

COUNTRY CASE STUDY

Indonesia Case Study

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Country case study: Indonesia

Key messages:

- As a champion of innovative and sustainable finance, Indonesia uses INFF to leverage innovative financing instruments and tools, including thematic bonds, blended finance, and Islamic finance, to unleash substantial private financial resources.
- Stakeholders from Ministries, Agencies, and non-state actors are brought together for dialogues, helping inform a full range of financing sources and developing an integrated, coordinated, and holistic INFF Financing Strategy to support the country's national sustainable development goals.
- The comprehensive Assessment and Diagnostics process maps the country's financing landscape for the first time, outlining its financing needs and providing recommendations for the Financing Strategy development.

Leader in innovative financing – The Republic of Indonesia, an archipelago country in Southeast Asia and Oceania, is the fourth most populous country and the most populous Muslim-majority country globally. Remarkable achievements in eliminating poverty and improving education opportunities have been achieved over the past decades. It is the largest economy in Southeast Asia, with a GDP of 1.32 trillion USD in 2022¹, and its wilderness areas support one of the world's highest levels of biodiversity. As a leader in innovative financing, the country already pioneered issuing the world's first sovereign Green Sukuk bond in 2018 and has experience in leveraging Islamic finance, blended finance, social impact investments, etc.

Indonesia faces many characteristic challenges and opportunities as an emerging economy. The country's focus on commodity production makes it highly sensitive to external market changes. The commodity-based growth model poses serious health and environmental challenges. Climate change, natural resource degradation, and extreme weather-related events further affect the country's sustainable development, exacerbating inequalities and hindering economic growth. The SDG financing gap was estimated to be over 1 trillion USD to achieve the country's 2030 SDG targets, while this gap has been widened by the pandemic², yet real difficulties exist in navigating diverse financing resources and instruments in the face of global crises.

Reforms are thus necessary to boost robust and inclusive development, which calls for a financing strategy that could tap and integrate all types of resources. The Integrated

¹ <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=ID>

² <https://inff.org/resource/indonesias-integrated-national-financing-framework-inff-assessment-2022>

National Financing Framework (INFF) plays a central role in financing the country's national priorities and sustainable development goals. The Indonesia INFF aims to bridge the SDG financing gap by releasing new financing opportunities through private-public partnerships³. It provides an integrated framework that brings greater alignment between financing policies and national sustainable development plans, and strengthens the existing collaboration between all stakeholders.

Developing an INFF – Indonesia, as one of the INFF pioneer countries, initiated its INFF process in 2019 under the leadership of the Ministry of National Development Planning or BAPPENAS. In 2020 and 2021, the Inception Phase and the Assessment and Diagnostics process (INFF Building Block 1) were established, respectively. The efforts led to the Indonesia Integrated National Financing Framework (INFF) report published in 2022 during the country's G20 Presidency. This report maps Indonesia's financing ecosystem for the first time, outlines its financing policy objectives, and provides recommendations for the INFF Financing Strategy under development.

During the Assessment and Diagnostics process, two rounds of multi-stakeholder financing dialogues between Ministries, Agencies, and non-state actors were conducted to ensure the efficacy of the INFF. Representatives from the financial sector, public-private partnerships, state-owned enterprises, industry and commerce, Islamic and other faith-based organizations, and international cooperation partners were brought together. The outcome of the dialogues helped identify a full range of financing sources, as well as served as the basis for finance strategy development to finance Indonesia's national sustainable development goals.

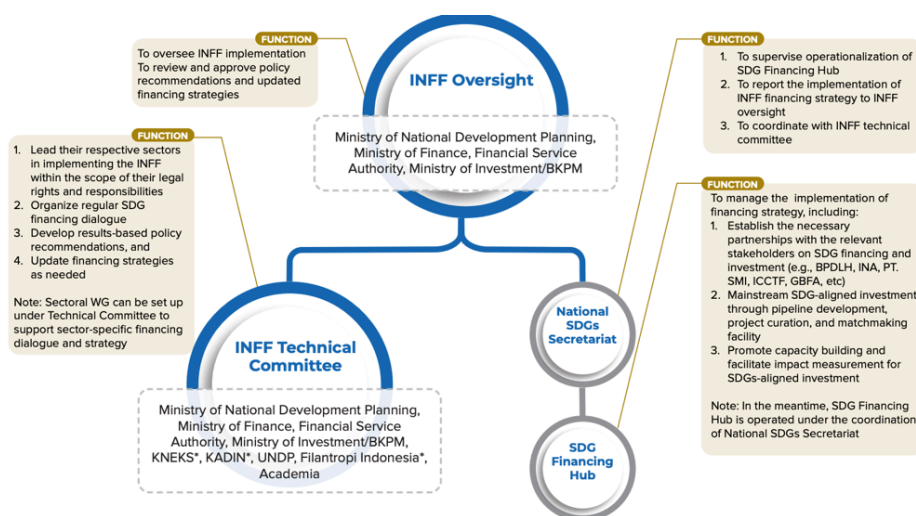
The INFF is envisioned to bring greater alignment between financing policies and national sustainable development plans, so close collaboration with all stakeholders is crucial. The country plans to establish the SDG Financing Hub, under the guidance of BAPPENAS, to manage the implementation of the financing strategies while mobilizing and harmonizing financing resources and activities aimed at achieving the SDGs in collaboration with other stakeholders (see Figure 1).

Effective utilization of all financing resources – A key result of the Indonesia INFF initiative is an integrated and gender-responsive Financing Strategy (Building Block 2, also the heart of an INFF), which is currently under development. It is expected to harmonize policies, governance, and financing instruments across public and private sectors. It provides an integrated framework to mobilize, coordinate, and effectively

³ <https://inff.org/news/indonesia-launches-integrated-national-financing-framework-inff-assessment-to-bridge-sdgs-financing-gap>

utilize all types of resources to implement the national sustainable development agenda.

Figure 1. Proposed INFF Governance Framework⁴



The financing strategy is designed to unleash financing through creative new approaches, for example, blended finance, blue finance, and impact investment. Five financing policy objectives are outlined in the proposed strategy (see Table 1), including (1) strengthening the quality of the budget, (2) improving domestic resources mobilization, (3) strengthening the capacity of financial markets and financial institutions, (4) scaling up private sectors’ investment for sustainable development, and (5) expanding the potential of philanthropy and faith-based financing. Nine respective strategies are further listed as priorities (see Figure 2).

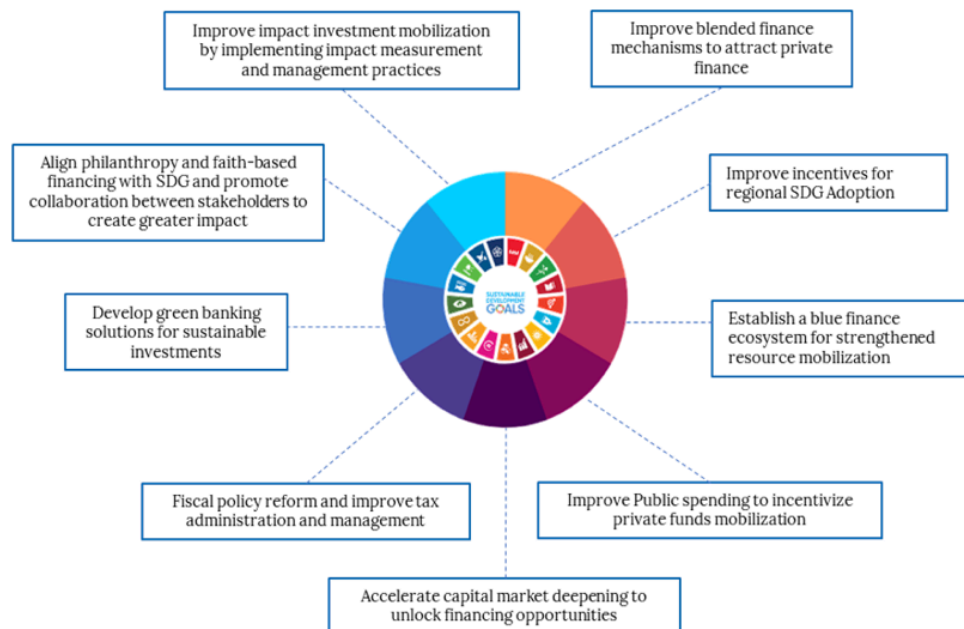
Table 1. Indonesia INFF Financing Policy Objectives⁵

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

⁴ <https://inff.org/resource/indonesias-integrated-national-financing-framework-inff-assessment-2022>

⁵ <https://inff.org/resource/indonesias-integrated-national-financing-framework-inff-assessment-2022>

Figure 2. Financing strategies of INFF Indonesia⁶



Examples of measures taken to implement the objectives identified include the following:

- To support the first objective “strengthening the quality of the budget”, improving incentives for regional SDG adoption is targeted through better alignment of subnational investment flows with the SDGs. The sub-national government was responsible for 43% of public spending between 2015-2018. To localize the sustainable development responsibility and to ensure a whole-of-government approach to SDG financing powered by the regional Medium-Term Development Plans (RPJMD) (2020–2024), mobilization of sub-national financing flows is thus crucial;
- To support the second objective “improving domestic resources mobilization”, improving tax administration and management is highlighted as an urgent need. External economic shocks, COVID-19, expected future investments in various areas, and increased SDG financing needs all contributed to Indonesia’s increased fiscal pressure. With the country’s new Law on Harmonization of Tax Regulations as the legal basis, both administrative and regulatory reforms are scheduled to increase tax revenue and fund the state budget;
- To support the fourth objective “scaling up private sectors’ investment for sustainable development”, the Indonesia INFF suggested blended finance

⁶ <https://inff.org/resource/indonesias-integrated-national-financing-framework-inff-assessment-2022>

mechanism improvement, impact investment mobilization, and blue finance ecosystem establishment. The country is already a champion of innovative sustainable finance and thematic bonds – within the past years, over 8 billion USD have been raised from the issuance of Green Sukuk and SDG Bond; and in 2023, it successfully issued 150 million USD inaugural Samurai Blue Bonds⁷. Promoting innovative financing vehicles, tools, and platforms, including enhanced PPP, blended finance structures, impact investment, and blue finance, will thus increase information and knowledge exchange, and channel substantial financial flows towards sustainable development, while leveraging the country's existing achievements.

The Indonesia INFF plays a strategic role to further channeling massive financial resources towards national sustainable development priorities. Built on the country's existing institutions, policies, and planning, the INFF helps bring together diverse stakeholders and accelerates the creation of a holistic, coordinated, innovative financing strategy. Ms. Raden Siliwanti, Director for Multilateral Funding, Ministry of National Development Planning, Indonesia commented at the 2023 Financing for Development Forum, "Indonesia truly sees the potential of INFF as an effective financing strategy that provides the framework to streamline the financing ecosystem... Going forward, we believe the critical role of ensuring INFF is to help us identify and pull together our resources of development finance in limiting risk, filling gaps, achieving SDGs, and creating greater impact on the people and planet while ensuring coherence among financial policies."⁸

Progress of Implementation

- The Government has issued Presidential Decree No. 111/2022, which stipulates the need to accelerate the mobilization of innovative finance to meet the SDG's Financing Needs.
- In January 2023, training on Blended Finance for the government was organized to increase the capacity and understanding of this innovative finance structure to support SDGs. Delivered by [Convergence Finance](#), the event was participated by about 50 government officials from key ministries/agencies.
- In March 2023, a Financing Dialogue on Faith-based and Social Finance was organized and gathered more than 50 participants from various faith-based organizations and social finance institutions. As an outcome of the dialogue, the forum agreed to formulate A Technical Guideline on SDGs for Faith-based and Social

⁷ <https://www.djppr.kemenkeu.go.id/en/indonesiasuccessfullyissuesjpy104.8billionsamuraibondandinauguralbluebonds>

⁸ <https://inff.org/news/scenes-from-2023-ffd-forum-roundtable-indonesias-inff-experience>

Finance, which is currently being formulated. A second Financing Dialogue on Impact Investing is planned in Q4 2023.

- In line with the prioritized financing strategy to improve impact investment mobilization, BAPPENAS, supported by UNDP, is developing a dashboard to capture investment opportunity areas for SDGs-related projects, which provides a platform for enterprises and investors to match their interests



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