

# INDONESIA INTEGRATED NATIONAL FINANCING FRAMEWORK (INFF)

# 2022





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August 2022



*‘Innovative financing mobilization to close the SDGs funding gap, including through blended finance, must be carried out immediately. A sustainable increase in private investment must be encouraged to re-start the economy and create jobs in developing countries,’*

**H.E. President Joko Widodo**

G20 Summit, La Nuvola, Rome, Italy, 31 October 2021



# Foreword by Minister of National Development Planning/ Head of Bappenas

**Suharso Monoarfa**



Indonesia is strongly committed to achieving the Sustainable Development Goals. There are 124 SDG global targets that have been mainstreamed and aligned with the national and subnational development plans. The targets to attain SDGs in 2030 are defined in the Indonesian SDGs Roadmap Towards 2030, with the appropriate policies and strategies needed to ensure they are met. The roadmap also estimates the financing gap needed for SDGs achievement with several scenarios; the high scenario has the largest financing gap.



However, the COVID-19 pandemic has exacerbated many existing development challenges, including the SDGs targets. Nevertheless, the President of the Republic of Indonesia has reiterated that despite the pandemic SDGs targets must remain intact.

More resources are therefore needed to close the existing financing gap, which has now been wider due to the pandemic.

As we are approaching 2030 in less than eight years, it is crucial to accelerate SDGs achievements in this Decade of Action. Various financing schemes and strategies are to be mobilized to support the accomplishment of the SDGs targets. Here, the role of Integrated National Financing Framework (INFF) is central and essential in aligning national priorities with available financing resources. Realizing such importance, Indonesia has started the INFF process since 2019, establishing the scoping mission in 2020 and the assessment process in 2021.

The Indonesian INFF is envisioned to bring greater alignment between financing policies and national sustainable development plans, in which SDGs Financing Hub will implement the financing strategies to better mobilize resources and to synchronize, harmonize, and align financing resources with programs and activities of both government and non-state actors in achieving the SDGs. The government has a high hope that INFF can further strengthen the existing collaboration with private sectors, philanthropists, faith-based organizations, CSOs, and other non-state actors in the spirit of achieving SDGs and leaving no one behind.

We are grateful as UNDP Indonesia has assisted greatly in the facilitation of INFF in Indonesia and the preparation of this INFF report and hope that INFF can continue addressing the challenge to close the financing gap for SDGs implementation. We believe that this fruitful collaboration is a step closer towards achieving the SDGs.

Thank you.

Suharso Monoarfa





# Introduction by the United Nations Resident Coordinator



## Valerie Julliard

It gives me great pleasure to present the Integrated National Financing Framework (INFF) Report.

Witnessing the Government of Indonesia pioneer the INFF at this critical juncture in Indonesia's developmental history has been hugely exciting. The remarkable achievements recorded to date owe to the capable leadership of the Ministry of National Development Planning, BAPPENAS, and the system-wide support of United Nations throughout this journey.

Achieving the Sustainable Development Goals (SDGs) by 2030 was always going to require coordinated action to close the massive financing gap, enhance transparency and ensure that the available funds were aligned with the SDGs. However, coordination has become even more crucial in the context of the triple crisis the world now faces. The COVID-19 pandemic diverted funds earmarked for development towards response and recovery efforts; climate change and extreme weather-related disasters continue to widen inequalities and impede development efforts; and the fallout of Russia's invasion of Ukraine is being felt at gas pumps, checkout lines, and dinner tables across the archipelago.

So, the INFF Assessment is extremely timely. It holistically maps Indonesia's financing ecosystem for the first time ever, providing a means to improve the aligning of resources with Agenda 2030's goals. The map will enable the Government and the UN to identify corrective and strengthening measures that can then be integrated into the Indonesian INFF Financing Strategy.

For now, the Government should prioritise increasing domestic revenue mobilization, including the contribution of private capital to the SDGs. I am happy to say that this process is already underway. The INFF team conducted two rounds of financing dialogues while developing this assessment and roadmap. The dialogues brought together representatives from the financial sector, public-private partnerships, state-owned enterprises, industry and commerce, Islamic and other faith-based organizations, and international cooperation partners. Such multi-stakeholder dialogues are critical to ensuring the efficacy of the INFF. I am confident that they will continue under the Government's leadership.

The UN remains unwavering in its commitment to work with the Government of Indonesia and with all stakeholders to implement the INFF, close the financing gap, and achieve the SDGs.

Sincerely,

Valerie Julliard





# Introduction by the Resident Representative of United Nations Development Programme

## Norimasa Shimomura



The global efforts to achieve the Sustainable Development Goals (SDGs) have been hampered by the COVID-19 pandemic. Much of the setback has been centered on the growing funding shortfall in meeting the SDGs, estimated at USD 1 trillion in Indonesia alone.<sup>1</sup> Getting the financing right would be one of the keys to recoup some of losses and put us back on an accelerated mode. Considering this urgency, I am thrilled to offer you Indonesia's Integrated National Financial Framework (INFF) report, which will assist the Indonesian Government in developing a holistic financing strategy that is more aligned with sustainable development and climate action.

Indonesia already has an exemplary record on innovative financing for the SDGs, through its issuance of a number of financial instruments in the financial market. The formulation of this INFF report will provide the crucial missing link to ensure that there is a country-led approach to ensure coherence throughout the national financing architecture. The INFF intends to support Indonesia in three ways by 1) effectively mobilize resources, 2) drive resources to where it is most needed, and 3) strengthen planning process and overcome barriers to financing sustainable development.

Following Indonesia's recent success on Green Sukuk and SDGs Bond, which were made possible through a collaboration between the Government of Indonesia and UNDP, the INFF is expected to support Indonesia in expanding its SDGs investment options. The INFF also complements well with other key initiatives in mobilizing resource mobilization from public and private resources such as the SDGs Investor Map.

UNDP is honored to have supported the Government of Indonesia in formulating the INFF. Our collaboration in Indonesia is part of our global efforts in supporting countries to design sustainable development funding plans through catalytic and impactful strategy. UNDP stands ready to work closer together with the Government of Indonesia and other partners to harness vast financial potential in the country for the achievement of the 2030 SDGs Agenda.

Norimasa Shimomura

<sup>1</sup> SDGs Roadmap. (2019)







# Acknowledgement

The completion of the Integrated National Financing Framework (INFF) report was made possible by the support and contributions of many individuals and organizations. The report has been reviewed and consulted with various stakeholders.

We would like to express gratitude for the input and feedback provided by officials of government institutions and other stakeholders through financing dialogues and rounds of written feedback. Comments and input by participants at the consultative dialogues were greatly appreciated.

The formulation of the INFF report was led under the coordination of the Ministry of National Development Planning and SDGs National Secretariat, Vivi Yulaswati, Yanuar Nugroho, Setyo Budiantoro, Luhur Fajar and Farhana Zahrotunnisa. Technical assistance and support were provided by the United Nations Development Programme (UNDP), Muhammad Didi Hardiana, Tim Strawson, Enkzhul Dambajanstan and Anisa Indah Pratiwi, as well as United Nations Resident Coordinator Office (UN RCO), Diandra Pratami. The INFF report benefited from extensive financing dialogues and consultations with Ministries and Agencies as well as various stakeholders, including international organizations, private sector, financial institutions, NGOs, CSOs, which insights have been synthesized and analyzed into the report by Geopolicity, Peter Middlebrook and Amba Tadaa.

We thank the European Union and the Government of Italy for their generous support through the INFF Facility, which made the undertaking of INFF in Indonesia become possible.



# Acronyms and Abbreviations

AAAA	Addis Ababa Action Agenda
B4SDG	Budgeting for SDGs
BBB	Building Back Better
BIOFIN	Biodiversity Finance Initiative
CAPEX	Capital Expenditures
CSOs	Civil Society Organizations
DFA	Development Finance Assessment
F2F	Funding to Financing
FDI	Foreign Direct Investment
G2B	Government-to-Business
G2C	Government to Citizen
G2E	Government-to-Employees
G2G	Government-to-Government
GDP	Gross Domestic Product
GOI	Government of Indonesia
IMF	International Monetary Fund
INFF	Integrated National Financing Framework
JP	Joint Program
LCM	Leading Change Management
LNOB	Leaving No One Behind
MTBF	Medium-Term Budget Framework
MTEF	Medium-Term Expenditure Framework
MTFF	Medium Term Fiscal Framework
ODA	Overseas Development Assistance
OECD	Organization for Economic Co-operation and Development
OPEX	Operational Expenditures
PFM	Public Finance Management
SDG	Sustainable Development Goals
UNCT	United Nations Country Team
UNDP	United Nations Development Programme
UNSDCF	United Nations Sustainable Development Cooperation Framework
VNR	Voluntary National Review
WBG	World Bank Group



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# CHAPTER 1

# INTRODUCTION





# Chapter 1: Introduction

## 1.1 Background

1. **Prior to the pandemic, through the Sustainable Development Goals (SDGs) Roadmap, the estimated financing gap (high scenario) in Indonesia was calculated at USD 1 trillion<sup>2</sup>**; however, the pandemic has widened the SDG financing gap at a time when revenues have also contracted. This calls for an imperative for a financing recovery strategy that will respond to shocks that the pandemic triggered across public and private finance and lay out an approach for unlocking the necessary investments to finance SDGs and the Paris Agreement whilst managing heightened future risks and uncertainties.
2. **In addition to increased SDG resource needs, the central government also aims to increase the average capital budget expenditure contribution to 1.7–2.3% of GDP<sup>3</sup> across each financial year of Medium-term National Development Planning (RPJMN), in order to meet growth targets.** However, limited fiscal space constrains the allocation of sufficient funds and public financial management challenges prevent more efficient capital budget execution, with higher rates of return on investment. While the former may reflect the government's ability to exercise its income-generating power through available revenue sources, the latter showcases technical challenges in the government bodies that can be addressed if we understand the underlying issues.<sup>4</sup>
3. **The impact of the COVID-19 pandemic has delayed progress towards upper middle-income status and put a setback on SDGs achievement.** While Indonesia had established a prudent macroeconomic policy track record and enjoyed stable growth of around 5 percent in the years preceding the pandemic, the economy contracted by -3.5 per cent in the first half of 2020, leading to elevating the poverty rate to 9.8 percent as of March 2020, up from 9.4 percent in 2019. While medium term growth prospects see growth outturns returning to the RPJMN trend, Indonesia's long-term revenue intake remains low, undermining development spending and the fiscal space necessary to implement the SDGs. A combination of structural reforms is required alongside significant investment in developing a cogent Medium-Term Revenue Strategy (MTRS) that can improve development financing and reduce the budget deficit. The entire approach to taxation also needs to be broadened.
4. **The primary focus of the government however will be on increasing domestic revenues through the adoption of a Medium-term Revenue Strategy (MTRS) and effective expenditure through the adoption of a Medium-term Expenditure Framework (MTEF),** at all levels of fiscal governance. Increased fiscal pressure caused by a combination of (i) external economic shocks and the COVID-19 Pandemic (ii) future investments in human capital development (knowledge-based economy), infrastructure and social protection and assistance as well as (iii) increased financing for the SDGs, require changing the channels on the way revenues have been generated to date. This will support the new Roadmap of SDGs, which has enabled prioritization among SDG indicators.<sup>5</sup>
5. **The need to increase domestic revenue mobilization and the contribution of private capital to the SDGs is greater than ever.** This can be achieved through multiple measures as outlined in the Development Finance Assessment (DFA), including by moving towards an integrated national budgeting system that actively encourages and incentivizes private capital to support the attainment of SDG goals and targets.

<sup>2</sup> SDG Roadmap. (2019)

<sup>3</sup> Medium-term National Development Planning 2020-2024.

<sup>4</sup> <https://blogs.worldbank.org/governance/why-indonesia-needs-prioritize-capital-budgets-meet-its-development-goals>

<sup>5</sup> The National Statistical Office (BPS) has analyzed data availability and readiness for monitoring the SDGs. Indonesia was one of the first countries to conduct an SDG indicator mapping and gap assessment; 85 of 319 national indicators are matched with the SDGs. BPS has identified SDG targets for integration into development plans: 94 out of 169 SDG targets were integrated into the RPJMD 2015–2019, and 105 targets integrated into the new RPJMN 2020–2024. (ADB, UNDP, SDG Implementation Snapshot,





6. **The Government of Indonesia is on the right track in advancing sustainable development finance.** The Government of Indonesia has a robust planning system in place where the long-term plan, RPJPN 2005-2025, supports progress toward Vision 2045, and is implemented through a series of medium-term plans, with the current RPJMN covering the period 2020-2024. Government's commitment in aligning SDGs with the national development priorities is enshrined in the Presidential Decree No. 59 at 2017. To guide the implementation, the SDG Roadmap was launched in 2019 to drive progress toward achieving the SDGs by 2030 and currently the roadmap is being revised for acceleration.

Figure 1 INFF Vision



source: inff.org

7. **The Government of Indonesia has committed to operationalize an Integrated National Financing Framework (INFF).** At the 2019 UN General Assembly Indonesia committed to operationalize an INFF with several other countries. Globally, there are around 86 countries who are establishing their INFF. The INFF was first coined at the Addis Ababa Action Agenda 2015, which recognized that public and private finance had important, differentiated, roles to play in advancing sustainable development. Sustainable Development Strategy together with financing strategy will close the gap in SDGs financing gap by optimizing different sources of finance and other means of implementation. In Indonesia, the INFF assessment is structured based on financing dialogues between Ministries, Agencies and Non-state Actors to map the landscape for financing sustainable development. The outcome of dialogues helps inform the full range of financing sources—domestic public resources, aid and development cooperation, and domestic and international private finance—and serve as the basis to develop a strategy to increase investment, manage risks and achieve sustainable development priorities as identified in a country's national sustainable development strategy.



## 1.2 Objectives

- 8. The INFF is envisioned to bring greater alignment between financing policies and national sustainable development plans.** As a planning and delivery tool to finance sustainable development at the national level, INFF can lay out a strategy to increase and make most effective use of all types of finance for sustainable development, coordinate technical and financial cooperation, manage financial and non-financial risks, and ultimately achieve priorities articulated in a national sustainable development strategy or plan.
- 9. The need for the INFF is now critical given fiscal space and discretionary financing challenges.** As importantly, as a more integrated financing strategy is required, bringing public and private flows together, there is the potential to fundamentally rethink public investment planning at all levels of government, increasingly sharing the burden of delivery with the marketplace. Significant progress in innovative, blended and climate financing solutions and in setting standards for Environmental, Social and Corporate Governance (ESGs) goals, will allow a whole-of-government and whole-of-society approach to be adopted. The INFF business case – acting as a resource mobilization strategy – will need to champion new ways of investment financing.

## 1.3 INFF Building Blocks

- 10. The INFF Process is guided by the four building blocks that represent a critical component in building national capacity to strategically plan, mobilize and manage the financing needed for sustainable development results.** The building blocks consist of the following:
1. Building Block 1: The assessments and diagnostics building block paint a picture of the assessment of financing needs, and of trends in the current financing landscape that create a baseline understanding of financing gaps. The building block helps identify necessary financing policy action to overcome risks to sustainable financing and policy action to strengthen resilience, and identifies binding constraints that hinder effective mobilization and alignment of resources.<sup>6</sup>
  2. Building Block 2: The Financing strategy provides a path for financing national development strategies and plans, building on findings from Building Block 1, as laid out in the INFF Roadmap. It brings together existing policies and institutional structures in support of financing national development strategies and plans. In the current context, financing strategies can also be used to support COVID-19 recovery plans.<sup>7</sup>
  3. Building Block 3: Monitoring and review helps bring together the information required by policy makers and ensures necessary systems are in place to facilitate transparency and accountability in the implementation of the INFF and related activities and reforms.<sup>8</sup>
  4. Building Block 4: Governance and coordination helps to enhance integration and coherence across different financing policy areas (including development cooperation and private finance and investment).<sup>9</sup>

<sup>6</sup> INFF Building Block 1: Assessment & Diagnostics. (2021).

<sup>7</sup> INFF Building Block 2: Financing Strategy. (2021).

<sup>8</sup> INFF Building Block 3: Financing Strategy. (2021).

<sup>9</sup> INFF Building Block 4: Financing Strategy. (2021).

Table 1 INFF Building Blocks

Table 1. INFF Assessment Building Blocks	
<b>BB 1: Assessment and Diagnostics</b> <ul style="list-style-type: none"> <li>Quantify financing landscaping volumes and players</li> <li>Establish initial estimates of financing needs</li> <li>Identify emerging financing trends</li> <li>Outline key financing challenges and opportunities</li> <li>Understand risk landscape</li> <li>Identify primary impediments to effective financing of national development priorities</li> </ul>	<b>BB 2: Financing Strategy</b> <ul style="list-style-type: none"> <li>Review existing budgeting processes and consider catalytic potential</li> <li>Evaluate role of international development community</li> <li>Identify ways to integrate sustainability into private sector decision making</li> <li>Consider primary financing constraints</li> <li>Identify possible financing policy solutions for inclusion in INFF Roadmap</li> </ul>
<b>BB 3: Monitoring and Evaluation</b> <ul style="list-style-type: none"> <li>Review national capacity to track financing trends</li> <li>Review national data and statistical systems</li> <li>Review environment to encourage sustainability reporting</li> <li>Identify potential for SDG/Gender/Climate budget tagging</li> <li>Review available mechanisms to monitor the INFF</li> <li>Identify opportunities to improving monitoring capacity</li> </ul>	<b>BB 4: Governance and Coordination</b> <ul style="list-style-type: none"> <li>Identify INFF Ownership Arrangements within the Government</li> <li>Finalize INFF roles and responsibilities</li> <li>Review existing Public-Private collaboration platforms</li> <li>Identify preferred oversight, dialogue, coordination, transparency and accountability structures to overcome silos and enhance integration across stakeholders, sectors, and financing policy areas</li> </ul>

## 1.4 Report Structure

- The report is structured based on the financing dialogues held with Ministries and Agencies and Non-state actors. The report is outlined as follows: Chapter 1 provides an overview on the state of financing needs and the imperative to establish INFF; Chapter 2 discusses the building block 1, which lays out the financing landscape of Indonesia; Chapter 3 captures the Financing Strategy needed to support financing national development strategies and plans; Chapter 4 provides analysis on the integration of INFF to the existing monitoring and review platforms; Chapter 5 presents the analysis on Governance and Coordination of the INFF; and Chapter 6 unpacks the policy options to operationalize the INFF.



## CHAPTER 2

# BUILDING BLOCK I: ASSESSMENT & DIAGNOSTICS





# Chapter 2: Building Block I: Assessment & Diagnostics

**12. The assessment and diagnostic chapter provide comprehensive overview of financing needs, sources, and risk factors.** The analysis leads with a description of the existing and emerging financing landscape, allowing the identification of gaps, from which recommendations have been made to close the financing gap in a sustainable manner. *This chapter describes existing sustainable development financing landscape in Indonesia covering domestic and international public and private flows.* In describing existing flows, gaps and constraints are highlighted as the basis for establishing future policy, institutional, capacity and financing instrument measures, which in turn inform the road map and INFF financing strategy. The analysis identifies sustainable financing solutions absent from the Indonesian market across the domestic and international, public, and private structure (See Table 1 earlier in the report).

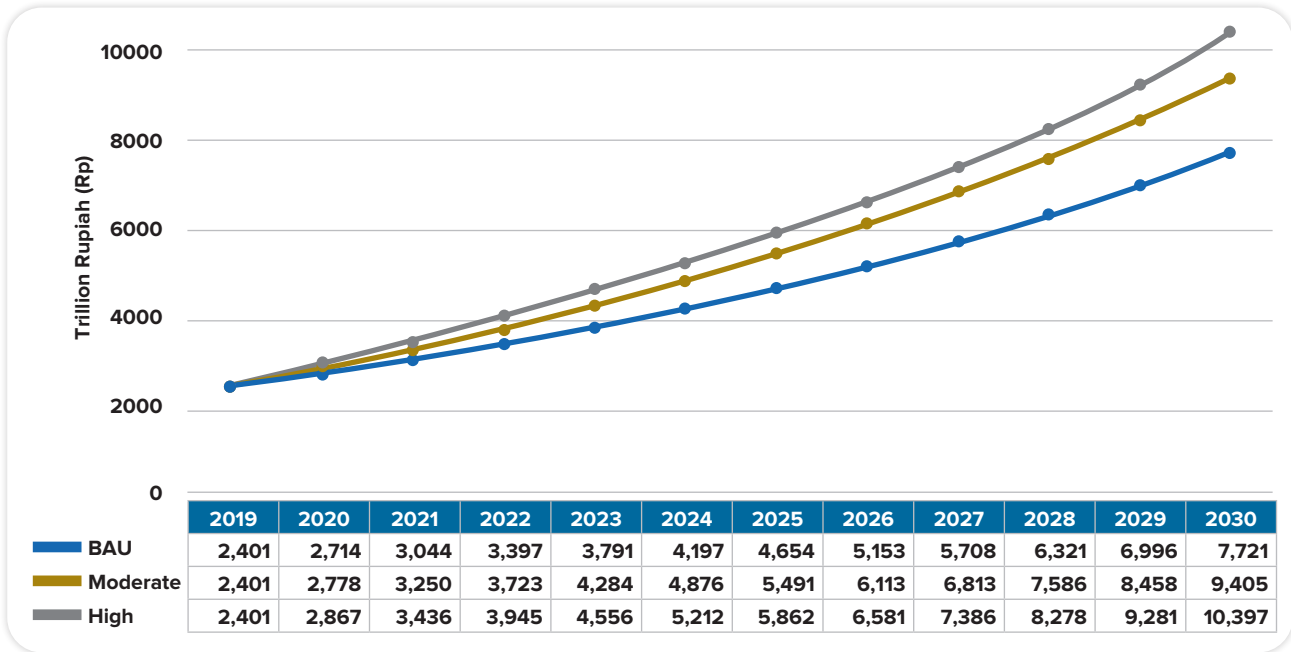
## 2.1 SDG Financing Needs

- 13. There is a common understanding that implementation of the 2030 Agenda for Sustainable Development in Indonesia and other countries will require significant mobilization of investments, resources, and financing innovation.** The UN estimates that the gap in financing to achieve the Sustainable Development Goals (SDGs) is \$2.5 trillion per year in developing countries alone (pre COVID condition) (UNCTAD, 2014). **Based on calculations in the OECD Report (2021<sup>10</sup>), the annual SDG financing gap in developing countries could increase by USD 1.7 trillion, or about +70% in 2020 (Post COVID estimation).** The USD 2.5 trillion annual SDGs financing gap in developing countries is predicted to increase due to global economic uncertainty and an estimated USD 1 trillion gap in COVID-19 emergency and response spending in developing countries compared to OECD countries.
- 14. In Indonesia, prior to the pandemic, through the SDGs Roadmap, the estimated financing gap for the 2020-2030 period (high scenario) was calculated at USD 1 trillion.** However, the pandemic has widened the SDG financing gap at a time when revenues have also contracted. Chart 1 provides an overview of Indonesia's pre-Covid 19 SDG financing needs until 2030, covering Business-As-Usual (BAU), moderate, and high financing scenarios. For the 2020–2024 (RPJMN) period, private financing of the SDGs is expected to cover some 38.2 per cent of the overall need, with private investment contributions then increasing to 42.3 per cent for the 2025–2030 period. These figures constitute top-down indicative estimates, but this would imply for the high scenario Rp 7,638 trillion (US \$530 billion) for the 2020–2024 period, and Rp 20,197 trillion (US \$1.5 trillion) for the 2025–2030 period.

<sup>10</sup> <https://www.oecd.org/dac/global-outlook-on-financing-for-sustainable-development-2021-e3c30a9a-en.htm>



Chart 1 Indonesia's SDG Financing / Expenditure Needs



Source: Indonesia's SDG Roadmap 2030

## 2.2 SDG Financing Sources

### 2.2.1 Domestic Public Finance

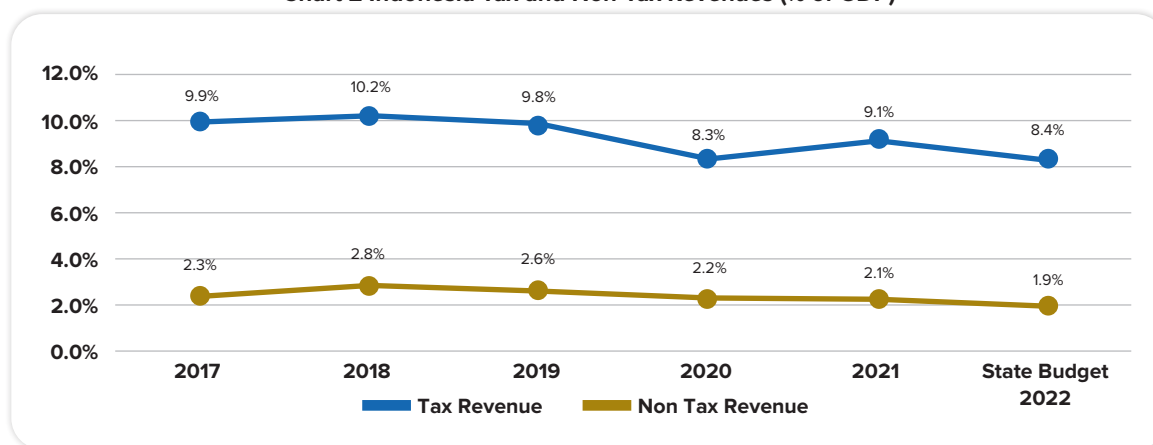
15. *In financing national development, the INFF envisages a greater reliance on private sector financing for national development and the SDGs, and the government has already signaled a greater focus on Public Private Partnerships (PPPs) as the primary basis for load shedding.* In this context, the financing of RJPMN will continue to be driven by government revenues and borrowing, though the composition of spending will need to change as (i) once SDGs are fully integrated into the national Medium-Term Budget Framework (MTBF) and costed as part of the Medium-Term Expenditure Framework (MTEF) and (ii) new financing instruments and mechanisms are integrated into sector investment programs.

### Tax Revenue

16. *To finance RPJMN and Agenda 2030, the government is planning to increase fiscal space by maximizing revenue, improving the quality of spending, supporting fiscal consolidation, and managing long term fiscal sustainability.* To ensure fiscal sustainability and support development, the medium-term policies are directed towards (i) increasing tax revenues, (ii) undertaking both efficiency (operational efficiency) and expenditure (allocative efficiency) measures, and (iii) maintaining the deficit and public rate at safe levels. To increase fiscal space, the financing strategy aims to encourage creative and innovative financing schemes in supporting countercyclical policy during economic recovery, as well as promoting prudent and flexible financing through more integrated Public-Private Partnership (PPP) in infrastructure financing, strengthening the role of the Indonesian Investment Authority (INA) and promoting bond market deepening through efficiency of cost of borrowing, extension of the investor base and digitizing payments systems. In addition, 2022 fiscal policy is also aimed at providing a solid foundation for fiscal consolidation in the medium term in order to support the acceleration of economic recovery and structural reform. Deficit ratio is gearing to decline gradually over the years, toward a maximum deficit of 3 percent of Gross Domestic Product (GDP) in 2023.

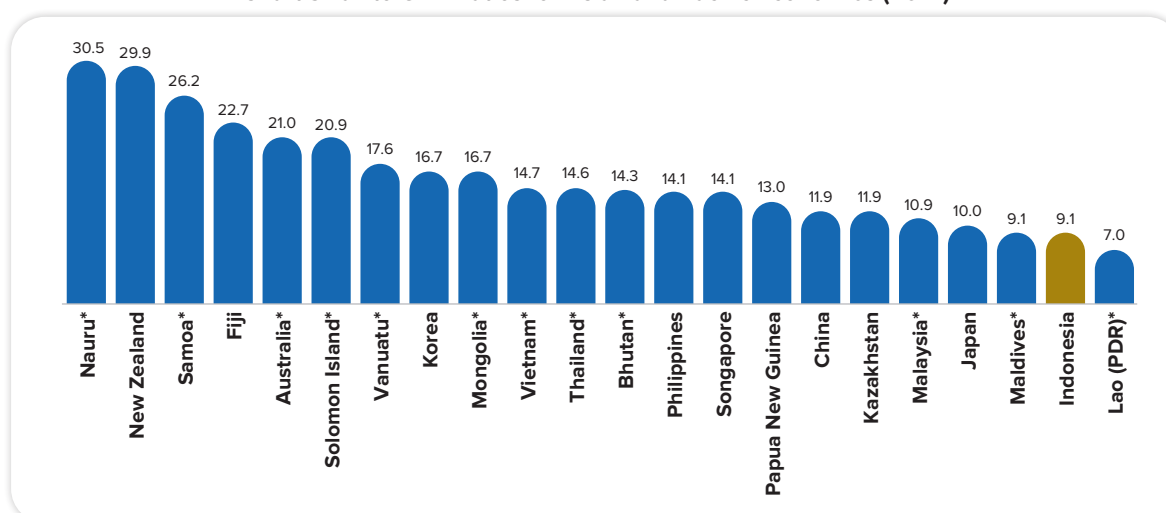
17. **Indonesia's tax-to-GDP ratio was 9.1% in 2021, which is lower than countries in the Asia Pacific Region. The tax-to-GDP ratio in Indonesia during the COVID-19 pandemic tends to decrease significantly, from 9.76% (2019) to 8.31% (2020).** Furthermore, the realization of the tax-to-GDP ratio in 2021, which amounted to 9.1%, has shown an increase but has not returned to the level before the COVID-19 pandemic yet. Including non-tax revenues, Indonesia's revenue-to-GDP ratio is also low at 11.8 % in 2021 (albeit increasing from 10.58% in 2020) compared with the emerging economy average of 27.8%.<sup>11</sup>

Chart 2 Indonesia Tax and Non-Tax Revenues (% of GDP)



Source: Ministry of Finance (2022)

Chart 3 Tax to GDP Ratios for Asian and Pacific Economies (2021)



Source: CEIC and World Bank (2021)

Note: Data for 2021 is not yet available, so the data taken according to the latest available year for each country.

18. **While government is committed to urgent tax reform to acquire increasing tax revenue to fund the state budget, tax reform plans around the Medium-Term Revenue Strategy (MTRS) were delayed as a result of the pandemic.** Actions to support improved revenue mobilization include a broad range of tax administration (risk-based audits, IT development, and use of taxpayer bank data to support audits) as well as tax policy measures (extension of excise taxes, imposition of VAT on cross border electronic transaction, and reductions in CIT rate). Clearly, addressing revenue constraints will not only be vital to increased spending on the SDGs it will also be vital to merging an upper-middle income economy.

<sup>11</sup> <https://www.oecd.org/tax/tax-policy/revenue-statistics-asia-and-pacific-indonesia.pdf>



19. **Indonesia tax reform includes policy direction for the development of the core tax administration system.** The system is expected to fully operational in 2024. The development of core tax administration system could strengthen the implementation of digital-based business processes, making tax collection more accountable, credible, as well as increasing tax revenue.

### Public Private Partnership (PPP)

20. **PPPs are an important instrument to crowd in private capital for both infrastructure and non-infrastructure investments. It is necessary to reduce both the infrastructure financing deficit and the SDG financing gap.** In Indonesia, PPP is known as Government Cooperation with Business Entities (Kerjasama Pemerintah dengan Badan Usaha/KPBU). It is carried out to (1) bridge the gap in government funding and financing through private investment, including unsolicited business entity initiatives in the provision of infrastructure; and (2) obtain investment efficiency from business entities through efforts to optimize risk sharing. With the KPBU scheme, the government, through implementing business entities, can provide infrastructure on time (on schedule), on budget and on service.
21. **The infrastructure funding scheme through PPP has several advantages. From the government's perspective, PPP is an option in responding to the challenges of limited government funding. While for business entities, PPPs have competitive returns, appropriate risk sharing, complete supporting rules and regulations, as well as guarantees by PT. Indonesia's Infrastructure Guarantee.** The use of PPP for economic infrastructure development will continue to be expanded and has begun to be developed for social infrastructure, including education, health, and others. As a form of the government's commitment to consider the level of PPP readiness and benefits for the community in accordance with the national development plan, and in accordance with Presidential Regulation No. 38/2015 and Ministerial Regulation No. 2/2020, the Minister of PPN/Head of Bappenas stipulates a List of PPP Plans (DRK), which consists of a list of PPP projects that are ready to be offered and in the process of being prepared. This is to provide certainty to business entities that are interested in participating in the PPP Project.
22. **Under the current Medium-Term National Development Plan 2020-2024, the main government target is to increase GDP by 6% and allocate IDR 6,445 trillion, or about 6.2% of GDP, for infrastructure spending.** In contrast, the funding capacity of the government is only able to fund IDR 2,385 trillion, or about 37% of the total required investment. This funding gap forces the government to maximize innovative financing schemes by encouraging the participation of the private sector in infrastructure provision investment through the Public Private Partnership (PPP) scheme.

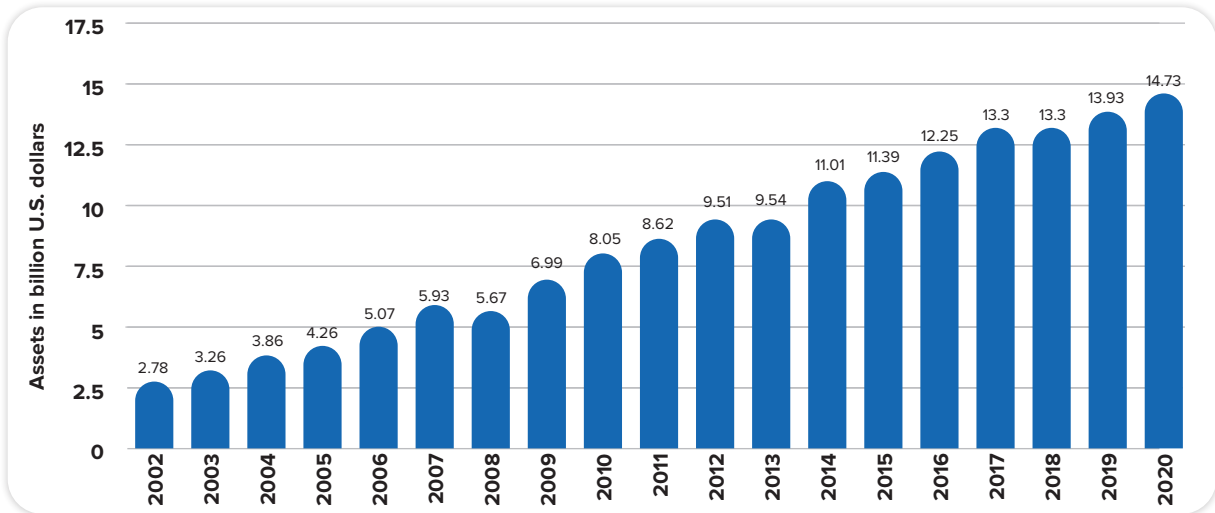
### State Pension Fund

23. **Pension Fund is a legal entity managing a program that promises pension benefits. A pension fund is characterized as long-term savings, which aim to be received by the employee after retirement.** Generally, pension fund industry consists of Employer Pension Fund (EPF) and Financial Institution Pension Fund (FIPF). Based on its type of program, EPF can run a Defined Benefit Pension Plan (DBPP) or a Defined Contribution Pension Plan (DCPP), while FIPF can only run DCPP. According to the monthly pension fund reports issued by the Financial Services Authority (OJK) in December 2021, since 2017, the number of pension fund companies has tended to decrease every year. In 2021, the number of conventional pension fund companies was 208, 7 companies less than the previous year.
24. **Assets in pension funds in Indonesia constitute around 2 per cent of GDP, and are valued at US\$ 21,682 as of 2020, substantially lower than OECD countries.**<sup>12</sup> Indonesia's pension fund industry assets climbed 1.47 per cent in the first nine months of 2021 from gains in government bonds, as higher stock prices in the third quarter failed to reverse earlier losses when foreign investors pulled out, spooked by a surge in coronavirus cases. The industry had Rp 319.29 trillion (US\$23.12 billion) of assets as of end-September, up from Rp 314.67 trillion at the end of 2020, according to the latest data published on the website of the Financial Services Authority of Indonesia. The pension industry's government bond assets rose 18.19 per cent to Rp 88.69 trillion in the nine months to September 2020, though equity assets fell 2.21 per cent to 31.43 trillion rupiah in spite of a 6.69 per cent gain in the third quarter.

12 <https://www.oecd.org/daf/fin/private-pensions/Pension-Funds-in-Figures-2021.pdf>



Chart 4 Total Pension Funds Assets In Indonesia (2002-2020) (US\$ Billion)

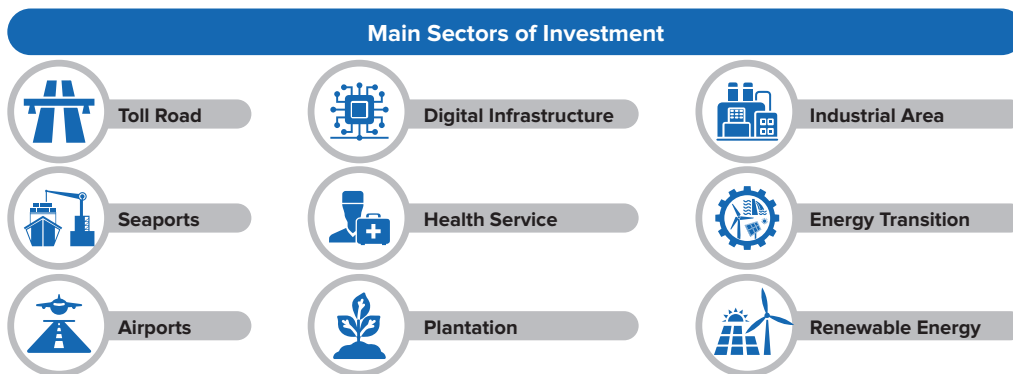


Source: Statista 2022

Sovereign Wealth Fund

25. *The Indonesia Investment Authority (INA) is Indonesia’s sovereign wealth fund, with a mission to deliver optimal returns, collaborate with credibility, develop people, create value, advance Indonesia’s competitiveness, and integrate international standards.*<sup>13</sup> The sovereign wealth fund was launched in February 2021, with an initial investment of US\$5 billion, of which US\$ 1 billion was injected in late 2020. The fund is tasked with expanding its assets to US\$20 billion by attracting co-investors to fund infrastructure development, and as a result, the fund is built around strong ESG standards. Already, new partnerships with the Abu Dhabi Growth Fund, DP World (to Invest US\$ 7.5 billion) and Angkasa Pura II have been closed, among others, with a focus on the following sectors: infrastructure, supply chain and logistics, digital infrastructure, green investing and healthcare services. Financial Services, Consumers and Technology, Tourism.

Figure 2 Main Sectors of Investment



Source: The Indonesia Investment Authority

2.2.2 Domestic Private Finance

26. *Given Indonesia’s advance economy, a multiplicity of private financing actors, instruments, and mechanisms exist, including, Green Sukuk, SDGs Bond, philanthropy, micro-finance institutions, faith-based financing, remittances, and others.* All flows have impact on SDG outcomes, and once greater alignment of public, blended, and private financing flows to support the SDG Roadmap of SDGs are actualized, the SDG financing deficit will also be reduced.

13 <https://www.ina.go.id/en/about-us>

## Green Sukuk

- 27. Indonesia pioneered the issuance of the world's first sovereign green sukuk in 2018, under the Republic of Indonesia Green Bond and Green Sukuk Framework developed in 2017, through which it finances and re-finances the national government's Eligible Green Projects.** The proceeds from the issuance were channeled towards efforts on combating climate change, as an existential risk for large parts of the economy. Since leading as the world's first sovereign Green Sukuk issuer, with an oversubscription of which signaled huge interest from the global market, the Ministry of Finance has raised more than USD 5.8 billion from eight rounds of issuances both in the global and domestic retail market.
- 28. The Green Sukuk issuance aims to overcome the financing challenges for combating climate change.** The cost of reducing GHG emissions is about IDR 3,779.63 trillion until 2030 or around IDR 343.6 trillion per year based on the Indonesia's Climate Mitigation Roadmap for Nationally Determined Contribution (NDC) (2020).
- 29. Project Eligibility Criteria for Green Sukuk is provided in Annex 3, highlighting the primary and uncompromising purpose of this innovative financing instrument in creating an investment focus on sustainability.** The proceeds from Green Sukuk issuance are strictly mobilized towards Indonesia's climate change mitigation and adaptation efforts. As a sustainable financing tool, it presents a considerable potential to support projects across multiple sectoral focus e.g., renewable energy, energy efficiency, sustainable transport, sustainable water and waste management, green tourism, and green buildings, and climate resilience.
- 30. Green Sukuk underlines the forward-thinking that the Government of Indonesia has adopted to find new ways of raising and mobilizing funds to accelerate Indonesia's transition towards low carbon economy and sustainable development pathway.** Further to investing in projects reducing GHG emissions — projected to be up to 10.5 million tons of CO<sub>2</sub>e (carbon dioxide equivalent) — Green Sukuk proceeds have supported the construction of over 690 kilometers of railway tracks; an increase of over 7.5 million kWh of electricity capacity; and improved solid waste management for more than 9 million households.

## SDG Bond

- 31. In September 2021, the Government of Indonesia has issued its inaugural sovereign SDG Bonds, with transactions denominated in Euro currency (EUR500 Million or equivalent to IDR 8.4 trillion).** This transaction marks the first sovereign SDG Bond issuance in Southeast Asia, reflecting Indonesia's leadership in sustainable financing and a significant step towards achieving the SDGs. The details of the SDG Bond transaction results are provided in Table 2 below.

**Table 2 Indonesian SDG Bond Issuance Details**

Indonesian Euro 500 million SDG Bond Issuance Details	
Series	RIEU0334
Tenor	Long 12 Year (12 Year)
Due Date	23 March 2034
Pricing Date	13 September 2021
Settlement / Issuance Date	23 September 2021
Issued Nominal	EUR500 million
Coupon Rate	1.30%
Yield	1.351%
Price	99.419
Spread vs Mid-Swaps (MS)	+118bps
Par call	3 months

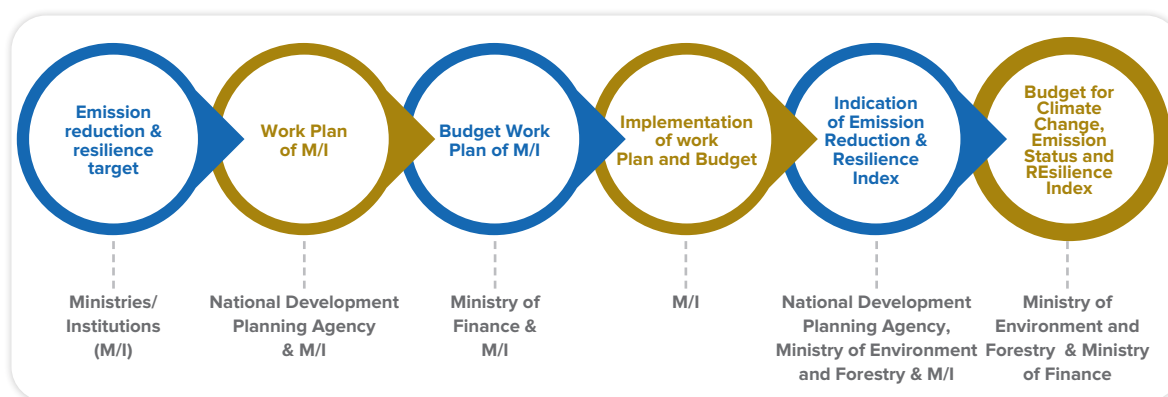


Indonesian Euro 500 million SDG Bond Issuance Details	
<b>Investor Distribution Statistics</b>	
<b>By Region</b>	
EMEA	84%
Asia Pacific	13%
USA	3%
<b>By Investor Type</b>	
Asset Managers / Fund Managers	71%
Banks/Brokers	16%
Insurance/ Pension Funds	7%
Central Banks/ SSAs	6%

Source: Directorate of Government Debt Securities, Directorate General of Financing and Risk Management, MoF

32. **The Republic of Indonesia SDG Government Securities Framework, which was an expansion from the previous Green Bond and Green Sukuk Framework, was established in 2021 as a basis for Indonesia’s thematic bond and/or sukuk issuance.** The Government of Indonesia sought to incorporate additional aspects of SDGs into the framework, to cover not only sectors/projects that contribute to climate change mitigation and adaptation efforts (green focus), but also to the advancement of blue economy (blue focus) and positive social outcomes (social focus). The framework consists of four pillars: Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds, and Reporting—in alignment with existing global capital market principles and standards. The Eligible SDGs Expenditure with Green and Blue Focus and Eligible SDGs Expenditure with Social Focus is provided in Annex 3 and 4.
33. **To support the issuance of government bond/sukuk with Green and Blue Focus as outlined in the Framework, in 2016 the government introduced a budget tagging system to identify and track its expenditures on projects that are delivering specified climate change response in accordance with the Republic of Indonesia’s climate objectives.** The budget tagging process was developed with the support of UNDP, requiring a detailed assessment of the environmental benefits of projects undertaken by respective ministries/institutions. The climate budget tagging process is provided in Figure 3 below.

Figure 3 Climate Budget Tagging



Source: Indonesia SDG Government Securities Framework

**Micro-Finance**

34. **The Government of Indonesia’s support to MSMEs is exemplary. In Indonesia, MSMEs contribution to the economy is significant** accounting for over 22% to GDP (or 57% if microenterprises are included) and 76% of employment from 59 million enterprises. The majority of MSMEs consist of microenterprises (98%) of which 50% are women-led businesses. BI issued a regulation in 2021 aimed mainly at encouraging banks to disburse more loans to MSMEs. The

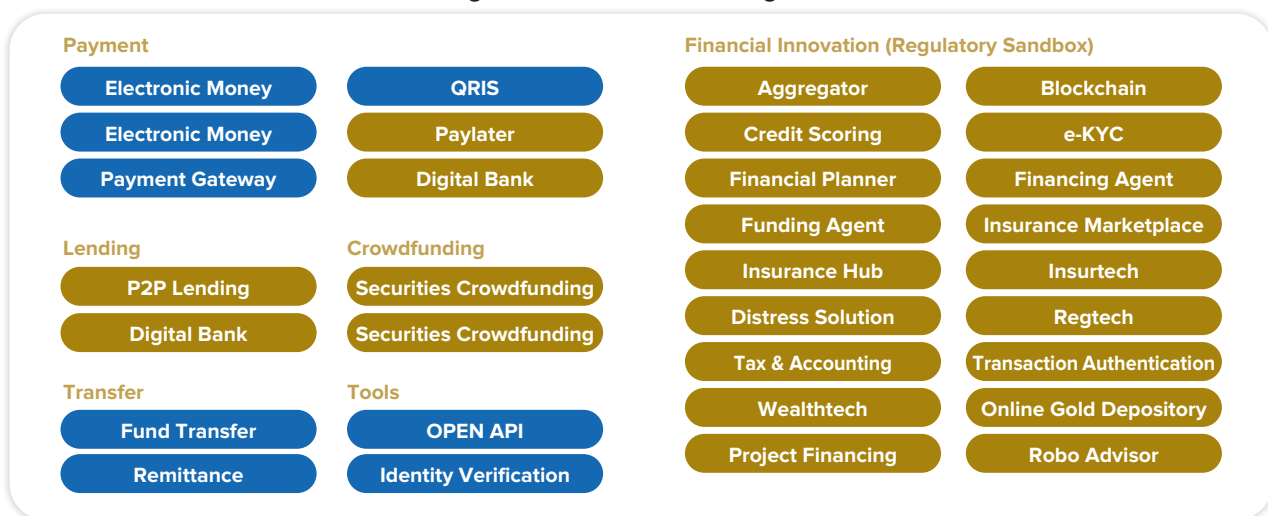
new regulation requires banks to disburse at least 20 percent of their loans to either MSMEs, MSMEs' supply chains or low-income earners, and will gradually raise the mandatory MSME credit ratio to 25 percent in June 2023 and 30 percent in June 2024. Regarding the financing strategy for MSMEs needs to look at the supply side (financial/financing institutions) and also the demand side (SME actors). Strengthening on the supply side is carried out through credit scoring, digital transactions as collateral, and strengthening credit guarantees. Meanwhile, the strengthening of the demand side can be achieved through business legalization, financial literacy, and expanding the scope of business assistance, including business financial management.

35. **From January – October 2021, Micro credit (Kredit Usaha Rakyat/KUR) realization reached IDR 234.42 trillion from January 2021 to October 2021** (105.55% of the 2021 target of IDR 220 trillion, or 92.66 percent of the 2021 target of IDR 253 trillion, or 82.25 percent of the change target in 2021 of IDR 285 trillion), with a total of 6.18 million debtors. From August 2015 to October 31, 2021, the total outstanding KUR was IDR 319.1 trillion, which was distributed to 30.19 million debtors with an NPL of 0.98 percent.

## Financial Technology

36. **The fintech industry in Indonesia is regulated by two government entities, Bank Indonesia and the Financial Services Authority (OJK).** Bank Indonesia oversees monetary policy and the payment ecosystem, while OJK oversees peer to-peer lending, crowdfunding, digital banking, financial data security, insurance technology, and financial consumer protection. Both agencies have financial technology divisions, regularly engage with industry players, and maintain long-term strategies that encourage the development of the financial technology sector. In general, the fintech business segment in Indonesia could be categorized into several categories such as :

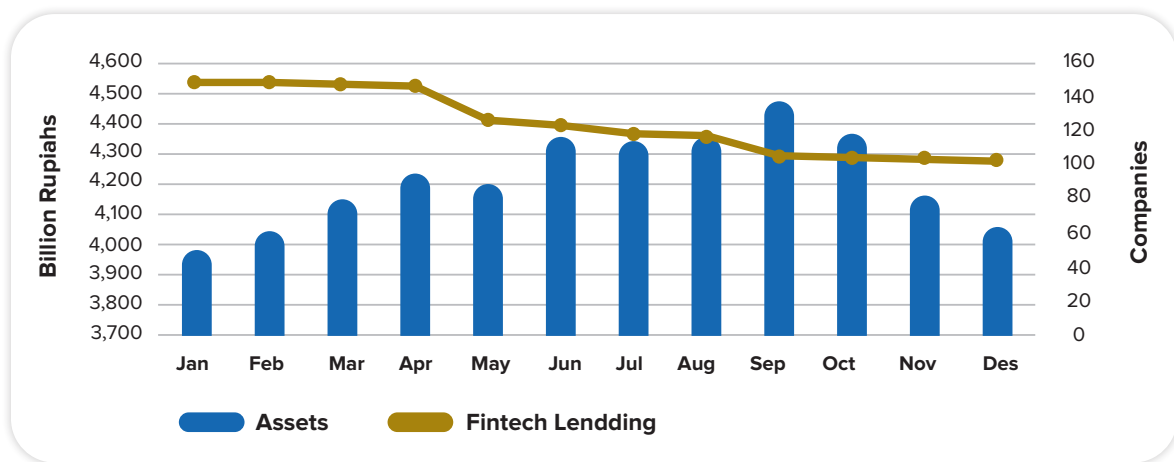
Figure 4 Fintech Business Segment



Source: Daily Social, 2021

37. **Fintech statistics published by the OJK show that in December 2021, 103 fintech lending companies in Indonesia already had business licenses or were registered.** This number decreased by 30.87 percent compared to December 2020. As many as 6.80 percent of them apply business with sharia principles, while the other 93.20 percent run business conventionally. In January 2021 Fintech lending companies' total assets were recorded at IDR 3.98 trillion, then increased by 2.01 percent to IDR 4.06 trillion in December 2021.

**Chart 5 The Growth of Number and Assets of Fintech Lending Companies, 2021**

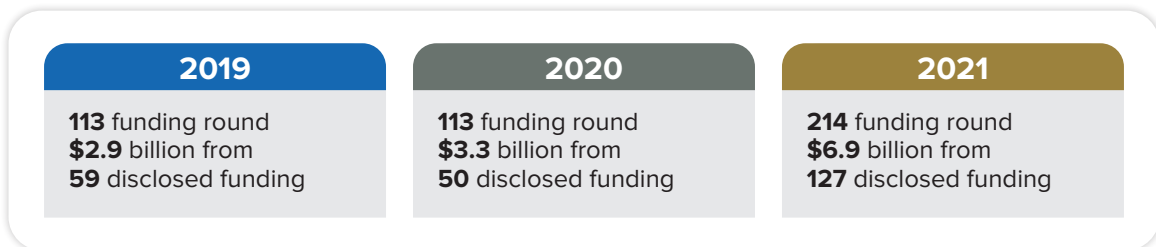


Source: OJK, 2021

**Start Up Funding**

38. **Based on the Daily Social Report related to start-ups. Startup funding in Indonesia has been experiencing significant growth despite the macroeconomic slowdown in the past two years.** The number of funding rounds will increase from 113 in 2019 to 214 in 2021. Twenty-two (22) funding transactions were equal to or more than \$50 million, while dozens more earned eight-figure dollars in funding. On the nominal side, J & T, GoTo, SiCepat, Ajaib, Xendit, and Halodoc got the highest gains in their follow-up funding round. The investment obtained by GoTo and Kredivo is related to their plan to go public.

**Figure 5 Start-Up Funding**



Source: DSInnovate. 2021. Startup Report 2021-2022Q1

39. **Across all investment rounds, 341 institutional investors participated.** Corporations, both locally and internationally, limited partnerships (LP), corporate venture capital (CVC), and venture capital are among them (VC). Undoubtedly, local investors continue to have a big impact on the startup scene in Indonesia. Certain local venture capitalists may contribute to startup investment hundreds of times.

40. **The growing innovative financing and digital financing ecosystem will need to be carefully monitored given the potential implications for new regulations and standards enforcement.** It will be important at the governance and coordination and monitoring review phases to continually conduct stakeholders mapping, particularly in the fastest moving innovative financing space, to include new philanthropic flows and impact investing. UNDP Indonesia, in partnership with BAPPENAS and Center for Impact Investing and Practices (CIIP) published the Indonesia SDG Investor Map, identifying opportunities at the intersection of development needs, policy priorities and investor interest across 6 priority sectors in March 2022.<sup>25</sup> The map identifies investment opportunities that are commercially viable and has potential for deep impact, contributing to SDG aspirations of the government. Monitoring and review systems will need to identify all existing and new ecosystem actors.



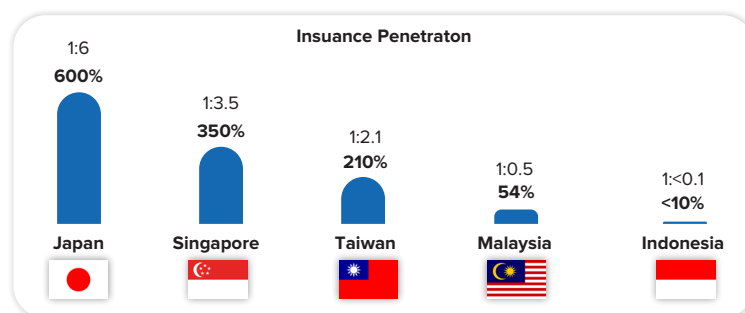
## Crowd Funding and Peer-to-Peer (P2P) Lending

- 41. Peer-to-peer lending is regulated under Financial Services Authority (OJK) Regulation No. 77/POJK.01/2016 regarding Information Technology-Based Money Lending Services, dated 29 December 2016.** The regulation provides OJK the right to regulate and supervise peer-to-peer (P2P) lending activities, including handling the registration and licensing of peer-to-peer lending platform providers.<sup>14</sup> Peer-to-peer lending in Indonesia is described as the provision of financial services whereby the lender meets the borrower in the framework of entering into a lending agreement in rupiahs directly through an electronic system by using the internet.
- 42. Equity crowdfunding covers the provision of share offering services conducted by issuers to sell shares directly to investors through an open electronic system network.** OJK expanded funding alternatives for SMEs from equity crowdfunding (ECF) to securities crowdfunding (SCF). The detailed rules are contained in POJK 57/2020 concerning Securities Offerings Through Crowdfunding Services Based on Information Technology, replacing POJK 37/2018, which initially only regulates crowdfunding services based on shares and sharia shares. Unlike other fintech sectors, currently, OJK has only issued permits for equity crowdfunding to four companies, PT Santara Daya Inspiratama (Santara) on September 6, 2019, PT Investasi Digital Nusantara (Bizhare) on November 6, 2019, PT CrowdDana Teknologi Indonusa (CrowdDana) on December 31, 2019, and PT Numex Teknologi Indonesia (LandX) on December 23, 2020. Until the end of last year, the total pool of funds obtained by Santara was Rp114 billion, Bizhare was Rp32 billion, CrowdDana was Rp28 billion, and LandX was Rp11 billion.<sup>15</sup>

## The Private Sector Market

- 43. Indonesia's insurance penetration rate is still under 10%. Compared to Malaysia, which has a 54 percent.** The low penetration is a result of the unfavorable perception of insurance, difficult-to-understand products, protracted claim processes, etc. The low insurance penetration in Indonesia remains a challenge today. Among others, it is because of the negative stigma that people have towards insurance, namely complicated processes, some products that are difficult to understand, and the long claim process. However, the penetration trend shows an increase from year to year. In 2019, insurance penetration was at 2.81%.
- 44. Then, in 2020, the number increased to 2.92%, and in June 2021, it rose again to 3.11%. This shows a positive signal from the development of insurance in Indonesia.** The increase was marked by premium growth reported by the national insurance industry. This condition can be an opportunity for insurance to transform towards digital. OJK also noted that the total general and life insurance premiums distributed through digital (insurtech) had reached Rp6 trillion as of July 2021. This figure accounted for 3.94% of the total national general and life insurance premiums. The opportunity to tap into insurance-tech businesses are promising—several start-ups and insurance companies have attempted to address the challenges by incorporating low premiums and low caps/coverage with a focus on low-to-middle income groups.

Chart 6 Insurance Penetration



Source: Daily Social – Fintech Report 2021

<sup>14</sup> <https://www.ssek.com/blog/fintech-in-indonesia-p2p-lending-and-crowdfunding>

<sup>15</sup> Fintech Report 2021

45. *The Financial Services Authority (OJK) report for the period of December 2021 noted that in 2021, 372 insurance companies had business licenses in Indonesia.*<sup>16</sup> This number is lower than in 2020, which reached 376 companies. In 2020, when conditions for social activities were limited due to the Covid-19 pandemic, the entire insurance industry's gross premiums accumulated were IDR 503.30 trillion, or grew 4.61 percent compared to the previous year (Table 3). This positive growth was supported mainly by the gross premium of social insurance, which grew by 27.94 trillion rupiahs or 15.09 percent.

**Table 3 The Development of Gross Premium by Insurance Sectors (IDR trillion), 2016-2020**

Insurance Sectors	2016	2017	2018	2019	2020
Non Life Insurance & Reinsurance	66.61	70.42	77.47	89.52	92.91
Life Insurance	167.17	194.42	196.92	194.27	185.84
Social Insurance	116.03	130.66	147.07	185.18	213.12
Mandatory Insurance	11.98	12.21	11.92	12.13	11.43
<b>Total</b>	<b>361.79</b>	<b>407.71</b>	<b>433.38</b>	<b>481.10</b>	<b>503.30</b>

Source: Statistics Indonesia, 2021

### Matching Fund

46. *The Matching Fund is supported by the Ministry of Education, Culture, Research, and Technology of the Republic of Indonesia for the creation of collaboration and strategic synergy between higher education personnel (university institutions) and industry.* With a total allocation of IDR 1 trillion, the Matching Fund is one of the added values for the formation of collaboration between two parties through the Kedaireka platform.
47. *The Matching Fund 2022 has five (5) research priorities for Indonesia's economic transformation, namely the Green Economy, Blue Economy, Digital Economy, Strengthening Tourism, and Health Independence.* Through this program, lecturers in the country are given the opportunity to collaborate to be able to produce solutions that are creative and innovative in the midst of the needs and challenges of society. Research centers in universities will be driven by downstream needs, and conversely, technologies that are still upstream can be widely downstreamed.

### Trust Fund

48. *Trust Funds have been formally adopted in Indonesia since 2011 with the issuance of Presidential Regulation No. 80 of 2011 concerning Trust Funds.* After the promulgation of these regulations, two trust funds have been established, namely the Millennium Challenge Account-Indonesia (MCA-Indonesia) and the Indonesia Climate Change Trust Fund (ICCTF). ICCTF has actually been running since 2009, but its implementation was only adjusted to national regulations three years later, namely in 2014. This means that MCA-I is the first trust fund in Indonesia that is managed based on the Presidential Regulation on Trust Funds, whose implementation then becomes a model for the next trust fund institution.
49. *The MCA-I, or Millennium Challenge Account-Indonesia, is the implementer of the Compact Program with a focus on Green Prosperity and support for strengthening community forest system groups. MCA-I ceases to operate in Indonesia in 2018.* ICCTF is a climate change funding agency that is managed directly by the government with the aim of coordinating and distributing funds to support climate change mitigation and adaptation activities in Indonesia. based on the ICCTF annual report for 2021. The implementation of ICCTF programs and activities receives support from the Pure Rupiah APBN and foreign grant funding with a budget of 80 billion, with total absorption in 2021 of 99.39%.

16 <https://www.bps.go.id/publication/2022/04/28/63e595834fadf8cd528bb6fe/statistik-lembaga-keuangan-2021.html>



### Faith-Based Fund

- 50. Indonesians have strong traditions of generosity.** World Giving Report (WGI) 2021 Report from Charities Aid Foundation (CAF) showed that Indonesia is the most generous country in the world with a score of 69 percent, up from 59 percent in the prior annual index published in 2018, which also placed Indonesia in first place. Indonesia holds the top two positions in the WGI's three categories or indicators namely helping strangers, donating money, and volunteering time/activities. Philanthropic activities in Indonesia show some progress, marked by a growing number of institutions aimed at giving and helping others, including faith-based organizations and family foundations, social religious funds, for example through Zakat, Infaq, Shadaqah, Perpuluhan, Kolekte, and Dana Punia, have enormous potential. The potential of Zakat in Indonesia has reached around Rp 213 trillion/year (15 billion USD), however only 1.2 percent or Rp 3 trillion (214 million USD) of the total are raised thus far.<sup>17</sup>
- 51. The management of Hajj funds in Indonesia is carried out by the Hajj Financial Management Agency (BPKH), which includes the submission, expansion, expenditure, and financial accountability of Hajj according to the mandate of Law No. 34 of 2014 and continues to be committed to supporting a better Hajj organization in Indonesia.** Despite being in a challenging situation because of the COVID-19 pandemic and the economic downturn, BPKH has managed to raise the managed funds during the period of handling hajj funds from 2019 to 2021. A 9.2 percent rise from 145.7 trillion in 2020 brought the total amount of handled Hajj funds to 160.5 trillion in 2021. Additionally, this accomplishment exceeds the 155.9 trillion managed funds target set by BPKH for 2021.
- 52. Regarding the managed fund instruments in 2021, the invested funds amounted to Rp. 104.57 trillion, or 71.27%, and the remaining 28.73%, or Rp. 45.64 trillion, was in Islamic bank placements in the form of account giro and sharia deposits.** With this increase in managed funds, the benefit value also increased by Rp. 10.55 trillion, or an increase of 41.99% compared to the previous year of Rp. 7.43 trillion.

### 2.2.3 International Public Finance

- 53. The Addis Ababa Action Agenda (AAAA) has reaffirmed the importance of official development assistance (ODA) as contained in the Monetary Consensus and Doha Declaration.** The AAAA Agenda highlighted the importance of ODA for the poorest and vulnerable countries, though its relevance as a tool of international policy for middle and upper-middle income countries is clearly complementary.

### Official Development Assistance (ODA)<sup>18</sup>

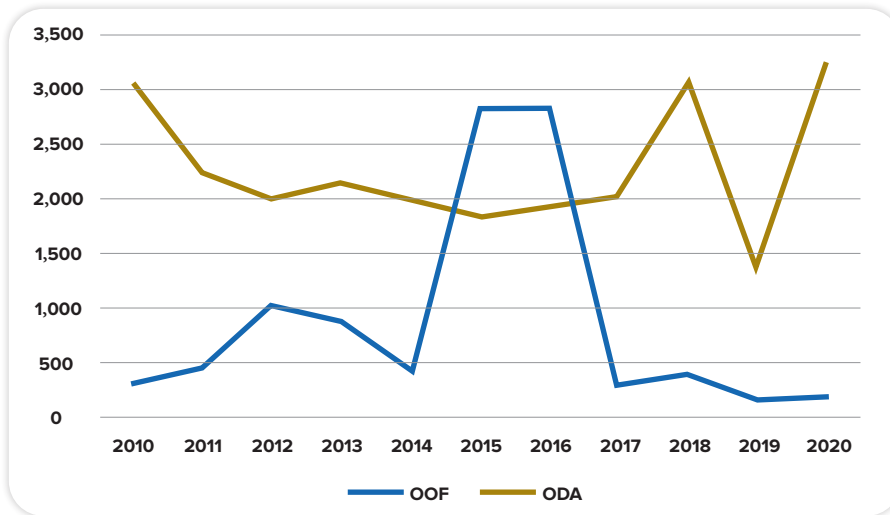
- 54. As a percentage of overall spending Official Development Assistance (ODA) flows to Indonesia are small, though the policy influence of the international community in relation to Agenda 2030, the Climate Change Agenda (Green Climate Fund and Global Environment Facility) and adoption of ESG and bond standards continues to have significance.** Moreover, with Indonesia providing an exemplar for many countries in relation to innovative, blended financing and Islamic financing, ODA provides the foundation for critical dialogue on key emerging issues such as the Digital Economy, Industry 4.0, digital finance, and the Fourth Industrial Revolution (4IR). Chart 7 below provides the relative values of various different flows, showing ODA as a very small percentage of government revenue offtake from the US\$ 1 trillion national economy.

<sup>17</sup> <https://sdgs.bappenas.go.id/dokumen/>

<sup>18</sup> When Indonesia repays loans, the repaid amount would be subtracted from a donor's ODA. ODA figures that discounted the repaid amount are referred to as 'net ODA' (vs. 'gross ODA', which counted the total amount disbursed by a donor in a given year).



Chart 7 ODA and OOF Flows to Indonesia (2007-2019)

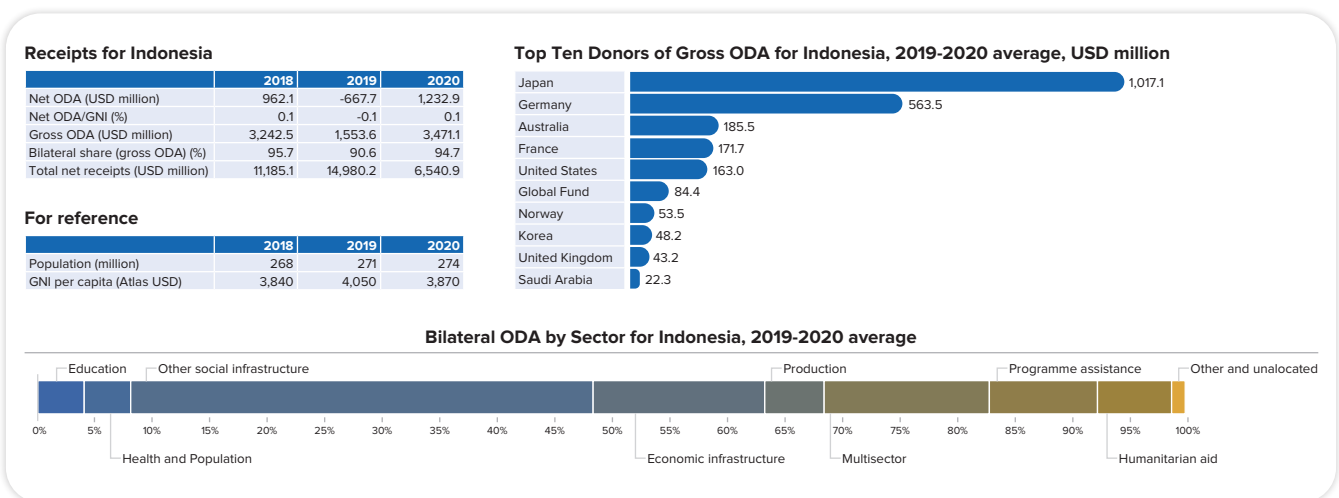


Source: OECD DAC (2022)

55. Since 2007 the rise of Other Official Flows (OOF) has changed the composition of international public finance, with grants substantially being replaced by debt instruments (concessional and market) as well as guarantees, for example. Chart 7, above, shows the rise of OOF as traditional instruments have begun the process of being replaced by market-based mechanisms, coupled with the switch from grants to loans. For loans to the official sector which pass the test for ODA scoring, the grant equivalent is recorded as ODA and is obtained by multiplying the annual disbursements on the loan by the loan’s grant element as calculated at the time of the commitment.

56. Figure 6 below provides net and gross ODA figures for the period 2019-2020, including the functional spending splits of bilateral ODA and top ten donors to Indonesia. Germany and Japan as global industrial powers have dominated ODA, followed by Australia, France, USA, Global Fund, Norway, Korea, UK and Saudi Arabia. The primarily focus of bilateral ODA in 2019-2020 was on other social infrastructure and services (40 percent), economic infrastructure and services (15 percent) and multi-sector support (14 percent). Health spending and the repurposing of ODA as a result of COVID-19 have changed these trends, from the previous average in which Economic Infrastructure used to receive the greatest proportion of funding. The current security crisis in Europe will also substantially impact future OECD member flows. Moreover, ODA has been deployed as catalytic financed to support the shift to blended finance.

Figure 6 Net and Gross ODA Receipts, Bilateral ODA



Source: OECD DAC, Aid at a Glance



- 57. As noted above, the shift from Funding to Financing (F2F) through blending of different equity and debt flows is now not only central to RPJMN but also Agenda 2030 and the Climate Change agenda.** Linked with increasing sophistication in the roll out of ESG standards across financial markets, the integration of financing flows has already achieved considerable impact. For example, the 2018 forum, on ‘*Blended Finance and Innovation for Better Business Better World*’, focused on catalyzing large-scale private finance for the SDGs resulted in 30 new initiatives and mobilized close to US\$10 billion in deals. Box 1 below explores the blended financing space and the role of SDG Indonesia One.

### Box 1 Blended Finance

#### Blended Finance

Blending finance (an emerging modality) is the strategic use of development finance for the ‘mobilization of additional finance towards sustainable development in developing countries.’ The Organization for Economic Development and Cooperation (OECD) asserts that blended finance assists in unlocking commercial finance for the SDGs. Delivering Agenda 2030 and the Paris Agreement on Climate Change will require all sources of finance - development and commercial - to be scaled up. Designing an investment project to mix public and philanthropic funds with private capital tips the risk-reward ratio in favor of investment for the private sector, allowing private capital to be deployed in areas that otherwise would not have occurred, resulting in positive results for both investors and communities. In this way, blending assists in mobilizing capital that would not otherwise support development outcomes.

In Indonesia the RPJMN funding strategy calls for the greater use of blended financing instruments, particularly by encouraging private sector participation in infrastructure projects, and PPPs. According to the ADB / UNDP SDG Snapshot, private participation in infrastructure has grown significantly through the RPJMN period 2015-2019. World Bank data show that private investment in infrastructure PPPs fluctuates year-on-year, though rose from an average of US\$2.2 billion a year over 2010–2014 to an average of more than US\$6.3 billion over 2015–2019. 49 Indonesia was the fourth largest market for private investment in infrastructure over 2015–2019 among low and middle-income countries.<sup>19</sup> OECD data show that US\$1.4 billion was mobilized over the period 2012–2015 through blended finance transactions supported by OECD development partners. Indonesia was the 15th largest destination for these blended finance transactions over the period. The Government has also established the SDG Indonesia One platform.

In October 2018, the Ministry of Finance launched an innovative blended finance platform called “SDG Indonesia One” to bring in private capital for SDG-related infrastructure projects in various phases of the project cycle. It appointed the State-Owned Enterprise, PT Sarana Multi Infrastruktur (PT SMI), to manage the platform. At its launch, the fund had already raised US\$2.3 billion, which has since risen to US\$3 billion, with 64 percent earmarked for climate change. ADB is providing US\$600 million in financing to SDG Indonesia One for development of its Green Financing Facility. UNDP plans to support the bankability of renewable energy projects under the platform. (ADB / UNDP, SDG Snapshot).

#### Other Official Flows (OOF)

- 58. Indonesia has been moving away from aid, with considerable implications for the structure of the development financing landscape.**<sup>20</sup> Other official flows (OOF) are defined as official sector transactions that do not meet official development assistance (ODA) criteria. OOF includes grants to developing countries for representational or essentially commercial purposes; official bilateral transactions intended to promote development but having a grant element of less than 25%; and, official bilateral transactions, whatever their grant element, that are primarily export-facilitating in purpose.<sup>21</sup> This category includes, by definition: export credits extended directly to an aid recipient by an official agency or institution (official direct export credits); the net acquisition by governments and central monetary institutions of securities issued by multilateral development banks at market terms; subsidies (grants) to the private sector to soften its credits to developing countries; and funds in support of private investment. Data on OOF in Indonesia is not well established, but it is assumed to be of an equivalent value as ODA. While OOF remains volatile year-on-year, given the role that such flows play in bilateral and multilateral trade, OOF is expected to become increasingly important for Foreign Direct Investment (FDI).<sup>22</sup>

<sup>19</sup> World Bank, Private Participation in Infrastructure Database. Figures are in current prices. The largest markets over 2015–2019 were China, Turkey and Brazil. Available at <https://ppi.worldbank.org/en/ppi>. Accessed October 2019

<sup>20</sup> [https://cdn.odi.org/media/documents/Moving\\_away\\_from\\_aid\\_The\\_case\\_of\\_Indonesia.pdf](https://cdn.odi.org/media/documents/Moving_away_from_aid_The_case_of_Indonesia.pdf)

<sup>21</sup> <https://data.oecd.org/drf/other-official-flows-oof.html>

<sup>22</sup> Other official flows (OOF) are defined as official sector transactions that do not meet official development assistance (ODA) criteria.



## Climate-finance flows

- 59. The climate change financing industry is already a multi-billion-dollar industry in Indonesia, supported by strong public and private investing flows.** Indonesia updated its Nationally Determined Contributions (NDC) in December 2020 and maintained its climate ambition of achieving net zero emissions by 2060. The updated NDC states that Indonesia will continue to set aside significant national funding for the implementation of mitigation and adaptation actions for the period of 2020-2030. Indonesia also receives international support through multilateral channels (such as GEF, FCPF, FIP, UNREDD+, Bio-CF, GCF, and financial institutions) and bilateral channels (Norway, Germany, Japan, USA, and others). During the reporting period of 2015-2016, Indonesia recorded to have received support of USD 1,237.41million in the form of loan and grant through bilateral and multilateral channels.<sup>23</sup>
- 60. In response to the Paris Accords, and working with key partners, Gol has developed a climate change budget-tagging system for monitoring and managing public spending on this cross-cutting issue across 16 line-ministries, including piloting the initiative at the subnational level.** Some 64 percent of funds raised for SDG Indonesia One related to climate financing and the tagging system is critical to gaining the confidence of creditors in the Government's capacity to effectively manage green finance and support the issuance of green sukuk. The Green Climate Fund has allocated US\$ 287.3 million through 7 investment projects, including on de-risking the energy transition and South-To-South Cooperation. The Global Environment Facility (GEF) has allocated US\$ 345,827,708 since GEF4 for national funding, including US\$ 10 million for the Special Climate Change Fund. GEF is however dominated by biodiversity related financing, with important linkages with decarbonization. NDC financing challenges are outlined in Box 2 below.

## Box 2 Financing Challenges as Reported in the 2020 NDC

## Financing Challenges as Reported in the 2020 NDC

The Ministry of Finance recorded that there has been an increase in amount of budget allocation for activities categorized as mitigation from IDR 146.8 trillion (~ USD 10.49 billion) in 2017 to IDR 196.3 trillion (~ USD 14.02 billion) in 2018. On adaptation, the Ministry of Finance recorded USD 227.4 million budget allocation, based on budget tagging for adaptation in 2018. Results of the budget tagging has helped government in identifying activities in annual budget which can deliver mitigation and adaptation results. However, a lot of improvements need to be done to enable the budget tagging results to be used as the basis for estimating finance needs for NDC implementation. Projection of needs as a basis for developing financing strategy for the whole period of NDC implementation remains challenging.

For example, Indonesia communicated through its 2 nd Biennial Update Report (2nd BUR - 2018) an initial estimated finance needs from 2018-2030 of about USD 247 billion. In 2019, Indonesia carried out another estimation of finance needs of about IDR 4,520 trillion (~ USD 322.86 billion) for the implementation of mitigation actions in the NDC roadmap. The later estimated finance needs covered only mitigation actions (actions which directly generate emission reduction, it has not included the costs for creating enabling environments).

Indonesia welcome bilateral, regional and international cooperation in the NDC implementation as recognized under Article 6 of the Paris Agreement, that facilitate and expedite technology development and transfer, payment for performance, technical cooperation, and access to financial resources to support Indonesia's climate mitigation and adaptation efforts towards a climate resilient future.

Source: Gol, 2020 NDC

- 61. Next to SDG Indonesia One, PT SMI also works on municipal financing with partners such as the World Bank and was the first institution in Indonesia to issue a green bond.** PT SMI recently set up an Environmental and Social Safeguards division, with support from the World Bank and ADB, to better align its overall services with sustainable development objectives. The Government has established the Environmental Fund Agency (BPD LH) within the Ministry of Energy and Mineral Resources to mobilize financing to support climate change adaptation including schemes for loans, subsidies, grants and carbon trade. (ADB/UNDP, Indonesia SDG Snapshot).

<sup>23</sup> <https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Indonesia%20First/Updated%20NDC%20Indonesia%202021%20-%20corrected%20version.pdf>

**62. The increased focus on climate financing and setting ESG standards reflects an increasing focus on market-based solutions and blending.** Indonesia has ratified the Paris Agreement in 2016 and submitted its Nationally Determined Contributions (NDCs) to COP26. Committed to a low carbon and climate resilient future the focus on archipelagic climate resilience (adaptation and mitigation investments) as well as disaster risk reduction strategies increased the importance of blended instruments. In June 2020 Gol issued its third Global Sovereign Green Sukuk with the issuance being oversubscribed by 7.37 times - attracting 33.74% of green investors, an increase from 29% on the 2018 and 2019 issuance, respectively.<sup>24</sup>

#### 2.2.4 International Private Finance

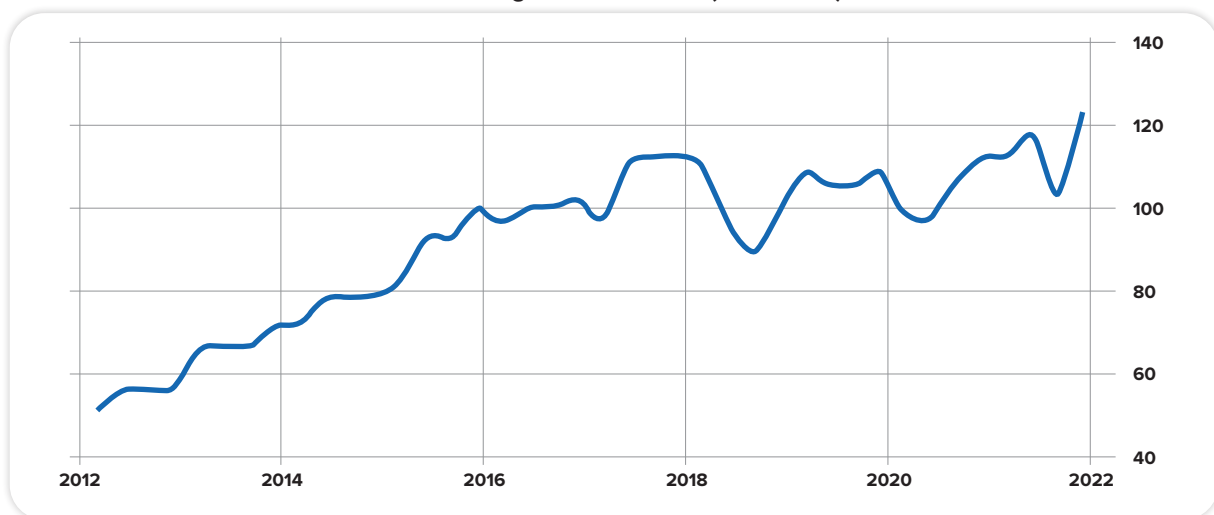
**63. International private finances consist of FDI, remittances, philanthropic flows, Corporate Social Responsibility and NGO flows.** As noted below however, despite being an open economy, albeit with a small demographic, levels of international private finance outside of the banking sector have been limited.

#### Foreign Direct Investment

**64. Foreign direct investment plays a significant role in the economy and as a catalyst for technology transfer and development into higher value-added growth.** Despite an overall up trend (See Chart 8 below), volumes of FDI have fluctuated in recent years, growing to almost US\$22 billion in 2014 before contracting in 2016, then rising back to over US\$20 billion in 2017 and 2018. Manufacturing accounts for the largest proportion of FDI, totaling over US\$13 billion in 2018, followed by the retail sector and agriculture. COVID-19 impacted FDI inflows considerably.

**65. Foreign direct investment into Indonesia (excluding investment in banking and the oil and gas sectors) jumped 10.1 percent year-on-year to a record quarterly high of IDR 122.3 trillion (USD 8.50 billion) in the fourth quarter of 2021, rebounding sharply from a 2.7 percent drop in the previous period.** Singapore was the biggest source of investment, followed by Hong Kong, China, the US, Japan, and the Netherlands. Considering the whole year, the FDI was at IDR 454 trillion, an increase of 10% from 2020. (Investment Coordinating Board of the Republic of Indonesia (BKPM), 2021)

Chart 8 Long Run FDI Inflows (2012-2022)



Source: Statista 2022

<sup>24</sup> <https://www.djppr.kemenkeu.go.id/uploads/files/dmodata/in/6Publikasi/Offering%20Circular/ROI%20Green%20Bond%20and%20Green%20Sukuk%20Framework.pdf>

66. **Despite the majority of FDI being invested in manufacturing, the manufacturing sector has been fairly volatile since 2011** (See Chart 9 below). FDI inflows in this sector have recorded negative growth, despite the overall inflow of investment being positive. Low investment growth in the manufacturing sector poses a serious challenge to increasing labor productivity and shifting Indonesian products toward more value-added, made worse by the challenges presented by the transition to Industry 4.0. With the risk that deindustrialization has already started, with a shift to the services sector, maintaining FDI into the economy is very much tied to industrial expansion and economic complexity outcomes. Linkages between FDI inflows and the SDGs deserve greater attention, including foreign inflows for potential future PPPs. FDI realization for the period 2017-2021, showing the disparity in FDI inflows by location, with a focus on Jakarta and Java.

67. **Despite the pandemic, the investor sentiment towards Indonesia remains positive** as in 2021, the private equity (PE) and venture capital (VC) deals in Indonesia reached a value of approximately USD 6.37 billion, a noticeable increase from the previous year's total value of USD 3.36 billion (Statista, 2021). A young demographic, access to rich natural resources, a stable economy and a growing middle-class segment with potential for higher consumer spending are some of the attractive prospects for investors. Starting from an already large base of 123 million, Indonesia will have almost 200 million consumers in 2030, making it the fourth-largest consumer market in the world (Brookings, 2021). Projected to reach USD 300 billion by 2030, Indonesia is also poised as one of the fastest growing internet economies in South East Asia (Google, Temasek, Bain & Company, 2021). making it an attractive destination for tech-based business models that are asset light and can scale with favorable unit economics.

Chart 9 Indonesia FDI Inflows (2011-2020)

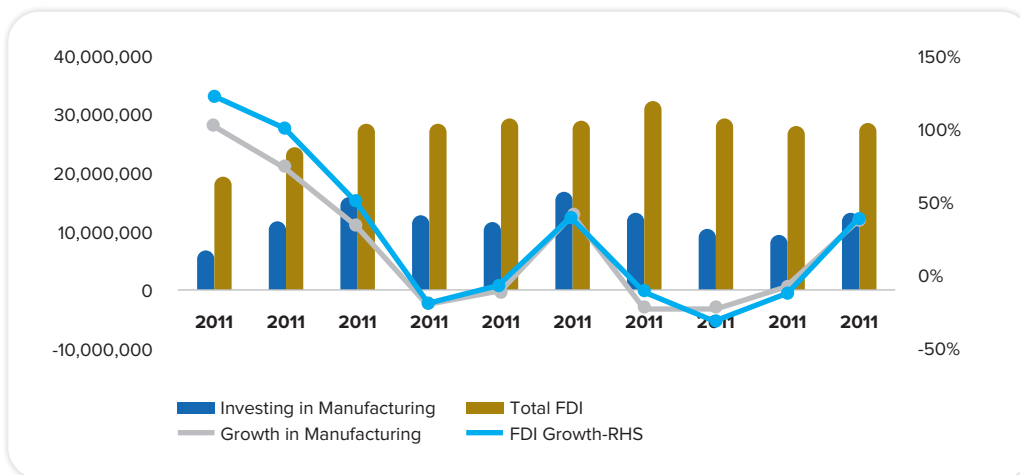
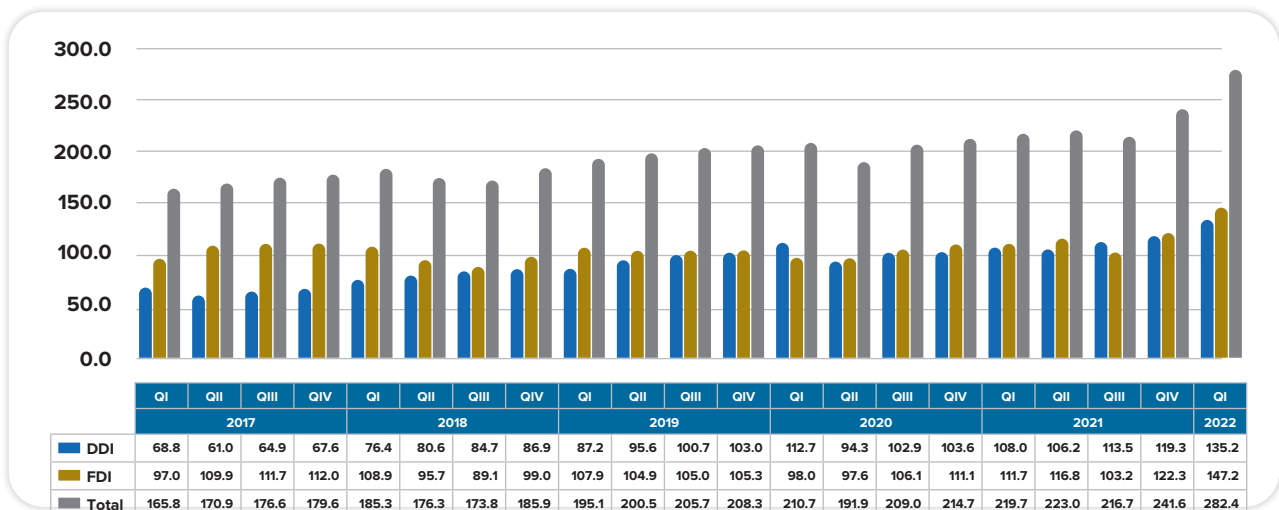


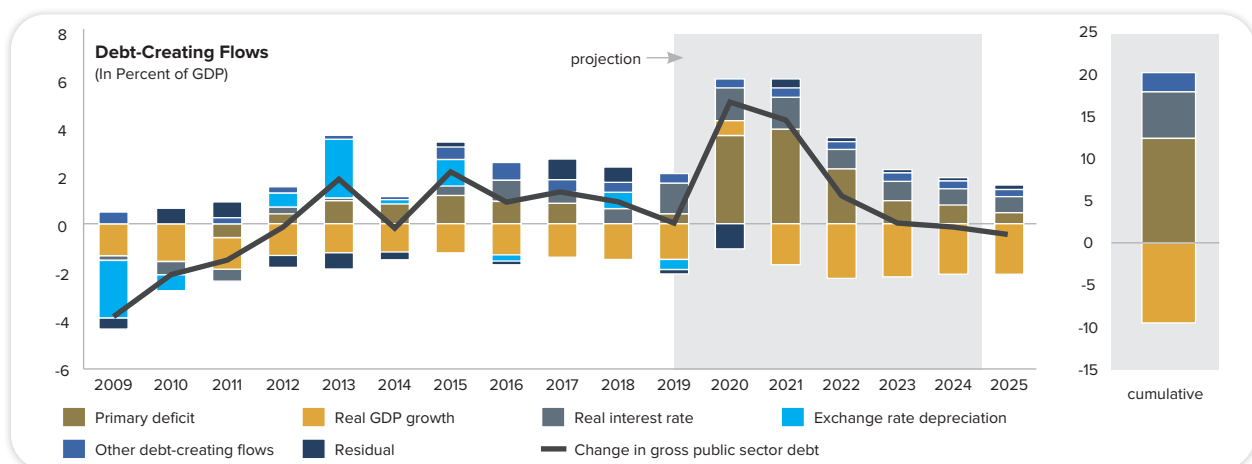
Chart 10 Indonesia FDI and DDI Flows



## Foreign Debt

- 68. In maintaining momentum and avoiding opportunity loss, regarding the expenditure needs that cannot be postponed, for example, the provision of health facilities and food security, the current development financing opportunity is optimized for the domestic economic recovery process due to the pandemic.** Indonesia's external debt (Utang Luar Negeri/ULN) maintained a consistent downward trend in May 2022. Indonesia's external debt position at the end of May 2022 was recorded at 406.3 billion US dollars, down from the previous month's external debt position of 410.1 billion US dollars. This development was caused by a decline in the position of external debt in the public sector (government and central bank) and the private sector. On an annual basis, external debt in May 2022 contracted by 2.6% (yoy), deeper than the contraction in the previous month of 2.0% (yoy). The government's external debt in May 2022 consistently continued the downward trend. The government's external debt position in May 2022 was recorded at 188.2 billion US dollars.
- 69. The causes for debt creation flows is provided in Chart 11, highlighting the contributions of the primary deficit, real interest rate and exchange rate depreciation.** While the currency is stable, as seen at the time of the pandemic, pressure on internal and external balances led to currency depreciation, with knock-on impacts on debt to GDP ratios. The risks of external shocks, dependence on external debt holdings and slow progress in increasing domestic revenues could lead to increased debt stress, albeit at a manageable level. Fitch Ratings (Fitch) has affirmed Indonesia's Sovereign Credit Rating at BBB with a stable outlook, as announced on November 22, 2021. According to Fitch, key factors that support the affirmation are Indonesia's favourable medium-term growth outlook and low, but rising, government debt/GDP ratio. Should mobilization of new revenue streams yield less than anticipated, the impact will be lower fiscal space and a higher cost of borrowing to finance the development and capital budgets.

Chart 11 Debt Creating Flows (% of GDP)



Source: IMF Staff (2021 DSA)

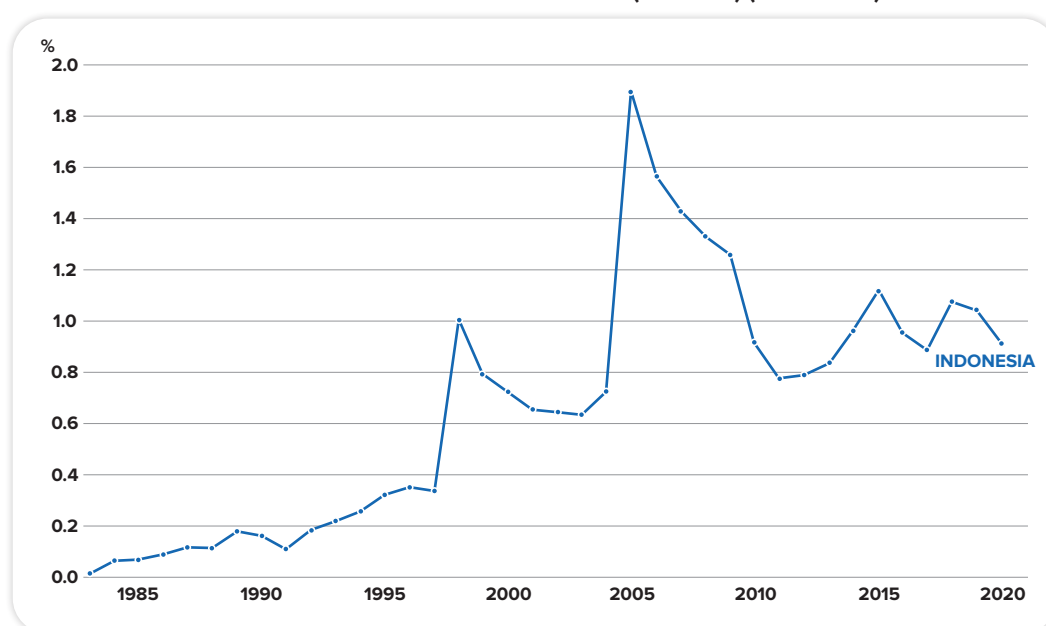
## Impact Investing

- 70. Impact investing refers to investments “made into companies, organizations, and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return.** Based on a study conducted by Angel Investment Network Indonesia (ANGIN), there are at least four promising impact investment sectors, namely agriculture, waste management, genderless investment, and the digitization of MSMEs. Based on the ecosystem evolution and key trends, impact investing in Indonesia in 2019–202 is in the mainstreaming phase. Impact investing and social entrepreneurship are no longer a niche topic—people are more aware of SDGs, entrepreneurs and investors are more aware of sustainability and impact. There is a growing interest from the general public in understanding this topic. Some key insights include: the evolution of business models; the resurgence of DFIs and development agencies; an increase in the number of intermediaries; increased theme-specific support for entrepreneurs; greater involvement of private corporations; decentralized support; and increased awareness of impact measurement.

## Remittances

- 71. Remittance inflows and outflows are an important resource for the Indonesian economy, as well as a critical issue for inclusive growth.** Remittances from migrant workers contributed nearly 1 per cent of GDP in 2016 and continued to increase in 2017-2019. Data from Bank Indonesia shows that even with the decline in remittances due to the pandemic (17.6 per cent in 2020), Indonesia still benefitted from transfer from migrant workers for around US\$ 9.42 billion in 2020. In 2019 remittances sent to Indonesia reached a record at US\$ 11.7 billion. Despite 180,000 migrant workers returning home during the pandemic, and more than 80,000 placements being delayed, 2022 sees a return to trend.
- 72. Remittance inflows provide direct transfers to low-income households as a vital contribution to inclusive growth.** The overall trend of personal remittances received over the period 1983-2020 shows a considerable uptrend from 1983 until 2005, following which remittances have been in decline, as shown in Chart 12 below. Reaching almost 2 per cent of GDP in 2005/2006, the value of remittances has since fallen by 50 per cent.

Chart 12 Personal Remittances Received (%of GDP) (1983-2020)

Source: World Bank Economic Data (2022) <sup>25</sup>

- 73. The corridor between Malaysia and Indonesia is the second largest remittance outflow for Malaysia and the largest remittance inflow for Indonesia.** According to IOM, Indonesia is a major migrant-sending country, with overseas workers remitting some 1 per cent of total GDP each year. In April 2020, the World Bank predicted that remittances within East Asian and Pacific nations would fall 13 per cent, however, annual inflows fell by as much as 17.6 per cent. Twenty-three per cent of Indonesia's population is banked while 26 per cent of the population is under-banked and predicted to be served by new technology-enabled business models.

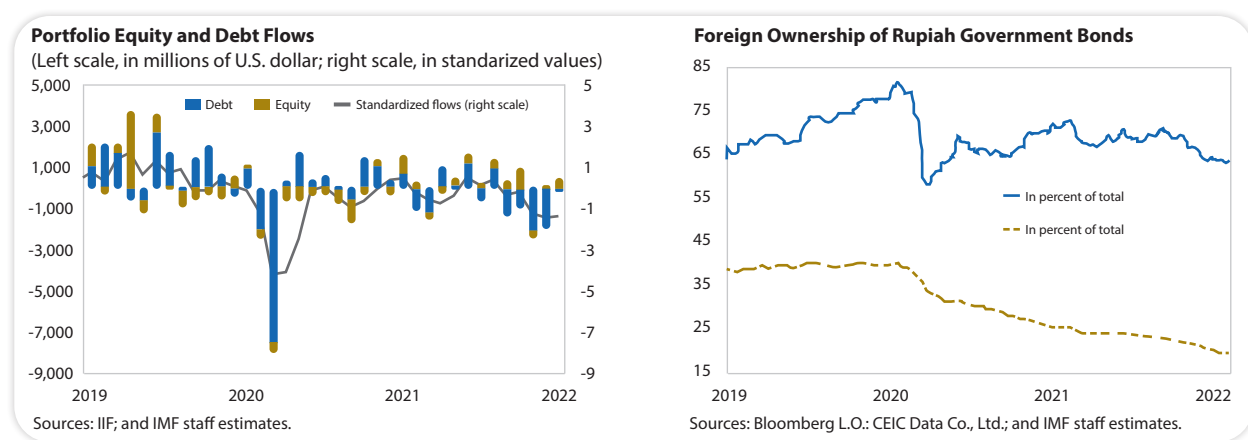
<sup>25</sup> <https://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS?locations=ID>



## Foreign Portfolio Investment

**74. Foreign Portfolio Investment (FPI) are investments made in securities and other financial assets by foreign investors, and though portfolio inflows were negatively impacted by the pandemic, inflows are beginning to pick up (See Chart 13 below).** FPI was reported at around 1 per cent of GDP in 2020, similar in size to remittance receipts, though historically foreign portfolio investment flows have reached over 4 per cent of GDP in 2019. FPI averaged 1.7 per cent from 2004 to 2020, although FPI flows were badly impacted by the COVID-19 pandemic, and ongoing capital tightening by major central banks, including the US Federal Reserve, could impact foreign capital inflows in the years ahead. There has also been a sharp slowdown in equity investments by foreign portfolio investors after a big surge in the second half of 2020 and the first half of 2021, and foreign ownership of Rupiah Government Bonds continues to be negatively affected. Given governments grow external financing needs, this trend needs to be closely monitored, particularly should yields fall further.

**Chart 13 Portfolio Inflows (Million US\$) (2017-2020)**



Source: IMF Article IV Consultation, 2022

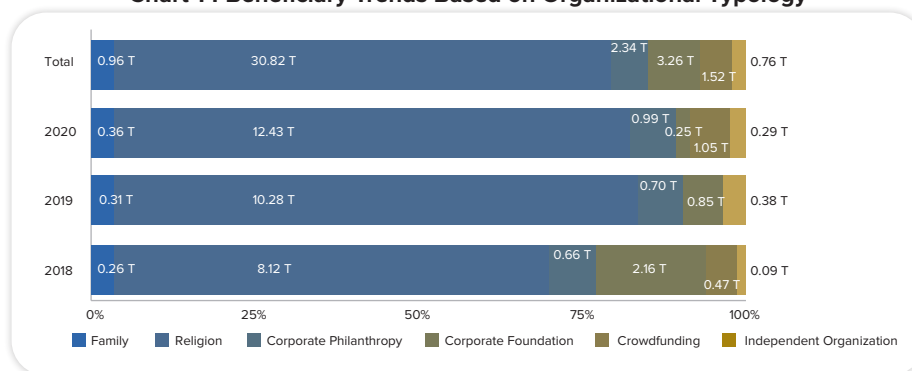
## Philanthropic Flows and Corporate Social Responsibility

**75. Based on the Indonesia Philanthropy Outlook 2022, During the last three years (2018–2020), philanthropic activities have succeeded in disbursing at least 39.6 trillion Rupiah for various activities that are in line with the development agenda.** In 2019, there was an increase of 6.45% from 2018 and there was an increase of 23.05% in 2020. The Faith-Based Organization is the philanthropic institution with largest funds utilization, contributing 77.7% of the total disbursement of funds. There was an increase in utilization funds from Islamic philanthropy from 2018 to 2019. A sizable philanthropic contribution also came from corporate foundations (8.21%), corporate philanthropy (5.91%), crowdfunding platforms (3.84%), family foundations (2.42%), and independent foundations (1.92%).

**76. At least 91.7 million people benefited from philanthropic activities between 2018 and 2020,** including 368,588 families who received basic food assistance and compensation, 1,455 schools were built, 32,115 volunteers participated in charitable work, 8,937 public facilities, such as places of worship, government buildings, roads, and clean water facilities, were constructed, and 1,036 years of advocacy work were completed. Every year, there is an upward tendency, with the biggest jump in beneficiaries occurring between 2019 and 2020 at 41.17 percent. One of the primary causes of the rise in benefits at that time was the COVID-19 pandemic, which occurred in early 2020. The World Business Council for Sustainable Development<sup>26</sup> describes Corporate Social Responsibility (CSR) as “business’s commitment to contribute to sustainable economic development, working with employees, their families, the local community, and society at large to improve their quality of life.”

<sup>26</sup> Kotler and Lee. (2005). Corporate Social Responsibility: Doing the Most Good for Your Company and Your Cause. John Wiley & Sons, Inc

Chart 14 Beneficiary Trends Based on Organizational Typology



- 77. In Indonesia, CSR with an emphasis on social and environmental responsibility is regulated in Law Number 40 of 2007 Concerning Limited Liability Companies.** This law was conducted to increase the company's awareness of the implementation of social and environmental responsibility in Indonesia, to address the growing social and environmental responsibility legal needs, and to strengthen the social and environmental responsibility arrangements that have been governed by various laws and regulations in accordance with the company's particular field of business activities.
- 78. Regarding social and environmental responsibility (CSR) budgeting, both the limited company law and government regulation number 47 of 2012 related to social and environmental responsibility of the limited company does not specify the minimum amount of funds that must be allocated for it.** Article 74 paragraph (2) of Law 40/2007 only stipulates that social environmental responsibility is an obligation of limited companies, which is budgeted and calculated as an expense whose implementation is carried out with due regard to propriety and fairness. However, in practice, several regions in Indonesia have regulated the minimum amount of CSR budget in regional regulations.

## 2.3 SDG Investment Areas and Financing Sources

- 79. Indonesia's SDGs financing needs can be classified into 10 investment areas (please refer to Annex 3),** which are considered as the main determinant of most SDG targets achievement. Those areas are infrastructure, health, education, social protection, environmental protection, food, clean government, research & development, MSME, and tourism.

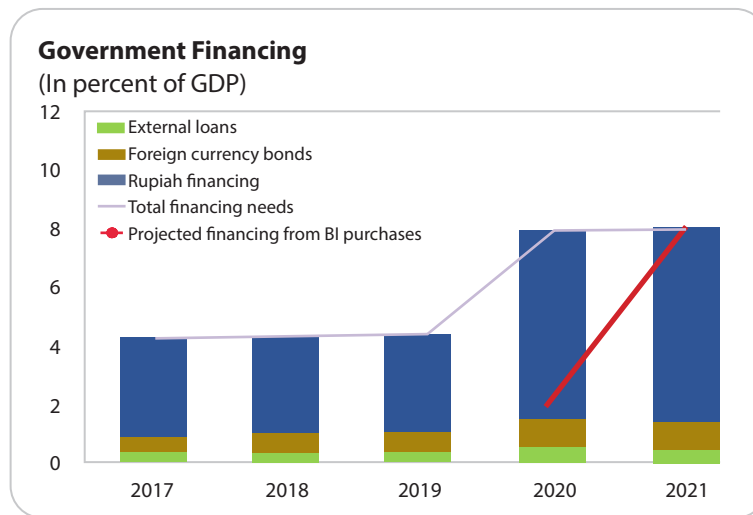
## 2.4 Financing Risks and Challenges

### 2.4.1 Revenue and Expenditure Trends

- 80. Revenues have not kept up with expenditures, leading to increased dependence on running a budget deficit.** In September 2021, the legislature passed the 2022 state budget with a value of US\$ 190 billion, financed through tax revenues, bonds, and external financing, with a budget deficit of 4.85 per cent. Financing the budget deficit will require IDR 868 trillion (US\$ 61.5 billion), showing governments commitment to counter-cyclical spending to reduce the impact of the pandemic on the economy. Beyond expenditure allocations for central ministries, and local government transfers, the budget also includes subsidies and non-ministerial expenditures.

81. **Sources of financing over the past five years are provided in Chart 15 below, showing the scale of financing from Bank Indonesia (BI) in resourcing the budget deficit to address the impact of COVID-19.** In 2021, government mobilized Rp 2,006.4 trillion (US\$140.2 billion) in domestic revenue, a growth of 23.2% over 2020. Domestic revenues were complemented by monetary budget financing and external loans. Quantitative easing has been used, with BI purchasing rupiah-denominated government bonds under a last resort ‘market mechanism’ strategy and on a burden sharing agreement. The IMF also increased Indonesia’s Special Drawing Rights (SDRs) in August 2021 the SDR allocation increased to SDR 4,455.5 (US\$ million).<sup>27</sup>
82. **Despite the increase in government spending, Government remains committed to reducing the 2022 budget deficit from 4.85 percent (IDR 868 trillion) to maximum 3 percent by 2023 (a legal requirement), in order to ensure fiscal sustainability and we as maintain the public debt ratio.** Tax hikes and other measures have been introduced to reduce the budget deficit to 3.75 of GDP by the end of 2022, thus ending the counter-cyclical phase.<sup>28</sup> Gross external financing needs increased in 2021 as a result of the current account deficit, though as the deficit is brought back under control, external financing needs will be reduced. As noted below, Chart 15, provides the sources of financing for the period 2017-2021, also showing the BI deleveraging support to finance the budget deficit.

Chart 15 Source of Government Financing (2017-2021)



Source: Bappenas

83. **Perhaps the single biggest challenge facing the Government from a fiscal point of view is how to increase revenues to better finance development which provides the tax structure for a number of comparator economies, is Indonesia dependence on corporate income tax, low levels of personal income tax and low levels of social security contributions in particular.** Increasing collection of tax and non-tax revenues is the primary priority of the government in order to increase fiscal capacity for development financing for the RPJMN and Agenda 2030.

<sup>27</sup> Indonesia earns 0.98% of the total allocated SDR, distributed to all IMF country members, which amounts to USD 650 billion. It is a given, as Indonesia pays its dues to the IMF, thus claiming the allocated SDR accordingly and taking it into the foreign exchange reserves.

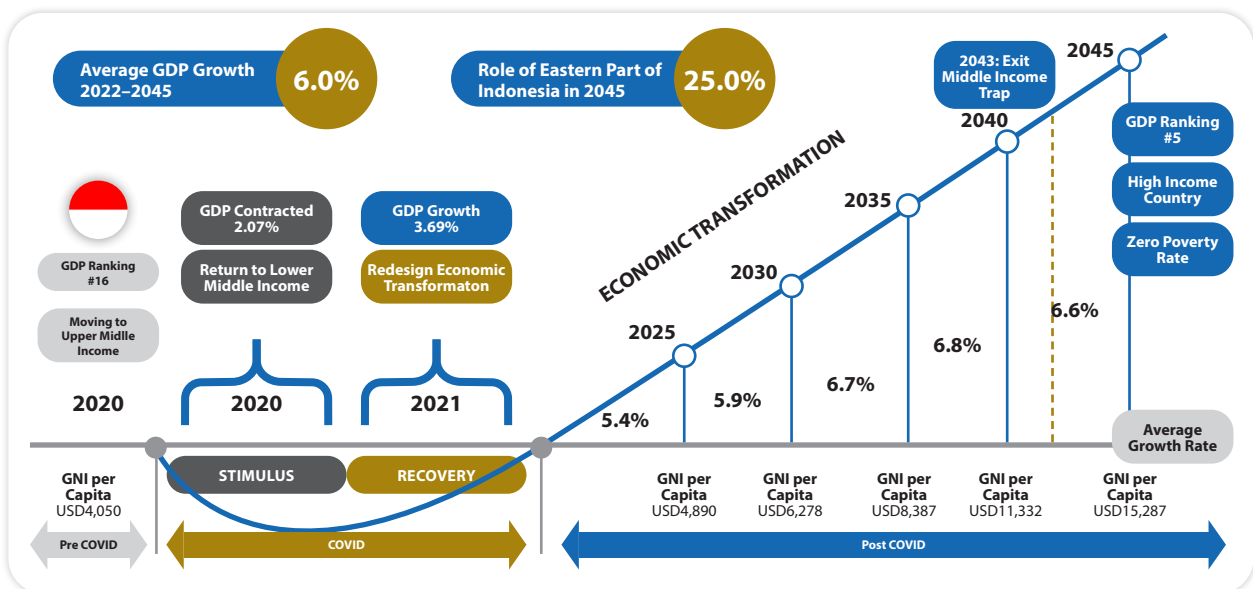
<sup>28</sup> Parliament approved a new Value Added Tax (VAT) rate, a new carbon tax in April 2021 and a tax amnesty program that will only run to the first half of 2022.



2.4.2 GDP Trajectory

- 84. Indonesia’s growth path reflects a history of consistent year-on-year gains, which has seen the economy emerge as one of the powerhouses of Asia.** As a result of prudent fiscal, monetary, interest rate and investment policy, in recent decades growth has lifted millions out of poverty, and inflation, budget deficits and public debt have been low. For growth to continue however, structural reforms are required to boost manufacturing, tourism, and the creative economy. To achieve this, given revenue shortfalls and a budget deficit of 4.85 percent in 2021, efforts to boost domestic revenues will need to be complimented with a new generation of sustainable financing instruments and an integrated approach to financing.
- 85. In response to the pandemic and to secure the long-term growth path, government is focused on fiscal consolidation, designing a medium-term revenue strategy, initiated important structural reforms and on counter-cyclical spending.** During the 2015-2020 period, GDP averaged 5.2 percent, despite the contraction of -2.07 percent in 2020. The planned growth path for Indonesia (See Chart 1) requires a continuous commitment to reforms in order to exit the Middle-Income Trap (MIT) by 2043 with 6.6% growth required, and it will also need to include investment to increase resilience to global volatility and climate change. Moreover, financing the next 25 years, while keeping the public debt ration below the 60 per cent threshold, will require a more integrated approach to development planning, enhanced effort to crowd in private capital and a focus on both allocative and operational efficiency.
- 86. Indonesia is expected to return to trend in 2020, despite the Delta and Omicron variant viruses as a result of a strong government pandemic response and increased global commodity prices and rising mobility and business confidence.** Real GDP grew by 3.69 percent in 2021 and is forecast to grow by 5.4 percent in 2022 and 6 percent in 2023, led by strong policy support measures, including increased public investment and COVID-19 vaccine distribution plans, as well as improved global economic and financial conditions. Nonetheless the uncertainty surrounding the growth outlook is nevertheless larger than usual, and ongoing conflict in Ukraine among other risks demonstrate that global supply and demand remains volatile. Moreover, once the full cost of the pandemic is accounted for, costs could be larger-than-expected and credit could also be slower to improve, impacting commercial activity.

Chart 16 Indonesia planned Growth Curve (2015-2045)



Source: Bappenas Estimates

- 87. Inflation remained below BI's  $3\pm 1$  percent target corridor in 2021 while medium-term expectations remain well anchored around the midpoint of BI's inflation target range of 2–4 percent.** After a small deficit of 0.4 percent of GDP in 2020, the current account balance recorded a modest surplus of around 0.4 percent of GDP in 2021 on account of higher commodity prices and exports, with projected deficits of 0.1 percent and 1.5 percent, respectively, in 2022–23 as domestic demand strengthens.
- 88. Chart 17 below shows the impact of COVID-19 pandemic on year-on-year growth, as well as the changing contributions of real GDP growth for the period 2019–2021.** Contraction in private consumption, investment and net imports reflected the results of economic lockdown and a deterioration in the terms of trade.

Chart 17 Real GDP Trends and Contributions

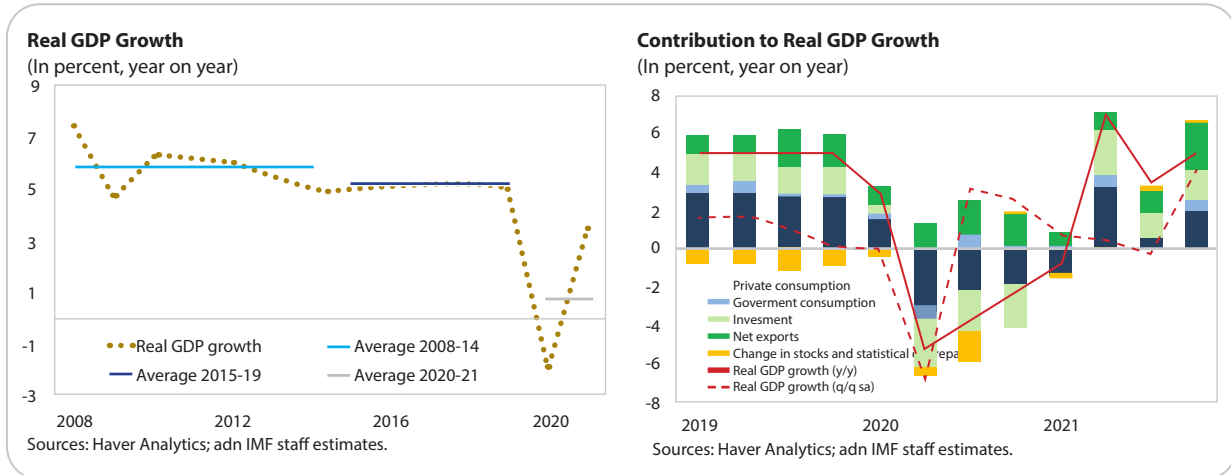
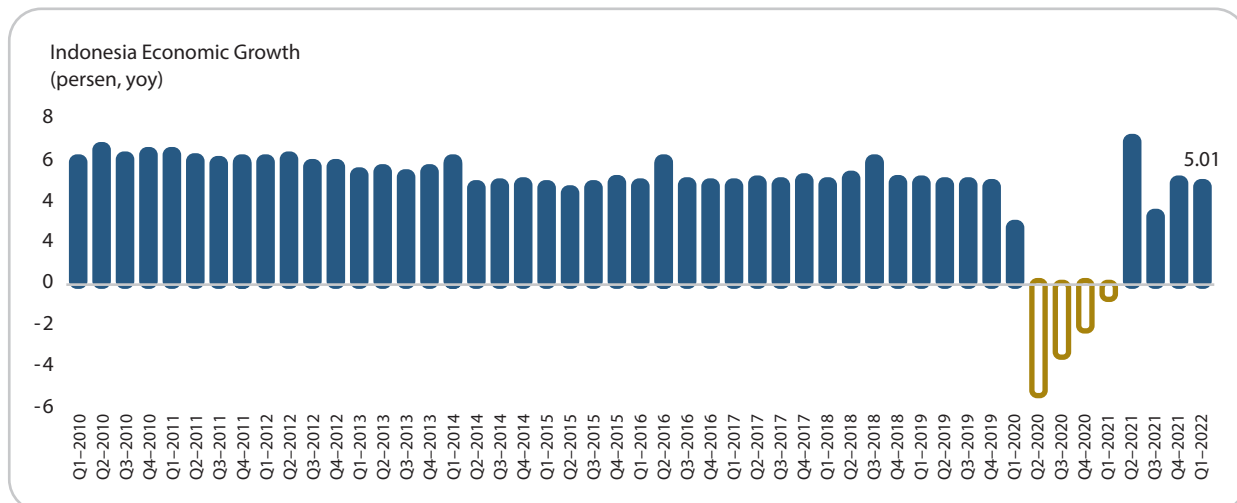


Chart 18 Indonesia Economic Growth



### 2.4.3 Regional Development Disparity

- 89. In support of RPJPN, RPJMN and the Annual Government Workplan (RKP), regional Medium-Term Development Plans (RPJMD) covering the same planning period (2020–2024) have been established.** These integrate the Roadmap for SDGs (2019-2030), the SDG National Action Plan (RAN) and SDG Regional Action Plans (RADs), allowing a whole-of-government approach to be delivered. As a result, SDGs have been both nationalized and localized, allowing sub-national financing flows to also be deployed in the financing of Agenda 2030.

90. **In terms of sub-national block grants, central government actively works to finance regional development and is committed to removing both vertical and horizontal fiscal imbalances.** Regional development funds are based on an assessment of (i) the sustainability of the development carrying capacity; (ii) regional economic development through commodity and downstream developments; (iii) human resource development through fulfilment of basic services and through increasing productivity and competitiveness; (iv) developing the implementation of decentralization and special autonomy; and (v) infrastructure development to support economic and social activities.

91. **According to the 2022 expenditure budget APBN, transfers to regions and village funds (TKDD) are funds sourced from the state revenue and expenditure budget (APBN) allocated to regions in the context of implementing fiscal decentralization.** Budget transfers to regions and village funds are not fully aligned to RPJMN or Agenda 2030. The implementation of the transfer budget policy to the regions and village funds in addition to paying attention to funding needs to support governance and development in the regions, also considers the state’s financial capacity, implementation performance, in addition to goals to be achieved in each fiscal year based on programmatic activities. With sub-national government responsible for 43 per cent of public spending in between 2015-2018, greater alignment between central and subnational spending is paramount. Figure 7 provides the seven regional macro-fiscal planning targets, outlining the importance of localizing responsibility for the SDGs.

Figure 7 RPJMN Regional Development Planning Targets (2020-2024)



Source: RPJMN, 2020-2024, Bappenas



## CHAPTER 3

# BUILDING BLOCK II: FINANCING STRATEGY





## Chapter 3:

# Building Block II: Financing Strategy

- 92. A financing strategy is at the core of an integrated national financing framework.** It provides a path for financing national development strategies and plans, building on findings from Building Block 1 “Assessment and Diagnostics”, as laid out in the INFF Roadmap. It brings together existing policies and institutional structures in support of financing national development strategies and plans. In the current context, financing strategies can also be used to support COVID-19 recovery plans. Financing strategy sets out a set of sequenced actions to finance national development strategies and goals, and mobilize and align financing with national priorities
- 93. The financing policies aim to foster creative approaches to mobilize finance, and combine financing strategies to increase their impact.** The novelty of this approach lies in its integrated nature. Its aim is not to replace the many existing methodologies and instruments, such as medium-term expenditure frameworks, public investment management, revenue strategies, or financial sector development strategies. Rather, it provides a framework to align particular instruments with the broader financing strategy, seeks to avoid fragmented decision-making, better align efforts, and identify gaps and opportunities for resource mobilization.
- 94. The pandemic has dealt a sharp blow to the sustainable development outlook, and a shock to the resources available for investment in it.** Finance and investment needs have grown further, as COVID-19 not only reversed years of progress on the Sustainable Development Goals (SDGs), but also revealed critical infrastructure gaps, for example in healthcare and digital connectivity<sup>29</sup>. Post pandemic, the financing gap to achieving the 2030 SDG targets will be higher than previously estimated, which was USD 1 trillion<sup>30</sup>. The need for a holistic and integrated approach to financing recovery in the medium and long term is greater now than ever. The financing strategy objectives will be focused on mobilizing resources to support the 2030 Agenda from across the four sources of financing – domestic public and private and international public and private.

### 3.1 Financing Policy Objectives

- 95. Considering the substantial fiscal gap in financing the SDGs, there is a need to focus on more integrated financing solutions and to maximize the optimal use of limited resources to implement the sustainable development agenda.** All of this calls for ‘Right-Financing’, using the most appropriate sustainable financial instruments to support development, in alignment with the general approach outlined below. Right-Financing requires going beyond purely mobilizing national budget resources to meet the SDGs, as it advocates for expediting the transition from ‘Funding to Financing (F2F)’. Such an approach not only calls for policies that crowd in private capital, both through blended and non-blended solutions, it also requires public investment programs to be planned in a way that actively engages the private sector in delivering durable and (where desirable) market-based solutions.

<sup>29</sup> Covid-19 and Beyond: Scaling up Private Investment for Sustainable Development, UNDESA, Policy Brief No. 97, 2021

<sup>30</sup> In high intervention scenario





**Box 3 Right Financing RPJMN****Right-Financing RPJMN**

In considering the most appropriate new financing instruments to be deployed to finance the SDGs, it is necessary to identify the 'right-financing' solution for a particular problem. Right-financing focuses on identifying the most optimal financing instrument, modality and partnerships for a given purpose, noting that it is not necessary or desirable for the national budget to look to finance all sustainability solutions when public funds can be used to leverage greater resources and reduce risks for private capital.

<b>Right-Financing Agenda 2030 SDG Considerations</b>		
<b>Right-Financing Pillars</b>	<b>Objective</b>	<b>Considerations</b>
Improved Investment Prioritization	To identify the most optimal sequence of activities for a given investment over the medium term, linked to the MTEF.	Based on fiscal space analysis and government policy priorities, SDGs goals and targets should be prioritized by the level of urgency and impact on the principles of leaving no one behind (LNOB) or building back better (BBB).
Most Optimal Source of Financing	To identify the most strategically advantageous source of financing for the proposed investment, crowding in private capital wherever feasible and desirable.	Consider integrated solutions from domestic public, domestic private, international public and international private financing to implement a new taxonomy in national investment.
Preferred Modality and Partnerships	Identify the preferred financing modality and strategic partnerships for the intended investment based on a ranking of variants.	Evolve an expansive national Sustainable Financing Taxonomy to complement other Taxonomies such as the ASEAN Taxonomy for Sustainable Finance (Version 1).
A Focus on Sustainability Financing	Consider the sustainability of the proposed investment, including financing costs, associated level of risk, long-term operations and maintained costs and social, gender and environmental multipliers.	Consider the long-term sustainability of the investment once project funds are withdrawn. This would include project governance, operating costs, revenues, social cost-benefit analysis and net present value analysis as appropriate, as well as a transitioning to green and brown budgeting.
Monitoring Investment Policy Impact	To establish output, outcome and impact indicators for the investment, so that one can assess impact.	Link goals, outcomes and outputs to the MTEF process, allowing SDG investment impacts to be clearly established and the SDG dashboard to be updated based on empirical information.

Source: UNDP, Strategic Budgeting Guidance Note (2022)

- 96. Developing a clear medium-term fiscal strategy, identifying sources of fiscal gaps and linkages to the SDGs is now crucial.** The medium-term fiscal strategy will need to be aligned and integrated with the SDGs, including specific measures, targets, and contingencies on the expenditure side as well as linkages with the Climate Change Fiscal Framework (CCFF). The fiscal strategy would improve the quality of debt and contingent liability management, advance important structural reforms and identify sources of fiscal gaps that can be addressed.
- 97. Creating a strategic collaboration platform among government and non-state actors,** such as investors, financial institutions, impact investors, venture capitals, philanthropies and faith-based organizations, and other development partners, is crucial to influence and shape spending priorities and partnerships. The integration of SDGs into Development Programs, as well as government work plans alongside building implementation capacity (through training, mentoring, etc.) will remain a medium-term priority. Moreover, capacity building of governments for special, priority issues, topics (e.g., microeconomic training for the implementation of programs to improve the welfare of women and children after climate change/natural disasters) will need to figure heavily in government support mechanisms.
- 98. The financing policy objectives and strategies to achieve integrated financing solutions and to optimize the financing resources are as follows:**



**Table 4 Financing Policy Objectives**

Financing Policy Objectives	Strategies
1. Strengthening the quality of the budget	a. Improve public spending to incentivizing private funds mobilization b. Improve incentives for regional SDG adoption
2. Improving domestic resources mobilization	a. Fiscal policy reform b. Improve tax administration and management
3. Strengthening the capacity of financial markets and financial institutions	a. Accelerate capital market deepening to unlock financing opportunities b. Develop green banking solutions for sustainable investments
4. Scaling up private sectors' investment for sustainable development	a. Improve blended finance mechanisms to attract private finance b. Improve impact investment mobilization by implementing impact measurement and management practices c. Establish a blue finance ecosystem for strengthened resources mobilization
5. Expanding the potential of philanthropy and faith-based financing	a. Align philanthropy and faith-based financing with SDG and promote collaboration between stakeholders to create greater impact

## 1. Strengthening the quality of the budget

**99. A first step toward strengthening the quality of the budget would be to improve the efficiency and effectiveness of public spending its alignment with national priorities**, including SDG interventions. Mapping out both national and regional budgets against the SDGs along with qualitative reporting on how the budget is linked to different SDGs, thereby strengthening performance-based budgeting for the SDGs. Improving coordination between the MoF and Bappenas on strategic budget planning will lead to improved budget integration and a greater focus on performance-based budgeting and outcomes. In addition, and in order to harmonize the national and sub-national planning architecture, improve budget call circulars and the performance management framework, the budget classification structure and program coding arrangement would allow SDGs impact to be tracked at all levels of government. This requires implementing the integrated planning, budgeting, execution, accounting and reporting system in both central and sub-national spending units.

**101. An important but complex area of governance is how to improve incentives for SDG adoption across regional governments, society, and at the level of private capital.** Effort is required to create programs that support the achievement of SDGs vis-a-vis the vision-mission of regional authorities in particular, especially when it comes to special issues emerging from decisions taken by regional leaders. Increased sub-national investment flows are not aligned to the SDGs, which is both a cause for concern and an opportunity. There remains too great a focus on central government level delivery of the SDGs, when provinces and districts are not only closer to frontline delivery units, they also raise revenues and can align their spending plans to the SDGs. A focus on building core capacities for aligning with and integrating the SDG into sub-national government plans is required.

## 2. Improving domestic resources mobilization

**101. Domestic resources mobilization (DRM) is the long-term path to sustainable development finance.** DRM does not only provide governments with the funds needed to alleviate poverty and deliver public services, but also acts a critical step on the path out of aid dependence. Instead of applying new taxes or higher tax rates, DRM can be improved through audits or simplified tax administration and management by utilizing best available digital technology. Fiscal policy reform is one of main DRM strategies, which can be achieved through tax and budget reform.

**102. In order to optimize state revenue, tax reform can be done through strengthening reforms, both administratively and regulatory.** In terms of administration, improvements are directed at encouraging increased supervision of tax revenue activities based on data, technology, and deeper risk analysis. Meanwhile, regulatory strengthening is achieved through efficient and effective implementation of the HPP Law (Harmonization of Tax Regulations), including accelerating the issuance of various derivative regulations. The substance of the HPP Law is the legal basis for tax reform that is fair and in favor of the weak and MSMEs. Meanwhile, the budget reform in Indonesia has been done together by the GOI through conducting performance-based budget system and public sector accounting and auditing system reform. The last one aims to expand transparency and accountability of state budget to the public, as well as to enlarge public participation in the budgetary process.

### 3. Strengthening the capacity of financial markets and financial institutions

**103. An effective way to increase private sectors' participation in filling up the financing gap is to tap a wider investor base through financial markets.** The decisions taken by institutional investors, commercial banks, capital market actors and corporations have a strong impact on the magnitude and quality of private investment available for the SDGs. To scale up available private finance and investment for sustainable development, it is necessary to strengthen the financial markets and financial institutions through a combination of regulatory and institution/industry-specific measures. This is important to unblock the obstacles to scaling up long-term finance and investment for sustainable development.

**104. Improved capacity of financial markets can provide optimal support for economic activities. Financial markets facilitate the movement of funds from those who save money to those who invest money in capital assets.** Savings are distributed among investments and expenditures through securities traded in the financial markets. A deep and liquid financial market will enable more efficient allocation of capital and will serve as a basis for new sources of economic financing. And if capital markets are also inclusive and secure, this will cushion them against shocks in the event of upheavals. A greater variety of market instruments for financing and risk management in long-term financing, in addition to greater diversity of investors, will contribute positively to the provision of economic financing alternatives.

**105. A more open and well-regulated financial sector will make it more efficient robust.** Financial sector acts as an engine of growth for the entire economy spurred by its economic-wide effect. In this regard, financial institutions' capacity improvement is crucial to face the dynamics of financial markets due to spill-over effects from other countries. A stronger and deeper financial sector can protect an economy from external as well as domestic shocks.

### 4. Scaling up private sector investment for sustainable development

**106. Further action is needed to better channel investment to countries and SDG-related sectors that are most in need.** The development of innovative and scalable global platforms, instruments and funds would be an important first step in this regard. Achieving this effectively and to scale would entail collaboration between governments, multilateral development banks, bilateral donors and private investors. Additionally, to enhance the impact of given investment on sustainable development, and to avoid green or SDG washing, it is necessary to advance industry-based standards for impact measurement. To achieve this, the approaches may include supporting industry-based standards for sustainability reporting and impact measurement; developing appropriate taxonomies for companies and investors, aligning existing metrics, streamlining existing standards and initiatives; and introducing standards that implement and operationalize principles and frameworks for sustainable and impact investment.



- 107. Financing institutions and donors are already interested in matching, but what needs to be prepared is a clear channeling mechanism.** Accessing complete and integrated information of financiers and matchmaking of either domestic and foreign managed funds with a list of projects requires considerable investment, including both regulatory and institutional synchronization, would be a crucial first step. Possible measures may include the development of scalable end-to-end investment opportunities; promoting innovative financing vehicles, tools and platforms (including enhanced PPP, blended finance structures, impact investment, and blue finance) to channel sizable capital flows into sustainable investment projects; and enhancing information and knowledge sharing.
- 108. While the national and local structures responsible for SDG execution are already well established, in integrating whole-of-government and whole-of-society approaches the entire governance outreach and consultation arrangement need to change.** There is therefore a need to improve communication and cooperation between government and non-state actors such as investors, financial institutions, impact investors, venture capitals, philanthropies and faith-based organizations, and other development partners. Strengthening public-private and public policy dialogue around the SDGs will remain a top priority, to include a more explicit focus on localization of the SDGs.

## 5. Expanding the potential of philanthropy and faith-based financing

- 109. Indonesians have strong traditions of generosity and philanthropic activities showing some progress** marked by a growing number of institutions aimed at giving and supporting others, including faith-based organizations and foundations. As funding gaps continue to grow, private **philanthropy becomes an increasingly influential actors** the local, national, and international levels across various public domains addressed by the SDGs. Meanwhile, the potential for Zakat, Waqf and Takaful to **align with SDGs will present a considerable opportunity**. Other kinds of faith-based finance, such as *perpuluhan*, *kolekte* and *dana punia* also need to be explored.
- 110. Philanthropic actors are commonly failing to effectively coordinate with other donors, government, and development partners with regard to the SDGs.** This has led to the duplication of initiatives and inefficient use of resources. For that reason, **promoting strategic collaboration between stakeholders** will enable more strategic giving to create greater impact, as well as to achieve global development outcomes. One way of doing this was by collecting and analyzing grantmaking data by foundations around the world and aligning it with the SDGs to demonstrate how foundations had made and could continue to make strategic grants. These include **leveraging potential economic activities** to commercial markets.

## 3.2 Financing Strategies and Operationalisation

- 111. The INFF financing recommendations outline how policies and instruments are to be implemented and how they are to be executed and monitored, through the governance and coordination as well as monitoring and review frameworks.** Moreover, given the need to address long term structural challenges, including low revenue intake and shallow financial markets, as well driving forward the localization the SDGs at the sub-national level, the financing strategy is integrated with the Budget for SDGs (B4SDGs) process. In essence this means integrating these measures into the national planning and budgeting system; the Medium-Term Expenditure Framework (MTEF) and Public Investment Planning (PIP) process.
- 112. As noted in previous chapters, sustaining private sector activity, and increasing economic efficiency and productivity are going to be critical to sustaining growth.** Like many advanced economies, there is need for considerable investment in digitalization and linking reforms to the Great Reset, Forth Industrial Revolution (4IR), Industry 4.0, towards developing the digital economy as a tool to transform labor and financial markets, while also reducing credit market asymmetries. Moreover, given the considerable potential for innovative and sustainable financing solutions including the from the ESG revolution and better use of Islamic financing, the priorities outlined here reflect a forward-thinking agenda.

**113. Integrated National Financing Frameworks (INFFs) provide a framework to raise financing for sustainable development in a holistic manner**, bringing together different financing policy areas (public and private financing and macro-systemic issues), and better aligning them with medium- and long-term national sustainable development priorities. The final step brings everything together, by formulating prioritized financing strategies that can guide national efforts to mobilize public and private resources for sustainable development agenda, as well as national development priorities.

**Table 5 Prioritized Financing Strategies**

Prioritized Financing Strategies	Action/Activities	Timeframe (ST/MT/LT)	Stakeholders
1. Improve public spending to incentivizing private funds mobilization	a. Develop capital grants and other financial support schemes b. Develop loan guarantee scheme to reduce the lender's risks. c. Develop foreign exchange risk mitigation system.	MT	Ministry of Finance, Ministry of National Development Planning/Bappenas, Financial Services Authority (OJK), Central Bank
2. Improve incentives for sub-national SDG adoption	a. Allow sub-national budgeting and planning processes to align with the SDGs and integrate them into local development plans b. Promote municipal bonds for regions that meet the qualifications	MT	Ministry of Finance, Ministry of National Development Planning/Bappenas, Ministry of Home Affairs
3. Fiscal policy reform and improve tax administration and management	a. Expand the tax base, increase taxpayer compliance, and optimize asset management and service innovations b. Integrate SDGs into the tax expenditure reporting system	ST	Ministry of Finance, Ministry of National Development Planning/Bappenas,
4. Accelerate domestic capital market deepening to unlock financing opportunities	a. Develop a liquid government debt securities market b. Promote a deep and broad investor base development (supply of capital) c. Increase issuer participation (demand for capital) d. Strengthen the market architecture, design, and impact measurement	MT	Financial Services Authority (OJK), Indonesia Stock Exchange, Ministry of Finance, Ministry of National Development Planning/Bappenas
5. Develop green banking solutions for sustainable investments	a. Develop innovative financing products, such as green loans and green deposits b. Increase capacity for green financing instruments	MT	Financial Services Authority (OJK), Ministry of National Development Planning/Bappenas, Ministry of Environmental and Forestry, Ministry of Finance, Ministry of Investment (BKPM)
6. Improve blended finance mechanisms to attract private finance	a. Identify most suitable financing options to structure financial deals, based on project's characteristics (donation, grant, public finance, commercial capital) b. Develop mechanism for integrating concessionary finance and commercial capital (finance at market rates)	MT	Ministry of National Development Planning/Bappenas, Ministry of Finance, Financial Services Authority (OJK), Ministry of Investment (BKPM)
7. Improve impact investment mobilization by implementing impact measurement and management practices	a. Identify investors' motivations for engaging with the SDGs to identify new opportunities (potential sources) b. Develop an impact measurement system to make the economic and social contributions of investments measurable, which allows investors to improve their development effectiveness and demonstrate accountability.	MT	Ministry of National Development Planning/Bappenas, Ministry of Investment (BKPM)
8. Establish a blue finance ecosystem for strengthened resources mobilization	a. Develop practical measures of blue economy expansion b. Develop a platform that links financial resources to blue economy projects c. Develop monitoring and provision of a blue investment guidance	LT	Coordinating Ministry of Maritime Affairs and Investment, Ministry of National Development Planning/Bappenas, Ministry of Marine Affairs and Fisheries, Ministry of Environmental and Forestry, Ministry of Finance, Financial Services Authority (OJK), Ministry of Investment (BKPM)
9. Align philanthropy and faith-based financing with SDG and promote collaboration between stakeholders	a. Develop incentive and impact measurement system b. Develop strategic and mutual benefit cooperation c. In the case of commercial viability, bridge potential economic activities with private investments	MT	Ministry of National Development Planning/Bappenas, Ministry of Finance, Financial Services Authority (OJK), Ministry of Religious Affairs, National Committee for Sharia Economics and Finance

Notes: ST: short term 2022-2023; MT: medium term 2022-2025; LT: long term 2022-2030



## 1. Improve public spending to incentivizing private funds mobilization<sup>31</sup>

- 114. A capital grant, one-time or deferred, may be considered by the government with the objective of making a project commercially viable.** The government may also consider other forms of financial support to make projects commercially viable. These may include interest free or low interest loans, subordinated loans, operation and maintenance support grants, and interest subsidies. A mix of capital and revenue support may also be considered.
- 115. A loan guarantee is a guarantee to a lender providing credit to a project company that, if a borrower defaults, the government will repay the amount guaranteed, subject to the terms and conditions of an agreement.** Because the guarantee reduces the lender's risk, the borrower should be able to obtain funds at a lower interest rate or negotiate a loan that might not otherwise be obtainable. As loan guarantees do not involve immediate cash spending by the government, they can be a more attractive tool to the government than direct loans or grants, particularly in periods of fiscal restraint. However, they can generate sizable financial obligations and significantly affect the government's fiscal framework.
- 116. One of the serious concerns in the minds of investors relates to foreign exchange risk.** The revenues generated from the services provided by infrastructure projects are primarily in local currency. But a large part of debt servicing and other payments are often made in a foreign currency. The government may undertake measures to limit the investor's risk from foreign exchange fluctuations. Where foreign exchange fluctuations exceed a certain defined limit, a part of losses due to such fluctuations may be offset through modifications of tariff rates, government subsidies, adjustment of the concession period or other provisions.

## 2. Improve incentives for sub-national SDG adoption

- 117. Localization will support the move towards a whole-of-society approach by defining, implementing, and monitoring strategies** at the local level to achieve global, national, and subnational sustainable development goals and targets. Localization will allow sub-national budgeting and planning processes to align with the SDGs and integrate them into local development plans. Localization will also positively impact financing of SDGs, allowing local priorities to be supported, and for innovative financing instruments to be developed to finance development priorities, such as infrastructure, renewable energy, health, and education sectors. A particular focus on municipal innovative financing literacy would support localization efforts.
- 118. Municipal bonds can be issued by municipal or provincial governments to raise money to build roads, schools, and a host of other projects for the public good.** The bonds issuance must have the approval from the Ministry of Finance, the Ministry of Home Affairs, and the Local House of Representative. Based on OJK Regulation, APBD can be one of the sources of principal and interest payment. Some municipal bonds are more liquid than others. As a general category, municipal bonds tend to be more sensitive to forces of supply and demand than other fixed-income categories
- 119. Given the importance of incentivizing the regions, a focus on fiscal decentralization seems both justified and necessary.** While fiscal decentralization has improved sub-national autonomy and created new fiscal flows to support sub-national development, horizontal imbalances remain and risk the differential attainment of SDGs at the regional level. Given that many SDGs are best financed by local governments, applying an SDG lens (goals and targets) to the sub-national level will improve both BBB and LNOB outcomes. Reviewing functional assignments linked to the SDGs, local capacities to align with and integrate the SDGs as well as a general review of the intergovernmental fiscal system and local accountabilities, is required.

<sup>31</sup> [https://www.unescap.org/ttdw/ppp/ppp\\_primer/351\\_types\\_of\\_government\\_support\\_and\\_incentives.html](https://www.unescap.org/ttdw/ppp/ppp_primer/351_types_of_government_support_and_incentives.html)

### 3. Fiscal policy reform and improve tax administration and management

**120. Revenue optimization is key element to ensuring the sustainability of development finance.** This can be pursued through exploring the potential and *expanding the tax base, increasing taxpayer compliance, and optimizing asset management and service innovation*. Meanwhile, spending policy is vital to realize *more efficient and productive budget allocation*, thus provides strong multiplier effects on the economy as well as protecting and improving welfare. Utilization of the state budget will be focused on supporting priority programs, encouraging efficiency of basic needs, and maintaining results-based budget execution. Subsidy spending was transformed from commodity-based to human-based to make it more effective and right on target.

**121. Integrating the SDGs into the current tax expenditure reporting system would be a useful addition, allowing periodic cost-benefit analyses that look at how expenditures contribute to the SDGs.** Most sectors are currently resourced by national or local budgets, leading to a dependency on state revenues as the sole source for financing sector investment programs. Each sector needs to develop its own financing mobilization strategy based on the INFF, focused on changing service delivery models to crowd in private capital, and increasing local content. Financing strategies would complement sector business plans and would include procurement details for PPPs, blended financing, and impact investing.

### 4. Accelerate domestic capital market deepening to unlock financing opportunities

**122. A benchmark asset helps to price other assets and provides hedging mechanisms against interest-rate risks.** A liquid government debt securities market is the only such credible benchmark. Building such a market first requires an important policy decision to issue debt on an ongoing basis. This is often controversial. There is, however, no real trade-off between fiscal prudence and building a vibrant government debt market. It is important to issue government debt securities regularly and predictably, even in markets with sustained or occasional budget surpluses.

**123. Four categories of investors have a complementary role in capital market development.** These groupings include “buy and hold investors” like insurance companies or pension funds; “buy and trade investors” like mutual funds; “active investors” like hedge funds; and “private market investors” such as private equity or venture capital funds. Policymakers have considerable influence on the development of these categories. Better infrastructure, transparent credit ratings and less restrictive investment policies in pension and insurance funds would broaden the investment base for corporate bonds<sup>32</sup>.

**124. Privatization or listing of state owned or state-controlled enterprises has proven to be one of the strongest levers for influencing issuer demand.** In similar ways, policies can lead state-controlled entities to use debt capital markets to diversify at least part of their debt funding from the banking sector. Similar policies mandating diversification could easily be extended to large companies.

**125. A single model market or a one-size-fits-all formula cannot be recommended for emerging economies as these models and formulae work and fail in different ways.** The difference between success and failure lies in crafting a system with clear accountability and governance in place. Technology is transforming financial services. Policymakers should directly and indirectly support the development of high-quality market infrastructure. Directly, they could promote technology in key infrastructure areas such as payments. Indirectly, they could support private players to develop capital market infrastructure at scale. Many market regulators are allowing new technologies to be applied by new and existing players in areas such as the use of blockchain technology for client clearing and settlement, and data mining and analytics for credit analysis and fraud detection.

<sup>32</sup> Indonesia's Bonds Market Challenge, Eastspring Investment (Singapore) Limited.



## 5. Develop green banking solutions for sustainable investments

**126. While banks are still interested in green exposure, from a banking perspective, the introduction of new products will always come down to profitability and financial literacy across the financial sector (and public sector to an extent).** Therefore, improving innovative financing products is very essential. Linked to other measures, adoption of green loans with lower interest rate for business actors (including MSMEs) will help them to meet their sustainability goals. For example, creating renewable energy systems, constructing green buildings, and developing sustainable recycled products. Meanwhile, green deposits can be effective instrument to channeling private funds for financing green projects.

**127. Increase capacity for green financing to promote the development of a green economy.** Implementing the Sustainable Finance Roadmap and Green Taxonomy will remain a particular priority in allowing the financial sector to classify green activities within their portfolios, facilitate the monitoring of credit and investment flows into the green sector, and prevent greenwashing. It will also enhance the quality of sustainability reports, improve the policy ecosystem by enabling more sustainable economic and investment activities, and encourage innovation in developing green products, projects and initiatives. Further, reporting against green loans demands greater transparency on what makes one product green, and another less or not green. This requires a steady push towards institutionalizing green product and financing ecosystems, also implying the need for a strong commitment towards socialization, across society, markets and industries.

## 6. Improve blended finance mechanisms to attract private finance

**128. Blended finance is the strategic use of development finance for the mobilization of additional finance towards sustainable development.** Concessionary finance can be given by financiers who require a lower monetary return (development banks), or even zero monetary return (donations, grants); while commercial capital is raised through commercial institutions or private investors. For this to happen, given the interest in blended financing, the major challenges to overcome include (i) the lack of feasibility studies and bankable blended financing projects, and (ii) the absence of a platform to intermediate private financing flows for blended projects beyond conventional equity, commercial loans and subsidy arrangements. A taxonomy of blended financing mechanisms could be developed beyond PPPs, to increase public officials and investors' awareness of the untapped potentials for many sectors. Moreover, strengthening legal and regulatory provisions to encourage blended solutions linked to the development of a blended finance project pipeline, would introduce new innovations for scaling.

## 7. Improve impact investment mobilization by implementing impact measurement and management practices

**129. Impact investments are made with the intention to generate positive, measurable social and environmental impact alongside a financial return.** Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending on investors' strategic goals. Impact performance data is increasingly necessary if the industry is to scale with integrity. Investors are now dealing with all manner of pressures and incentives demanding accessible and actionable data on impact. In order to incorporate impact into all investment decisions, investors need access to the right tools and resources in order to build out their impact measurement and management practices. Such investments are reshaping the future of financial markets as increasingly people are considering the societal and environmental impact of their investments in addition to their financial returns. The growing impact investment market provides capital to address the world's most pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, microfinance, and affordable and accessible basic services including housing, healthcare, and education.



## 8. Establish a blue finance ecosystem for strengthened resources mobilization

**130. To holistically track the development of Indonesia's blue economy, Government and relevant stakeholders develop practical measures of blue economy activities.** Indicators should include the extent to which ocean resources are available for development (ocean capital), availability of conditions which allow sustainable use of ocean resources (enabling factors), the degree of equity present in blue economy sectors (social capital), and the measurement of economic growth patterns in the blue economy (sustainable growth). Thus, the indicators should encapsulate various aspects of the blue economy which allows monitoring of its development, not just from an economic perspective but also social, technological, and environmental.

**131. The stakeholders of a blue finance ecosystem are ranging from government institutions, local communities, CSOs to private and public investors.** This ecosystem should center around a platform, linking financial resources from private/public investors to blue economy projects. In this case, monitoring, and provision of blue/sustainable investment guidance for activities are crucial, specifically in the financial services sector. Social enterprises experienced in ocean environmental conservation and the line ministries enhance the ecosystem by feeding information related to unfunded projects to the platform or directly to public investor

## 9. Align philanthropy and faith-based financing with SDG and promote collaboration between stakeholders

**132. Indonesia's large potential for philanthropy's mobilization has not been optimal because public donation is still mainly through direct giving and not well organized.** People prefer to donate directly to individual beneficiaries rather than to social organizations. Donations to faith-based activities and social services are also very dominant compared long-term programs, such as education, health, economic empowerment, environmental conservation, etc. Also, there is an urgent need to improve the governance and transparency of collection and distribution to be aligned with the SDGs.

**133. A foundation's work toward the SDGs might include not only grants but also investments; for this reason, it should be determined whether the framework covers not only grant-making but also program-related investments and mission-related investments.** Different foundations typically have different priorities, methods and processes. Collaborative works with the associations, digitize, improve financial data availability and reduce asymmetries, are important elements, while promoting effective collection, alignment, and distribution, including helping measure the impact.





## CHAPTER 4

# BUILDING BLOCK III: MONITORING & REVIEW



# Chapter 4:

## Building Block III: Monitoring & Review

**134. Monitoring and review is a key component of an effective integrated national financing framework (INFF).** It brings together the information required by policy makers and ensures necessary systems are in place to facilitate transparency and accountability in the implementation, related activities and reforms. It can facilitate learning, improve the effectiveness of financing policies, and enable policy makers to adjust course when conditions change. Monitoring and review also lays the groundwork for greater accountability, and provides a basis for transparent dialogue among governments, partners and other relevant stakeholders.

### 4.1 Purpose of Monitoring and Review Within the INFF

**135. In the context of an integrated financing framework, monitoring and review brings together existing data and tracking systems from across different types of finance and links them to results.** It does not aim to replace or duplicate these systems. Rather it acts as an ‘integrator’ by streamlining efforts and providing access to policy-relevant information across multiple financing policy areas, and feeding it back into integrated policy making processes.

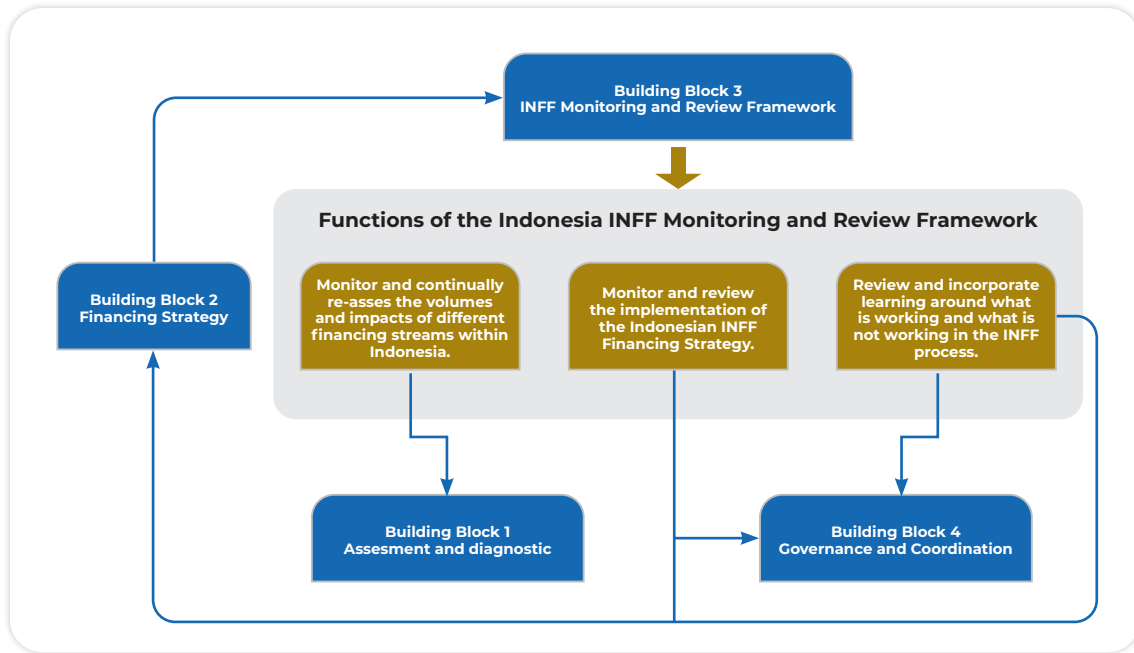
**136. Mainstreaming detailed data gathering, measurement and reporting efforts (bringing together information from existing sources) is crucial to measure the success of the INFF agenda in Indonesia.** By facilitating learning and the continual improvement of financing policies introduced in the roadmap, BB3 is at the heart of the INFF and must be considered from the outset (i.e., in the current inception phase). In the context of an integrated financing framework, monitoring and review processes and systems must be carefully documented, based on a review of existing and future capacities.

**137. The INFF is intended to be an iterative process that continually learns and adapts to a changing financing environment, both domestically and internationally.** For example, both the appearance of new shocks and black swan events (such as COVID-19 and natural hazards) as well as emergence of new global innovative financing instruments should have significant implications for the execution of the INFF strategy between now and 2030. It is therefore central to ensure that corrective actions can be undertaken as required, as well as to provide important snowball potential and to increase ownership of all stakeholders.

**138. The intended scope of this learning process is a comprehensive and coordinated endeavour across building blocks, so that improvements in assessing the financial landscape, executing the financing strategy, and developing the capacity of governance structures are all streamlined into the wider INFF process.** As illustrated in Figure below, BB3 can be used to gauge three crucial areas throughout the INFF implementation process.



Figure 8 Integration of Monitoring and Review into The Wider INFF Process



Source: Adapted from UNDP INFF Guidelines

## 4.2 Existing National Monitoring and Review Systems

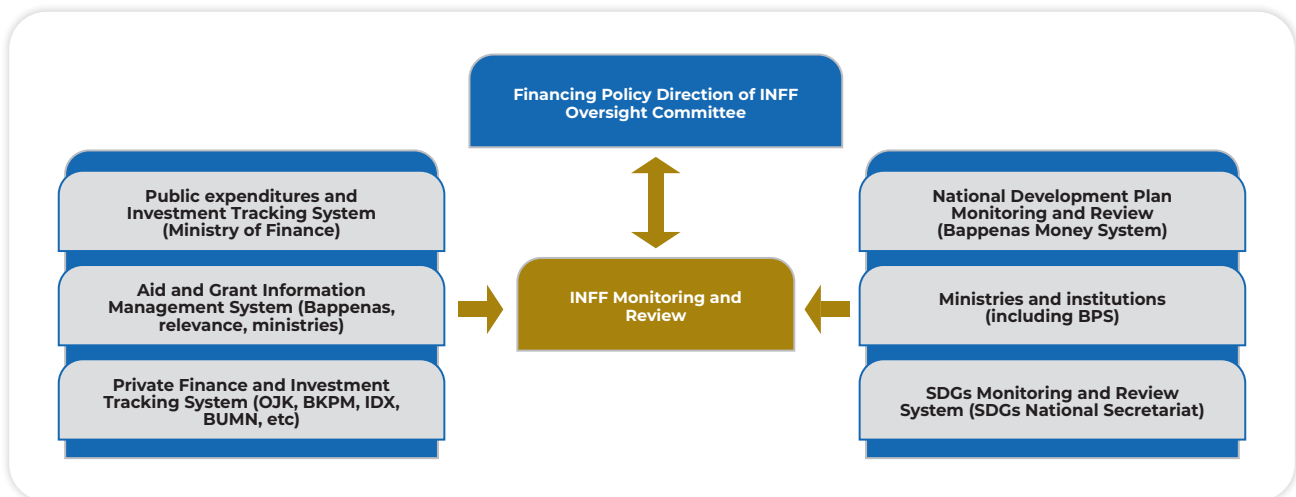
- 139. This assessment recognizes that a number of initiatives and processes currently in place in Indonesia can be drawn on to inform the monitoring and review requirements of the INFF.** The following provides a brief overview of the existing monitoring capacity complementary to the INFF, recognizing that existing monitoring and review systems with relevance to the INFF can be classified as i) national planning and budgeting monitoring infrastructure, ii) SDG monitoring infrastructure, iii) sustainability report of business/private sector.
- 140. Monitoring the INFF naturally relies on SDG indicators being available and easily accessible, providing the basis upon which the INFF will ultimately be assessed.** It must therefore make use of monitoring and review systems in place already to monitor SDG progress in Indonesia, at both the national and sub-national levels. Fortunately, this has long received dedicated attention from the Government of Indonesia, which has established an SDG dashboard and taken steps to improve data collection processes and details (such as improve levels of regional or sex disaggregation in data collection) using e-money system.
- 141. The primary agency responsible with data management in Indonesia to date is Statistics Indonesia (BPS).** BPS is mandated with gathering and managing data in Indonesia, supporting statistical offices in line ministries, establishing and disseminating statistics standards, and overseeing the national monitoring and evaluation under the overall guidance of Bappenas. These responsibilities have already been applied to the SDGs, with BPS being authorized to measure SDG indicators and use data monitoring systems to record progress towards Agenda 2030. Furthermore, Indonesia also has One Data policy in which a data management policy to produce accurate, up-to-date, integrated, and accountable data, as well as easy to access and share data among government institutions through the fulfillment of data standards, metadata, and interoperability.

- 142. Alongside monitoring of SDG data, the Monitoring and Review function under the INFF must also take stock of broader economic and financial indicators.** Understanding the evolving contributions from both government spending and private sector and civil society contributions to financing different SDGs will directly reflect on the value that the INFF contributes and therefore become a key metric by which the INFF is judged. Here too, Statistics Indonesia will play a significant role, as the mandated institution for collecting and disseminating economic data.
- 143. A review of the data collected and made available by BPS suggests that while comprehensive, there may be economic and financial indicators missing that would be valuable to inform the INFF.** Data within BPS are both 'derived from its own research and surveys as well as from other government departments in the form of secondary data'.<sup>[1]</sup> As such, plugging the gap of missing data can be achieved through i) expanding data types acquired within BPS' regular statistical surveys (e.g. Annual National Socio-Economic Survey), or ii) relying on many other public entities engaged in data collection, including the Financial Services Authority (OJK) and Bank Indonesia and iii) drawing on private and international data sets.
- 144. Further, and much like for SDG Databases, relevant economic and financial data must be disaggregated at the sub-national level in order for Indonesia's financial ecosystem to properly inform the INFF's progress.** This will require attention towards strengthening the capacity of data collection at the province and district levels, which, BPS can also lead, given its mandated responsibility to provide necessary services in the field of education and training in statistics.

### 4.3 Developing INFF M&R Structures

- 145. Existing tracking and monitoring systems may be distinct and may not be coherent.** INFFs could serve as a vehicle to strengthen coherence among existing systems and close gaps in the architecture. Bringing different monitoring systems together can also reveal redundancies and overlaps. The holistic perspective of an INFF can give further momentum to ongoing initiatives to better measure and report on the sustainability impact of private sector behavior
- 146. Monitoring and review activities should focus on whether the alignment and coherence of financing policies with national priorities is being improved;** whether coordination among relevant stakeholders to this end is improving; and, ultimately, whether the integrated approach has raised additional resources for implementing a national sustainable development strategy. This review can provide an opportunity to solicit feedback from key stakeholders, both within government and from non-state actors. It can support ongoing dialogue among all relevant actors, allowing them to share lessons on what does and does not work. This will provide a platform for all stakeholders to come together in an open and collaborative environment that is conducive to mutual learning.
- 147. INFF monitoring and review can act as an integrator, as it builds on and integrates existing planning, budgeting, and tracking systems and avoids duplication.** INFF monitoring and review facilitates the tracking of both volumes and impact of all types of finance (public, private, international, domestic) as well as implementation of relevant financing policies and strategies. This includes the impact of these policies and strategies vis-à-vis identified sustainable development objectives. It integrates existing tracking systems across all types of finance and provides a framework to link them to planning and results frameworks related to national development plans and/or SDG strategies (see Figure below).

Figure 9 INFF Monitoring and Review As 'Integrator System'



Source: Adapted from INFF guideline UNDP

**148. Building on the INFF's monitoring and review level of ambition in tracking changes in different financing flows, the following actions can be taken in one or more of the following areas<sup>33</sup>:**

- **Action area 1: Institutionalize INFF monitoring and review** by progressively raising the level of ambition, putting in place or reinforcing the right incentives, establishing an effective monitoring and review function within government, and ensuring participatory approaches to shift the culture around monitoring and review from seeing it as a compliance exercise to focusing on accountability and learning;
- **Action area 2: Enhance integration of existing systems** by ensuring they are compatible and able to feed the necessary information into key INFF indicators of performance, reviewing data and information currently being collected, and implementing pilots where changes or new systems may be required;
- **Action area 3: Link to ongoing or planned data/ statistical reform processes and make use of needs-based IT solutions** by reviewing ongoing statistical capacity development efforts, articulating a data development plan (if needed), and considering the potential role of business intelligence software to facilitate collection, processing, use and storage of data in ways that can serve country needs;
- **Action area 4: Leverage insight and lessons learned from peers and regional/ global knowledge-sharing platforms** by making use of existing knowledge on what may or may not work, with a focus on INFF-specific initiatives and platforms.

33 INFF Guideline UNDP







## CHAPTER 5

# BUILDING BLOCK IV: GOVERNANCE & COORDINATION





# Chapter 5:

## Building Block IV:

### Governance & Coordination

**149. Building Block 4 identifies the governance and coordination arrangements necessary for the implementation of the INFF and maps this onto existing structures.** In order to align the INFF vision and road map with existing national policy and planning and see successful integration of the INFF across national and sub-national budgets with private finance, the INFF should use a whole-of-government and whole-of-society approach. In Indonesia, ongoing commitments to monitor and achieve Agenda 2030 mean that a significant architecture has already been established and it is only logical that governance and coordination mechanisms for the INFF should be integrated into this. When finalized, the governance and coordination mechanisms for the INFF will have ownership of the entire INFF process – from assessments and diagnostics to policy formulation, implementation, and monitoring and review.

#### 5.1 INFF Governance and Coordination Purpose



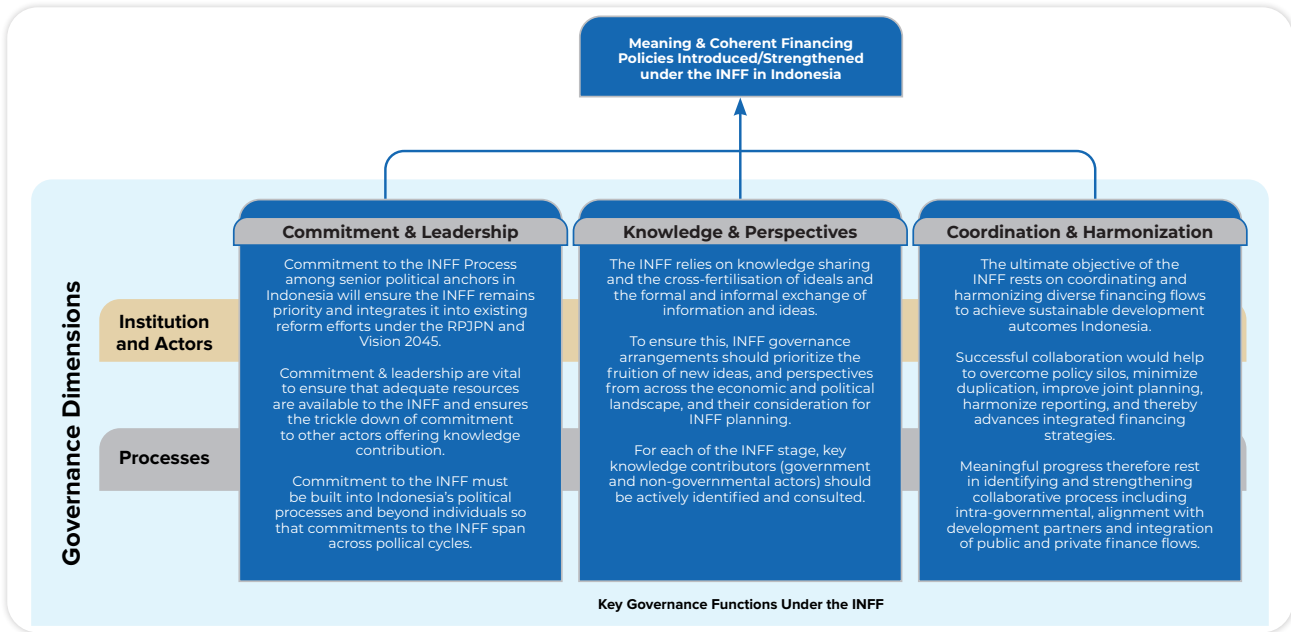
**150. Before undertaking a scoping assessment of existing Governance arrangements, and associated recommendations, it is worth briefly highlighting the role of BB4 under the INFF and how this applies to Indonesia.** Building Block 4 (Governance and Coordination) is at the core of INFF implementation, and the translation of the INFF from theory to practice, and therefore, becomes central to INFF planning from outset. If new financing mechanisms are going to be successfully introduced and streamlined across the Indonesian economy, they must build consensus and draw on the collaborative input of diverse stakeholders.

**151. Indonesia has the opportunity to learn from the best practices of other INFF pioneers. Naturally, every country undertaking an INFF has adopted a heterogenous approach towards fulfilling governance functions, based on existing structures and capacities, the nature of existing financing flows, priorities in the INFF financing strategy, and the political economy of what is realistically achievable.** However, broadly, a review of early INFF adopters suggest that there are four fundamental functions of the governance and coordination to contribute towards an INFF success.

- **Commitment & Leadership:** By senior political leadership in the early phase of the INFF will ensure buy-in filters down through government as well as to civil society and private sector actors. Importantly, however, this cannot be tied to individual political leaders but integrated into mandates and existing structures so that commitment to the INFF is inherited by subsequent governments.
- **Knowledge & Perspectives:** Ensures that diverse technical knowledge (existing at all levels of government and civil society) is not lost in the design, implementation, and review of INFF interventions. INFF leadership cannot be aware of all needs, priorities and interests of financing stakeholders and therefore must identify relevant knowledge contributors.
- **Coordination & Harmonization:** If the knowledge function guarantees that identification of technical experts is not limited, coordination and harmonization ensure that mechanisms are in place, at all stages of the INFF, to include (not exclude) diverse perspectives. Collaboration is central for ensuring the proper alignment of financing flows within the Indonesian economy to sustainable development outcomes.

152. Figure 10 below provides the theory of change for governance and coordination of the INFF. Within this context, the purpose of this assessment in the inception phase is to undertake an initial mapping of the institutions and processes necessary to achieve the three key functions outlined above, preceding a full assessment undertaken in greater detail through the formal BB4.

Figure 10 Theory of Change Behind Building Block 4 – Governance and Coordination



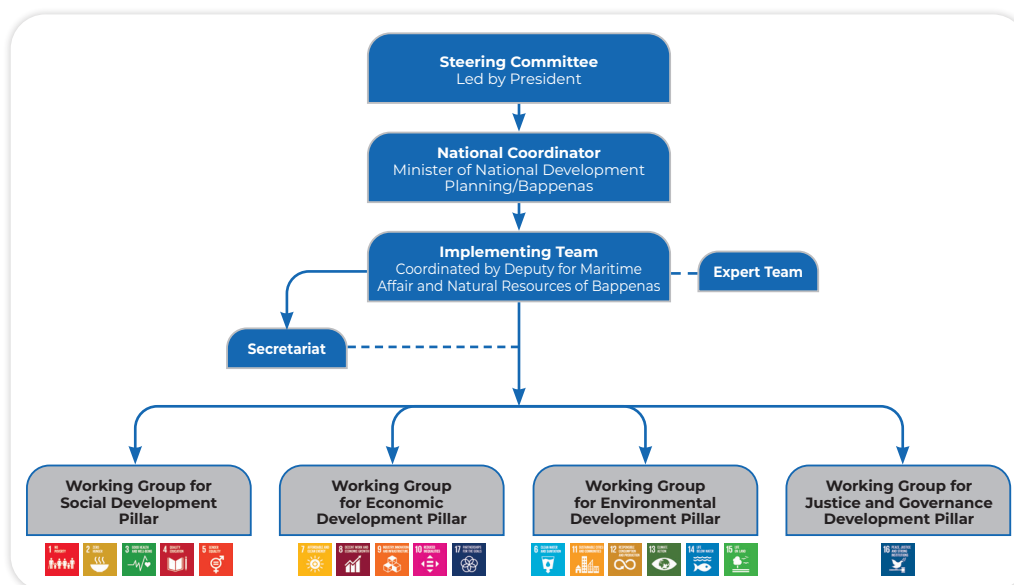
## 5.2 Stocktaking of Existing Governance Arrangements

153. It is natural that the institutional home of the INFF process be closely mapped into Indonesia's existing SDG governance structure, established through the enactment of the Presidential Regulation (Perpres) 59/2017. This serves as the legal basis for the implementation and coordination of the SDGs and the alignment of Agenda 2030 with wider government strategies.

154. Oversight of Agenda 2030 is ultimately under the purview of the SDGs National Coordination Team (TKN). The TKN is tasked with i) introducing and increasing awareness and participation of stakeholders in issues of sustainability, ii) mainstreaming the principle of sustainability in the development agenda of stakeholders, and iii) ensuring that the sustainable development agenda is linked to financing and investment sources - even innovative ones.

155. The TKN consists of various separate bodies (See Figure 11 below). These include the Steering Committee, National Coordinator, Implementing Team, an Expert Team, a Secretariat, four Working Groups organized around different SDG Pillars, and the various Sub-Working Groups (as outlined in Figure 11 below). Beyond this structure at the national level, there are also existing arrangements for subnational level involvement through the establishment of Subnational Coordination Teams (TKDs).

Figure 11 Existing SDGs National Coordination Team



**156. Wide stakeholder participation has already been mainstreamed across the TKN.** In particular the Implementing Committee and each Working Group consisting of four platforms, thereby bringing in representatives from the four categories; namely participating platforms consisting of i) Government and Parliament, ii) Academics and experts, iii) Philanthropy and business actors, iv) Civil society organizations and media.

### 5.3 Identifying an Institutional Home for the INFF

**157. INFFs represent an opportunity for governments to identify, assess and streamline existing coordination structures and mechanisms, with the view of minimising their proliferation and maximising their efficiency and effectiveness.**

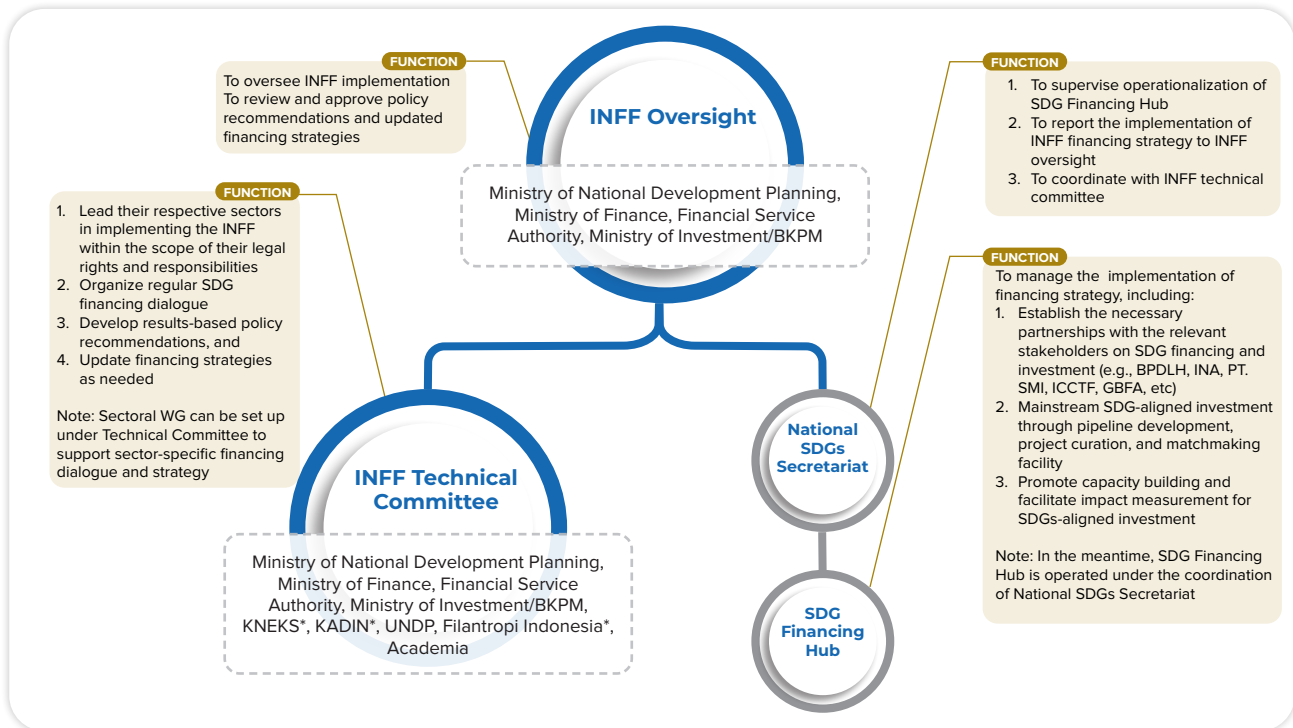
The ultimate aim is to facilitate a holistic approach to financing policy formulation and implementation, coordinating all relevant processes and financial instruments, including domestic and international resources, to ensure a comprehensive and more efficient approach to achieving the desired outcomes.

**158. A strong and high-level mandate from the top political leadership of the country is essential to provide direction, vision, and commitment for efforts to increase coherence.** Indonesia's commitment to increasing coherence can be ensured by providing a strong and high-level mandate with enough resources (financial, time, human) available for the process. The mandate provides direction that can anchor all efforts to increase coherence.

**159. However, political leadership alone is not enough. INFFs will require long-term action, spanning across political cycles.** Financing reforms will likely be incremental and will not happen overnight. Technical expertise is required to complement political commitment to guide the overall INFF process, from inception to implementation, including to inform and shape potential policy solutions and choices.

**160. An INFF oversight committee can translate the political commitment and technical leadership into practice.** The oversight committee will be supported by Technical Committee and SDGs Financing Hub secretariat (which can be embedded in the National SDGs Secretariat). The main task of SDGs Financing Hub is to manage the implementation of financing strategies (See Figure 12 below).

Figure 12 Proposed INFF Governance within the SDG National Coordination Team



**161. A combination of top-down institutional structures and other complementary mechanisms can be considered to address the challenges.** Given the Indonesian INFF already has strong political backing and broad-based country ownership, the primary focus for strengthening BB4 should be on: widening the guiding coalition, creating a sense of urgency, and establishing a common vision for change to allow the INFF to fully integrate with national plans. Increased dialogue, participation, and information exchange can lead to better governance of both financing policies and broader economic reforms and national development planning.

**162. Providing better coherence amongst financial policies rest on the ability of different stakeholders to work together.** Synergies can also be exploited for the benefit of all. Different finance providers (public, private, national, international) are often not aligned in their allocation and investment decision-making. INFFs aim to enhance coherence and integration in the resourcing of national sustainable development objectives and thus require intra-governmental coordination as well as collaboration and alignment with, and among, non-state actors, especially development partners and the private sector. Better coordination can overcome policy silos, enhance joint planning, reduce duplication of efforts, increase efficiencies, lead to better management of risks, trade-offs and inconsistencies in the formulation and implementation of financing policies.

**163. Some existing institutional mechanisms, bodies, and processes related to INFF have been undertaken, along with institutional and stakeholder mapping.** Relevant institutions listed in Table 6 below show the mandates, roles, and responsibilities of different stakeholders of government and non-government entities. It will help determine whether and how to work together across institutions and along informal norms.

**Table 6 Institutions and Roles in SDGs Implementation and Sustainable Finance**

No	Institutions	Roles in financing sustainable development
1	Ministry of National Development Planning/Bappenas	<ul style="list-style-type: none"> <li>- Coordinator of national SDG implementation</li> <li>- Coordinator of the operationalization of Integrated National Financing Framework (INFF) in achieving SDGs target</li> </ul>
2	Coordinating Ministries	Coordinating technical ministries of policies implementation
2	Ministry of Finance	<ul style="list-style-type: none"> <li>- Develop sound fiscal policies and regulations to promote green and sustainable finance</li> <li>- Design and develop innovative public financing instruments for sustainable development</li> </ul>
3	Ministry of Investment/BKPM	<ul style="list-style-type: none"> <li>- Develop policies and guidelines for sustainable investment</li> <li>- Identify and promote sustainable investment projects</li> </ul>
4	Global Blended Finance Alliance	Creating shared institutional learning across stakeholders, match-make capital to projects, catalyse leadership and forge new collaboration between public, private, civil society and academia to scale up innovation and investment for sustainable and inclusive development
4	Financial Services Authority (OJK)	Supporting implementation of sustainable finance through the development of policies and guidelines for financial service institutions
5	Environmental Fund Agency (BPDHLH)	Channeling funds through a variety of instruments to specific projects and activities to improve management and protection of the environment, support environmentally friendly economic activities and reduce GHG emissions.
6	Indonesia Investment Authority (INA)	Manage Indonesia's sovereign wealth fund to build wealth for future generations and contribute to Indonesia's sustainable economic development.
7	Sarana Multi Infrastruktur	Implement socially responsible business practices, including in development of innovative financing instruments for infrastructure projects (e.g. blended finance, thematic bond, etc)
8	Faith-based Financing Organizations	<ul style="list-style-type: none"> <li>- Leverage faith-based financing as complementary financing for SDG-related initiatives</li> <li>- Facilitate dialogues on aligning faith-based financing with sustainable development</li> </ul>
9	Indonesia Stock Exchange	Implement sustainable finance initiatives to create an inclusive and globally competitive Capital Market, and become a catalyst to realize Indonesia's economic sector that are healthy, stable, and growing sustainably.
10	Financial Services Institutions	Implement sustainable finance practices, including in development of innovative financing instruments for infrastructure projects (e.g. blended finance, thematic bond, impact fund, etc)
11	Philanthropic Organizations	Catalyze co-creation/collaboration of philanthropic actors and support funding innovation to accelerate the achievement of the SDGs.
12	Development Finance Institutions (DFI)	Provide financing for private and public sector investments that promote sustainable development, including promotion of socially responsible investing and impact investing
14	Indonesia Climate Change Trust Fund (ICCTF)	Leverage and channel domestic resources and international funds into projects aligned with Indonesia's climate change action plan
15	Chamber of Commerce (KADIN)	Encourage the implementation of environment, social, and good governance (ESG) in the business sector as an effort to decarbonize and increase investment in the business sector that is environmentally friendly and supports the SDGs
16	UN Organizations	<ul style="list-style-type: none"> <li>- Convener of UN SDGs, including in the area of financing for sustainable development</li> <li>- Support government and other stakeholders in the development of innovative financing schemes for climate actions and SDGs</li> </ul>
17	Social Enterprises	Actor or facilitator in SDGs action in creating socio-economic and/or environmental impact while also providing job opportunities
18	Academia/Research Institutions	<ul style="list-style-type: none"> <li>- Conduct research and studies related to green and sustainable finance</li> <li>- Provide capacity building and awareness raising</li> </ul>
19	CSOs/NGOs	Advocate for policy and civic engagement that promotes SDG achievement or as an implementing institution
20	Media	Raise awareness and build public understanding on the importance of sustainable development finance and the urgency of 2030 Agenda

# CHAPTER 6

# ROADMAP RECOMMENDATIONS





## Chapter 6: Roadmap Recommendations

- 164. This chapter summarizes key areas of recommendation based on the findings reached in previous analytical chapters.** These recommendations go beyond the governance, coordination, monitoring, and review building blocks, in order to strengthen Indonesia's SDG financing mechanisms looking forward to the emerging opportunities ahead. Given that the INFF focuses on securing the resources to fund and finance the SDGs, not all structural reforms necessary to the economy are picked-up here. The underlying rationale being that the retained recommendations developed here should complement, rather than duplicate, the more specific technical areas of recommendation identified in recent analytical works by government and specialized agencies
- 165. Indonesia continues to be one of the world's leading innovators in the SDG financing domain,** which leaves it well placed to overcome the annual gap in SDG financing, projected to increase from US\$10 billion–\$21 billion in 2020 to US\$175 billion–US\$355 billion by 2030. As a result, this INFF roadmap focuses on the consolidation of gains made, expansion of innovative SDG financing instruments and the adoption of new approaches. The priorities established here emerged from detailed national dialogue and subject-matter determination, and seek to overcome the three primary challenges identified in the Indonesia Voluntary National Review (VNR), as summarized below:
- a. Limited access to public services and inequality of economic opportunity because of poverty and the remoteness of locations.
  - b. Weak capacity of subnational governments to comply with national standards, which limits the effectiveness of public services; and,
  - c. Limited availability of adequate, up-to-date, and disaggregated data for development planning.
- 166. SMEs remain the heart of the economy and the primary driver of employment.** Despite this fact, knowledge of SME business actors regarding access to sustainable financing is still limited. While there is considerable potential for digitalization / digital banks (improved credit allocation, incentives, de-risk collateral provision etc.) to provide data on SMEs and sustainability activities, innovating finances for the SMEs would appear to be a particularly important area of SDG focus. For example, financial technology and crowd-funding mechanisms are becoming more sophisticated, and they can be expanded.
- 167. While financial markets are well developed in Indonesia, new markets for green and carbon related products are emerging, including energy transition financing, calling for continuous improvement, adaptation and standards monitoring.** In terms of domestic carbon market development, Indonesia has a potential to develop cap and trade system through emission trading scheme (ETS) and carbon offsetting mechanism by executing the newly established carbon pricing policy (under the Presidential Regulation on the Carbon Economic Value) cannot be overstated. The regulation also introduces other mechanism/instruments in form of result-based payments, as well as a carbon tax.
- 168. There is a need to establish an exchange to facilitate the trading, with a particular focus on mitigating climate change in energy, transportation, waste management, manufacturing, agriculture, and forestry sectors in particular.** For tax development, although it had impact on energy costs, but other impacts also need to consider, for example poverty and poor people. The primary focus of support here will be to assist in the roll out of the carbon tax, which is likely to be resisted.





- 169. Industry 4.0 brings new skill demands and requires the Indonesian workforce to increase its expertise while also acquiring the right mix of skills to carry out higher productivity work within digital value chains.** Building the future knowledge economy – and implementing Making Indonesia 4.0 – requires returning the industry net export rate to 10 percent - doubling the labor productivity rate over the labor costs, and allocating 2% of GDP to R&D and technology innovation fields (or 7 times higher than current allocation). Implementing national priority strategies will require considerable private capital to be deployed. Such measures might include reforming the flow of materials, industrial zone redesign, improvement of human resources quality, empowerment of MSMEs, incentives implementation on technology investment, formation of innovation ecosystems, attraction of foreign direct investment, harmonization of policy and regulations, building the national digital infrastructure, and accommodating sustainability standard. Donors should consider financing leapfrog technologies in public infrastructure – as has been done in water, telecommunications, and energy. Developing financing instruments to target the five chosen sectors is required.
- 170. Developing a clear medium-term fiscal strategy, identifying sources of fiscal gaps and linkages to the SDGs is now vital.** The medium-term fiscal strategy will need to be aligned and integrated with the SDGs, including specific measures, targets, and contingencies on the expenditure side as well as linkages with the Climate Change Fiscal Framework (CCFF). The fiscal strategy would improve the quality of debt and contingent liability management, advance important structural reforms and identify sources of fiscal gaps that can be addressed (i.e., reducing subsidies and contingent liabilities etc.) therefore freeing up fiscal space for higher infrastructure, social spending and human capital investment. Such an exercise should be linked to a review of sources of fiscal gaps at the sub-national level where over dependence on conventional financing risks reduce fiscal space for Agenda 2030.
- 171. Of all the emerging challenges and opportunities, the emergence of the digital economy remains central to the next generation of SDG financing.** Digital banking and integration with sustainable financing present risks to conventional banking operations given the different cost basis. Though the digital economy is vital for inclusion and can be transformational, it is important for government to undertake strategic forecasting analysis in order to manage potential risks. While OJK plans to strengthen its policies on digital transformation in the financial sector, other actions such as increasing public access to financial products and services, improving financial literacy and consumer protection, and enhancing capital and market conduct rules for online lenders, are vital. The rise of the digital economy and digital banks needs to be very carefully considered, to minimize potential negative risks.
- 172. Given the advanced nature of the Indonesian economy, and licensing of digital banks alongside new financial products, not only must the impact of digital banking on financial inclusion and the unbanked be assessed, so must the potential to issue sustainable and green products responsive to the SDGs.** Just as ongoing digitalization of the budgetary processes provides a timely opportunity for Bappenas and MoF to strengthen the integration of SDG indicators into the budget process at the national and regional level, government will need to track the uptake of digital banking in order to direct outcomes to be more sustainability focused.
- 173. Integrating the demand side of SDGs projects with the supply side of public and private finance is needed in order to accelerate SDG achievement, it is facilitated by establishing an INFF dashboard.** The dashboard can also be used to support SDG localization, providing a practical link between RPJMN's long-term resource needs with the medium-term financing trends and financing approach. Such an approach would allow Bappenas and the Ministry of Finance to maintain the current understanding of the financing landscape, strengthen the understanding of the impacts that new financial instruments would make toward national priorities and to adjust prioritization and adapt policy design in a more responsive and timely way. For private finance, it will also help to understand the demand and picking potential SDGs projects that they are interested in, which will be deepened and financed.



**174. This Road Map also builds from the analysis presented in preceding chapters, including the recommendation for structuring the financing strategy across the public and private divide.** The actions presented are framed by the governance and coordination structure, which aims to create a sense of urgency, localize SDG leadership, develop a shared vision-for-change, and identify actionable quick wins that can be executed. For this reason, the roadmap outlines actions to strengthen governance and coordination and monitoring and review, supplementing the overall approach outlined in the previous chapters. Integrating a whole-of-government and whole-of-society approach and building ecosystem communities that work towards the goals, is critical to guaranteeing that every agent of change (public and private) is engaged as effectively as possible.

**175. The priorities outlined in this financing strategy constitute the cornerstone of the Indonesian INFF.** They not only inform the overall strategic approach, but also detail how government will implement a more integrated financing approach as outlined in the INFF Roadmap. The financing strategy also articulates how government will use the policies and instruments at its disposal to mobilize, invest in, and influence public and private financing from both domestic and international sources, by focusing on three areas of integration as outlined below:

## INFF FINANCING STRATEGY INTEGRATION

Develop a common understanding of the financing landscape and qualities of an Integrated National Financing Framework for sustainable development

### THREE INTEGRATIONS

- Integrating planning and financing policies;
- Integrating public and private financing policies; and,
- Integration of collaboration across government and partners.

### Generate Resources

- Increasing catalytic impact and leverage, fiscal decentralization, international climate finance, vertical funds, impact investment, bonds, etc.



# Annex 1

## INFF Roadmap

Indonesia INFF Roadmap							
#	Strategy / Policy	Action	Responsibilities		Indicative Timeline (Examples below)		
			Main Organization	Partner Organizations	Short Term 2022-2023	Medium-Term 2022-2025	Long-Term 2022-2030
1	<b>Enabling More Consultative Governance and Coordination Platforms</b>	<i>Reposition SDG Financing Hub as dedicated entity to manage implementation of INFF financing strategy</i>	Bappenas, MOF, OJK, Min of Investment	UNDP, UNCT	X		
		Strengthen multilateral dialogue via a regular SDG financing forum and produce public report	Bappenas, MOF, OJK, Min of Investment	UNDP, UNCT	X		
		Evaluate the implementation of the INFF financing strategy on an annual basis	Bappenas, MOF, OJK, Min of Investment	UNDP, UNCT		X	X
2	<b>Strengthen integrated SDG financing</b>	<i>Design and establish a dashboard to capture relevant development finance flows for sustainable development</i>	Bappenas, MoF	UNDP	X		
		Strengthen integration of SDGs into Public Finance Management	Bappenas, MoF	UNCT	X		
		Promote integrated SDG financing awareness and communication at the sub-national level	Bappenas, MoF	UNCT		X	
3	<b>Financial Innovation and Inclusion</b>	<i>Implement the Sustainable Finance Road Map Part II (2021-2025) and strengthen socialization of the 2022 Indonesian Green Taxonomy</i>	OJK	ODA Partners / IFIs	X	X	
		Encourage development of impact investing ecosystem in Indonesia, including through establishment of networking platform, capacity building, and impact measurement mechanism	Bappenas, Ministry of Investment, MoF	GSG, UNDP, Venture Capital Firms, Enablers, etc	X	X	
		Promote innovative financing instruments to attract private investments, such as blended finance, towards SDGs implementation	Bappenas / MoF	OECD, UNDP, USAID, GBFA*		X	X
		Accelerate mobilization of private commercial finance by optimizing incentives and standardization efforts.	Bappenas / MoF / Line Ministries	ODA Partners	X	X	X
4	<b>Strengthen Strategic Budgeting for the SDGs</b>	<i>Integrate innovative financing instruments into the SDG National Action Plan (RAN) and SDG Sub-national Action Plans (RAD)</i>	Bappenas / MoF	UNCT		X	
		Analyze costing for SDGs achievement	Bappenas / MoF	ADB, UNDP, UNESCAP	X		
		Strengthen national gender responsive planning and budgeting	Bappenas / MoF	UN Women / USAID	X	X	
		Strengthen climate budget tagging and follow through on the gender responsive climate change budgeting	Bappenas / MoF	UNDP	X	X	



Indonesia INFF Roadmap							
#	Strategy / Policy	Action	Responsibilities		Indicative Timeline (Examples below)		
			Main Organization	Partner Organizations	Short Term 2022-2023	Medium-Term 2022-2025	Long-Term 2022-2030
5	<b>Strengthening Public Private Partnerships</b>	<i>Develop large-scale pipeline for investment ready SDGs projects</i>	MOF	ADB		X	
		<i>Incentivize PPP Equity Participation by de-risking facilities, providing loan guarantee, and mitigating foreign exchange risks</i>	MOF	ODA Partners / IFIs		X	
6	<b>Expand the Potential of Philanthropy and Faith-based financing</b>	<i>Encourage adoption of the SDGs amongst faith-based institutions</i>	Bappenas	Philanthropy Institutions and Faith-based Institutions	X	X	
		<i>Strengthen alignment on philanthropy and faith-based financing to SDGs with a focus for greater impacts</i>			X	X	
		<i>Catalyze philanthropy and faith-based financing to attract private finance and commercial investment in SDGs</i>			X	X	



# Annex 2

## Selected terms

### Backward Linkages:

Backward Linkages describe and measure the response of sectors in the economy that are affected by an increase in demand.

### Blended Finance or Blended Capital

Blended finance occurs when development finance in the form of grants, loan guarantees, or philanthropic funds are used to attract or leverage private capital into developing countries. The term derives its name from the mix of types of capital. Blended finance is typically used to de-risk investments or bring returns in line with what investors are seeking. Blended finance may have the potential to bring in new sources of funding to development challenges. But development finance institutions warn that blended finance deals have to be put together carefully, with the different types of financing used at the appropriate stages to ensure that any concessional financing doesn't distort markets.

### Catalytic First-Loss Finance

Catalytic first loss finance — or first loss capital — refers to socially and environmentally driven credit enhancement provided by an investor or grant-maker who agrees to bear first losses in an investment in order to catalyze the participation of co-investors that otherwise would not have entered the deal. For example, donors have so far been funding the development of conservancy lodges, which improves long term viability and cash flows, and increases the dividends going to conservancy members.

### Concessional Loan

Concessional loans offer better than market-rate terms, either through longer repayment times, low interest rates, or both. Development finance institutions often use these loans to de-risk or encourage certain investments.

### Development Finance

Development finance is the efforts to support, encourage, and catalyze expansion through public and private investment in physical development, redevelopment and/or business and industry. It is the act of contributing to a project or deal that causes that project or deal to materialize in a manner that benefits the long-term health of the community.

### Development Impact Bonds

Development impact bonds are results-based contracts in which private investors pay up front for the costs of a proven intervention, which is implemented, typically by an NGO, and measured by clear, predetermined metrics. If the intervention succeeds in achieving the goals, the outcome payor — typically a donor agency, foundation or perhaps a company — will pay the investor back based on the performance or success of the interventions.

### Direct, Indirect, and Induced Impacts

Common direct impacts include financial transactions, such as payments of wages, taxes, and dividends, and the distribution of philanthropic grants and cash contributions. Indirect impacts are often harder to quantify, but include jobs created by suppliers and increases in productivity. Induced effects are the results of increased personal income caused by the direct and indirect effects (e.g. the increased spending power of people employed in the tourist industry).



### Economic Multipliers

The Economic Multiplier Effect describes the fact that an increase in spending produces an increase in national income and consumption that is greater than the initial amount spent. The Tourism Multiplier Effect (for example) describes the fact that tourism not only creates jobs in the economy, it also encourages growth in the primary and secondary sectors of industry (e.g., agriculture, transport, finance, etc.). Simply stated, money spent by a tourist circulates many times through a country's economy.

### Forward Linkages

Forward linkages describe and measure the increase in the supply of one sector in response to a uniform increase in demand spread over all sectors. It quantifies the relative dependence of each sector on a general increase in the activity level of all other sectors.

### Gross Domestic Product

A measure of economic activity in a country. It is calculated by adding the total value of a country's annual output of goods and services.  $GDP = \text{private consumption} + \text{investment} + \text{public spending} + \text{the change in inventories} + (\text{exports} - \text{imports})$ .

### Integrated National Financing Framework (INFF)

An Integrated National Financing Framework is a tool for governments and their partners to strengthen planning processes and better finance the SDGs at the national level. It lays out the full range of financing sources – and allows countries to develop a strategy to increase investment, manage risks and achieve sustainable development priorities, in line with their strategy. INFFs are developed and implemented through four building blocks: assessment and diagnostics, financing strategy, monitoring and review, governance and coordination.

### Impact Investing

Impact investing refers to investments “made into companies, organizations, and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return.

### Loan Guarantee

A loan guarantee is a promise by the guarantor, often a development finance institution, to pay back a borrower's debt if a borrower defaults on a loan. Guarantees can cover all or part of the debt and are often used to de-risk investments for conventional or commercial investors.

### Multiplier Effects

Multipliers are measures by which the multiplier effect is estimated. They are computed through the analysis of Input-Output (I-O) framework, which serves to analyze the interdependence of industries in an economy. Input-output analysis (“I-O”) is a form of macroeconomic analysis based on the interdependencies between economic sectors or industries. This method is commonly used for estimating the impacts of positive or negative economic shocks and analyzing the ripple effects throughout an economy. A key output from this analysis is the production of multipliers.

### Results or Performance-Based Financing, or Pay-for-Success

This type of financing ties funding to specific performance or results that are typically agreed upon in advance. In many cases, funding — or incentives — is contingent on meeting those goals. Results-based financing can take the form of contracts or deals, including social and development impact bonds. Traditionally, contracts or grants are based either on the inputs (the number of services delivered) or on short-term outputs. But these mechanisms require clear, measurable results and outcomes, thus pushing those involved to build robust data systems and closely monitor their work.



**Right-Financing**

The right-financing approach to development maintains that financing an investment alone does not make it successful in achieving its objective. Right-Financing highlights the importance of adopting the appropriate policy, fiscal, institutional and financial support mechanisms in order to maximize sustainable returns on both public and private investments over time. The term goes beyond the public sector restructuring concept of right-sizing in that it looks to assess the policy mandate and size of an institutional entity, its functions and their discharge, its financing, as well as the staffing structure and establishment with regard meeting investment and development objectives. Whilst originally applied to the security sector, its application as a conceptual framework is important for sustainable development finance because it encourages a focus on financial integration, crowding in private capital and integrated national financing frameworks.

**Social Impact Bonds**

Social impact bonds are partnerships or contracts between governments, NGOs and investors to fund interventions that address pressing challenges. They are designed to bring in new funding for programs, typically to address social issues with preventative interventions that could save government dollars.

**Value for Money (VfM)**

A utility derived from every purchase or every sum of money spent. Value for money is based not only on the minimum purchase price (economy / efficiency) but also on the maximum efficiency and effectiveness of the purchase. Value for Money assessments are useful tools for donors to assess the opportunity cost of one investment over another.

**Value Chain**

Value Chain is the full range of business activities needed to bring a product or service from conception to delivery.





# Annex 3

## Eligible SDGs Expenditures with Green & Blue Focus

Eligible SDGs Expenditures	Eligible Criteria	Sample Projects	Alignment with the RoI's & 2030 SDGs Target
Renewable Energy SDGs 7, 13, 14	<ul style="list-style-type: none"> <li>Generation and transmission of energy from renewable energy sources, including offshore and onshore wind, solar, tidal, hydropower, biomass and geothermal</li> <li>Research and development of products or technology ("R&amp;D") for renewable energy generation, including turbines and solar panels</li> </ul>	<ul style="list-style-type: none"> <li>Providing bioenergy business services and supervision</li> <li>Providing renewable energy services and supervision</li> <li>Planning and development of geothermal development area</li> <li>development of new, renewable energy and energy conservation infrastructures</li> <li>Development of rooftop solar power grid</li> <li>Wind, hydro, steam-based power plant developed in coastal/ marine area</li> <li>Provision of solar lights into the coastal areas</li> </ul>	<ul style="list-style-type: none"> <li>By 2030, 26.1% renewable energy mix with intervention scenarios.</li> <li>By 2030, expand infrastructure and improve technology for the provision of modern and sustainable energy services to all developing countries, in particular least developed countries, small island developing states and developing countries.</li> </ul>
Energy Efficiency SDGs 7, 9, 13, 14	<ul style="list-style-type: none"> <li>Improvement of the energy efficiency of infrastructure, which results in an energy consumption of at least 10% below the average national energy consumption of an equivalent infrastructure</li> <li>Research and development of products or technology ("R&amp;D") and their implementation that reduces energy consumption of underlying asset, technology, product or system(s); including LED lights, improved chillers, improved lighting technology, and reduced power usage in manufacturing operations</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of minimum energy performance standards and energy efficient labels on energy equipment utilization</li> <li>Investment in energy conservation</li> <li>Provision of energy efficiency appliances</li> <li>Improvement of land transportation traffic management services</li> <li>Improvement of river and lake transportation management services</li> </ul>	<ul style="list-style-type: none"> <li>By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.</li> <li>Domestic support technology development, research and innovation in developing countries, including by ensuring a conducive policy environment for, inter alia, industrial diversification and value addition to commodities.</li> </ul>
Resilience to Climate Change for Highly Vulnerable Areas and Sectors/ Disaster Risk Reduction SDGs 3, 9, 13, 14	<ul style="list-style-type: none"> <li>Research leading to technology innovation with sustainability benefits</li> <li>Flood mitigation</li> <li>Drought management</li> <li>public health management</li> </ul>	<ul style="list-style-type: none"> <li>Construction of flood control facilities</li> <li>Construction of irrigation systems and rainwater storage facilities</li> <li>Lake revitalization</li> <li>Construction and improvement of groundwater infrastructures</li> <li>Technology and innovation to enhance climate mitigation and adaptation</li> <li>Provision of climate change data and information</li> <li>Provision of maritime meteorological data and information</li> <li>Improvement of geospatial information</li> <li>Development of decision support system in atmospheric dynamics</li> <li>Construction of national observatory</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters</li> <li>Develop quality, reliable, sustainable and resilient infrastructure, including regional and cross-border infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all.</li> <li>Strengthen the capacity of all countries, in particular developing countries, on early warning, risk reduction and management of national and global health risks.</li> </ul>





Eligible SDGs Expenditures	Eligible Criteria	Sample Projects	Alignment with the RoI's & 2030 SDGs Target
Sustainable Transport SDGs 9, 11, 13	<ul style="list-style-type: none"> <li>Developing clean transportation systems</li> <li>Transportation network upgrade to higher climate resilient design standards</li> <li>Procurement of electric and hybrid vehicles for public transportation</li> <li>Associated infrastructure such as EV charging stations</li> </ul>	<ul style="list-style-type: none"> <li>Development of Greater Jakarta Urban Train</li> <li>Construction and management of railways infrastructure and supporting facilities in Sumatra</li> <li>Construction and management of double track railways infrastructure and supporting facilities in Java North Line</li> </ul>	<ul style="list-style-type: none"> <li>By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons</li> </ul>
Waste to Energy and Waste Management SDGs 7, 12, 13, 14	<ul style="list-style-type: none"> <li>Waste prevention, treatment, management and recycling projects, including but not limited to municipal waste treatment following the waste hierarchy</li> <li>Improving waste management</li> <li>Transforming waste to renewable energy source</li> <li>Rehabilitation of landfill areas</li> <li>Air pollution prevention facilities and monitoring systems</li> <li>Management of marine debris/ litter</li> </ul>	<ul style="list-style-type: none"> <li>Improvement of municipal solid waste management system</li> <li>Monitoring and evaluation of municipal solid waste management system</li> <li>Improvement of air quality data and information services</li> <li>Improvement of water pollution control in watershed</li> <li>Development and provision of water pollution control facilities</li> <li>Waste collection</li> </ul>	<ul style="list-style-type: none"> <li>By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.</li> <li>Achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment.</li> </ul>
Sustainable Management of Natural Resources on Land SDGs 13, 15	<ul style="list-style-type: none"> <li>Sustainable management of natural resources which substantially avoids or reduces carbon loss / increases carbon sequestration (through planting of new forest areas and/or replanting of degraded areas, the use of drought / flood / temperature resistant species)</li> <li>Habitat and biodiversity conservation (through sustainable management of land use change, sustainable management of agriculture/forestry, pest management)</li> </ul>	<ul style="list-style-type: none"> <li>Forest protection</li> <li>Biodiversity conservation</li> <li>Improvement of spatial planning in watershed</li> </ul>	<ul style="list-style-type: none"> <li>Ensure the conservation, restoration and sustainable use of terrestrial, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements.</li> <li>Prevent and significantly reduce land pollution of all kinds, in particular from land-based activities, including plastic and nutrient pollution.</li> </ul>
Sustainable Management of Natural Resources on Ocean SDGs 13, 14	<ul style="list-style-type: none"> <li>Sustainable management of natural resources which substantially avoids or reduces carbon loss / increases carbon sequestration (through planting of new mangrove and seagrass areas and/or replanting of degraded areas)</li> <li>Habitat and biodiversity conservation (through sustainable management of marine ecosystems, sustainable management of fisheries and aquaculture, protection of coastal and marine environments)</li> </ul>	<ul style="list-style-type: none"> <li>Rehabilitation and replanting of mangrove, seagrass or degraded areas</li> <li>Coastal protection</li> <li>Marine biodiversity conservation</li> <li>Protection of marine environment</li> <li>Improvement of marine spatial planning</li> <li>R&amp;D for marine environment improvement</li> </ul>	<ul style="list-style-type: none"> <li>Ensure the conservation, restoration and sustainable use of marine and inland freshwater ecosystems and their services, in line with obligations under international agreements.</li> <li>Prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution.</li> </ul>
Green Tourism SDGs 8, 13, 14, 15	<ul style="list-style-type: none"> <li>Developing tourism resilience against climate change risk</li> <li>Eco-tourism in coastal/marine area</li> <li>Application of sustainable practices in tourism</li> <li>Development of tourism and economy creative supply chains</li> </ul>	<ul style="list-style-type: none"> <li>Ecosystem Recovery and Improvement in Conservation Area (National Park)</li> <li>Construction of Ecotourism Infrastructure</li> <li>Special designated coastal/ marine area for ecotourism development</li> <li>Development the areas that contains meaning and function as a natural heritage (i.e., culture, biodiversity, geology)</li> <li>Geopark sustainable tourism</li> <li>Research and development for sustainable tourism</li> <li>Development of waste management system in marine tourism destination</li> </ul>	<ul style="list-style-type: none"> <li>Integrate climate change measures into national policies, strategies and planning.</li> <li>By 2030, devise and implement policies to promote sustainability tourism that creates jobs and promotes local cultures and products.</li> </ul>



Eligible SDGs Expenditures	Eligible Criteria	Sample Projects	Alignment with the RoI's & 2030 SDGs Target
Green Buildings SDGs 9, 11, 13	<p>Developing green buildings in line with Green ship developed by Green Building Council Indonesia ("GBC Indonesia"), which contains six categories:</p> <ul style="list-style-type: none"> <li>o Appropriate Site Development</li> <li>o Energy Efficiency and Conservation</li> <li>o water conservation</li> <li>o Material &amp; resource cycle</li> <li>o Air quality &amp; leisure air (water indoor health &amp; comfort)</li> <li>o Building &amp; environment management</li> </ul>	<ul style="list-style-type: none"> <li>o Construction and Rehabilitation of Green Building (Based on GBCI categories)</li> <li>o Environmental Management Standardization development</li> </ul>	<ul style="list-style-type: none"> <li>o By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries.</li> <li>o Support, including through financial and technical assistance, in building sustainable and resilient buildings utilizing local materials.</li> </ul>
Sustainable Water and Wastewater Management SDGs 6, 11, 13	<ul style="list-style-type: none"> <li>o R&amp;D and implementation on technologies for water saving and treatment</li> <li>o Development of agricultural infrastructure for efficient water management (ie irrigation systems and rainwater collection &amp; storage facilities)</li> <li>o Investments in tail water recovery systems which collect run-off water from fields that is recycled for agricultural production purposes</li> <li>o Hydrological monitoring construction of water diversion canals to lakes located in flood plains and reforestation actions</li> <li>o Construction and improvement of public water distribution and treatment facilities</li> <li>o Development of water related hazard emergency plans</li> </ul>	<ul style="list-style-type: none"> <li>o Improvement of water quality data and information services</li> <li>o Construction of irrigation systems and rainwater storage facilities</li> <li>o Construction and improvement of domestic wastewater management system</li> <li>o Development, improvement, and expansion of regional drinking water supply system</li> </ul>	<ul style="list-style-type: none"> <li>o By 2030, improve water quality by reducing pollution, eliminating disposal and minimizing the release of hazardous materials and chemicals, halving the proportion of untreated wastewater, and significantly increasing recycling and safe reuse of recycled goods globally</li> <li>o By 2030, achieve universal and equitable access to safe and affordable drinking water for all.</li> </ul>





# Annex 4

## Eligible SDGs Expenditures with Social Focus

Eligible SDGs Expenditures	Eligible Criteria	Sample Projects	Alignment with the RoI's & 2030 SDGs Target
<p>Employment Generation including through the Potential Effect of SME Financing and Microfinance Socioeconomic Advancement and Empowerment</p> <p>SDGs 1, 5, 8, 10</p>	<p><u>SDGs Goal 1: No Poverty</u> Improve Welfare / Poverty Eradication</p> <ul style="list-style-type: none"> <li>o Social protection and assistance programs aiming</li> <li>o to extend basic, universal social welfare in Indonesia</li> </ul> <p><u>SDGs Goal 10: Reduced Inequalities</u> <b>Rural development</b></p> <ul style="list-style-type: none"> <li>o Empowerment of rural communities and governance, especially in borders and disadvantaged villages, to provide local employment opportunities by managing existing local resources.</li> </ul> <p><u>SDGs Goal 8: Decent Work and Economic Growth</u> <b>Employment generation</b></p> <ul style="list-style-type: none"> <li>o Provision of technical training for unemployed people</li> <li>o Support client-centric public employment services</li> <li>o Strengthen select active labor market programs</li> <li>o Facilitate labor market monitoring and analysis and project management</li> </ul>	<ul style="list-style-type: none"> <li>o Provision of social assistance in the form of cash and basic food necessities to poor and vulnerable households</li> <li>o Hope Family Program to provide social assistance, such as health and education, to poor and vulnerable families including school age children, elderly, people with disability and pregnant mother</li> <li>o Provision of health insurance subsidies to poor and vulnerable people (Contribution Assistance Recipient) to be eligible for national health insurance</li> <li>o Development of systems to improve unified data management with coverage of at least 40% of expenditures and quality of beneficiaries and register</li> <li>o Rehabilitation of facilities and basic infrastructure in villages</li> <li>o Improving financing facility and business process coaching for micro and small businesses</li> <li>o Capacity building to local government and improve governance in management of rural communities</li> </ul>	<ul style="list-style-type: none"> <li>o By 2030, less than half of the proportion of men, women and children of all ages live in poverty in all its dimensions, according to national definition.</li> <li>o By 2030, poverty rate of 4.33% (with intervention in the range of 4.0% - 4.5%)</li> <li>o Implement nationally appropriate social protection systems and measures for all, including the poorest groups, and by 2030 achieve substantial coverage for the poor and vulnerable groups.</li> <li>o Promote development policies that support productive activities, decent work creation, entrepreneurship, creativity and innovation, and promote the formalization and growth of micro, small and medium enterprises, including through access to financial services.</li> <li>o By 2030, 41.60% proportion of MSMEs have access to financial services, with intervention.</li> <li>o By 2030, achieve full and productive employment and decent work for all women and men, including for young people and person with disabilities, and equal pay for work of equal value.</li> </ul>
	<p><u>SDGs Goal 5: Gender Equality</u></p> <ul style="list-style-type: none"> <li>o Provision of access and quality services for family planning and reproductive health</li> <li>o Provision of Gender Responsive Legal Framework</li> </ul>	<ul style="list-style-type: none"> <li>o Education of reproductive health for teenagers</li> <li>o Family planning for postnatal mothers</li> <li>o Development of gender responsive regulations and policies</li> </ul>	<ul style="list-style-type: none"> <li>o By 2030, 0.11% women married before 15 years old with intervention scenarios.</li> <li>o By 2030, 6.94% women married before 18 years old with intervention scenarios.</li> <li>o By 2030, 22.4 years old median age for the first marriage for women with intervention scenario.</li> <li>o By 2030, 5.8% of unmet needs with intervention scenario.</li> </ul>
<p>Food Security and Sustainable Food Systems</p> <p>SDG 2</p>	<p><u>SDGs Goal 2: Zero Hunger</u></p> <ul style="list-style-type: none"> <li>o Production subsidies to small and medium farmers for basic food production including training, facilities and infrastructure</li> <li>o Integrated nutrition intervention programs for priority targets such as pregnant mothers, children under 5 and adolescent girls</li> </ul>	<ul style="list-style-type: none"> <li>o Programs to support small and medium farms and youth including:</li> <li>o Provision of seeds and facilitating improvement in food production</li> <li>o Trainings for agricultural entrepreneurs and certification</li> <li>o Nutrition supplementation, surveillance, education and campaign, food aids, and provision of water and sanitation for stunting reduction</li> <li>o Research and development on agriculture systems</li> <li>o Development of processing facilities and marketing of agriculture products</li> </ul>	<ul style="list-style-type: none"> <li>o By 2030, 3.60% prevalence of undernourishment with intervention scenario</li> <li>o By 2030, 3.30% Food Insecurity Experiences</li> <li>o Scale (FIES) with intervention scenario</li> <li>o By 2030, 10.0% prevalence of stunting in children under 5 with intervention scenario</li> <li>o By 2030, 3.00% prevalence of wasting in children under 5 with intervention scenario</li> <li>o By 2030, IDR62.65 million agriculture value added per worker with intervention scenario</li> </ul>



Eligible SDGs Expenditures	Eligible Criteria	Sample Projects	Alignment with the RoI's & 2030 SDGs Target
Access to Essentials Services SDGs 3, 4	<p><u>SDGs Goal 3: Good Health and Well-being</u></p> <ul style="list-style-type: none"> <li>o Trainings for health human resources to improve quality health services</li> <li>o Communicable disease control through screening and case detection, prevention services, surveillance, and treatment</li> <li>o Non-communicable disease control through early detection, education and promotion of healthy lifestyle, regulation, and treatment</li> <li>o Improve access to reproductive health and family planning</li> <li>o Strengthen the national vaccine program</li> <li>o Improvement of preparedness for public health emergencies, including surveillance and early detection and outbreak control</li> <li>o Improve integration and utilization of health information and e-health solutions</li> </ul>	<ul style="list-style-type: none"> <li>o Provision for basic immunization services for children under 5</li> <li>o Surveillance and early detection of communicable and non-communicable diseases</li> <li>o Development of telemedicine</li> </ul>	<ul style="list-style-type: none"> <li>o 131 maternal mortality per 100,000 live births with intervention scenario</li> <li>o 18.8 under-five mortality per 1,000 live births with intervention scenario</li> <li>o 7 neonatal mortality per 1,000 live births with intervention scenario</li> <li>o 12 infant mortality per 1,000 live births with intervention scenario</li> <li>o By 2030, 0.14 new HIV infection with intervention scenario</li> <li>o By 2030, 65 Tuberculosis incidences per 100,000 populations with intervention scenario</li> <li>o 514 districts that eliminate malaria cases with intervention scenario</li> <li>o 7.5% smoking prevalence in adolescent with intervention scenario</li> <li>o By 2030, 21.8% obesity prevalence in adult with intervention scenario</li> <li>o By 2030, 64.55% women of reproductive age (aged 15–49 years) or their partners who have their need for family planning satisfied with modern contraceptive methods with intervention scenario</li> <li>o By 2030, 2.10 Total Fertility Rate (TFR) with intervention scenario</li> <li>o By 2030, 100% coverage of national health insurance with intervention scenario</li> </ul>
	<p><u>SDGs Goal 4: Quality Education</u></p> <ul style="list-style-type: none"> <li>o Quality improvement of primary and secondary education, including training for teachers and financial assistance such as grants and scholarships</li> <li>o Construction and maintenance of campus and accommodation</li> <li>o Provision of public vocational education including courses and trainings, supports of facilities and infrastructure for vocational schools and colleges, and scholarships</li> </ul>	<ul style="list-style-type: none"> <li>o Smart Indonesia (Smart Indonesia) Program, to help children aging 6-21 from poor families, orphans, disabled and victims of natural disasters</li> <li>o School Operational Assistance (School operational assistance / BOS) to exempt students from tuition fees</li> <li>o Improvement of the education quality of elementary, junior and senior high school via <i>driving school</i></li> <li>o Improving quality of vocational schools via SMK for Industry 4.0 development</li> <li>o Digital platform for students, teachers, and schools management</li> <li>o School Operational Assistance and facilities for madrasa and religious schools</li> </ul>	<ul style="list-style-type: none"> <li>o By 2030, 35.5% 4th grader who achieve minimum proficiency in mathematics with intervention scenario</li> <li>o By 2030, 50.0% 9th grader who achieve minimum proficiency in reading with intervention scenario</li> <li>o By 2030, 38.0% 9th grader who achieve minimum proficiency in mathematics with intervention scenario</li> <li>o By 2030, 106.24% gross enrollment rate in primary education with intervention scenario</li> <li>o By 2030, 101.49% gross enrollment rate in lower secondary education with intervention scenario</li> <li>o By 2030, 90.55% gross enrollment rate in higher secondary education with intervention</li> <li>o By 2030, 60.84% gross enrollment rate in tertiary education with intervention scenario</li> <li>o By 2030, 95.84% certified teachers with intervention scenario</li> </ul>
Affordable Basic Infrastructure SDGs 6, 9, 11	<p><u>SDGs Goal 11: Sustainable Cities and Communities</u></p> <ul style="list-style-type: none"> <li>o Provision of public housings</li> <li>o Infrastructures or new buildings will be aligned with the "Green Building" criteria in the Framework, if applicable</li> </ul> <p><u>SDGs Goal 6: Clean Water and Sanitation</u></p> <ul style="list-style-type: none"> <li>o Construction and maintenance of basic sanitation facilities and infrastructure, such as toilet, handwashing facilities and sewerage treatment</li> </ul> <p><u>SDGs Goal 9: Industry, Innovation and Infrastructure</u></p> <ul style="list-style-type: none"> <li>o Improvement of reliability and sustainability of internet or connectivity services</li> </ul>	<ul style="list-style-type: none"> <li>o Provision of access to proper and sustainable sanitation</li> <li>o Provision of environmental infrastructure</li> <li>o Internet access services in the Papua Customary Territory</li> <li>o Development of broadband infrastructure</li> <li>o Development of Community based settlement Infrastructure</li> <li>o Development of green infrastructure to support regional resilience against flood disasters</li> <li>o Implementation of joint Telecommunication Channel (Ducting)</li> <li>o Base Transceiver Station/Last Mile</li> <li>o Provision of Satellite Capacity and Services</li> </ul>	<ul style="list-style-type: none"> <li>o By 2030, 68.06% proportion of households with access to adequate and affordable housing with intervention scenario</li> <li>o By 2030, 100% proportion of population served by mobile broadband service with intervention scenario</li> <li>o By 2030, 100% universal access to an improved sanitation</li> <li>o By 2030, 89% proportion of individuals using internet with intervention scenario</li> </ul>

# Annex 5

## SDG Investment Areas and Financing Sources

**Table A SDG Investment Areas and Financing Sources: Infrastructure**

Sector/Subsector	Financing Sources	Concerns
a. Transportation (roads, railways, trains, airports, ports) b. Energy (electricity and renewable energy) c. Information technology and communication d. Clean water and sanitation e. Water resources f. Basic infrastructure	a. Tax Revenue	Maintaining countercyclical fiscal policy in the post Covid-19 economic recovery period
	b. Sovereign Wealth Fund	Adequate balance between financial and development goals
	c. State Pension Fund and Private Insurance Market	Limited area of investment (regulated by the law)
	d. Faith-based fund	There is a significant gap between potential and actual funding
	e. Financial Technology and Startup Funding	The urgency of accelerating stakeholders' access to the utilization of the digital economy
	f. Crowd-funding	Securities crowdfunding is one of the alternatives to funding with high potential but still less awareness
	g. CSR	The implementation of CSR tends to focus on the company's surrounding environment.
	h. Climate Fund	In comparison to other countries, the Indonesia Green Climate Fund is underfunded.
	i. FDI	Investment only targets large sectors.
	j. Green Sukuk/Bond	It has potential to expand funding with the improvement of eligible sectors from light/medium to dark green criteria.
	k. SDGs Bond	It can also be used for projects and general financing, interchangeably.
	l. Philanthropy	It has the potential to broaden the reach of climate change mitigation programs in addition to its advocacy activities.
	m. Foreign Debt	Maintaining budget deficit
	n. Impact Investing	Mainstreaming phase: potential to be developed (national strategy, regulatory environment ecosystem, access to early stage and growth capital)



**Table B SDG Investment Areas and Financing Sources: Health**

Sector/Subsector	Financing Sources	Concerns
a. Improving nutrition, maternal health, and children health b. Disease control and environmental sanitation c. Health-care education and promotion d. Pharmaceuticals and medical devices e. Universal Health Care (JKN/KIS) f. Family Planning Program g. Special Allocation Fund (DAK) for health sector and family planning program h. Health operational assistance (BOK)	a. Tax Revenue	Maintaining countercyclical fiscal policy in the post Covid-19 economic recovery period
	b. Faith-based fund	There is a significant gap between potential and actual funding.
	c. Financial Technology and Startup Funding	The urgency of accelerating stakeholders' access to the utilization of the digital economy
	d. Crowdfunding	Securities crowdfunding is one of the alternatives to funding with high potential but still less awareness
	e. CSR	The implementation of CSR tends to focus on the company's surrounding environment.
	f. FDI	Investment only targets large sectors.
	g. SDGs Bond	It can also be used for projects and general financing, interchangeably.
	h. Philanthropy	It has the potential to broaden the reach of climate change mitigation programs in addition to its advocacy activities.
	i. Foreign Debt	Maintaining budget deficit
	j. Impact Investing	Mainstreaming phase: potential to be developed (national strategy, regulatory environment ecosystem, access to early stage and growth capital)

**Table C SDG Investment Areas and Financing Sources: Education**

Sector/Subsector	Financing Sources	Concerns
a. Improvement in access and quality of early-childhood, primary, secondary, and tertiary education b. Non-formal and informal education c. General purpose grant (DTU) for education d. Special allocation fund for education e. Allowances for civil servant teachers f. School operational assistance (BOS)	a. Tax Revenue	Maintaining countercyclical fiscal policy in the post Covid-19 economic recovery period
	b. Faith-based fund	There is a significant gap between potential and actual funding.
	c. Financial Technology and Startup	The urgency of accelerating stakeholders' access to the utilization of the digital economy
	d. Crowdfunding	Securities crowdfunding is one of the alternatives to funding with high potential but still less awareness
	e. Matching Fund	This is distinctive education funding with the potential to be replicated in other sectors.
	f. CSR	The implementation of CSR tends to focus on the company's surrounding environment.
	g. SDGs Bond	It can also be used for projects and general financing, interchangeably.
	h. Philanthropy	It has the potential to broaden the reach of climate change mitigation programs in addition to its advocacy activities.
	i. Foreign Debt	Maintaining budget deficit
	j. Impact Investing	Mainstreaming phase: potential to be develop (national strategy, regulatory environment ecosystem, access to early stage and growth capital)

**Table D SDG Investment Areas and Financing Sources : Social Protection**

Sector/Subsector	Financing Sources	Concerns
a. Social assistance b. Social insurance c. Social rehabilitation	a. Tax Revenue	Maintaining countercyclical fiscal policy in the post Covid-19 economic recovery period
	b. Faith-based fund	There is a significant gap between potential and actual funding.
	c. SDGs Bond (employment generation)	It can also be used for projects and general financing, interchangeably.
	d. Foreign Debt	Maintaining budget deficit



**Table E SDG Investment Areas and Financing Sources: Environmental Protection**

Sector/Subsector	Financing Sources	Concerns
a. Forest and land rehabilitation	a. Tax Revenue	Maintaining countercyclical fiscal policy in the post Covid-19 economic recovery period
b. Watershed management and protected forest control	b. Sovereign Wealth Fund	Adequate balance between financial and development goals
c. Waste management and hazardous & toxic waste management	c. Faith-based fund	There is a significant gap between potential and actual funding.
d. Climate change mitigation	d. Financial Technology and Startup Funding	The urgency of accelerating stakeholders' access to the utilization of the digital economy
	e. Crowdfunding	Securities crowdfunding is one of the alternatives to funding with high potential but still less awareness
	f. CSR	The implementation of CSR tends to focus on the company's surrounding environment.
	g. Climate Fund	In comparison to other countries, the Indonesia Green Climate Fund is underfunded.
	f. Trust Fund	Limited sector to be funded
	i. Green Sukuk/Bond	It has potential to expand funding with the improvement of eligible sectors from light/medium to dark green criteria.
	j. Philanthropy	It has the potential to broaden the reach of climate change mitigation programs in addition to its advocacy activities.
	k. Impact Investing	Mainstreaming phase: potential to be develop (national strategy, regulatory environment ecosystem, access to early stage and growth capital)

**Table F SDG Investment Areas and Financing Sources: Food**

Sector/Subsector	Financing Sources	Concerns
a. Increasing food production and access	a. Tax Revenue	Maintaining countercyclical fiscal policy in the post Covid-19 economic recovery period
b. Increasing production of capture fisheries, aquaculture, and others	b. Faith-based fund	There is a significant gap between potential and actual funding.
c. Developing agricultural irrigation networks	c. Financial Technology and Startup Funding	The urgency of accelerating stakeholders' access to the utilization of the digital economy
d. Fertilizer subsidies	d. Crowdfunding	Securities crowdfunding is one of the alternatives to funding with high potential but still less awareness
e. Special Allocation Fund for irrigation and agriculture	e. Climate Fund	In comparison to other countries, the Indonesia Green Climate Fund is underfunded.
	f. Trust Fund	Limited sector to be funded
	g. FDI	Investment only targets large sectors.
	h. SDGs Bond	It can also be used for projects and general financing, interchangeably.
	i. Impact Investing	Mainstreaming phase: potential to be develop (national strategy, regulatory environment ecosystem, access to early stage and growth capital)

**Table G SDG Investment Areas and Financing Sources: Clean Government**

Sector/Subsector	Financing Sources	Concerns
a. Good governance	a. Tax Revenue	Maintaining countercyclical fiscal policy in the post Covid-19 economic recovery period
b. Accountability	b. SDGs Bond	It can also be used for projects and general financing, interchangeably.



**Table H SDG Investment Areas and Financing Sources: Research & Development**

Sector/Subsector	Financing Sources	Concerns
a. Basic and applied research	a. Tax Revenue	Maintaining countercyclical fiscal policy in the post Covid-19 economic recovery period
b. Capacity building for researchers	b. Green Sukuk/Bond	It has potential to expand funding with the improvement of eligible sectors from light/medium to dark green criteria.
c. Strengthening education and research and development ecosystem.		
d. Aligning research with the needs of industries		

**Table I SDG Investment Areas and Financing Sources: Micro, Small and Medium Scale Enterprises**

Sector/Subsector	Financing Sources	Concerns
a. MSME development	a. Tax Revenue	Maintaining countercyclical fiscal policy in the post Covid-19 economic recovery period
b. Financing capital	b. Faith-based fund	There is a significant gap between potential and actual funding.
c. Capacity development	c. Hajj Fund	Limited area of investment
	d. Financial Technology and Startup Funding	The urgency of accelerating stakeholders' access to the utilization of the digital economy
	e. Crowdfunding	Securities crowdfunding is one of the alternatives to funding with high potential but still less awareness
	f. Microfinance	<ul style="list-style-type: none"> <li>Limited funding due to high risk of failure</li> <li>There is no obligation for assistance and training for recipients of funds.</li> </ul>
	g. Philanthropy (MSMEs and Financial Services)	It has the potential to broaden the reach of climate change mitigation programs in addition to its advocacy activities.
	h. Impact Investing (MSMEs and Digitalization)	Mainstreaming phase: potential to be develop (national strategy, regulatory environment ecosystem, access to early stage and growth capital)

**Table J SDG Investment Areas and Financing Sources: Tourism**

Sector/Subsector	Financing Sources	Concerns
	a. Tax Revenue	Maintaining countercyclical fiscal policy in the post Covid-19 economic recovery period
	b. Climate Fund	In comparison to other countries, the Indonesia Green Climate Fund is underfunded.







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