

The Relationship Between Multilateral Development Banks and National Development Financial Institution in Mobilising Climate Finance in Indonesia



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1. Introduction

Indonesia has increased its commitment to reducing carbon emissions by at least 31.89% by 2030, as outlined in its Enhanced NDC. Despite being the world's third-largest coal producer and relying on fossil fuels for over 56% of its energy needs to fuel its economy (IEA, 2023; MEMR, 2024), Indonesia acknowledges the urgency of setting more ambitious goals to promote greener economic growth to reach its Gold Vision 2045 (CMEA, 2024). In 2022, the Just Energy Transition Partnership (JETP) was established to strengthen efforts to achieve a 44% share of renewable energy by 2030. However, none of these commitments are consistent with the 1.5°C trajectory (Borrero, et al., 2024). This means that the current scenario of the largest financial commitment for Indonesia is insufficient to meet Indonesia's net zero emissions (NZE) target by 2050. Additionally, the allocated 3.9% of the national budget (FPA, 2020), equivalent to USD 5.65 billion¹ annually, falls short of the necessary funding, leaving a significant gap between the intended and required amounts.

According to the NDC Mitigation Roadmap (2019), Indonesia needs to secure approximately USD 294.97 billion from 2020 to 2030 to achieve its Updated NDC target of limiting emissions by up to 29% (MoF, 2021). The roadmap details various aspects crucial for mitigation, such as energy sector programs encompassing energy efficiency, new low-carbon technology, and fuel switching, which require USD 250 billion for successful implementation. In addition, an estimated USD 77.81 billion is earmarked for the adaptation program to address anticipated social and economic losses. Comparing the NDC mitigation and adaptation roadmap and the latest BUR3, there is no definitive figure set as Indonesia's ultimate climate finance goal. However, relying solely on the national budgets should not be the exclusive approach, as international climate finance sources are also available and should be accessed.

Looking at the international climate finance architecture, multilateral development banks (MDBs) play a crucial role in providing climate funds. According to the Joint MDB Report 2022, total commitments have been gradually increasing, reaching USD 2170 million per year, nearly tripling compared to 2018. This trend underscores the growing attractiveness of climate mitigation, contributing 63% and 98% in low-middle and high-income countries, respectively (EIB, 2023). Even though MDBs are not exclusively designed for addressing issues in specific sectors, climate change has become one of their main focuses due to its widespread impact on development issues. From 2012 to 2021, 45% of global climate finance commitments have been channelled through MDBs (Leng, 2023), with half of these pledges held by the World Bank Groups (WBG) during 2019-2022 (EIB, 2023).

The cooperation between MDBs and National DFI represents a strategic relationship for mobilising climate finance. By utilising MDBs' global resources, advanced expertise, policy influence, and connections of National DFIs, this partnership ensures that climate finance is directed toward high-priority and feasible projects. This collaboration not only leverages the strengths of both institutions but also plays a crucial role in attracting private sector investment by de-risking projects and creating a more favourable investment environment. At the same time, the Paris-aligned commitment also urges MDBs to make more aggressive pledges, which could potentially influence projects in host countries. Analysing the current engagement between these institutions is crucial to identifying the most effective methods for project implementation.

¹ The number is converted to USD rate per April 9, 2024

Pengantar

Indonesia telah meningkatkan komitmen untuk mengurangi emisi karbonnya sebesar 31,89% pada tahun 2030, sebagaimana tercantum dalam dokumen Enhanced NDC (ENDC). Meskipun menjadi produsen batubara terbesar ketiga di dunia dan mengandalkan bahan bakar fosil lebih dari 56% untuk kebutuhan energinya guna mendorong perekonomiannya (IEA, 2023; ESDM, 2024), Indonesia mengakui urgensi untuk menetapkan tujuan yang lebih ambisius guna mendorong pertumbuhan ekonomi yang lebih hijau untuk mencapai Visi Indonesia Emas 2045 (Kemenko Perekonomian, 2024). Pada tahun 2022, Sekretariat Just Energy Transition Partnership (JETP) dibentuk untuk memperkuat upaya mencapai bauran energi terbarukan sebesar 44% pada tahun 2030. Namun, tidak satu pun dari komitmen ini yang konsisten dengan jalur 1,5°C (Borrero, dkk., 2024). Artinya, skenario saat ini yang melibatkan komitmen finansial terbesar bagi Indonesia tidak cukup untuk memenuhi target emisi nol bersih (zero emission/NZE) Indonesia pada tahun 2050. Selain itu, alokasi anggaran sebesar 3,9% dari Anggaran Pendapatan dan Belanja Negara (BKF, 2020) atau setara dengan USD 5,65 miliar per tahun masih jauh dari kebutuhan pendanaan, sehingga masih terdapat kesenjangan yang cukup signifikan antara jumlah yang diharapkan dengan jumlah yang dibutuhkan.

Menurut Peta Jalan Mitigasi NDC (2019), Indonesia perlu memastikan ketersediaan pendanaan sekitar USD 294,97 miliar dari tahun 2020 hingga 2030 untuk mencapai target terbaru NDC, yaitu mengurangi emisi hingga 29% (Kemenkeu, 2021). Peta jalan tersebut merinci aspek penting mitigasi, termasuk program sektor energi yang mencakup efisiensi energi, teknologi baru rendah karbon, dan peralihan bahan bakar, yang membutuhkan USD 250 miliar untuk keberhasilan implementasinya. Selain itu, diperkirakan USD 77,81 miliar dialokasikan untuk program adaptasi untuk mengantisipasi kerugian sosial dan ekonomi. Membandingkan peta jalan mitigasi dan adaptasi NDC dan Biennial Update Report (BUR3) terbaru, Indonesia belum menetapkan tujuan keuangan iklim yang pasti. Namun, mengandalkan hanya pada anggaran nasional (APBN) seharusnya tidak menjadi pendekatan eksklusif, karena sumber keuangan iklim internasional juga tersedia dan harus diakses.

Melihat arsitektur keuangan iklim internasional, bank pembangunan multilateral (multilateral development bank, MDB) memainkan peran penting dalam menyediakan dana iklim. Menurut Laporan Bersama MDB 2022, total komitmen telah meningkat secara bertahap, mencapai USD 2.170 juta per tahun, hampir tiga kali lipat dibandingkan dengan 2018. Tren ini menegaskan semakin menariknya mitigasi iklim, berkontribusi masing-masing sebesar 63% dan 98% di negara-negara berpenghasilan rendah-menengah dan tinggi (EIB, 2023). Meskipun MDB tidak secara eksklusif dirancang untuk mengatasi masalah di sektor-sektor tertentu, perubahan iklim telah menjadi salah satu fokus utama mereka karena dampaknya yang luas terhadap masalah pembangunan. Dari 2012 hingga 2021, 45% dari komitmen keuangan iklim global telah disalurkan melalui MDB (Leng, 2023), dengan setengah dari janji ini dipegang oleh Kelompok Bank Dunia (World Bank Group, WBG) selama 2019-2022 (EIB, 2023).

Kerja sama antara MDB dan Development Finance Institution (DFI) di tingkat nasional merupakan hubungan strategis untuk memobilisasi pendanaan iklim. Dengan memanfaatkan sumber daya global MDB, keahlian tingkat lanjut, pengaruh kebijakan, dan koneksi DFI nasional, kemitraan ini memastikan bahwa pendanaan iklim diarahkan pada proyek-proyek yang berprioritas tinggi dan layak untuk didanai. Kolaborasi ini tidak hanya memanfaatkan kekuatan kedua lembaga tetapi juga memainkan peran penting dalam menarik investasi sektor swasta dengan mengurangi risiko proyek dan menciptakan lingkungan investasi yang lebih menguntungkan. Pada saat yang sama, komitmen yang selaras dengan Persetujuan Paris juga mendesak MDB untuk membuat janji yang lebih agresif, yang berpotensi mempengaruhi proyek-proyek di negara tuan rumah. Menganalisis keterlibatan lembaga-lembaga ini sangat penting untuk mengidentifikasi metode yang paling efektif untuk implementasi proyek.

1.1. Objectives and Methodology

The objective of this report is to examine three interrelated research questions regarding climate finance access and its actors as follows: (1) What is the role of MDBs and National DFI in mobilising and catalysing climate finance in Indonesia, and what are the associated challenges? (2) How do MDBs and National DFI align their commitments with the Paris Agreement in their climate project planning and implementation? (3) To what extent is the private sector involved in addressing climate finance in Indonesia?

This study is a desk research analysis based on primary and secondary data sources. Primary data was collected through interviews with various relevant stakeholders, including representatives from the Ministry Of Finance (MoF), PT SMI, The World Bank, and the Asian Development Bank (ADB). These stakeholders were selected for their significant role in climate finance in Indonesia, with the World Bank Group and ADB serving as key MDB partners of the Indonesian government, PT SMI as a government-mandated institution for National DFI, and MoF as the government actor facilitating access to climate finance in Indonesia. Additionally, the literature review draws from secondary data such as public reports, journal articles, and other pertinent information publicly available.

This report is divided into five parts to address the research questions comprehensively. The first chapter provides an overview of the current climate finance landscape in Indonesia, focusing on DFI's role in the discourse. The subsequent section examines the roles of MDBs and national DFI in mobilising climate finance, including their partnership structures, the instruments they use, and the challenges that emerge from the current practice. The third chapter discusses the commitments of MDBs and National DFI to achieve NZE targets according to the Paris Agreement and analyses how these targets are incorporated into their project planning and implementation. The following section analyses the private sector's interest in climate-related projects and their access to climate finance. Lastly, the report concludes with a summary of discussions and recommendations concerning key stakeholders, such as MDBs, National DFI, and the private sector, and their involvement in effective mobilisation of climate finance in Indonesia.



2. MDB and DFI Role and Cooperation in Climate Finance in Indonesia

2.1. Climate Finance Landscape in Indonesia

Indonesia is one of the Emerging Markets and Developing Economies (EMDE) countries committed to reducing emissions through climate mitigation and adaptation. Indonesia's investment needs for climate action and energy transition are estimated at USD 146 billion to meet the national target of the Enhanced NDC (ENDC) (CPI, 2023b). However, national climate financing realisation amounted to only IDR 10.7 trillion (approximately USD 687 million) in 2023, creating a significant financing gap (MoF, 2024). Climate financing is crucial to bridge this substantial gap, as current investment levels fall far short of what is needed to meet the Paris Agreement goals. Addressing these needs is now essential to prevent increased future investment requirements, as rising temperatures could lead to more severe climate impacts and higher investment costs in the coming years. Moreover, climate financing is expected to have a significant long-term economic impact, potentially adding USD 1 trillion in economic value annually to national economic growth by 2070, after achieving the NZE target (CPI, 2023a).

Climate financing is crucial. These funds are circulated and managed by DFIs at both international and national levels as the key actors in mobilising resources for emission reduction targets. International DFI is a Multilateral Development Bank (MDB) that works closely with a National DFI to accelerate a country's development. In Indonesia, PT SMI (Sarana Multi Infrastruktur) serves as the National DFI mandated by the Government of Indonesia to support climate mitigation and sustainable development programs through the establishment of a sustainable financing division for clean energy development. Established in 2009 under the Ministry of Finance Regulation No.100/PMK.010/2009, PT SMI operates as a State-Owned Enterprise (SOE) and a Special Mission Vehicle (SPV), focusing on promoting SDGs and climate mitigation actions through infrastructure development. It engages with various international MDBs to access climate finance.

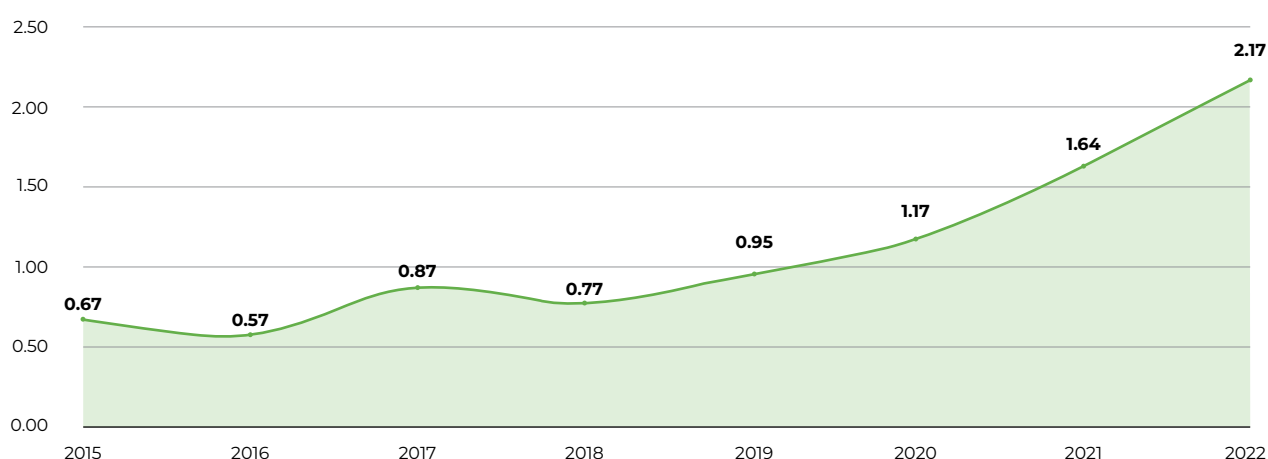


Figure 1. MDBs' committed climate finance for Indonesia 2015-2022 (EIB, 2023)

According to the European Investment Bank (EIB) (2023), in a joint report on MDB climate finance in 2022, funds committed by various MDBs for climate finance in Indonesia have steadily increased over the past five years (Figure 1), tripling from USD 0.67 billion in 2015 to USD 2.17 billion in 2022. This upward trend signifies growing financial support available for climate mitigation and adaptation projects in the country from multilateral sources. Among the MDBs, the Asian Development Bank (ADB) and the World Bank are the main partners for climate finance access in Indonesia, as indicated by their substantial disbursement and close collaboration with PT SMI (MoF, 2023). ADB has committed USD 9.47 billion to the energy sector, marking it as the second-largest sector financed by the bank in Indonesia after public sector management according to an ADB Indonesia representative in 2024. Meanwhile, the World Bank Group has committed more than USD 6.95 billion to projects in the Energy and Extractives sector in Indonesia (World Bank, 2024). Therefore, MDBs play a crucial role in accelerating the transition to clean energy and fostering sustainable development in Indonesia.

2.2. MDBs and National DFI Role

PT SMI demonstrates a strong commitment to supporting the national NDC by developing a low-carbon development strategy to achieve NZE by 2060, as outlined in its 2023 Sustainable Finance Action Plan Roadmap. The roadmap targets reducing financing for coal-fired power plant projects to a maximum of 7% while increasing financing for climate mitigation projects to a minimum of 8% by the end of 2023. In its five-year plan (2019-2024), the organisation aims to increase its renewable energy financing portfolio by up to IDR 3 trillion in outstanding value by the end of 2024. As an SMV, PT SMI has effectively fulfilled its mandate to support the national energy transition and has successfully mobilised climate finance for sustainable projects in the country from various sources, such as MDBs and donors (PT SMI, 2024). Consequently, the government has appointed PT SMI as the country platform manager for the energy transition mechanism (ETM), and it has received certification from the Green Climate Fund (GCF), enabling it to access GCF funds for financing more climate actions in Indonesia.

PT SMI has a long history of partnerships with MDBs that cultivate trust and strong relationships. From PT SMI's perspective, MDBs play two essential roles in these partnerships: as providers of financial support and as partners in knowledge-sharing according to interviews with PT SMI and ADB Indonesia representative. Firstly, MDB financial resources, such as concessional loans with favourable interest rates and extended terms compared to commercial loans, are important for both the Government of Indonesia and PT SMI. In practice, most development projects in Indonesia are financed through public funds or the national budget plan. However, this budget often falls short in covering all strategic projects focused solely on climate mitigation, within the national plan, given that national objectives are spread across various high-priority sectors. Furthermore, private financiers offering commercial financing sources for clean energy projects in Indonesia remain limited due to perceived high risks (EY, 2023). Therefore, multilateral funding serves as an important external financing source to bridge the gap for financing climate-related projects in Indonesia.

Secondly, PT SMI and MDBs collaborate closely as knowledge-sharing partners in their relationship. MDBs, as international DFIs, possess extensive knowledge and experience in project planning and implementation across diverse global contexts, contrasting with National DFIs. PT SMI regards these competencies as invaluable sources of knowledge for its internal development according to an interview with its representative. Conversely, MDBs gain insights into suitable project implementation approaches from National DFIs when executing projects in the beneficiary's territory. For instance, the partnership between the World Bank Group and PT SMI in the GREM (Geothermal Resource Risk Mitigation) project exemplifies this dynamic. PT SMI learns about project design and execution from the World Bank, leveraging their well-designed instruments and policies to ensure project success. Meanwhile, the World Bank learns about policy and technical adjustment for successful project implementation in the Indonesian context from PT SMI, recognizing that geothermal projects in Indonesia require tailored strategies due to distinct local regulations and conditions.

Moreover, PT SMI actively manages activities focused on knowledge transfer and capacity building through strong collaboration with multilateral partners to strengthen PT SMI's internal capacity. Infrastructure ecosystem strengthening programs are sometimes integrated as grants or technical assistance within project activities. PT SMI realises that MDBs have extensive global experiences in managing similar projects in other countries, particularly in leveraging market opportunities. This collaborative relationship not only benefits PT SMI, but also enables MDBs to develop similar projects in other countries by drawing insights from Indonesia's experiences. Therefore, both parties depend on each other for problem-solving and sharing knowledge resources within their relationship.

PT SMI also plays an essential role at the national level by providing financing and de-risking instruments to accelerate infrastructure development, as mandated by the Government of Indonesia. Established as a special vehicle managed by the MoF, PT SMI serves as an independent institution for mobilising climate finance in Indonesia. In practice, PT SMI manages funding from various multilateral and bilateral sources, financing development projects with affordable financing pricing loans and other financial instruments. As a financier, PT SMI disburses funds to finance priority infrastructure projects in Indonesia, with cheaper loan instruments provided by national and international sources. Additionally, the special mission vehicle issues bonds, sukuk, and green bonds to fund its projects. As of the end of 2022, the total value of securities issued by PT SMI still in circulation amounted to IDR 12.7 trillion (PT SMI, 2023c). Moreover, PT SMI provides de-risking instruments such as credit guarantees and equity investments to reduce project risks and enhance project bankability in the country. Due to its outstanding performance in delivering finance needs in Indonesia, PT SMI has been appointed as the manager for a country platform, managing ETM in partnership with ADB.

PT SMI and MDB engage in various types of partnerships, including lending, co-financing/blended finance, and country platforms for climate finance projects in Indonesia. These partnerships utilise investment loans, guarantees, and grants as primary instruments. Loans predominantly fund projects in critical sectors such as energy and water, while grants are allocated to forestry and marine sectors (MoF, 2021). Both financing sources are mobilised to support project development, provide technical assistance, and facilitate policy-based reforms.

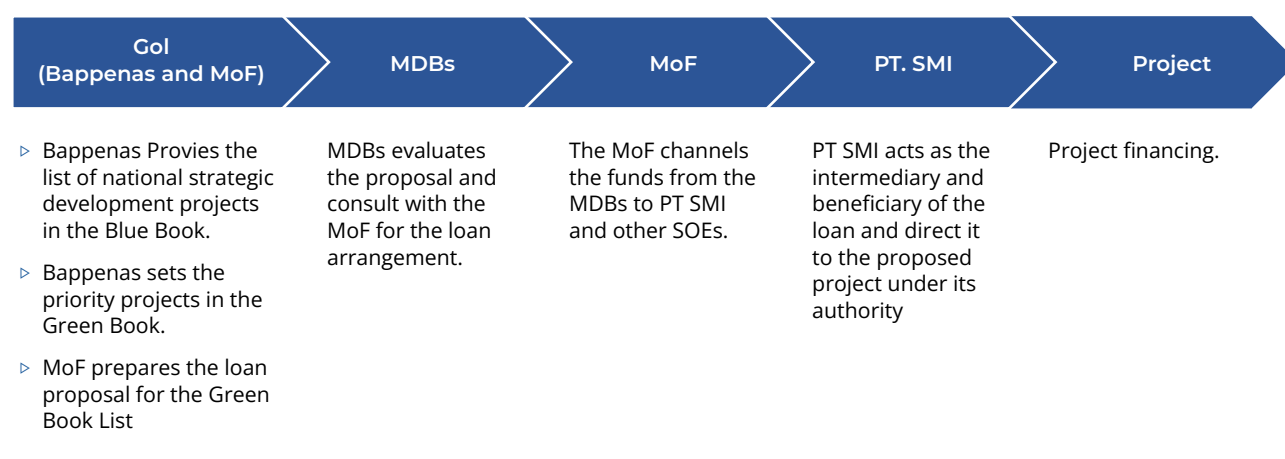


Figure 2. PT SMI Project financing process from MDBs source (Bappenas, 2023)

Figure 2 illustrates the general process for PT SMI to access financing from multilateral sources, involving various government actors engaging with MDBs until the funds are channelled to the project. The process begins with the Ministry of National Development Planning/Bappenas, which proposes a list of national strategic development projects in the Blue Book. This book comprises the List of Medium-Term Planned External Loans for priority assessment, which later determines the project's level of priority. Once priority projects are identified, Bappenas places them in the Green Book, which refers to the List of Planned Priority External Loans and outlines the details of each project's activities requiring external financing. This documentation then serves as the loan proposal, which is prepared and submitted by the Ministry of Finance (MoF) to MDBs for financing.

MDBs evaluate the proposal and consult with the MoF to finalise the loan agreement, specifying the financial instrument, interest rate, and effective disbursement date for approved loan project. Later, the MoF channels the funds disbursed by MDBs to PT SMI for a blended finance scheme involving multiple MDBs and to other SOEs such as PLN for single-source funding scheme. PT SMI acts as the intermediary and beneficiary of the loan, directing it to the proposed project under its authority. In practice, this process can take one or two years due to complex bureaucracy, which is considered one of the barriers to climate financing access in Indonesia, according to interviews with representatives from PT SMI and ADB Indonesia. PT SMI suggests that eliminating unnecessary steps in this process will enhance future access to public and private project financing.

2.3. Challenges and Aspirations of National DFI

Regarding their relationship, both PT SMI and MDBs agree that there are no significant issues impeding their partnership as a DFI. However, interviews with representatives from ADB Indonesia and the World Bank Indonesia highlight several challenges that hinder access to financing. Key challenges for accessing climate financing in Indonesia include national-level regulations and local content requirement (LCR) policies for renewable energy development. These two non-financial conditions are considered primary risks and barriers to financing the energy transition and clean energy investments in Indonesia, primarily due to regulatory uncertainty in renewable energy development and the protectionist nature of LCR policies (EY, 2023). These challenges impede financing access because they conflict with the open trade values promoted by MDBs in the global market.

Regarding climate financing access in Indonesia, an ADB Indonesia representative argues that while Indonesia has ambitious decarbonisation targets, its policies and regulations lack the commitment and action needed to support these goals. For instance, the implementation of downstreaming as a national strategic policy affects the energy sector, including renewable energy development, but this policy has not yet been incorporated into the country's NDC and is interpreted differently among government ministries. Additionally, the current energy sector management system has not quantified the sustainability of the supply chain or considered social aspects such as public health in its regulations. ADB suggests that resolving these regulatory issues by reforming the current energy sector system and ensuring consistent interpretation of the downstreaming policy across government institutions is essential for building clean energy capacity within the country.

Similarly, the World Bank Indonesia's representative asserts that it has limited projects in Indonesia due to these regulatory issues. While MDBs might provide technical assistance in the form of advisory services and policy reforms related to specific projects that will be implemented in the country, they cannot intervene in the national regulatory framework and political decisions as a whole. Therefore, regulatory reform is crucial for Indonesia to internally resolve these regulatory issues and access more financing from multilateral sources.

Local content requirements regulation poses a significant barrier at the project level in accessing climate finance from multilateral sources (EY, 2023). The World Bank Indonesia representative argues that it is unable to finance or provide direct lending for energy projects that require compliance with local content requirements, such as hydro energy projects, due to its organisational policy. As the global financier, the World Bank group should treat its beneficiary countries equally. It is constrained from adjusting its financing instruments to accommodate Indonesia's local content requirements policy, which is seen as a favourable action for the country but is prohibited by its internal standard according to an interview with a World Bank Indonesia representative. Therefore, allowing for some flexibility in local content requirements could attract more financing for clean energy projects in Indonesia from the MDB.

Despite the challenges PT SMI faces from the MDBs' perspective, PT SMI has expressed its aspirations to address internal challenges with MDB's assistance. In general, PT SMI acknowledges its deficiencies in capacity and competency in certain areas, recognising that the institution is still in the developmental stage compared to well-established MDBs. Project planning, standard setting, and project management are among the aspects PT SMI identifies as needing further assistance from MDBs. PT SMI views that MDBs possess extensive knowledge in these areas due to their international exposure and wide range of effective project execution experiences. For example, when PT SMI was tasked by the government to lead a national transportation infrastructure project, it encountered challenges due

to its insufficient knowledge in project planning, selecting favourable financing options, and designing the project effectively. Therefore, PT SMI hopes that MDBs can provide more capacity-building initiatives to enhance internal competencies and strengthen the national DFI's performance.

Regarding climate finance and the Paris alignment target, PT SMI, in an interview with its representative, expects that MDBs could adjust their social and environmental standards in project implementation to accelerate renewable energy development in Indonesia, recognising that meeting all requirements can be challenging under certain circumstances. For instance, during the project implementation stage, PT SMI observed that even minor community objections toward renewable energy deployment in an area could result in project termination due to MDB's stringent social safeguards. In practice, such projects are crucial for scaling up renewable energy development in the country. This situation highlights the deficiency in adequate safeguard levels at the national DFI. While relaxing these standards might accelerate renewable energy development, it could also lead to adverse societal and environmental impacts. Therefore, MDBs could assist in enhancing the national DFI's understanding and implementation of social and environmental safeguards to achieve more favourable project outcomes.



3. MDBs-NDFI in Paris Alignment Financing

3.1. MDBs Commitment in the Paris Agreement

The concept of Paris alignment is gaining prominence among financial institutions as they aim to integrate Paris Agreement objectives into financial flows. This refers to article 2 of the Paris Agreement that states “Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development”. Additionally, the agreement recognises the principle of a ‘just transition’, particularly focusing on workforce aspects. This principle enables financial institutions to extend their focus beyond climate finance, scaling up financing from private and public sectors while ensuring alignment with climate targets and incorporating the element of do no harm.

As the issue of reforming the International Finance Architecture is rising, expanding to fit with the current global crisis of climate change, it is important to ascertain whether financing aid institutions are committed to aligning their portfolios and operations with Paris Agreement’s goals. Despite the disbursement of funds and collaboration by MDBs and NDFI on various climate projects, it is important to ensure whether these practices meet the climate goals. Unlocking financing from MDBs and NDBs is pivotal at both the institutional and project levels.

The joint agreement among MDBs on Paris Finance Alignment aims to ensure that MDB financing flows are consistent with low-carbon development and aligned with the objectives of the Paris Agreement in terms of adaptation and mitigation ([Multilateral Development Banks, 2018](#)). However, the methodology employed is overly general, lacking detailed and scientifically based 1.5°C pathways as references, and relies solely on closed-ended questions that elicit only ‘Yes’ or ‘No’ responses. An article by [Germanwatch \(2023\)](#) also criticises the agreement’s definition of ‘lower carbon,’ suggesting it leaves room for continued fossil fuel development. This lack of clarity in definition may lead to varied interpretations among MDBs regarding the integration of Paris alignment into their operations and portfolios. A harmonised approach among climate financiers is crucial to ensure consistency and to influence the ecosystem to prioritise funds that align with Paris Agreement targets. Currently, only the World Bank has developed its own detailed guidance tool encompassing five different areas.

In 2021, ADB updated its internal energy policy, replacing the 2009 version. ADB has committed to halting any new coal-based technology for power and heat. It has expressed interest in funding coal phase-out projects in developing country members ([ADB, 2021a](#)). Previously, ADB had ceased financing coal plants since 2013. This decision reflects ADB’s strong commitment to early-retirement of coal facilities and positions it as a pioneer among other MDBs. ADB recognises its role as a regional development bank in addressing decarbonisation challenges specific to the region.

In Southeast Asia, many young coal fleets have come on stream in recent decades, with the average plant age around 10.8 years in Indonesia and 6.7 years in Vietnam ([Cui et al., 2019](#)), accounting for more than half of the coal plants in each country ([WRI, 2023](#)). Given the historical assumption that the lifetime of coal plants is 46 years, these countries’ coal plants are likely to operate for the next three decades. ADB believes that this situation will impede progress towards global climate goals and require special interventions, which led to the establishment of the Energy Transition Mechanism (ETM) programme. Piloted in three Southeast Asian countries—Indonesia, the Philippines, and Vietnam—and now expanding to Pakistan and Kazakhstan, ADB aims to replicate the programme in major coal-consuming countries across Asia ([ADB, 2023a](#)). In addition, of ADB’s USD 3,081 million investment in clean renewable energy in Southeast Asia from 2018 to 2023, Indonesia received 70%, amounting to USD 2,150 million ([ADB, 2019](#); [ADB, 2020](#); [ADB, 2021b](#); [ADB, 2022](#); [ADB, 2023](#); [ADB, 2024a](#)). These figures suggest that ADB’s support for Southeast Asia’s, particularly Indonesia’s, energy transition to clean renewable energy has not been sufficiently

ambitious. This is because the financing still falls short of Indonesia's needs to invest more than USD 10 billion per year in its energy system to meet its NZE targets by 2060 or earlier ([IEA, 2022](#)).

The World Bank Group (WBG) views alignment with the Paris Agreement as integral to its consideration of client's national climate policies, incorporating both Long-Term Strategies (LTS) and Nationally Determined Contributions (NDC) into programmes, even when clients have not yet formulated such policies. The WBG pledges assistance to help clients establish robust commitments at the national level. In the realm of energy projects, the WBG has committed to ceasing direct financing for new coal-fired power generation since 2010 and has halted investments in upstream oil since 2017 and gas pipelines since 2019 ([World Bank, 2022](#)).

However, inconsistency within the WBG group is evident, as the Multilateral Investment Guarantee Agency (MIGA) supported PLN's coal fired power plant with a backing of USD 35 billion ([Witt and Prasetyo, 2021](#)). Protests have arisen against the International Finance Corporation (IFC), a private subsidiary of WBG, which still holds equity in the Suralaya expansion project in Indonesia ([Reuters, 2023](#)). Despite the expected Commercial Operational Date (COD) in 2025 ([Tribun News, 2023](#)), this situation contradicts the WBG's climate action document for 2021-2025, which stipulates that the IFC will no longer provide financial support to financial institutions that do not phase out their investment plans in coal projects by 2030. Given the five-year gap between the COD and the deadline, it seems improbable that financiers will withdraw long-term investments after only five years of operation.

In contrast to the Asian Development Bank (ADB), the World Bank does not view coal retirement projects as promising and anticipates difficulties in their execution. For instance, retiring coal plants—particularly those owned by Independent Power Producers (IPP)—poses challenges in altering or terminating clauses in agreements with coal suppliers and energy off-takers, especially with PLN in Indonesia's context. Moreover, financiers, workers, and local communities may experience reduced returns, job losses, and diminished multiplier effects on local economies. Consequently, investing in retirement projects would likely incur significant costs to compensate for potential losses, all while lacking asset certainty value after the retirement phase.

Given the consequences of coal retirement that burden both companies and the country, a study from the New Climate Institute and IESR (2023) demonstrated the impact of coal retirement on the economy and communities. Following the current Indonesia Just Energy Transition Partnership (JETP) scenario could potentially avoid 240,000 premature deaths due to air pollution, which represents 12% of Indonesia's GDP. Given the magnitude of these losses, it is essential for the government to prepare for the effects of the transition by establishing fund management specifically for a just transition.

3.2. Indonesia's National Development Financial Institution's Commitment to Achieving the Paris Agreement Targets

PT SMI was established in 2009 with a mission to provide funds, investments, and project consultations, focusing on promoting socio-economic development and mainstreaming SDGs and climate change issues. As a special mission vehicle state-owned enterprise (SOE), PT SMI covers various infrastructure projects, from education facilities to renewable energy infrastructure. PT SMI does not have specific global or domestic agreements to follow Paris-aligned financing, even though, as a member of the International Development Finance Club (IDFC), it is encouraged to meet the Paris Alignment objectives. The limitations of PT SMI stems from its structure, as 100% of its shares are owned by the Government of Indonesia (GoI) through the Ministry of Finance (MoF). As an arm of the GoI, [PT SMI \(2022c\)](#) is committed to achieving Net-Zero Emissions by 2060 and meeting the NDC emission reduction targets by minimising its financing for fossil fuel plants and expanding its renewable energy portfolios. Unfortunately, the recently updated Indonesia's NDC, known as the Enhanced NDC, is not aligned with the Paris Agreement trajectory, even under its minimum scenario ([Climate Action Tracker, 2023](#)). According to the assessment, Indonesia's NDC could potentially contribute to an increase in temperature of up to 4°C, which is clearly not compatible with the Paris Agreement. Higher calls for MDBs have been made through the IDFC. However, this condition impedes PT SMI's ability as a private institution to establish internal policies that comply with the Paris Agreement targets.

PT SMI has implemented various climate financing initiatives, supporting 70 climate-related projects with a cumulative commitment of IDR 19.6 trillion and a total project value of IDR 92.9 trillion as of December 31, 2023 (PT. SMI, 2024). Details of some of these projects or agreements can be found in Table 1 In its annual report, PT SMI emphasised its commitment to actively promoting and implementing sustainability principles at both the company and project levels. For instance, since 2019, PT SMI has ceased financing new coal-based technologies, even though it continues to manage a portfolio of coal-related projects. To reinforce this commitment, the company aims to limit its outstanding coal project financing to 5% of its total active financing and increase its climate mitigation financing to at least 10% of its financing portfolio by the end of 2024. In terms of renewable infrastructure, a total of IDR 3 trillion will be allocated to low-carbon power plants by the end of 2024.

Table 1. List of several climate-related projects managed by PT. SMI (2023c, 2024)

Agreement/Project	Funder	Amount (USD)
First Facility Credit Agreement for financing infrastructure projects, especially renewable energy projects or projects that have positive impact to climate change	Agence Francaise De Developpement (AFD)	100,000,000
Second Facility Credit Agreement for SDGs One Platform	AFD	150,000,000
Grant Agreement with ClimateWorks Foundation in preparation of solar panel installation projects in the airports, refinery facility and SPBU	ClimateWorks Foundation	323,778
Mini Hydro Power Plant (PLTM) projects with a total capacity of 7 MW	UK-MENTARI	210,000,000,000
Energy Transition Mechanism (ETM) country platform, which is expected to support the acceleration of climate action through the early retirement of Coal Fired Power Plant and the development of renewable	ClimateWorks Foundation	900,000

Although PT. SMI is not yet fully aligned with the Paris Agreement, the company has established its own climate goals for internal operations. These objectives have been translated into sustainable finance indicators that the company must achieve, as it aims to support the achievement of the SDGs while financing climate change mitigation. These goals are also directed by the GoI as the majority shareholder of the company (PT.SMI, 2024). One notable achievement is the issuance of a Sustainable Finance Action Plan, or *Rencana Keuangan Berkelanjutan* (RAKB), which includes annually renewed targets aimed at supporting the sustainable finance ecosystem in Indonesia. Among these targets, two indicators related to climate financing are quantitatively measured: 1) the fossil fuel portfolio and 2) sustainable financing. A comparison between the 2022 and 2021 RAKB targets reveals adjustments to certain terms, resulting in differences in meaning and interpretation. For instance, the 2021 RAKB emphasised reducing the financing portion of fossil fuel power plants (in outstanding value), while in 2022, this was refined to specifically target a reduction in the outstanding portion of coal power plants. This change reflects PT SMI's focused effort to limit its coal project portfolio, particularly since PT SMI was appointed as an ETM country platform. However, the indicator numbers remain unclear and cannot be measured due to a lack of data on PT SMI's current portfolios in fossil fuels or coal plants. Consequently, the change in terminology raises concerns that PT SMI may not be limiting itself regarding other fossil fuels, such as gas and oil, potentially leaving room to fund high-carbon projects.

Table 2. PT SMI Sustainable Finance Target in 2021-2023
(PT. SMI, 2022a; 2023c; 2024)

Description	Indicator		
	2021	2022	2023
Reducing financing portion of fossil fuel power plant (in outstanding value)	Max. 8%	Max 7.5%	N/A
Improving sustainable financing or financing related to climate change mitigation portion (in outstanding value)	Min. 8%	Min. 7.5%	N/A
Outstanding of the Sustainable Financing Division	N/A	N/A	IDR 880.3 billion with a total capacity of more than 400 MW

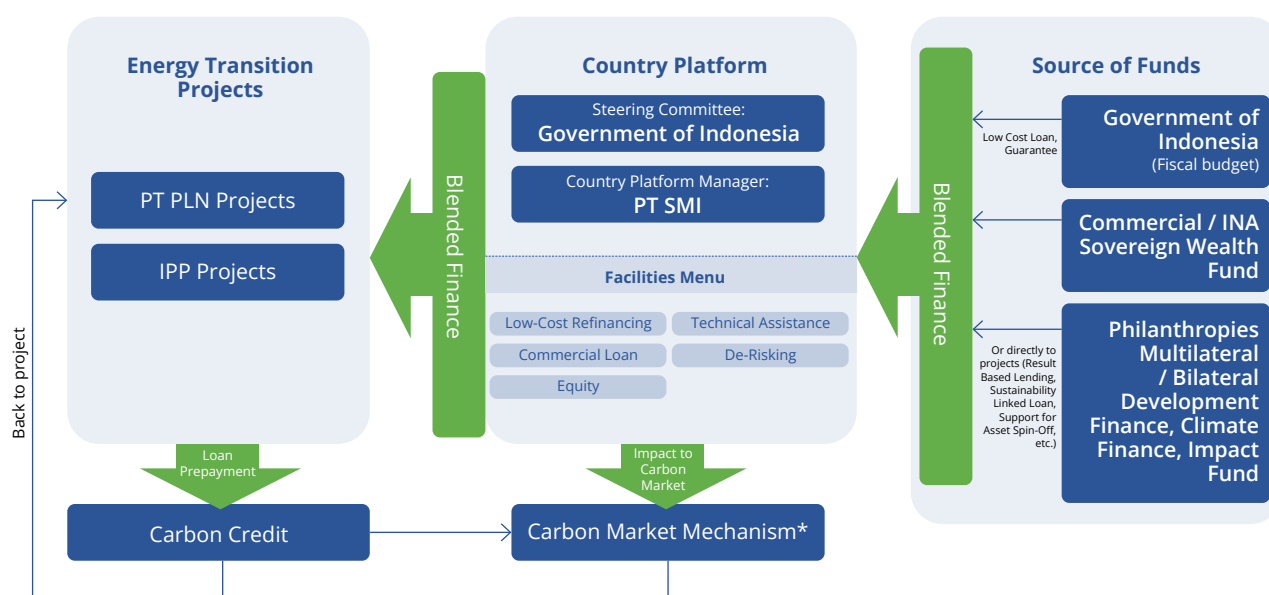
3.2.1. Case Study 1: Energy Transition Mechanism Country Platform

The Energy Transition Mechanism Country Platform is an initiative designed to provide necessary financing support to accelerate the national energy transition by mobilising both commercial and non-commercial funding sources in a sustainable manner (PT. SMI, 2022b). Enacted through Ministry of Finance Decree No. 275/KMK.010./2022, PT. SMI has been assigned as the implementing agency to manage funds for this platform, with support from the ADB in providing human resources and capacity building during its development stage. Two mechanisms are being introduced: Carbon Reduction Fund (CRF), which is used for the early retirement of inefficient power plants, and the Clean Energy Fund (CEF), which will support the scaling up of renewable energy in Indonesia. As the country manager, PT. SMI manages funds from various financiers, including GoI, commercial entities, development financial institutions, philanthropies, and donors, blending them into a suitable composition of financial instruments. GFANZ and SDG Indonesia One also participate in funding through this platform.

The concept of ETM is to match potential investors with asset owners interested in the early retirement of coal projects. The asset owner will transfer its ownership to ETM and, in return, receive cash and equity. This funding can be used for developing renewable energy projects and implementing transition programmes. ETM will then manage operations until the agreed-upon decommissioning date and use the revenue from electricity sales to repay the investors. To enhance returns for investors, ETM will also apply additional mechanisms, such as carbon credits. However, selling carbon credits from early retirement projects should be carefully reconsidered and requires expert judgement to avoid the issue of 'greenwashing' by claiming credits from fossil fuel energy.

Cirebon 1, an IPP-owned power plant operated by PT Cirebon Electric Power, is a candidate for early retirement. The initial discussion indicated that the CFPP will shorten its operational life by 10–15 years compared to its normal retirement age. Another candidate, Pelabuhan Ratu, operated by PT PLN, is planned to be decommissioned nine years earlier than its original retirement date. However, this partnership faces several challenges. Some financiers prefer to fund renewable energy projects instead of early retirement due to what transition finance perceives as a vague label for green transitions. Interestingly, among other MDBs, the ADB demonstrates a strong commitment to the coal phase-out programme. As a regional bank, the ADB recognised that many regions are powered by young coal plants that still have a lifespan of approximately 30 years.

The Government of Indonesia's (GoI) resistance to allowing the construction of captive power plants, as stipulated in Presidential Regulation 112/2022, has led financiers to reconsider their involvement in Indonesia's decarbonisation efforts. Despite ongoing negotiations among key stakeholders, several parties remain unconvinced about providing funding for the retirement of these plants. Nevertheless, discussions are still underway, with optimistic prospects that the early retirement project could soon secure financial support.



*) Carbon Trading, Carbon Bond, Result Based Payment, Stand By Buyer

Figure 3. Blended Finance Structure for Indonesia Energy Transition Mechanism (PT SMI, 2023)

3.2.2. Case Study 2: Geothermal Resource Risk Mitigation (GREM)

Indonesia has huge potential of geothermal energy, estimated at around 29,000 (MW) (ADB, 2018). However, this potential is still underutilised for electricity generation, with only 7.6% currently harnessed (Yudha et al., 2022). The low rate of deployment is attributed to several technical and financial challenges that hinder progress. From the investor's perspective, geothermal projects have a high failure risk because the exploration drilling process is time-consuming and does not guarantee that the project will generate electricity until the exploration stage is completed. Due to the resource-intensive nature and need for long-term financing, the high upfront costs and uncertainty make developers and investors sceptical about investing in geothermal energy. To address these challenges, the International Bank for Reconstruction and Development (IBRD), part of the World Bank Group, intends to identify and mitigate financing barriers to upscale geothermal investment in Indonesia through a financing facility called Geothermal Resource Risk Mitigation (GREM). With the goal of establishing a new 1,000 MW capacity of geothermal power plant, this facility is expected to help Indonesia increase its renewable energy mix and reduce CO₂ emissions by 187 Mton (World Bank, 2019).

Along with the Green Climate Fund (GCF) and the GoI, the IBRD proposes a de-risking facility to minimise risks associated with early-stage geothermal projects, which will be channelled to PT SMI as the implementing agency. This facility offers a portion of non-refundable loans to project developers in the event of failure or insufficient steam production to generate electricity. However, since its establishment in 2019, no project developers, whether public or private, have successfully accessed the facility. The good news is that there are currently two ongoing applicants in the process of applying for this facility, undergoing assessment by the World Bank and PT SMI. The main challenge that has hindered this facility for years is that developers have been waiting for enhanced tariffs to be announced through Presidential Regulation 112/2022. Additionally, protracted negotiations with Perusahaan Listrik Negara (PLN), the only off-takers, have yet to result in an agreed Power Purchase Agreement (PPA), and complex procurement processes are also obstructing overall project progress. To enable at least one project to access this facility, the World Bank is discussing options for downsizing and restructuring the project.

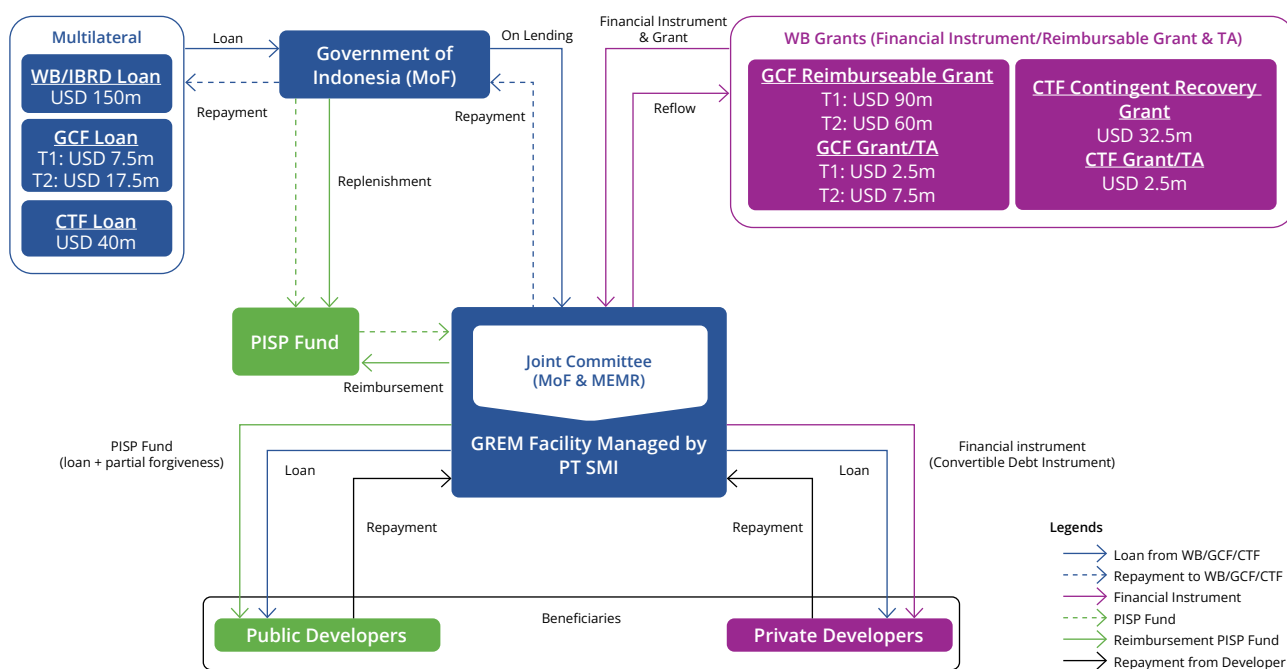


Figure 4. Institutional Arrangement and Flows of Fund of GREM Facility ([World bank, 2019](#))

Based on case studies and interviews with key stakeholders, there were no significant conflicts between PT SMI and MDBs regarding communication and project implementation. Unfortunately, most challenges encountered by MDBs, particularly in energy transition projects, stemmed from the GoI and PT PLN, the sole off-taker in the country. Regulatory barriers, such as the enacted DMO regulation, hinder the dominance of renewable energy in the market since renewables are less competitive than coal prices. Some MDBs perceive that the GoI's paradigm in energy transition has not fully considered the climate impact and future costs of health services. Conflicting regulations with previous pledges are evident, as demonstrated by Presidential Regulation (Perpres) 112/2022, which still allows captive plants to remain in the pipeline. Additionally, the local supply chain industry is underdeveloped, while Local Content Requirements (LCR) for power generators remain high. This situation is unfavourable for manufacturers, limiting their ability to expand their businesses, as they focus solely on the growth of the domestic market while also needing to export ([IESR, 2024](#)). For example, solar PV projects need to fulfil LCR requirements of at least 60% by 2025, as outlined in Ministry of Industry (MoI) Regulation 23/2023. In contrast, imported PV modules cost significantly less—30-40% cheaper than domestic products, as reported by [Bisnis Indonesia \(2024\)](#). Developers and financiers hope that the GoI will address this issue by making exceptions or lowering the local content requirements in technical matters.

At this point, PT SMI's mandate limits its ability to pursue more ambitious internal targets for climate financing. As an arm of the MoF, PT SMI is established to deliver infrastructure projects approved by the MoF. PT SMI cannot take supportive actions or offer incentives, as it functions solely as an implementing agency and fund manager that strictly adheres to current regulations. However, in the transition to becoming a public development bank, there is hope that this transformation will enhance PT SMI's role in development and climate finance.

MDBs and PT SMI recognises the importance of aligning all projects with the principles of the Paris Agreement. While the joint agreement among MDBs declares that their portfolios and operations will adhere to climate target rules, it is undeniable that project implementation will be influenced by the dynamics and unique contexts of different countries. The presence of MDBs has been crucial in assisting developing countries like Indonesia in transitioning to clean energy. Both MDBs and PT SMI have established internal policies and commitments to support this effort. However, improvements and advancements may be necessary in certain areas, particularly as PT SMI transitioned into a national development bank. In addition, alignment with the Paris Agreement is expected to become mainstream within the organisation.



4. Private Financial Institution Involvement in Climate Finance

4.1. Climate-related Private Financing in Indonesia

To fill the gap of USD 146 billion in climate finance in Indonesia, the role of private financiers is essential (CPI, 2023b). [Convergence Blended Finance \(2023\)](#) explains that global annual climate finance, from both public and private investments, has grown at a compound annual growth rate (CAGR) of 7% between 2011 and 2020. However, climate finance must increase by 20% per year to align with the 1.5°C scenario. This figure underscores the importance of mobilising private capital within the climate-finance framework, especially in emerging economies like Indonesia. According to the Climate Policy Initiative's (2023) analysis of financing sources, intermediaries, and targeted sectors in Indonesia, private financial institutions provided approximately USD 20.7 billion in climate-aligned finance between 2015 and 2021. During this period, the private sector accounted for almost half (49%) of the total climate-aligned finance of USD 41.7 billion. This figure includes a range of private sector investors, including commercial financial institutions, insurance companies, pension funds, private equity firms, venture capital funds, and infrastructure funds. The research further revealed that the majority of private-based investments were made under a market-rate debt regime, with the largest allocations directed towards the Agriculture, Forestry, and Other Land Use (AFOLU) and renewable energy sectors.

Although private investment in climate-aligned finance may seem substantial, recent data indicate that the USD 20.7 billion invested during the same period comprised only 3% of total Indonesian private financial sector investment. Furthermore, approximately USD 119.4 billion, or 15% of the total USD 790.8 billion in private investment, was considered "conditionally climate-aligned." This term refers to activities that could contribute to achieving or enhancing climate targets under specific conditions, such as ISPO/RSPO certification for sustainable palm oil practices. However, the majority of private investments (82%) remain non-climate aligned (CPI, 2023b). This scenario highlights the need to promote the growth and expansion of private investment in climate-aligned sectors, particularly in Indonesia.

Prasad et al. (2022) in the International Monetary Fund (IMF) Staff Climate Notes have identified a range of financing tools that could be employed by the private sector to support climate finance (Table 3). These tools can be utilised for project-level financing under various conditions. For instance, when corporations aim to achieve climate-related key performance indicators (KPIs) while minimising their cost of capital, sustainability-linked bonds or loans may be advantageous. Conversely, for certain projects involving illiquid assets, utilising green asset-backed securities may be more practical.

Table 3. Examples of Private Sector Climate Finance Tools (Prasad et al., 2022)

Tools/Instrument	Utilisation
Commercial lending with climate consideration	This instrument is growing due to banks' voluntary climate strategies and financial regulations in some regions/countries. It could allocate funds while maintaining the bank's productivity through market-based interest rates.
Green bonds and green loans	This instrument is used to specifically finance projects that have positive climate and environmental impacts. In the case of Indonesia, the utilisation of Green Sukuk was also considered to be significant.
Sustainability-linked bonds and sustainability-linked loans	This instrument is used by corporations to raise capital at lower costs by committing to achieve some sustainability key performance indicators (KPIs).
Sustainability and social bonds	In addition to environmental impacts, social impact is also considered in this instrument. In the case of Indonesia, several sustainability and social bonds include projects involving the role of small and medium enterprises (SMEs).
Green asset-backed securities (ABSs)	This instrument can transform illiquid climate-friendly assets into tradable securities, such as energy efficiency projects in the real estate sector. It is also effective in increasing demand and liquidity in the secondary market.
Others	This includes private equity and venture capital investments in climate-related projects – including investment in climate-related firms.

4.2. Collaboration between Private FIs, MDBs, and National DFI

Private financial institutions are often involved in various ways in financing climate-aligned projects alongside MDBs and National Development Financial Institutions (DFIs). As lenders, they provide lending facilities for PT SMI both directly and indirectly through syndicated financing. For example, PT SMI and its partners agreed on the syndicated financing of a 350 MW (megawatt) hydropower plant (Pembangkit Listrik Tenaga Air/PLTA) in 2022. This project is part of 16 renewable energy developments, with a total capacity of 1000.4 MW and an outstanding financing value of IDR 4.1 trillion. Moreover, in 2023, PT SMI reached an agreement for a sustainability-linked term loan facility valued at USD 700 million from national and international banking partners, including international banks from Singapore, Japan, and South Korea. In addition to the mandated lead arrangers and book-runners (MLABs), one of the banks, the United Overseas Bank (UOB), is also responsible as the Sustainability Coordinator for this transaction ([PT SMI, 2023b](#)). Additionally, private financial institutions also supported PT SMI's green bond issuance as bond trustees. For example, Bank Mandiri was appointed as the trustee of IDR 248.5 million green bonds issued by PT SMI from 2018 to 2022 (PT SMI, 2023a).

Private financial institutions are also involved in international climate funding initiatives, such as the Energy Transition Mechanisms (ETM) and the Just Energy Transition Partnership (JETP), which collaborate with several MDBs such as the ADB and the World Bank Group. As Indonesia's ETM Country Platform (ETM-CP), PT SMI works with several private financing partners such as HSBC, Standard Chartered, and MUFG. In our latest interview with the ADB representative, it was noted that commercial syndicated financing has been agreed upon for the Cirebon-1 Coal-fired Power Plant (CFPP) early retirement project, which is the ETM pilot project in Indonesia (ADB, 2024b). However, the specific involvement of private financiers and the project financing structure remain undisclosed.

In addition, under the JETP commitment, international private financiers who are members of the Glasgow Financial Alliance for Net Zero (GFANZ) working group—including Bank of America, Citi, Deutsche Bank, HSBC, Macquarie, and Standard Chartered—committed an initial investment of USD 10 billion, nearly half of the total JETP funding. The investment decisions by private financiers are mainly driven by the desire to optimise transition-aligned financing opportunities while generating continuous returns. Several instruments that could be used by these institutions include, but are not limited to, commercial debt, equity investments, and capital market instruments. According to the Comprehensive Investment and Policy Plan (CIPP) document, private finance should take priority over public finance due to its relative abundance, especially for commercially viable projects. For example, in a project-level loan scheme involving Independent Power Producers (IPPs), typical debt is usually unrecorded as a liability on the project sponsor's balance sheet, which is expected to reduce financing costs. Moreover, if a project cannot be fully funded by private sources, it can be partially funded by public finance to encourage private investments. Although private finance is considered a priority, the specific commitments of private finance in JETP have not been detailed in the funding sources and financing modalities outlined in the planning document (JETP Secretariat and Working Groups, 2023).

4.3. Barriers to Entry for Private Financiers

4.3.1. Financial Aspects

Private financiers face significant challenges in accessing the renewable energy sector in Indonesia, primarily due to financial barriers. According to our interviews with the World Bank and Asian Development Bank representatives, the country's risk profiles are often perceived as unfavourable by banks and investors, deterring them from allocating capital to renewable energy projects. These projects are viewed as inherently risky, especially in emerging markets like Indonesia, where regulatory frameworks may be less stable and institutional capacities may vary, according to the interviews with representatives from ADB and World Bank in Indonesia. Moreover, several renewable energy development projects, such as exploratory drilling in geothermal power plant development (GREM), possess high-risk profiles. Exploratory drilling also constitutes the biggest barrier to obtaining financing, as it increases investors' equity return requirements. Moreover, there is little appetite from the private sector to fund projects where the nature and extent of the resources are unknown (Johansen, 2018). As a result, private financiers tend to favour debt-based financing instruments over equity investments, as they provide a level of security and predictability in returns, mitigating some of the risks associated with renewable energy ventures in accordance with an interview with a representative of ADB Indonesia.

Moreover, the financing landscape for renewable energy projects is complex, involving various stakeholders, including multilateral development banks (MDBs), government agencies, and private investors. While MDBs like the Asian Development Bank (ADB) have committed to mobilising private capital for renewable energy projects, their financing typically covers only a portion of project costs, leaving private financiers to bridge the remaining funding gap. Several projects, such as the Geothermal Risk Mitigation Project (GREM), have an intermediate target of mobilising USD 2 billion of private capital by 2029. However, according to the latest GREM Implementation Status and Results Report (2024), the project has not yet attracted any private investment. This situation can be particularly challenging for large-scale projects that require substantial upfront investment (Olmedo, 2024).

4.3.2. Policy Aspects

Policy-related challenges exacerbate the situation for private financiers. All MDBs have a joint statement that includes a commitment to encourage private capital mobilisation (PCM). However, there are limitations on the extent to which MDBs can fund projects. For instance, the ADB typically covers only 25% of project costs, leaving private financiers to shoulder the majority of expenses. Additionally, uncertain regulations within the climate-financing ecosystem, such as Presidential Regulation (Peraturan Presiden/Perpres) No. 112/2022, create further obstacles. This regulation establishes ceiling prices for renewable energy

investments, making them less competitive compared to fossil-based energy. Moreover, the coal Domestic Market Obligation (DMO) and fossil-fuel subsidies further undermine the uncompetitiveness of electricity generated from renewable energy power plants, dissuading private financiers from participating due to uncertain future cash flows.

Addressing these barriers necessitates concerted efforts to remove obstacles and minimise risks for private financiers. The lack of project availability is seen as a problem rather than a shortage of funds. Instead of focusing solely on developing alternative financing instruments or providing de-risking facilities, policymakers should prioritise creating a regulatory environment that fosters confidence and reduces uncertainty for private investors. By doing so, Indonesia can better attract private investment in renewable energy, accelerating its transition towards a more sustainable energy landscape.



5. Conclusion

This report examined the relationship between MDBs and National DFI in mobilising climate finance in Indonesia. It analyses the roles of MDBs and National DFI in their partnership in financing climate-related projects while assessing their commitment and alignment with the targets of the Paris Agreement. Additionally, it explores how their cooperation could enhance the private sector interest in financing climate projects in Indonesia. In conclusion, several key findings highlight the considerations of the main actors in this study—MDBs, PT SMI, and private sectors—to improve current practices by addressing the challenges present in their cooperation.

Policy and regulatory uncertainty impedes climate finance flows to Indonesia, but technical assistance from MDBs could help address these issues. Regulatory risks remain high for renewable energy development in Indonesia due to incoherent and inconsistent policies and regulations across government entities. These high risks create barriers to entry for local private financiers, making it difficult for them to finance projects. When they finance projects, the high cost of capital associated with commercial loans offsets the risks. This situation is further exacerbated by protectionist policies such as local content requirements, coal domestic market obligations (DMO), and fossil fuel subsidies, which slow down renewable energy sector development and increase its costs. Consequently, renewable energy development in Indonesia heavily relies on climate finance from multilateral sources, such as MDBs. However, these regulations and policies limit access to such financing. Therefore, MDBs should provide more technical assistance for regulatory reforms to help the government reduce regulatory risks and create a better environment for private sector involvement.

Additional efforts can be made to strengthen the National DFI's capacity and enhance its competencies with support from MDBs. In practice, MDBs often provide project funds along with grants for technical assistance and capacity building to catalyse project implementation in Indonesia. This assistance is crucial for improving the competencies of PT SMI, the National DFI, by offering workshops and technical skills development. However, PT SMI aspires to receive more comprehensive assistance in capacity building to strengthen the organisation's internal development beyond project-related support from MDBs. In the context of climate finance, this assistance could specifically address the commitment to Paris alignment standards within the institution by enhancing the social and environmental safeguards applied to projects. Indeed, this capacity building will foster a stronger relationship between the DFIs and enhance the internal capacity of the National DFI to align with national NDCs and meet the Paris Agreement targets.

Expanding PT SMI's mandate could uplift barriers to achieving Paris-aligned financing in the national context. Currently, PT SMI is transitioning to become a national development bank. By transforming into a development bank, PT SMI could extend its project scope beyond infrastructure-based projects while incorporating aspects of climate adaptation and resilience, which could become a key focus of PT SMI in the future.

Although MDBs and National DFIs have declared their commitment to aligning with the Paris Agreement in their current practices, there is no guarantee that projects at the implementation stage will fully adhere to the guidance and rules. For example, PT SMI has confirmed that it is not yet aligned with the Paris Agreement because Indonesia's policies have not yet incorporated the agreement's objectives. However, if PT SMI's mandates were reformed to strengthen its role in investment decision-making, PT SMI should be able to adopt and internalise Paris-aligned financing principles into its internal policies. Aligning with these principles is expected to broaden PT SMI's access to international climate financing opportunities while attracting private capital mobilisation. Furthermore, this could potentially influence the wider financial community to implement Paris-aligned objectives in their portfolios.

Kesimpulan

Laporan ini mengkaji hubungan antara MDB dan DFI di tingkat nasional dalam memobilisasi pendanaan iklim di Indonesia, menganalisis peran MDB dan DFI nasional dalam mendanai proyek-proyek terkait iklim, serta menilai komitmen dan keselarasan mereka dengan target-target Persetujuan Paris. Selain itu, laporan ini mengeksplorasi bagaimana kerja sama mereka dapat meningkatkan minat sektor swasta dalam mendanai proyek-proyek iklim di Indonesia. Sebagai kesimpulan, beberapa temuan utama menyoroti pertimbangan para pelaku utama dalam studi ini — MDB, PT SMI, dan sektor swasta—untuk meningkatkan praktik-praktik saat ini dengan mengatasi tantangan-tantangan yang ada dalam kerja sama mereka.

Ketidakpastian kebijakan dan peraturan menghambat aliran dana iklim ke Indonesia, tetapi bantuan teknis dari MDB dapat membantu mengatasi masalah ini. Risiko regulasi tetap tinggi untuk pengembangan energi terbarukan di Indonesia karena kebijakan dan peraturan yang tidak koheren dan tidak konsisten di seluruh entitas pemerintah. Risiko tinggi ini menciptakan hambatan masuk bagi pemodal swasta lokal, sehingga menyulitkan mereka untuk membiayai proyek. Ketika mereka membiayai proyek, tingginya biaya modal yang terkait dengan pinjaman komersial mengimbangi risiko tersebut. Situasi ini semakin diperburuk oleh kebijakan proteksionis seperti persyaratan tingkat komponen dalam negeri (TKDN), kewajiban pasar domestik (Domestic Market Obligation, DMO) batubara, dan subsidi bahan bakar fosil, yang memperlambat pengembangan sektor energi terbarukan dan meningkatkan biayanya. Akibatnya, pengembangan energi terbarukan di Indonesia sangat bergantung pada pembiayaan iklim dari sumber multilateral, seperti MDB. Namun, peraturan dan kebijakan ini membatasi akses ke pembiayaan tersebut. Oleh karena itu, MDB harus memberikan lebih banyak bantuan teknis untuk reformasi regulasi guna membantu pemerintah mengurangi risiko regulasi dan menciptakan lingkungan yang lebih baik untuk keterlibatan sektor swasta.

Upaya tambahan dapat dilakukan untuk memperkuat kapasitas DFI di tingkat nasional dan meningkatkan kompetensinya dengan dukungan dari MDB. Dalam praktiknya, MDB sering memberikan dana proyek bersama dengan hibah untuk bantuan teknis dan pengembangan kapasitas untuk mengkatalisasi implementasi proyek di Indonesia. Bantuan ini sangat penting untuk meningkatkan kompetensi PT SMI, DFI nasional, dengan menawarkan lokakarya dan pengembangan keterampilan teknis. Namun, PT SMI bercita-cita untuk menerima bantuan yang lebih komprehensif dalam pengembangan kapasitas untuk memperkuat pengembangan internal organisasi di luar dukungan terkait proyek dari MDB. Dalam konteks keuangan iklim, bantuan ini secara khusus dapat membahas komitmen terhadap standar yang selaras dengan Persetujuan Paris dalam lembaga dengan meningkatkan perlindungan sosial dan lingkungan yang diterapkan pada proyek. Memang, peningkatan kapasitas ini akan memupuk hubungan yang lebih kuat antara DFI dan meningkatkan kapasitas internal DFI nasional untuk menyelaraskan dengan NDC nasional dan memenuhi target Persetujuan Paris.

Perluasan mandat PT SMI dapat menghilangkan hambatan dalam mencapai pembiayaan yang selaras dengan Target Persetujuan Paris dalam konteks nasional. Saat ini, PT SMI sedang bertransisi menjadi bank pembangunan nasional. Dengan bertransformasi menjadi bank pembangunan, PT SMI dapat memperluas cakupan proyeknya di luar proyek berbasis infrastruktur sambil menggabungkan aspek adaptasi dan ketahanan iklim, yang dapat menjadi fokus utama PT SMI di masa mendatang.

Meskipun MDB dan DFI nasional telah menyatakan komitmen mereka untuk menyelaraskan dengan Persetujuan Paris dalam praktik operasional mereka saat ini, tidak ada jaminan bahwa proyek pada tahap implementasi akan sepenuhnya mematuhi pedoman dan aturan. Misalnya, PT SMI telah mengonfirmasi bahwa pihaknya belum selaras dengan Persetujuan Paris karena kebijakan Indonesia belum memasukkan tujuan perjanjian tersebut. Namun, jika mandat PT SMI direformasi untuk memperkuat perannya dalam pengambilan keputusan investasi, PT SMI harus dapat mengadopsi dan menginternalisasi prinsip-prinsip pembiayaan yang selaras dengan Persetujuan Paris ke dalam kebijakan internalnya. Penyelarasan dengan prinsip-prinsip ini diharapkan dapat memperluas akses PT SMI terhadap peluang pembiayaan iklim internasional sekaligus menarik mobilisasi modal swasta. Lebih jauh lagi, hal ini berpotensi mempengaruhi komunitas keuangan yang lebih luas untuk menerapkan tujuan-tujuan yang selaras dengan Persetujuan Paris dalam portofolio mereka.

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