INDONESIA

Bridging the SDG financing gap with the support of innovative financing instruments

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Key messages

- Indonesia's Integrated National Financing Framework (INFF) was launched in 2022 to optimize, align and enhance the allocation of different public and private financing resources.
- The first two years of implementation focused on laying the foundations and scaling innovative finance instruments in sustainable capital markets, faith-based mechanisms, impact investment and the blue economy.
- In 2023, the government mobilized US$2.2 billion in thematic bonds, bringing the sustainable debt market to over $10 billion in value—more than double its size in 2020.
- The country's first two sovereign blue bonds, alongside blue finance accelerators for the private sector, are building toward a blue finance ecosystem that supports sustainable, inclusive growth in the blue economy.
- Green financing frameworks and technical tools are being deployed to leverage the potential of previously untapped faith-based finance instruments.
- The development matchmaking platforms, regulatory guidance for corporate bond issuance, sustainable finance taxonomy and Indonesia's first private equity impact investment fund are driving growth in the high-potential sustainable and impact investment sector.
- The INFF approach was developed in line with a Presidential Decree on achieving the sustainable development goals. The outcomes achieved to date show the potential for Indonesia's INFF to unlock and align critical sources of public and private finance for national sustainable development priorities.
- The government is in the process of further institutionalizing the INFF approach through the establishment of an SDG Financing Hub and the development of the forthcoming medium-term development plan.
- As the INFF moves into this next phase, it will be crucial to continue using the platform to coordinate a holistic, ecosystem-approach to transforming key flows of finance, bringing together actors from governmental, private and non-state sectors to strengthen collaboration, innovation and accountability around financing.

Introduction

Indonesia launched its Integrated National Financing Framework (INFF)[1] assessment and roadmap in 2022 in line with Presidential Decree No. 111/22. The objective of the INFF roadmap is to optimize, further align and enhance the allocation of diverse public and private financing resources towards national sustainable development priorities and the 2030 Agenda for Sustainable Development.

Led by the Ministry of National Development Planning/Bappenas (MNDP/Bappenas) in close coordination with the Ministry of Finance (MOF), the Financial Services Authority (OJK), the Coordinating Ministry of Maritime and Investment Affairs (CMMIA) and the Ministry of Investment (MOI), the INFF roadmap set out nine priorities for financing policy (Figure 1). These were shaped and are being implemented through comprehensive Sustainable Development Goals (SDGs) financing policy dialogues between ministries, agencies and non-state actors, with support from the United Nations Development Programme (UNDP), the European Union (EU), the Asian Development Bank (ADB) and other development partners.

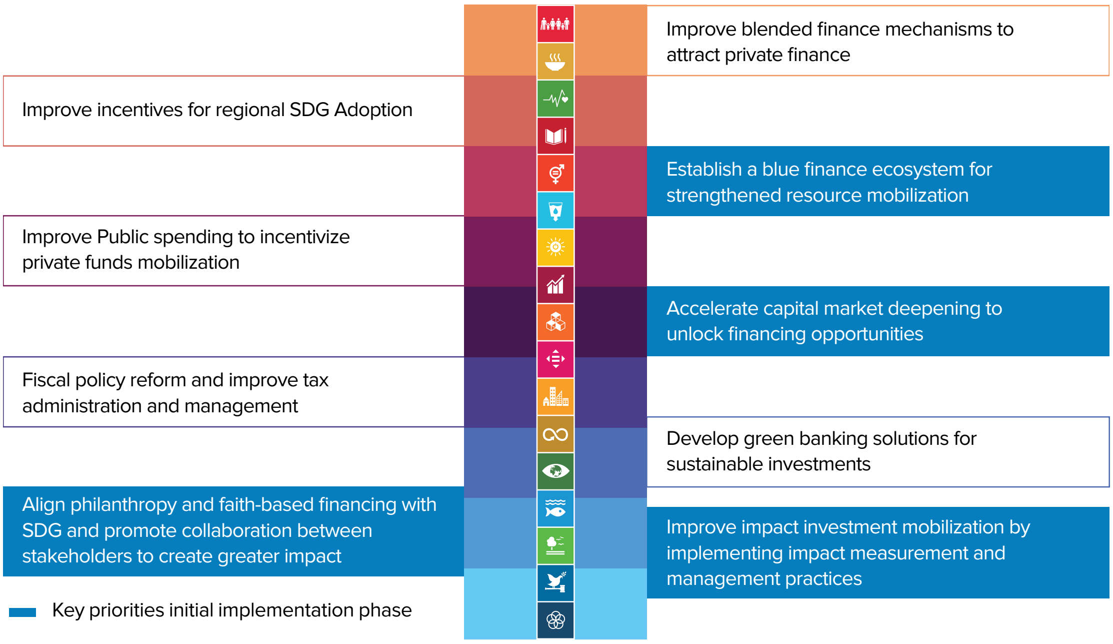
> "SDG funding may be sourced from a combination of Innovative Funding sources and state and/or subnational revenue and expenditure budgets."
>
> Presidential Decree 111 of 2022[2]

In the first two years of implementation, the INFF has emphasized fundamental reforms and novel financing instruments to address Indonesia's US$1.7 trillion SDG financing gap (for the 2020-2030 period)[3]. To scale up these integrated financing solutions, the INFF approach was incorporated into the 2023 SDG Roadmap and the upcoming 2025 Medium-Term Development Plan (RPJMN). It is also shaping the upcoming MNDP/Bappenas Ministerial Regulation and the establishment of the SDG Financing Hub as the main vehicle for implementing the INFF.

This case study reviews the significant progress to date, focusing on four key areas: deepening thematic bond markets (Section 1), accelerating blue finance (Section 2), promoting faith-based financing (Section 3), and establishing a genuine impact investing ecosystem and monitoring dashboard (Section 4). It then includes recommendations for Indonesia's INFF as it scales and matures moving forward (Section 5).

> "Innovative financing mobilization to close the SDGs funding gap, including through blended finance, must be carried out immediately. A sustainable increase in private investment must be encouraged to re-start the economy and create jobs."
>
> H.E. President Joko Widodo

Figure 1: Indonesia's INFF financing policy priorities



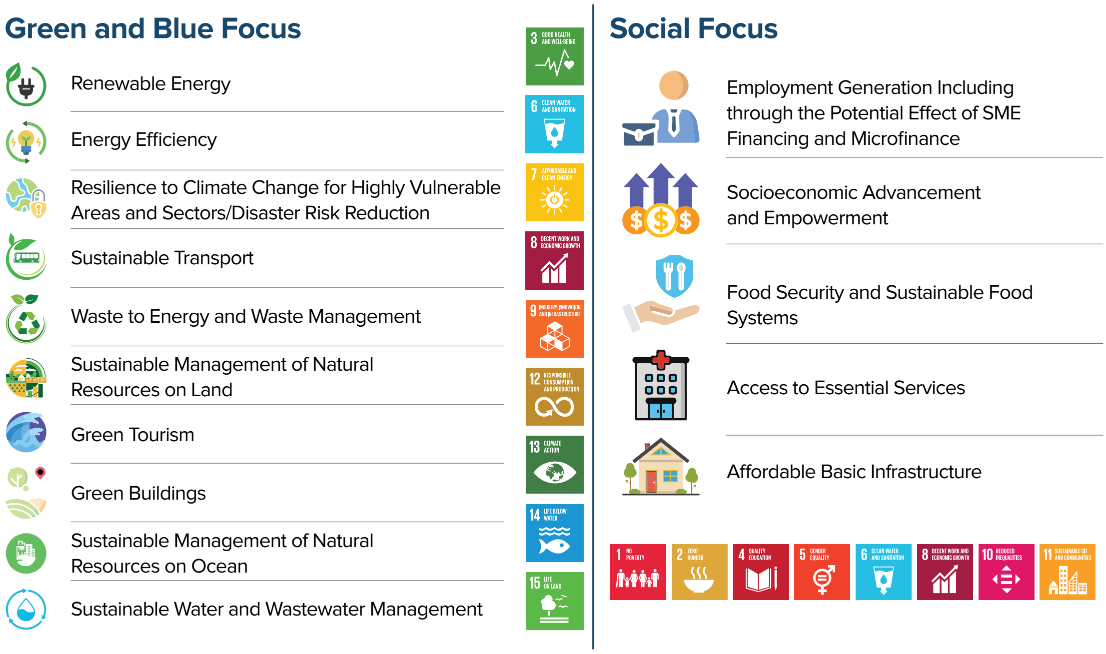
Source: INFF Facility (2023), Indonesia: INFS, Policy Brief; Adjusted by author to flag key outcome areas

Strengthening SDG-aligned capital markets through thematic bonds

The advancement and optimization of Indonesia's sovereign bond market is a key instrument to enhance sustainable financing options for the national budget. The INFF builds on Indonesia's pioneering thematic bonds, catalysing further diversification, emphasizing liquidity and building resilience in the domestic capital market against interest-rates and other risks[4] through the regular and predictable issuance of bonds and sukuks.[5] Steps to strengthen market architecture, digitalize payment systems and enhance accountability-including the establishment of a new impact reporting system for SDG-aligned bonds-have been prioritized to enhance the use of these instruments to strengthen investment in public services and address unequal economic opportunities.

Indonesia's sustainable debt market grew to over $10 billion in outstanding issuances in 2023, more than double the market size in 2020.[6] In 2023, the government mobilized an additional US$2.2 billion[7] through thematic bonds, including green sukuks, SDG bonds, and the inaugural blue bond (see next section). Green sukuks and SDG bonds in domestic currency account for around one-third of the market.

Figure 2 : SDG Government Securities Framework-eligible expenditures



Source: RoI, SDG Bond Allocation and Impact report 2023, p. 4.

Securities are governed by the 2021 SDG Government Securities Framework, which determines eligibility for expenditures from the use of proceeds under different bond categories (Figure 2).[8]

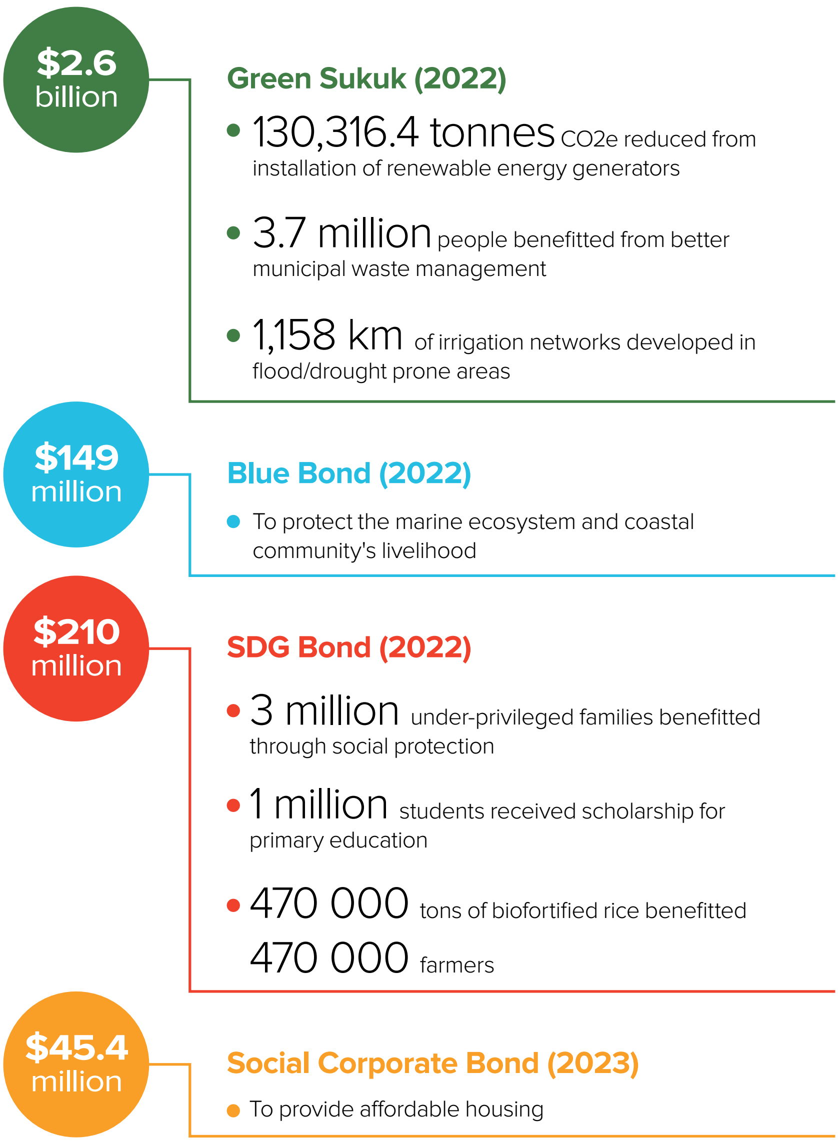
Building on the existing regulatory frameworks,[9] OJK introduced the 2023 Regulation on the Issuance and Requirements of Sustainability-based Debt Securities or Sukuks.[10] Following the adoption of the INFF, this goes beyond an earlier 2017 regulation on green bonds to cover social and sustainability issues and encourage more issuance of corporate bonds to further align private sector development with sustainability standards.[11] The 2023 regulation aims to encourage more thematic bond issuance, especially from the private sector, building on a strong commitment to sustainability.

Sovereign bond issuances have financed projects that advance the SDGs in areas related to food security, education, social services, employment generation, information and communications technology and sustainable infrastructure and resilience to climate change. In 2022, the domestically issued SDG bond financed social protection projects (74 percent), scholarships for Islamic elementary schools (13 percent), vocational maritime and fisheries training (4 percent) and support for self-employed workers (5 percent) and farmers (4 percent).[12]

Green sukuks issued in 2022 resulted in 130,316.39 tonnes of reduced CO_2 emissions, enhanced waste management for 3.7 million people and enhanced irrigation of agricultural areas through 1,158 km of networks (Figure 3).

While most SDG bond issuances to date have been sovereign, corporate thematic bonds are under development (Section 3).

Figure 3 : Impact of thematic bonds in 2022 and 2023



Source: UNDP (2023), Annual Report, p. 11; With additions from author based on impact reports

To ensure that the mobilized funds are allocated to the most impactful expenditures and mitigate the risk of greenwashing or SDG-washing,[13] the government is prioritizing multi-stakeholder commitment and coordination. In line with the 2021 SDG Government Securities framework, MNDP/Bappenas developed a list of eligible SDG-oriented projects based on information from their dynamic budget tagging process. A climate budget tagging (CBT) system to identify green and climate projects has been implemented since 2016 and has successfully aligned US$6 billion of the 2023 budget toward climate investments.[14] CBT is growing at both the national and sub-national level and currently has a dedicated monitoring dashboard to help strengthen the process (Box 1).

Following the budget tagging exercise, the Ministry of Finance finalizes a list of eligible projects in coordination with MNDP/Bappenas and line ministries. Adequate prioritization is strongly linked to the quality of the national budget. Going forward, the government has prioritised more strengthening of the national and sub-national planning architecture, improvements in budget classification and programme coding arrangements, enhanced rollout of broader SDG budget tagging through the national integrated planning budgeting and monitoring system (KRISNA), and broader stakeholder engagement in the project selection.

Box 1: Monitoring climate budget tagging at the national and sub-national level

CBT has been implemented by 18 sectoral ministries at the national level. Since 2020, 22 regional governments (15 provinces and 7 regencies or cities) have adopted the CBT system, demonstrating its effectiveness at helping local governments allocate funds for climate actions more efficiently and transparently. For example, Jambi Province was able to access funding from the World Bank for the Bio Carbon Fund Initiative.

Following the adoption of the INFF in 2022, the Ministry of Finance, with support from UNDP, started working with the Ministry of Environment and Forestry to integrate CBT data into the National Registry System. This initiative aims to provide an outcome-based climate budget on mitigation and adaptation. A CBT monitoring dashboard was developed to start the integration process and simplify the data transfer. Development of the monitoring dashboard involved several steps, consisting of CBT data taxonomy analysis and the development of a dashboard landing page.

In recent years, Indonesia has significantly strengthened its capital markets architecture, improved its regulatory framework and successfully launched different types of thematic bonds, contributing to increased financing for social and climate initiatives. Preliminary investments in their design and selection procedures ensure the sustainability and long-term profitability of the funded projects. However, the Indonesian Government considers it challenging to mobilize relevant institutions without a pricing incentive (Box 2 below).[15] Going forward, Indonesia plans to concentrate its thematic bonds to domestic markets-potentially through other green, social and sustainability bonds-in order to mitigate budget deficit and exchange rate risks.[16] The Ministry of Finance will also pursue its advocacy in international fora to enable pricing benefits or “greeniums”[17] that will incentivize further launches of SDG-aligned sovereign bonds.

Box 2: Options to reduce the costs of sovereign bonds

Costs for bond issuances are related to the initial structuring in the pre-issuance stage and to the sovereign credit rating that determines their yields.

2024 UNDP/GISD guidance on sovereign SDG bonds emphasizes that development partners can provide different types of support to reduce these costs:

- Provide technical assistance and marketing support at the different stages of the issuance;
- Provide appropriate credit enhancement/guarantees without overcompensating the investor;
- Advocate for a long-term approach to ratings that reflects risks as well as SDG investment.

Developing a blue finance ecosystem to grow the blue economy

Indonesia's INFF roadmap prioritises finance for the blue economy as a key driver of sustainable economic development and an important component of the larger push to scale up private sector investment. The roadmap calls for measures to build a blue finance ecosystem, creating matchmaking platforms and guiding and monitoring blue investments. Important first steps have included the launch of a blue bond and the Blue Finance Accelerator Initiative in support of social entrepreneurs.

Over 2023 and 2024, the Indonesian government issued its first two sovereign blue bonds, mobilizing $309 million for investment in the blue economy. The first issuance of a JPY20.7 billion (US$149 million) blue bond in May 2023 represented the world's first sovereign blue bond that corresponds to the principles of the International Capital Market Association (ICMA). The successful issuance was reiterated in 2024 through a JPY25 billion (US$160 million) blue bond.

Figure 4: Blue economy: challenges and opportunities

Challenges

Annual inflow of
1.29 million
metric tonnes of plastic waste into the oceans

Opportunities

Nature based tourism revenues (coral reefs)
US$3.1 billion/year

Fisheries revenues
US$2.9 billion/year

Source: UNDP (2023), Annual report 2023, p.5.

The bonds have financed projects in the maritime and marine sector, which were identified and developed through close collaboration between MDNP/Bappenas, CMMIA and UNDP.[18] These are designed to protect and develop Indonesia's vast marine ecosystem against threats such as large volumes of plastic waste with the aims of developing the potential for carbon capture, social impact and economic development in sectors such as fisheries and tourism (Figure 4).[19] They also represent an important part of the government's larger strategy to diversify financing instruments and widen the investor base.[20]

The Blue Finance Accelerator initiative also provides support to Indonesian social entrepreneurs in marine, coastal or freshwater conservation. It has been rolled out under the CMMIA's leadership with the support of ADB and UNDP. In 2023, the initiative began supporting 12 blue start-ups, reaching 60,000 individual and 500 institutional indirect beneficiaries through development of their business models and impact measrement.[21] This included start-ups like **Conplas**, which uses waste recycling technologies and citizen education models to transform plastic, and **Komodo Water,** which applies renewable energy solutions in remote communities to enhance access to clean drinking water. Many of these business models have generated domino effects on local livelihoods by providing additional income opportunities for their respective communities and will now aim to strengthen cooperation between participating companies and create new partnerships with investors to expand their business operations nationwide.

Going forward, these initiatives will contribute to the development of a blue finance ecosystem and platform that systematically links financial resources to blue economy projects.

> "Indonesia has again displayed its commitment towards sustainable financing, especially blue financing, that synergize balance between the economy and the ecology."
>
> Vivi Yulaswati, Deputy Minister for Maritime Affairs and Natural Resources, Ministry of National Development Planning/Bappenas

Aligning faith-based financing with national sustainable development priorities

Indonesia has a long history of Islamic and other faith-based finance and is ranked second in the Islamic Finance Development Indicator (2021).[22] The country issued its first retail sukuk in 2009 and gradually developed a sophisticated policy framework to allow for the issuance of the first global green sukuk in 2018 (Box 3). However, the potential of other faith-based finance instruments remains largely under-explored. The high volume of faith-based philanthropic activities remains especially fragmented. These funds are subject to direct giving, but contribute very little to larger long-term programmes.

As such, the INFF roadmap emphasizes the importance of social faith-based financing and is advancing efforts to align this resource with Indonesia's sustainable development priorities.[23]

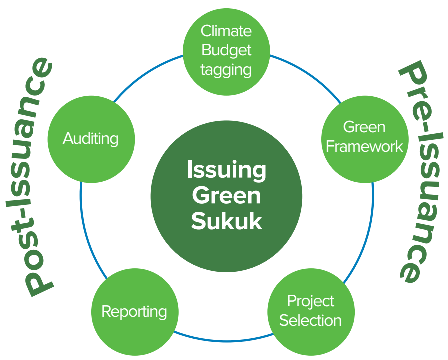
Even though the overall rationale of the SDGs is highly compatible with sharia principles, an adequate policy framework that mobilizes all actors requires clear structuring. With support from UNDP and other religious groups, MNDP/Bappenas is currently developing integrated technical guidance to leverage faith-based financial instruments in support of the SDGs. Based on the directions given through INFF policy dialogues, the guidance conceptualizes and contextualizes the SDGs using a religious approach. It lays out the structures for project and program management, impact measurement, reporting, and coordination. The guidance is supervised by the National Board of Zakat (BAZNAS) and Indonesia's Waqf Board (BWI) with contributions from other actors such as Forum Zakat, Lembaga Amil Zakat, Humanitarian Forum Indonesia, Wahana Visi Indonesia, Majelis Tinggi Agama Konghucu Indonesia and Caritas Indonesia.

In terms of Islamic finance instruments, Waqf and Zakat are key social finance modalities where further coordination can achieve greater alignment and impact. Statistics on religious alms and social funds are not yet regularly updated, but stood at US$10 billion in 2012 and are growing.[24] BWI, supported by other religious organizations and UNDP, developed a Green Waqf Framework[25] in 2022 that aims to leverage the already prominent practice of charitable giving to resolve environmental and social welfare problems, largely based on Indonesia's Nationally Determined Contribution (NDC). It proposes a step-by-step guide to finance green projects through waqfs. Using a fully integrated approach, the INFF operationalization phase has initiated targeted financing dialogues on leveraging faith-based finance and will enhance mainstreaming of the framework into technical guidelines.

To further develop the alignment and SDG impact of other faith-based finance instruments with the SDGs, BAZNAS[26] is partnering with UNDP to strengthen the business management and responsible business practices of social micro-enterprises in the coffee, eco-tourism and creative economy.[27] $750,000 have been leveraged through zakat (Islamic almsgiving) and corporate social responsibility (CSR) of Bank Jambi and channelled towards the promotion of sustainable development priorities related to renewable energy, disaster recovery, and local economic development. The latter included social micro-enterprises, mainly women and youth-led, in areas of sustainable agriculture, coffee industries, eco-tourism, and the creative economy. Under a financing agreement with BAZNAS and Bank Jambi, UNDP has managed pooled funds for a more productive social finance project beyond mere consumption activities. The funds have benefitted more than 14,000 people in Jambi, Central Sulawesi and West Nusa Tenggara provinces.

In a country with a strong and diverse religious identity like Indonesia, the faith-based finance sector is highly dynamic and has mobilized many actors behind the integrated INFF approach. To scale up the impact of the different interventions in a coherent manner, the technical guidance for faith-based financial instruments in support of the SDGs will serve as a critical compass. Going forward it will be closely linked to the INFF's integrated monitoring system and shall allow all faith-based philanthropic actors and social enterprises to harmonize their fundraising and programmatic initiatives.

Box 3: Additional Requirements for Green Sukuks



Source : IFC/UNDP (2021), Innovation in Islamic Finance: Green Sukuk for SDGs, p. 32

Confronted with an IDR 343.6 trillion (US$21 billion) annual financing gap for reducing greenhouse gas emissions (INFF 2022), Indonesia managed to raise nearly US$5 billion through the issuance of global green sukuks and IDR 38.58 trillion (US$2 billion) in domestic retail and project based green sukuks by 2023 (Green Sukuk Impact Report, 2023).

Green sukuks are governed by frameworks and regulations for government securities (see section 1), but also require additional procedures, such as the establishment of a sharia compliant structure (Wakala) in which speculation and interest payments are prohibited. This is crucial to enable qualifiable contracts and operations. Annual Allocation and Impact Reports for green sukuks comply with reporting requirements.

Creating an impact investing ecosystem to scale up green and social businesses

Building on the INFF target to enhance financial innovation and inclusion, Indonesia's INFF roadmap prioritizes better impact investment mobilization through the implementation of impact monitoring and management practices. This will significantly scale up the country's impact investing ecosystem, which accounted for an estimated $1.44 billion in investments through 131 impact deals between 2020 and 2022.[28]

The INFF approach has advanced both theme-specific and matchmaking support to entrepreneurs, and careful structuring and monitoring of standards to accelerate the mobilization of private commercial finance for impact.

Indonesia's SDG Investment Dashboard is a home-grown matchmaking platform that promotes vetted SDG-compatible private initiatives. The platform addresses the key constraint to further increasing financing for the most impactful SDG projects, through the linkage between the demand and supply side of finance.[29] It is managed by MNDP/Bappenas SDG Financing Hub, which is preparing to scale up current marketing and fundraising strategies by strengthening Indonesia's Impact Fund.

The platform provides market intelligence on investment opportunity areas and business models that will contribute to the advancement of relevant sustainable development priorities. It builds on a 2022 SDG investor mapping conducted by MNDP/Bappenas and MoI/BKPM. Through subsequent deep-dive consultations with government, think tanks, enterprises and investors, the mapping identified investment opportunities and business models in six key sectors. These include opportunities for laboratories and local health facilities, education technology platforms, renewable energy provision, agri-food supply chains, waste management and low-cost housing schemes (Figure 5).

Figure 5: Key focus areas of Indonesia's SDG Investment Platform

Healthcare
Health Care Providers, Pathology laboratories or testing centers carrying out genomic and molecular testing, Biotechnology and Pharmaceuticals"

Education
Education Technology, Education Infrastructure

Food and Beverage
Food and Agriculture

Financial
Insurance, Corporate and Retail Banking

Renewable Resources and Alternative Energy
Alternative Energy

Infrastructure
Waste Management, Real Estate

Source: *[Investment Platform.](#)*

These sectors have a significant potential to scale as they cover mature or emerging areas with successful past investments. They promise strong commercial returns: 39 percent of opportunities have average investment ticket sizes under $1 million and another 39 percent are under $10 million.[30] The website is regularly updated by MNDP/Bappenas based on a cautious selection process. Projects originate mainly from the private sector, but it is also possible to include social projects without potential returns.

Going forward, MNDP/Bappenas' National SDGs Secretariat plans to enhance dissemination, organize matchmaking events and further develop the monitoring functions of the platform. As emphasized by the INFF roadmap, this will allow sustainable development financing flows from public and private sources to be monitored. The global SDG Investor Platform also promotes information from the SDG investor mapping, allowing a broader investor audience to have access. Yet, Indonesia's home-grown dashboard-the first among INFF countries-has the advantage that features can be easily adjusted and expanded depending on evolving local sustainable development needs and new approaches to mobilizing investments.

Indonesia's first private equity impact investment fund (IIF) to support of early-stage start-ups, which was launched in 2021, is scaling up investment in SDG-aligned projects. The fund was initiated by ABAC Indonesia[31] following a presidential request to strengthen public-private partnerships between the government and business leaders. It is managed by Mandiri Capital. As part of the INFF's priorities to better measure the economic and social contributions of investments, it benefits from UNDP's impact advisory services to ensure high-quality impact measurement and management in line with the SDGs, evaluate potential start-ups, and support business development. As such, the fund prioritizes investments in Indonesian ventures whose activities support the achievement of priority SDGs.[32]

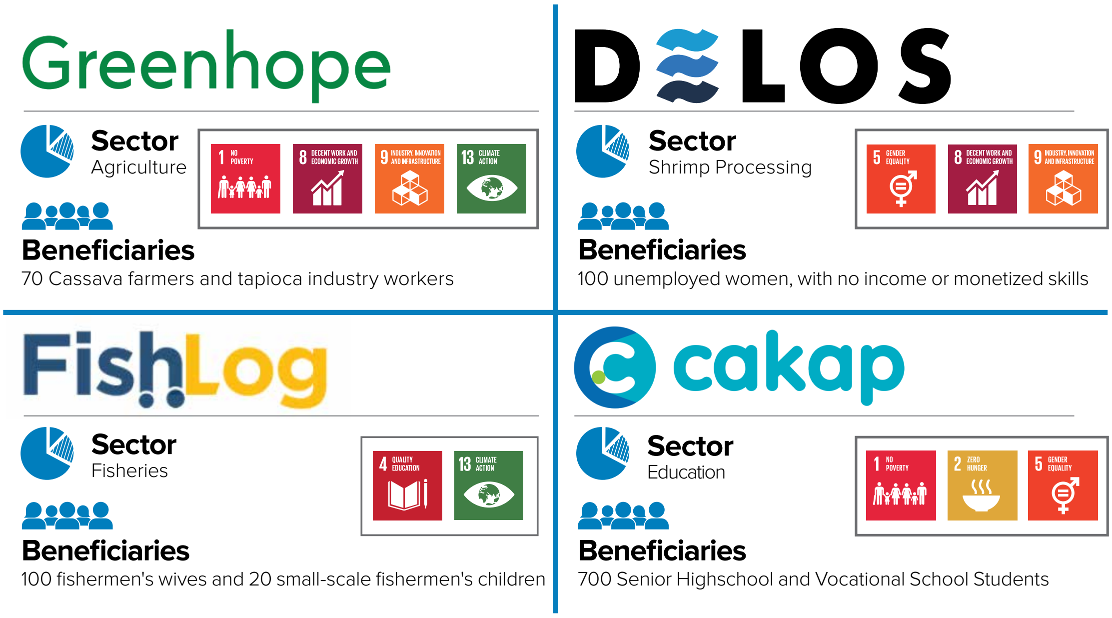
As of May 2024, the IIF has raised $3 million, a 230 percent increase in its investment value,[33] in pilot investments from large Indonesian business owners. This serves as important proof of investors' motivation to engage with the SDGs and allows the IIF to scale up as it moves to leverage further capital through international investors. To date, the fund has invested private equity into four companies operating in the education, agriculture and fisheries sectors: **CAKAP,** an educational technology platform; **Greenhope**, a green technology company that offers biodegradable plastics materials to address plastic waste pollution; **Delos**, an aquaculture-tech company; and **FishLog,** an agritech company in the fisheries sector. Going forward, the fund aims to raise between $25 million and $30 million for 15 - 20 start-ups allowing them to scale up the impact of benefits in line with the SDGs.[34]

To further expand the impact of these investees to high-risk and underserved communities, the INFF prioritizes the expansion of blended finance modalities. In 2023 and 2024, the IIF attracted additional catalytic funding of $500,000 in partnership with the Indonesian Environment fund (BPDLH) and UNDP. The catalytic funding program has allowed to provide grants to enhance the capacities and attractiveness of the four IIF investees' operations in underserved provinces. The new operations allowed to reach 700 secondary school and vocational school students, provide trainings on climate-resilient farming to 70 cassava farmers and tapioca industry workers, and provide women with entrepreneurship and financial literacy trainings (Figure 6). The grant funding to these investees depends on their achievement of agreed milestone indicators.[35] The catalytic funding program has shown the potential of a blended finance mechanism that includes public and private sources of funds that can be further expanded under the INFF. In response to an increased appetite from the Indonesian market, blended finance training has been delivered by OJK, UNDP and Convergence to empower financial institutions to scale up blended finance mechanisms for impact-oriented projects.

Regulatory changes are further advancing the growth in corporate bond issuance. In the area of thematic bonds (Section 1), the revised OJK Regulation Number 18/2023 aims to encourage the issuance of corporate bonds. This enabled the launch a $45.4 million social corporate bond and sukuk through the state-owned secondary finance company PT Sarana Multigriya Finansial to strengthen the offer of affordable housing in 2023 with technical support from ADB and UNDP.[36]

Other sector strategies, such as those in the insurance sector, are being reviewed to further align with standards and strengthen Indonesia's sustainable financing ecosystem. This will strengthen the supply side of finance, for instance by facilitating investments into corporate bonds.

Figure 6: Service expansion of the IIF investees through catalytic funding



Source: UNDP/BPDLH (2024), Catalytic Funding for Indonesia Impact Funding.

A sustainable finance taxonomy to standardize definitions for investment. In early 2024, OJK adopted a new Taxonomy for Indonesian Sustainable Finance.[37] An update of the earlier Green Taxonomy Edition, it establishes standards for classifying capital allocation and sustainable financing for both corporations/non-MSMEs and MSMEs. MNDP/Bappenas, supported by UNDP, will further analyse the interoperability of the new taxonomy with the SDGs and develop an SDG-ESG toolkit to enhance the alignment and harmonization of business practices and investments with the SDGs and measure progress through key performance indicators and metrics.

By focusing on both the demand and supply side of investments, the INFF is catalysing improvements across the impact investment ecosystem that are already demonstrating the potential to grow investment into the future. Key initiatives like the SDG Investment Dashboard, the unlocking of private capital through the Indonesia Impact Fund and stronger monitoring and ESG guidelines have shown strong potential to leverage the country's impact investing ecosystem to scale.

Moving forward: Scaling the INFF through the SDG Financing Hub

Indonesia launched its INFF Roadmap in 2022 to optimize, align and enhance the allocation of diverse public and private financing resources towards national sustainable development priorities. The roadmap set out initial priorities for implementation of the INFF, leading to the formulation of the next medium-term development plan which will be operationalized in 2025. The Roadmap was formulated and implemented in line with the Presidential Decree on achieving the sustainable development goals, and led by MNDP/Bappenas in close collaboration with the Ministry of Finance, other ministries, stakeholders and partners.

As the government reflects on the initial two years of implementation, the first two years of Indonesia's INFF operationalization have enabled the scaling and alignment of several innovative financing instruments with the SDGs. They have also generated demonstrable outcomes in four key priority financing areas.

At the level of the specific financing streams, the INFF experience has shown that there is significant scope to attract additional resources to key social, environmental and economic outcomes through a wide range of thematic bonds focused on social issues, the green economy and the blue economy. In line with the public or private character of financing needs, this can feed into sovereign bonds, sukuks or corporate bonds, for which the INFF process has established more comprehensive standards and regulatory frameworks to develop high-impact projects and broaden the investor base. Going forward, enhancing the efficiency of borrowing costs will be critical. As stated by Indonesia's Minister of Finance at international fora, the complex process of developing a viable bond instruments requires pricing benefits or "greeniums" to mobilize all relevant parties (Box 3).

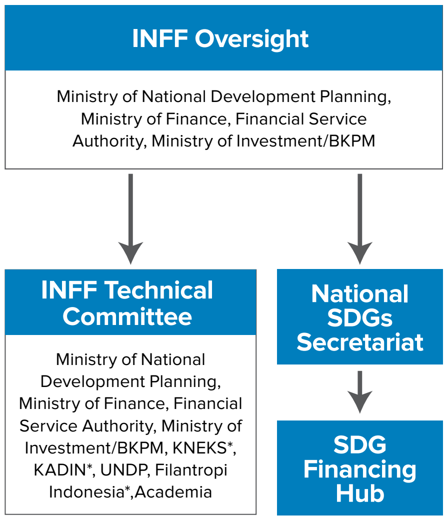
Other INFF areas, such as the alignment of faith-based finance and a strengthened impact investing ecosystem, have also shown the importance of a holistic approach that considers both the demand and supply side. Implementation of the upcoming technical guidance on faith-based financial instruments will allow to address this challenge for social initiatives. The strengthening of Indonesia's home-grown SDG Investment Dashboard and the linking of companies with potential institutional and private investors, including through Indonesia's Impact Investment Fund, will be key to address this challenge for the growing number of Indonesia's sustainability-oriented businesses. This will also require additional ex-ante investment to ensure transparent monitoring as a feature of the dashboard that documents the progress in filling Indonesia's financing gap.

Fully operationalizing this approach will require strong multi-stakeholder commitment and clearly structured institutional arrangements (INFF Building Block 4 on Governance and Coordination).

To scale up the implementation of this important INFF building block, MNDP/Bappenas is currently preparing a ministerial decree that will define the structure and institutional relationships of an SDG Financing Hub as the main vehicle for the implementation of the INFF Financing Strategy. Political leadership will consider whether the SDG Financing Hub will be supervised by the National SDGs Secretariat, which reports to a high-level INFF oversight body (Figure 7).

To ensure regular SDG financing dialogues and close collaboration between the different sectors in charge of implementing INFF related initiatives, an INFF Technical Committee will work with the National SDGs Secretariat and the SDG Financing Hub and report to the INFF Oversight Body. Such a strong and high-level institutional governance structure is critical to ensure a coherent and cross-cutting sustainable finance ecosystem operationalized through the INFF.[38]

Figure 7: Proposed INFF Governance



Source: INFF Roadmap, p.55.

> "The Indonesian INFF is envisioned to bring greater alignment between financing policies and national sustainable development plans, in which SDGs Financing Hub will implement the financing strategies to better mobilise resources and to synchronize, harmonize, and align financing resources with programs and activities of both government and non-state actors in achieving the SDGs."
>
> H.E. Suharso Monoarfa,
> Minister of National Development Planning

Recommendations for the next phase of INFF implementation

As the government takes implements the next stage of the INFF, fully institutionalizing it through the SDG Financing Hub and incorporating it into the medium-term development plan, the following recommendations should be considered to realize the full potential of the INFF approach:

1. Operationalize and equip the SDG Financing Hub with the capacity to facilitate coherent, holistic finance policymaking across government, bringing together MNDP/Bappenas, MOF, OJK, CMMIA, MOI and other policymakers.
2. Engage policymakers from the provinces, regencies and cities to integrate the holistic INFF approach toward innovative finance into subnational policymaking.
3. Accelerate continued investment in areas where initial INFF implementation has shown tangible progress and scalability, in order to realize their potential for scale through demand and supply side interventions including:
   a. Investing in scaling corporate sustainable bond issuance while ensuring that strong standards and norms around impact management and reporting are hardwired into the market as it scales.
   b. Building a blue finance ecosystem that can drive the blue economy to scale on a sustainable, equitable development path.
   c. Further strengthen and engage the investment community within the impact and SDG-aligned investment sector.
   d. Support the scale-up of faith-based finance mobilization for SDG aligned projects.
4. Engage international financial institutions, development partners and others in the delivery of the financing priorities set out in the INFF.
5. Continue to bring together actors from across the public sector, private sector, civil society, academia and partners in regular financing dialogues to strengthen collaboration and accountability and ensure that the implementation of the INFF remains inclusive and sustainable.
6. Develop annual monitoring reports on public and private sustainable finance and the implementation of the INFF approach (or financing strategy for the forthcoming 2025 Medium-Term Development Plan once in place).

Endnotes

1 The 2015 Addis Ababa Action Agenda places INFFs at the center of country-led SDG financing. INFFs are country-led processes built around four common building blocks: (i) comprehensive assessments and diagnostics, (ii) integrated financing strategies, (iii) comprehensive monitoring and review mechanisms, and (iv) a solid governance and coordination architecture that brings together government and non-state actors. More information: www.inff.org.

2 Accessible at: https://faolex.fao.org/docs/pdf/ins213147.pdf (Bahasa) or https://faolex.fao.org/docs/pdf/ins213147eng.pdf (English).

3 Revised post-covid financing gap. N.B. this is a 70 percent increase compared to pre-COVID financing gaps quoted in the INFF. Revised post-covid financing gap. N.B. this is a 70 percent increase compared to pre-COVID financing gaps quoted in the INFF.

4 Indonesia's Central Government debt is limited to a 60 percent of GDP threshold, stood at 39.48 percent in 2022, and sovereign credit ratings stood at "BBB" with a stable outlook (Source: INFF Report; IMF).

5 Sukuks are the sharia compliant form of sovereign bonds. For more information see Box 3.

6 Compared to the market size in 2018; UNDP (2024), Opportunities to advance thematic bonds and sukuk in Indonesia, p.4.

7 UNDP (2023), Annual Report, p.11.

8 RoI (2023) Journey of sustainable financing in Indonesia, PPT at Asia-Pacific INFF Exchange, p.2. This is an enhanced version of the 2018 Green Bonds/Green Sukuk Framework. The SDG Government Securities Framework is compatible with the standards of the International Capital Market Association (ICMA) and ASEAN Capital Market Forum (ACMF) and was classified as "Medium Green" for its green aspects (Republic of Indonesia (2021), SDGs Government Securities Framework).

9 Securities are governed the 2021 SDGs Government Securities Framework, an enhanced version of the 2018 Green Bonds/Green Sukuk Framework.

10 OJK (2023), Regulation Number 18/2023 on Issuance and Requirements of Sustainability-based Debt Securities or Sukuk.

11 More information on Corporate Bonds: Section 4.

12 RoI (2023) SDG Bond Allocation and Impact Report.

13 For further analysis of this risk see: GISD/UNDP (2023), Guidance on Sovereign SDG Bonds for countries and investors.

14 UNvDP (2023), Annual Report, p. 12.

15 N.B. Indonesia has so far not seen pricing benefits, or a "greenium", for the issuance of sovereign bonds. See MOF (2023), Presentation during A-P INFF Exchange 2023: Innovative financing in the era of high debt levels.

16 GISD Alliance (op.cit.), p. 60; UNDP (2024), Opportunities to advance thematic bonds and sukuk in Indonesia.

17 The concept of « greenium » or « green premium » assumes that investors are able to accept lower interest rates when a purchasing a sustainable impact bond due to lower risks and higher ESG achievements. So far, the evidence is mixed. For more information: UNDP (2022), Identifying the "greenium".

18 DJJPR (2023), Indonesia successfully issues [...] inaugural blue bonds.

19 UNDP (2023), Annual report 2023, p.5.

20 Ministry of Finance press release, May 2023, Indonesia Successfully Issues JPY 104.8 billion Samurai Bond and Inaugural Blue Bonds.

21 INFF Facility (2023), Making finance work for people and planet, p. 83; UNDP (2023), Annual report 2023, p.12.

22 UNDP/IsDB (2023), Case studies on Innovations in Islamic Finance.

23 INFF report (op.cit.), p 39.

24 G. Kalla Buana/A. Indah Pratiwi (2023), Could going religious spur trillion dollars in extra financing for SDGs in Indonesia, The Jakarta Post.

25 Waqf - voluntary endowment or donation for community int@erest; For more Information see: Badan Wakaf Indonesia/UNDP (2022) Green Waqf Framework, p.15.

26 Zakat - charitable obligation.

27 UNDP (2023), Annual Report 2023, p. 12.

28 Investing in Women (2023), Impact Investing in Southeast Asia.

29 INFF report (op.cit.), p.59.

30 Bappenas, BKPM (2022), SDG Investor Handbook.

31 The private sector arm of the Asia-Pacific Economic Corporation.

32 Namely: SDG 1: Poverty Alleviation; SDG 3: Good Health and Wellbeing; SDG 4: High-Quality & Accessible Education; SDG 5: Increasing Women Participation; SDG 11: Sustainable Cities & Affordable Housing; SDG 13: Empowering Climate Smart Innovations.

33 N.B. Over 18 months; Source: UNDP (2023), Annual report, p.12.

34 Website of the Indonesia Impact Fund (last visit 14.6.24); IIF (2023), Indonesia Impact Fund, Fact Sheet.

35 RoI, BPDLH, Joint SDG Fund (2024), Catalytic Funding for Indonesia Impact Fund, PPT.

36 UNDP (2023), 2023 annual report, p.11.

37 OJK (2024), Indonesian Taxonomy for Sustainable Finance.

38 RoI/Bappenas (2022), Indonesia Integrated National Financing Framework, p. 54.