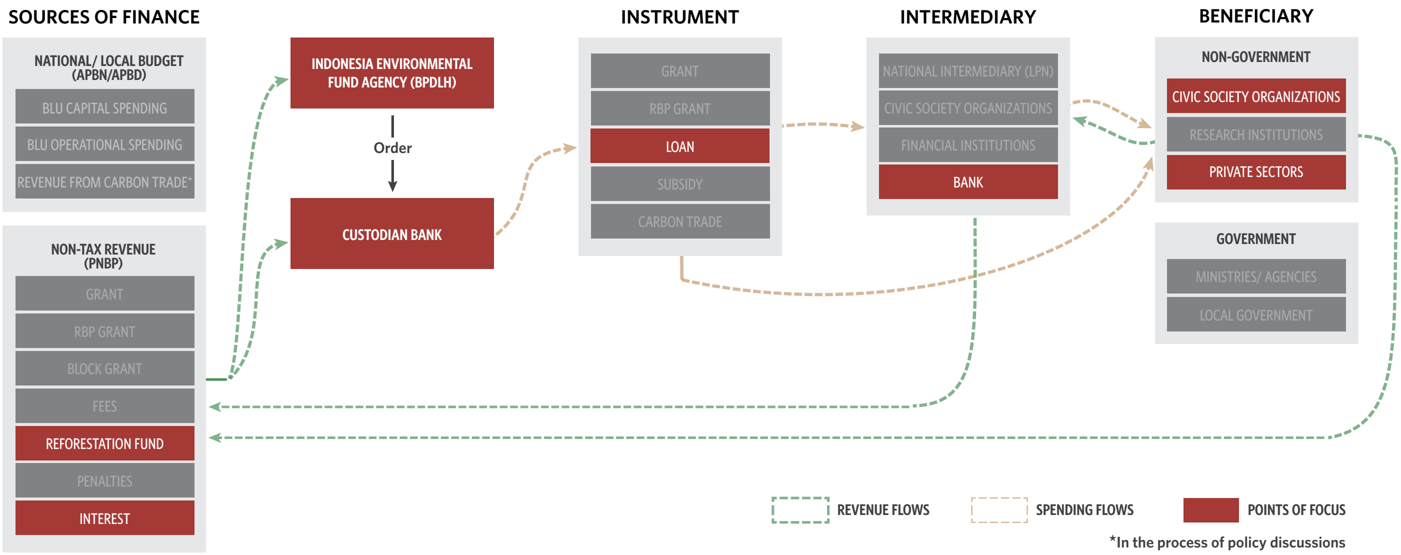
The revolving fund finances private enterprises in land and/or forest rehabilitations using loan instruments.[49] The loan can be in the form of either a conventional loan, revenue sharing, or sharia loan—all of which differ in terms of interest rates, proportion of revenue sharing, and the profit margin shares. The recipients for this fund are all legal entities in the plantation and forestry business.In BPDLH, the principal loan plus interest, will be collected from the beneficiaries as non-tax revenue to finance more forestry businesses, and to cover the operational cost of BPDLH. Through a revolving scheme, this funding window aims to finance as many rehabilitation efforts as it can.

Figure 7: Flows of REDD+ Result-Based Payment Fund



49 See Minister of Environment Regulation P.59/MenLHK-Setjen/2015 on Disbursement and Collection of Revolving Fund for Land and Forest Rehabilitation

Figure 8: Flows of Revolving Fund (formerly Forestry Fund/P3H)



4.3 Follow-Up Study on Potential Financing Schemes

While the REDD+ and Revolving Funds are both specific funding mechanisms with specific objectives, BPDLH may design a strategic business plan to disburse funds based on existing needs. BPDLH's principle of additionality means that it can bridge the funding gaps for existing environment/climate change programs. Therefore, further inclusive discussions and analysis is needed to explore the current funding landscape and to map the potential program pipelines for BPDLH.

5. Conclusion

Indonesia has pledged to reduce 29% emissions by 2030 on its own and 41% with international assistance, making the existence of a funding agency for environmental and climate change programs necessary. The Indonesia Environmental Fund Agency was established in October 2019 to answer this need.

The process for establishment of BPDLH was initiated by the Ministry of Environment and Forestry in 2015, and the funds managed are part of a larger framework of environmental economic instruments envisioned under Government Regulation Number 46/2017 on Environmental Economic Instruments. The fund deploys environmental economic instruments with the overarching purpose of ensuring the accountability and compliance of environmental conservation and management; altering various stakeholders' mindset and behavior in economic activities; managing finance for the environment in a systematic, consistent, structured, and measurable way; and building public and global trust in the management of environmental funds.

BPDLH's mandate is not limited to efforts to reduce greenhouse gas emissions. The Environment Fund is designed to manage multiple financing schemes to finance multiple programs and recipients from multiple funding sources. Historically however, the main reason for establishing the fund was the need for having effective fund disbursements in place, which could help reach targets to reduce emissions from land-use change and forestry. The Environment Fund's full mandate is broad, encompassing two kinds of funds: (1) Conservation Funds, and (2) Pollution and Restoration Funds.

The Environmental Fund's legal structure as a public services agency, as well as novel traits specific to the Environmental Fund, puts it in a unique position to source, manage, and disburse funds to finance gaps in Indonesia's effort to reduce emissions and conserve the environment. Some key traits that have been discussed in this paper are as follows:

1. The BLU legal vehicle offers flexibility in terms of the sources of finance it can accept, and the funding instruments it can offer. The government is well-rehearsed in these practices due to having managed hundreds of BLUs, seven of which were established specifically to provide fund-management services. The flexibility allows for some interesting managerial traits. Procurement, for example, might follow government procurement guidelines for revenues sourced from the state budget, or it might follow donor guidelines for donor funds managed in trust. BLU regulations also allow BPDLH to look for the appropriate people to manage these challenges by permitting the staffing to involve a mix of civil servant and non-civil servant professionals.

2. While most sources of revenue for past fund-managing BLUs in Indonesia are from state budgets, BPDLH could have diverse sources of revenue, including revenues from international donors and carbon markets, as well as a diverse project portfolio. Through a rigorous investment and risk management strategy, not only will BPDLH have more secure and diverse sources of funds, but also more diverse beneficiaries As a result, BPDLH has potential to achieve bigger impacts. That being said, the effectiveness and efficiency of each of the seven fund-managing BLUs varies from each other. Some, such as the Cooperatives Fund, have managed to run its entire mandate and disbursed most of the funds that it manages. Others, such as the CPO Fund, have several mandates but have only managed to disburse funds to a few of them. Because BLUs have a public impact objective as well as a financial objective, effectiveness and efficiency must be seen through the lens of both implemented programs and financial performance against impact.

3. While BPDLH shares the same characteristics with the other fund-managing BLUs in Indonesia on leveraging public and private funds for public services, it is the first BLU with flexibility to source both state funds and international financing. In other words, BPDLH can act strategically as a "funding hub" for various funding mechanisms and act on the principle of additionality by bridging the gap between existing funding mechanisms for various environmental programs. There are various financing gaps that could potentially become the project pipelines for BPDLH, which could be explored as a follow up from this study.

4. BPLDH is unique in the way it can facilitate different funding windows at once. This paper analyzed the two funding windows currently discussed to be managed by BPDLH as it begins its operations, namely the Reducing Emissions from Deforestation and Forest Degradation (REDD+) Fund and Forest Rehabilitation Revolving Fund. Under the REDD+ fund window, funds will be disbursed through either (i) Result-Based Payments (RBP) Grant; (ii) Grants; (iii) Carbon Trade payments;

and (iv) other financial instruments. The beneficiaries for this funding window can range from the national and/or sub-national levels of governments, Civic Society Organizations (CSOs), private sectors, research institutions, and local communities. By contrast, the revolving fund finances only private enterprises in land and/or forest rehabilitations using loan instruments. The loan can be in the form of either a conventional loan, revenue sharing, or sharia loan—all of which differ in terms of interest rates, proportion of revenue sharing, and the profit margin shares. The recipients for this fund are all legal entities in the plantation and forestry business. While the REDD+ and Revolving Funds are both specific funding mechanisms with specific objectives, BPDLH may design a strategic business plan to disburse other funds based on existing needs. Therefore, further inclusive discussions and analysis is needed to explore the current funding landscape and to map the potential program pipelines for BPDLH.

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