

Challenges and Opportunities for Implementing Financing Mechanisms for Climate Change Mitigation Guided by Principles of Good Governance: The Case of Indonesia

Context

Indonesia's nearly 260 million inhabitants live on 7,000 islands extending 5,000 kilometers east to west. The fourth most populous country, with 34 provinces and nearly 500 districts, Indonesia consistently ranks among the world's top 10 greenhouse gas emitters. Land-use changes such as the conversion of forest cover to agriculture and the burning of forest and peat are the country's top sources of emissions, followed by energy use and waste management.

In 2007, Indonesia hosted the 13th Conference of Parties to the United Nations Framework Convention on Climate Change and declared, along with other developing countries, its resolution to reduce greenhouse gas (GHG) emissions. In 2009, at the Group of Twenty (G20) meeting, the president of Indonesia committed the country to reducing its GHG emissions by 26 percent by 2020 using domestic resources and by up to 41 percent (compared to business as usual) if given international support.

In 2011, Presidential Regulation No. 61 provided the policy framework for climate change mitigation in agriculture, forestry and peat land, energy and transportation, industry, and waste, and Presidential Regulation No. 71 prepared national GHG inventories. Substantially reducing GHG emissions will require major shifts in land-use policies and practices (that is, enforcement) and investment in efficient and renewable energies, transportation, industry, and waste management. Institutions need to be provided with appropriate development capacity, and the private sector and civil society need to be engaged in the process of change (Auracher and von Lüpke 2017).

International donors were quick to pledge support to these initiatives but hesitant to disburse funds because of Indonesia's opaque fiscal practices, procedures, and regulations.

Development Challenge

The development challenge for Indonesia was to develop a comprehensive implementation strategy for climate change mitigation and to develop efficient, transparent, and compatible mechanisms for existing budgetary procedures and interfiscal transfers.

Intervention

The German Agency for International Cooperation (*Deutsche Gesellschaft für Internationale Zusammenarbeit/GIZ*) helped Indonesia to establish good financial governance in climate change mitigation and to integrate climate change



PROJECT DATA

SECTOR:

Finance

DEVELOPMENT CHALLENGES:

Develop implementation strategy for climate change mitigation and mechanisms for budgetary procedures and interfiscal transfers

DELIVERY CHALLENGES:

Inter- and intragovernmental relations, awareness and communication strategy

COUNTRY:

Indonesia

REGION:

East Asia and Pacific

PROJECT DURATION:

2009–2014

PROJECT TOTAL COST:

€12,459,000

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For more information on this
project, <https://www.jstor.org/stable/j.ctv941tdt>.

financing mechanisms into its existing fiscal decentralization system. The framework of their efforts centered on good governance and decentralization, climate change, and private sector development.

Initially, the intervention aligned a GIZ program with a counterpart ministry:

- The Policy Advice for Environment and Climate Change Program provided technical support to the State Ministry of National Development Planning to elaborate, implement, and monitor the government's climate change mitigation framework at the national and local levels. This team concentrated both on making sure the government's planning and accounting standards met international standards to be recognized as nationally appropriate mitigation actions and on getting funds to where they were needed to implement mitigation activities.
- The Forests and Climate Change Program advised the Ministry of Forestry on how to integrate climate change mitigation policies into the sector's strategic plans at the national and local level. This work required collaboration with the Ministry of Finance.
- The Decentralization as a Contribution to Good Governance Program supported the Ministry of Finance on fiscal transfers and local taxes and charges, which lent well to the intervention as a whole. This team concentrated on establishing a coherent, rules-based, predictable, and fair transfer system for local governments.

As the intervention advanced, however, the GIZ teams recognized the need for a joint support strategy that could identify synergies and innovating approaches. The strategy they developed consisted of setting up appropriate financing mechanisms to reduce GHG emissions and addressing highly politicized fuel subsidies (to substantially reduce GHG production).

Delivery Challenges

This delivery note analyzes key implementation challenges and examines how they were overcome.

Inter- and intragovernmental relations. The Ministry of Finance had little influence in an increasingly important policy domain, lagging behind the Ministries of Planning, Environment, and Forestry (Auracher and von Lüpke 2017). In the absence of a financial needs assessment, the estimates and benchmarks for mitigating climate change diverged widely. Individual funding mechanisms were not always compatible with budgetary procedures and transfer mechanisms for local governments. Furthermore, the existing budget and fiscal transfer process lacked the capacity to absorb US\$4.4 billion in international financial support.

National and local ministries and agencies were required to develop, supervise, and monitor mitigation activities, but no policy had been elaborated on structures, mandates, and processes. National and local ministries and agencies also received only minimal additional resources to support these activities.

Awareness and communication strategy. International donors had analyzed Indonesia's fuel subsidies, developed data, and simulated fiscal and environmental scenarios. Technical analysis indicated that fuel subsidies represented 12 percent of total national expenditure, more than was spent on health and education combined. The low fuel prices encouraged households to purchase cars and opened a 50-percentage-point difference in the liters of fuel consumed by privately owned cars (53 percent of Indonesia's fuel use) versus public transportation (3 percent). Technical advisory services could be construed as interference in internal political affairs; however, public awareness of the environmental impact of this fuel consumption was minimal.

Addressing Delivery Challenges

The following steps were undertaken to mitigate the delivery challenges related to **inter- and intragovernmental relations**:

- The Fiscal Policy Office in the Ministry of Finance developed two institutions to coordinate the government's GHG reduction framework: a 12-member expert team from academia and the ministries on climate change mitigation (which faltered) and a secretariat (which became the driver of strategies).

- Advocated for a regional incentive mechanism for fiscal transfers by drafting a policy paper on instruments and mechanisms for financing GHG emission reduction programs in the land-based sector and developing follow-up papers
- Calculated the actual flows of finance through the established governmental transfer mechanisms, amounting to roughly 15 percent of the necessary support for the target GHG reduction
 - Provided clarity on the need for effective and efficient channeling and disbursement mechanisms as well as new sources of financing
- Requested GIZ technical assistance on the institutional setup and operationalization of the policy paper
- The three GIZ technical assistance teams developed a joint strategy to maximize their expertise and better coordinate government ministries and agencies.
 - Supported technical and organizational development of the State Ministry of National Development Planning so that this ministry could develop financing mechanisms to integrate and enhance financial relations between the national, provincial, and district governments
 - Added value by developing integrated funding mechanisms that could accommodate the existing financing system and fulfill international requirements for climate change finance
 - Facilitated multistakeholder discussions, mobilizing ministry and presidential monitoring unit counterparts to join a work process on climate financing
 - Elicited robust exchanges between otherwise siloed ministries; these exchanges proved critical to devising the financing mechanisms
 - Developed a policy brief (“Instruments and Mechanisms for Financing of Greenhouse Gas Emission Reduction Programs in the Land-Based Sector”) for the Ministry of Finance, aiming to channel national and international funding sources through budget mechanisms and then disburse the funds through (new or existing) compatible transfer mechanisms
 - Selected highly respected local experts in fiscal balance and taxation and climate finance, building trust among stakeholders and facilitating communications
 - Organized focus-group discussions with the Ministries of Finance and Environment and the State Ministry of National Development Planning, integrating stakeholders at an early stage
 - Helped the Ministry of Finance proactively shape climate change mitigation policies by formulating a vision for a coherent architecture of funding and transfer mechanisms

The following steps were undertaken to mitigate the delivery challenges related to **awareness and communication strategy**:

- GIZ facilitated the organization of dialogue forums on fuel subsidies, allowing for the exchange of facts and figures in a moderated discussion.
 - Decreased risk of polarization by allowing a free and fair exchange of arguments from all standpoints, including members of parliament, representatives of public administration, the private sector, and civil society
 - Opened the exchanges to audiences of 100–200 people who could ask questions and challenge viewpoints
 - Chose a neutral third party, universities, to organize and host the forums:
 - The Ministry of Finance opposed fuel subsidies and thus could not be viewed as a neutral arbiter
 - The university campus is a highly respected space for open academic exchange
 - The potential scope of the debates was “nearly endless”
 - Increased outreach by inviting the mainstream media to cover these events and by broadcasting them over alternative platforms such as live streaming
 - Carried out a series of forums to cascade the learning experience and to widen the public’s knowledge base

References

Auracher, Tim, and Heiner von Lüpke. 2017. “Challenges and Opportunities for Implementing Financing Mechanisms for Climate Change Mitigation Guided by Principles of Good Governance: The Case of Indonesia.” In *Transformation, Politics and Implementation: Smart Implementation in Governance Programs*, edited by Renate Kirsch, Elke Siehl, and Albrecht Stockmayer, 303–24. Baden-Baden, Germany: Nomos Verlagsgesellschaft. <https://www.nomos-elibrary.de/10.5771/9783845280516-1/titelei-inhaltsverzeichnis>.



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