



Working paper

# The effectiveness of climate finance: a review of the Indonesia Climate Change Trust Fund

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## Abstract

The Indonesia Climate Change Trust Fund (ICCTF) is the first national trust fund to seek funding from multiple donors to finance climate change policies and programmes. The ICCTF, which is anchored within the Indonesia Ministry for National Development Planning (Bappenas), aims to enhance national ownership and develop a structure to access and channel grants in response to climate change. As such, the ICCTF provides an innovative model for countries around the world seeking better access to international support for their climate change response strategies through nationally driven institutions. In practice, however, its operationalisation has been slow, and with a current capitalisation of \$22 million, it is a relatively small source of finance in a country that accesses hundreds of millions of dollars of concessional donor support for climate related purposes. It is now one of many actors in an increasingly complex domestic climate finance landscape. An understanding of the context and evolution of the ICCTF offers important insights into the practical realities of establishing national climate funds. This working paper is one of a series of ODI studies which use a common analytical framework to examine the effectiveness of international climate funds. It will be revised to reflect feedback received and new developments.

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## Acknowledgements

We wish to express our appreciation to many members of the international donor community, the ICCTF secretariat, DNPI, Bappenas, the Ministry of Forestry, Ministry of Health, Ministry of Agriculture, and Ministry of Finance in Indonesia who took the time to share their insights on climate finance in Indonesia and the role of the ICCTF. We are grateful to Martha Maulidia and reviewers from the ICCTF Secretariat, who wished to remain anonymous, for their thoughtful peer review of this paper. All interpretations and errors are the authors' own.

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# Executive Summary

	<b>FUND PURPOSE AND OBJECTIVES/THEORY OF CHANGE</b>			
	The ICCTF was established to channel international grants supporting Indonesia to achieve its climate change priorities and its emission reduction targets			
<b>SPENDING</b>	<b>1. Resource mobilisation</b>	Current pledged capitalisation of \$21 million and \$4.5 million in technical assistance support. One of the smaller actors in Indonesian climate finance. To date it has not been accredited to access funding from the Adaptation Fund, and other multilateral climate funds are not yet actively involving the ICCTF.	53% of committed funding deposited as of December 2013.	<b>INSTRUMENTS</b> Grants for climate change projects and research implemented by national and sub-national governments, CSOs, academia and the private sector
	<b>2. Voice and administration</b>	UNDP as interim fund administrator: transition to administration by Bank Mandiri now in place. The Vice Minister and the Deputy of Environment and Natural Resources of Bappenas, and includes 11 members: the Deputy of Development Finance of Bappenas, the Ministry of Finance, the Coordinating Ministry of Economic Affairs, and Ministry of People's Welfare, the head of National Council on Climate Change (DNPI), a representative of CSOs, a representative of the private sector, a representative of academic or experts, and three representatives of the UK, Denmark and Germany. Efforts improve communication and public reporting on the ICCTF underway. Arrangements to be formalised.	As of December 2013, 23.2% of total disbursed finance is spent on ICCTF management including the costs of the secretariat and UNDP. All members have one vote (5 government, 3 private, expert and CSO, and 3 contributors).	
	<b>3. Investment strategy and allocation</b>	Strategy informed by national climate change policies and implementation priorities. Organic approach to programming given the modest resources and dynamic policy context. More clearly defined spending priorities linked to fund objectives are needed and transparency regarding prioritisation	Mitigation, forests and adaptation are the three thematic windows	
	<b>4. Disbursement and risk management</b>	A great deal of effort has been invested in fiduciary management arrangements that align with both UNDP and national financial management systems. As the ICCTF transitions into its anticipated third phase, where it participates in larger scale programmes, there is a need for: greater public reporting and transparency of financial management systems; more robust risk management systems; and more stringent environmental and social safeguards. This is particularly the case if the fund seeks to access funding from the Green Climate Fund and the Adaptation Fund.	Disbursement rates for pilot projects appear to be high, with 88% of deposited funds having been disbursed so far.	
	<b>5. Monitoring, evaluation, and learning</b>	Results framework focuses on process and inputs, rather than programmes impact. Links with newly emerging systems for monitoring the impact of national climate change policies needed. New recruitment of monitoring and evaluation (M&E) experts should help strengthen results orientation	PMUs consider ICCTF M&E requirements demanding, although they recognise that it strengthens their reporting.	

<b>OUTCOMES</b>	<p><b>6. Scale</b></p> <p>Sub-national government engagement has been a particular focus of the ICCTF as a national fund that can presently only make grants. New measures that allow the fund to make smaller scale interventions in partnership with NGOs, CSOs and research institutes have recently been adopted. Their impact in extending the reach and influence of the fund remains to be seen.</p>	<p>ICCTF has funded 6 projects involving 5 government ministries, in 15 of the 33 provinces. The amount for each pilot project ranges from \$1 to \$1.5 million.</p>
	<p><b>7. Enabling environments</b></p> <p>Pilots have focused on strengthening capacity and awareness, particularly amongst government agencies. Potential for the ICCTF to help BAPPENAS support the delivery and execution of the national climate change mitigation (RAN/RAD GRK) and adaptation (RAN API) plans, which requires policy, regulatory and governance reform across diverse institutions. New regulations governing the ICCTF's status as a trust fund have also opened the door for other similar institutions in Indonesia (including REDD+).</p>	
	<p><b>8. Catalytic outcomes</b></p> <p>Mobilising additional investment has been one of the considerations in approving pilot programmes, though not an express requirement. Greater engagement with public and private sector investors is likely to be a key frontier for the ICCTF in the future: the particular role and niche that the fund might fill given the domestic financial context needs elaboration. At least one project seems to be triggering follow up action and investment from companies.</p>	
	<p><b>9. Innovation</b></p> <p>Envisions transitioning to a model with a more express emphasis on innovation, though the exact approach that will be taken remains to be seen. Current pilot projects have not had an express focus on innovative approaches to managing climate change or funding delivery.</p>	
	<p><b>10. National ownership and sustainability</b></p> <p>ICCTF designed to work through national financial systems, while seeking to meet the standards expected by international donors. Operationalization much slower than expected: as a result, while the ICCTF was supposed to help strengthen coordination and coherence across international support for climate action in Indonesia, as yet very little international funding to support Indonesia to respond to climate change has been channelled through the Fund. The success of the ICCTF depends on both international donors and national institutions working through the Fund.</p>	
	<p><b>Role in the Global Climate Finance Architecture</b></p> <p>The ICCTF model of a national fund to increase coherence and ownership of international climate finance has been a pioneering experiment. Its practical experience, suggests a vital need to create robust systems and incentives to engage key actors in the national climate finance in the design and operationalization of such institutions</p>	

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# Abbreviations

AF	Adaptation Fund
AUSAID	Australian Government Overseas Aid Program
Bappenas/PPN	Badan Perencanaan dan Pembangunan Nasional/Perencanaan Pembangunan Nasional (The Indonesian Ministry for National Development Planning)
BMKG	Badan Meteorology, Klimatologi dan Geofisika (National Commission of Meteorology, Climatology and Geophysics)
BPKP	Badan Pengawasan Keuangan dan Pembangunan (Financial and Development Surveillance Board)
COP	Conference of Parties
CSO	Civil Society Organisation
CFU	Climate Funds Update
DFID	Department for International Development (UK)
DIPA	Daftar Isian Pelaksanaan Anggaran (Indonesian government budget implementation guidance)
DNPI/NCCC	Dewan National Perubahan Iklim (National Council on Climate Change)
EA	Executing agency
ERP	Enterprise Resource Planning
GCF	Green Climate Fund
GHG	Greenhouse gases
GOI	Government of Indonesia
ICCSR	Indonesia Climate Change Sectoral Roadmap
ICCTF	The Fund Indonesia Climate Change Trust Fund
IE	Implementing entity
IGIF	Indonesia Green Investment Fund (under MOFin)
IPAR	Internal Project Assurance Report
IPSAS	International Public Sector Accounting Standards
LKPP	Lembaga Kebijakan Pengadaan Barang Jasa Pemerintah (Regulatory Institution of Government Procurement)
M&E	Monitoring and Evaluation
MOA	Ministry of Agriculture
MOF	Ministry of Forestry
MOFin	Ministry of Finance
MOH	Ministry of Health
MOI	Ministry of Industry
MOM	Minutes of Meeting
MOU	Memorandum of understanding
MWA	Majelis Wali Amanah/Board of Trustees (replacing SC in the post-PREP-ICCTF)
NFE	National Funding Entity
NIE	National Implementing Entity
NIM	National Implementation Modality
OECD	Organisation for Economic Co-operation and Development

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PDA	Pengelola Dana Amanah/ICCTF national payroll manager (post-PREP-ICCTF)
PME	Planning, Monitoring and Evaluation
PMIG	The Project Management Implementation Guideline
PMU	Project Management Unit
POPP	Programme and Operations Policies and Procedures
PPKPM	Pusat Kebijakan Pembiayaan Perubahan Iklim dan Multilateral (Centre for Climate Change Financing Policy)
PREP-ICCTF	Preparatory of Indonesia Climate Change Trust Fund
PSAK45	Pernyataan Standar Akuntansi 45 (Indonesian accounting standard)
QMR	Quarterly Monitoring Report
RAD-GRK	Rencana Aksi Daerah Penurunan Emisi Gas Rumah Kaca (Sub-regional Guidelines for Implementing GHG Emission Reduction Action Plan)
RAN-GRK	Rencana Aksi Nasional Penurunan Emisi Gas Rumah Kaca (National Guidelines for Implementing GHG Emission Reduction Action Plan)
REDDI	The Fund for REDD+ in Indonesia
RPJM	Rencana Pembangunan Jangka Menengah (Indonesia Mid-term Development Plan)
Satker	Satuan Kerja (working unit that is not attached to any government body but accountable to one or more government body(ies))
SBU	Standard Biaya Umum (commonly acceptable costing standard)
SC	Steering Committee
SIDA	Swedish International Development Cooperation Agency
TC	Technical Committee
UK	The United Kingdom
UKCCU	The cross-government UK Climate Change Unit
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change



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# Introduction

The Indonesia Climate Change Trust Fund (ICCTF) is the first national government trust fund institution in Indonesia, and globally the first example of a national mechanism to fund climate change action. It was established in 2009, with the goal of supporting a nationally owned climate change response in Indonesia, in the context of emerging policy commitments on mitigation following the UNFCCC Bali COP in 2007. It is administered by the Indonesian Ministry of Development Planning (BAPPENAS), with UNDP Indonesia acting as the interim Fund manager. The Fund seeks to mobilise, manage and allocate funding in alignment with Indonesian development priorities in order to efficiently and effectively contribute to: (i) the implementation of GHG emission mitigation measures and climate change adaptation activities; and (ii) the mainstreaming of climate change issues into national, provincial and local development planning.

With a current capitalisation of \$22 million, it is a relatively small source of finance in a country that accesses hundreds of millions of dollars of concessional support from a variety of donors for climate related purposes. It is important to understand the process and context of evolution of the ICCTF, as it offers important insights into the practical realities of establishing national climate funds. With the establishment phase of the ICCTF due to come to a close at the end of 2014, we hope that our analysis can support efforts to strengthen the impact and effectiveness of this mechanism.

This review is based on a framework for reflecting on the effectiveness of international climate finance (Nakhoda, 2013), developed through an iterative process of research, analysis and engagement, building on our longstanding programme of work monitoring dedicated public finance. It is part of a series of studies of the effectiveness of multilateral funds dedicated to addressing climate change, released as working papers to stimulate discussion and feedback. These papers will be revised and refined to respond to comments received and new developments.

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# Objectives, Framework and Methodology

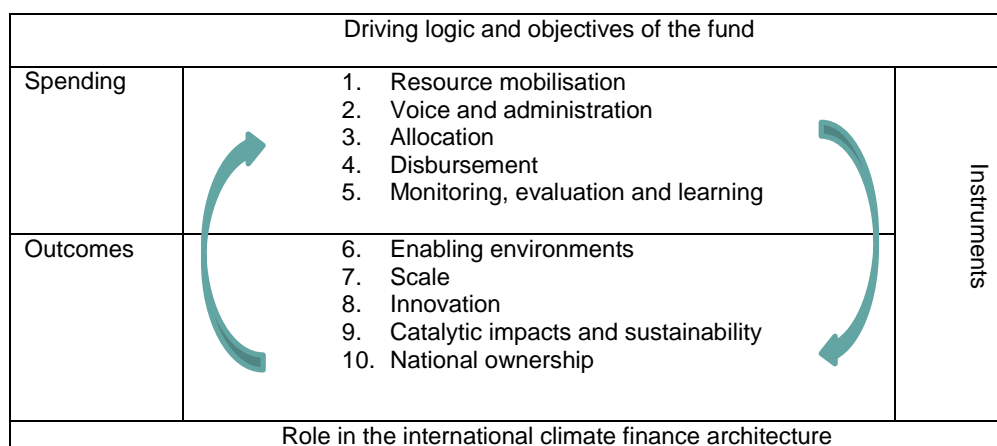
## Objectives

As the international community seeks to scale up the delivery of climate finance, there is growing interest in understanding how to spend international climate finance more effectively. The goal of this assessment is not to present a comprehensive evaluation of the ICCTF. Instead, we seek to provide an evidence-based overview of the operations and achievements of the Fund, identify key challenges encountered, and highlight lessons learned for the effective delivery of climate finance. This paper presents a qualitative analysis of the achievements of the ICCTF complemented with relevant quantitative data, that is cognisant of the context and constraints within which the Fund operates.

## Assessment framework

The assessment framework (see Figure 1) starts by considering the driving objectives of a multilateral climate fund, its historical context, and the range of financing instruments that it has been able to offer; all of which fundamentally shape what it is able to achieve. Section A consists of five interlinking components of effective spending, which are important for the integrity, efficiency and transparency of associated processes:

- **Resource mobilisation.** The availability of resources fundamentally affects the activities a fund is able to support, and the range of outcomes and objectives it is able to achieve.
- **Voice and administration.** This is likely to shape trust in an initiative, and the extent to which it operates in a transparent, inclusive and accountable manner.
- **The investment strategy and fund allocation process.** This is one of the key outcomes of an effective governance structure, and it is essential to understand the formal processes and informal influences that affect how funding decisions are made.
- **The disbursement of funding and risk management** in support of approved programmes. This is a key issue of interest, and provides insights into the mechanics for supporting robust activities, and avoiding negative impacts.
- **Monitoring, evaluation and learning processes.** These are essential to understand the systems that funds have established, to assess impact and to strengthen performance.



**Figure 1: Framework for analysing climate finance effectiveness**

Section B (Outcomes) presents a review of the active portfolio of the Fund, in order to inform subsequent analysis of the effectiveness of its outcomes. It uses Fund self-reporting complemented with data collected on <http://www.climatefundsupdate.org>. The review considers the recipients of funding (type of institution; geographic distribution) and the types of technologies and approaches that have been supported.

On the basis of the portfolio review, we consider five interlinked components that are likely to shape the **outcomes of global climate funds**:

- The fund’s approach to engaging with **enabling environments**, and whether it has been able to address underlying policy, regulation and governance that affect the long term viability of low carbon and climate resilient interventions.
- The ability to work at a variety of **scales** from global to local, and to support both small and large size projects that can be replicated and scaled up.
- The **catalytic effects** of the fund, particularly in respect to the private sector, recognising the diversity of ways in which investment and implementation capacities may be harnessed in support of low carbon climate resilient development.
- The importance of finance for **innovation** to global efforts to respond to climate change and the extent to which climate funds support innovative technologies and approaches, including at the local level.
- The role of the fund in fostering **national ownership and leadership**; in particular, the role that national institutions have played in identifying funding priorities, and how well its funding has been aligned with emerging national climate change and development priorities.

We conclude by considering the role of the ICCTF in the global international climate finance architecture.

### Methodology

This review takes stock of the last four years of the ICCTF’s experience. It complements previous published and unpublished reviews (e.g. Grüning *et al.* (2012); DFID (2012)), which consider various aspects of the ICCTF’s establishment and operations. To complement this analysis, we drew on primary interviews with stakeholders in the Fund, along with selective examples from the portfolio review that illustrate the various

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approaches that have been taken. Where data was available, we complemented our qualitative analysis with quantitative analysis. Our review of the portfolio is current through January 2014. Given that the ICCTF is a relatively new fund and its establishment has not been fully completed, we draw on ICCTF documentation from its early phase up to the end of 2013. We made particular use of the Standard Operating Procedures, the ICCTF investment strategy and the Steering Committee meeting minutes prepared by the ICCTF Secretariat, as well as ICCTF legal documents.

# The Context for Establishing the Indonesia Climate Change Trust Fund, and its Driving Logic and Objectives

## Background

The creation of the Indonesia Climate Change Trust Fund (ICCTF) represents an effort to address climate change in the context of national development priorities, by accessing international finance through nationally owned institutions. Two major processes set the context for its establishment. First, Indonesia's hosting of the 2007 UNFCCC COP 13 in Bali, which set in motion a domestic effort to reflect on opportunities to address climate change. The Bali Action Plan introduced the notion that developing countries would undertake nationally appropriate mitigation actions with international support, in an effort to develop a national mitigation strategy. At the 2009 G20 Summit in Pittsburgh, Indonesian President, Susilo Bambang Yudhoyono (SBY), announced that Indonesia was "*devising... a policy... that will reduce our emissions by 26 per cent by 2020 from BAU (Business As Usual). With international support... we can reduce emissions by as much as 41 per cent*". In 2011, Indonesia adopted the National Action Plan on Emission Reductions (RAN GRK) which proposes an approach for realising these goals (GOI, 2011). The Regional Action Plan on Emission Reductions (RAD GRK) complements this national action plan in order to have concerted mitigation actions across Indonesian regions. Efforts to project how much finance is needed to fund the activities required to realise these goals suggest that Indonesia will need to spend \$ 81.3 billion to achieve a 26% reduction in GHG emissions, and double this amount to reduce GHG emissions by 41% in all sectors (Table 1). Since 1998,

Indonesia has been one of the largest recipients of climate related development assistance (Halimanjaya, 2013).

Objective and period	Amount needed		Source
	IDR trillion	\$ billion	
Estimated resource envelop for emission reduction efforts	37.8	3.7	RPJMN 2010-2014
26% reduction in GHG emissions	83	81.3	DNPI (2009)
41 % reduction in GHG	168	164	( <i>Ibid</i> )
To address adaptation issue	Undetermined		Prasetyantoko and Setiawan (2011)

Adapted from: Tirpak et al. (2012)

**Table 1: Estimates of funding needed to meet Indonesian emission reduction targets**

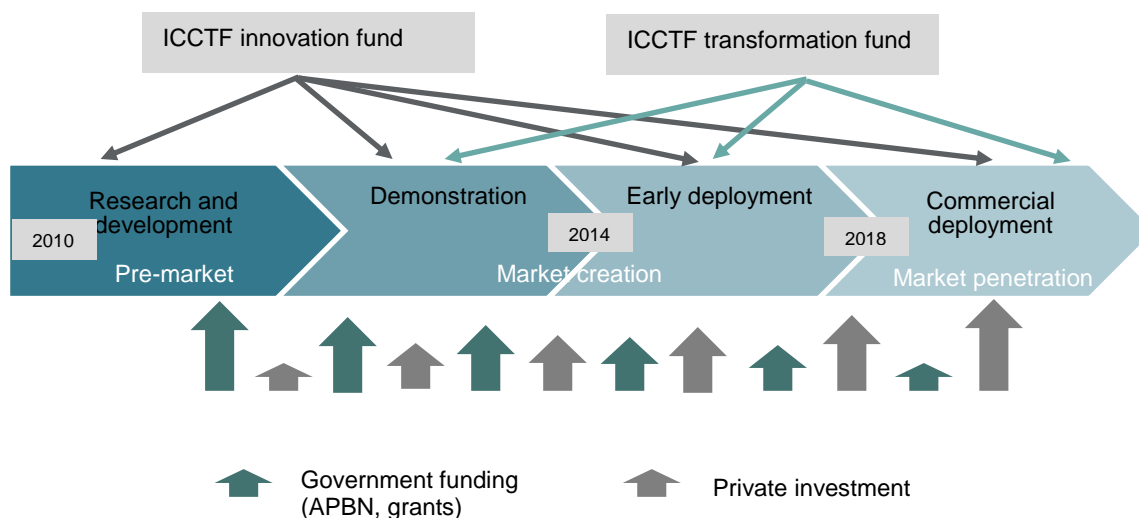
The second major development was the Jakarta Commitment on ‘Aid for development effectiveness - Indonesia’s Road Map to 2014’, which articulates intentions to strengthen country ownership over development; to build effective and inclusive partnerships for development; and to deliver and account for development results (GOI, 2009). The Jakarta commitment was adopted in 2009 in the context of efforts to strengthen the effectiveness of development assistance by giving national institutions greater ownership of development cooperation. Contributors also recognised the need for a mechanism that would strengthen the coherence of support for the climate change agenda, and reduce fragmentation (DFID, 2010).

### Objectives

The origins of the ICCTF can therefore be understood in terms of a confluence of the national climate change agenda and the development effectiveness agenda. Bappenas, the Indonesian Planning Agency, is the institutional anchor for the fund. Bappenas has also been entrusted with the technical elaboration of Indonesia’s climate change response strategies. The ICCTF was jointly launched by Bappenas and the Ministry of Finance, and was intended to align and pool international financial resources with national investment strategies and domestic budgetary funds in an innovative, transparent and accountable manner. It also aims to mainstream climate change priorities into national and local development planning and policies, and implement GHG emissions mitigation measures and adaptation to climate change initiatives. Broadly speaking, the ICCTF has three thematic windows: energy; land-based mitigation; and adaptation and resilience. These thematic windows cover almost all of Indonesia’s mitigation priorities in the RAN GRK.

### Evolution of the Fund

The Fund is to be operationalised in two phases to allow for the necessary initial investment in robust fiduciary management arrangements and the development of an effective, long-term strategy. During the initial PREP-ICCTF phase, an interim mechanism to channel funding to Indonesian government led activities would be set up and the UNDP would act as a trustee for the ICCTF. The initial phase would also involve longer term investment in the operationalisation of the Fund and its associated capacities (UNDP Indonesia, 2009). The aim is to establish a functioning national fund, through operational and financial management procedures that will gain the confidence of donor countries. This is supported by government regulation; in 2011, a Ministerial Decree established the legal basis of the ICCTF as an Indonesian Trust Fund (GOI-BAPPENAS, 2013). During the second and third phase, a wider set of modalities would be explored through an innovation and transformation focused set of funding strategies (see Figure 2).



**Figure 2: ICCTF current and future funding strategies**

The PREP-ICCTF phase has also had a “learning by doing” dimension: it has spent received funding as grants for pilot projects, proposed and managed by five government ministries, with the goal of gaining experience in inter-agency collaboration, and building project management capacity within these ministries (BAPPENAS-ICCTF, 2011a; ICCTF, 2013c).

It is important to note, however, that the ICCTF is one of numerous actors and institutions that are accessing and delivering climate finance in Indonesia. A recent review of climate finance in Indonesia found that there was \$324 million in international support directed to Indonesia (CPI, 2014). With a current capitalisation of \$22 million, the ICCTF remains one of the smaller actors in the domestic climate finance landscape.

## A. Spending

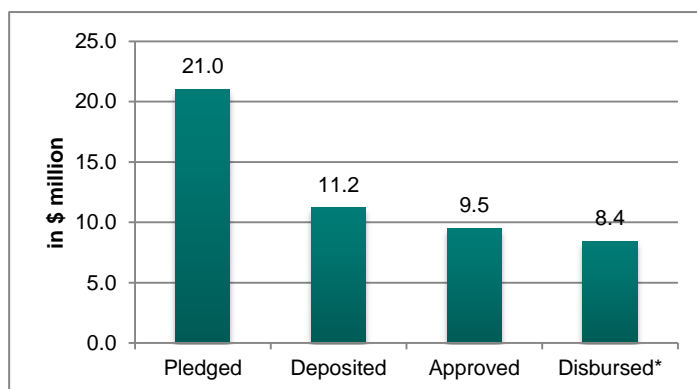
### Instruments

During the first two anticipated phases, the ICCTF can only offer financial assistance in the form of grants to recipients. In turn, the ICCTF is legally only entitled to receive grants. As a result, the ICCTF cannot yet accommodate finance from donors who may wish to offer loans or capital. Recipients may choose to complement these grants with additional finance from different sources, but this is not currently a requirement for accessing financial

assistance from the ICCTF. The long-term vision for the fund, however, anticipates being able to access a wider range of sources of finance, including loans, and engaging a diversity of actors, including the private sector, using a range of financial instruments (Grüning et al., 2012; Thamrin, 2011).

# 1 Resource mobilisation

Three donors - the UK, Australia, and Sweden - have pledged \$22 million in bilateral grants to the ICCTF since it was initiated in 2009. The UK contributes 84% of the total (See Table 2). About 50% of this funding (\$11.2 million) has been deposited as of December 2013 (Figure 3). The German government has provided technical assistance to the operationalisation of the Fund through its technical cooperation agency GIZ. Other donors, including Denmark and the United States, have reportedly expressed interest in supporting the ICCTF (Budiarjo, 2013), but at the time of writing, further pledges had not been made (ICCTF, 2014).



Source: <http://www.climatefundsupdate.org> extracted 28<sup>th</sup> March 2014. The reported disbursed amount is per 10<sup>th</sup> March 2014.

**Figure 3: Pledged, deposited and disbursed ICCTF funding**

Deposited contribution	\$	%
UK via DFID with the extended function of the UKCCU	9,518,110	84.6
First disbursement: 31 <sup>st</sup> March 2010 £4.7 mil		
Second disbursement: 31 <sup>st</sup> March 2011 £1.5 mil		
Australia	1,404,470	12.4
Sweden via SIDA	331,730	2.9
UNDP	88,000	0.1
<b>Total deposited contribution</b>	<b>11,254,310*</b>	<b>100</b>

Note: Australia-UNDP (2010); GOI-UNDP (2010); Sweden-UNDP (2011); UK-UNDP (2010). \* excludes the \$4.5 million contribution of Germany (BMU) in the form of technical assistance through GIZ

**Table 2: Deposited contributions to the ICCTF (as of 28<sup>th</sup> March 2014)**

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## Accreditation

The ICCTF has also been positioned as an implementing entity for some multilateral climate funds. In 2011, the Government nominated it to be accredited as a National Implementing Entity (NIE) for the Adaptation Fund, so that it could access additional international resources to support an expanded portfolio of adaptation programmes. A site visit by the Adaptation Fund Secretariat, however, found that further improvements to systems to manage mishandling of funds, transparency and disclosure on financial spending, and internal control frameworks were needed; especially in light of imminent transitions to national management arrangements. At present, most existing international funds, including the Global Environment Facility (GEF), Climate Investment Funds (CIFs), and others that have active programmes in Indonesia, are not yet working through the ICCTF. The ICCTF is currently improving its systems to meet requirements to access the Adaptation Fund and also the Green Climate Fund (ICCTF, 2014).

## Future funding arrangements

The Government of Indonesia (GOI) has also committed to financing the ICCTF directly from the national budget, but these arrangements have not yet been formalised (ICCTF, 2014). It is also possible that the Indonesian REDD+ agency, established in August 2013 by a presidential decree (GOI, 2013), might channel some funding through the ICCTF. The REDD+ agency has the status of an Indonesian line ministry, and is entrusted with managing finance for REDD+ activities (*ibid*). Bappenas is increasingly looking for ways to incorporate the ICCTF into opportunities to access international finance in Indonesia: for example, it is reportedly exploring a potential role for the ICCTF in channelling funding for Nationally Appropriate Mitigation Actions (NAMA), some of which might be supported through the international NAMA Facility (ICCTF, 2014).

## Observations

All government agencies recognise the importance of capitalising the ICCTF at sufficient scale. Coordinating bodies on climate finance have also observed that grants are currently dispersed across multiple agencies, and that there is a need for a more integrated and strategic approach to accessing grant finance. The ICCTF has the potential to facilitate a less fragmented approach to managing grant finance. But in practice, this may be in competition with the legitimate need for direct support to government agencies, civil society and other actors.

### Take away messages

- The ICCTF is designed to channel grants from the international community to complement efforts to implement national climate change policies.
- With a current pledged capitalisation of \$22 million and \$4.5 million in technical assistance support, the ICCTF remains one of the smaller actors in the Indonesian climate finance architecture.
- While it was intended to be an implementing entity for international climate funds, to date, it has not been accredited to access funding from the Adaptation Fund, and other multilateral climate funds are not yet actively involving the ICCTF in their operations in Indonesia. Commitments to finance the ICCTF through funding from the national budget or other international climate and development funds have yet to be formalised.
- It remains to be seen whether it will win the confidence of donors as it progresses through its preparatory phases.



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## 2 Voice and administration

The arrangements for decision-making affect confidence in a fund's operations (Nakhoda, 2013). As noted, a major objective of establishing the ICCTF was to anchor it in national institutions and align it with stakeholder priorities. The Ministry of National Development Planning (Bappenas) is mandated to coordinate other institutions in relation to national development strategies, was providing strategic guidance and assistance and supporting coordination activities for the development of the Fund. As it evolves the ICCTF governance structure (see Figure 4) will become increasingly elaborate and inclusive.

### Arrangements

To date decisions are taken by a steering committee that involves GOI, a plenary of invited development partners and trusted civil society organisations; with representatives of international agencies, local government, and intergovernmental agencies acting as observers. The Vice Minister of Bappenas GOI engagement with the fund, while the Deputy Minister of Natural Resources and Environment of Bappenas serves as the secretary. Its members include the Deputy in charge of Development Finance of Bappenas, and representatives of the Ministry of Finance, the Coordinating Ministry of Economic Affairs, and Ministry of People's Welfare, the head of National Council on Climate Change (DNPI). In addition, representatives of civil society organisations, the private sector, and a designated academic or expert sit on the fund. Finally, there are roles for three contributor governments, presently the UK, Denmark and Germany, on the fund. Two of the three contributors to the fund have also opted not to participate in its governing plenary (ICCTF, 2014). This new arrangement was formally established through KEP.33/M.PPN/HK//2014 in March 2014. A Technical Committee led by the Chief Secretary of Bappenas and a representative of the Ministry of Finance develop proposals for funding, with inputs from members of the Plenary and the ICCTF Secretariat.

### Administration

During the first phase of the ICCTF, UNDP was appointed as interim manager<sup>1</sup>, in part to secure confidence that minimum fiduciary standards would be met. UNDP charges a 7% fund management fee. From the outset concerns were expressed about whether the UNDP country office would prioritise the ICCTF; subsequent donor reviews have stressed the need for greater senior management attention to fund processes and operationalisation.

The ICCTF strategy has always envisaged full national management in subsequent phases. To this end, Bank Mandiri was recently selected to act as the national trustee. During the current second phase of the PREP-ICCTF, UNDP and Bank Mandiri are jointly serving the role of fund manager, in anticipation of a full transition to national management in phase 3.

As of December 2013, 5% of disbursed funding had supported capacity building in the ICCTF Secretariat. The overhead costs of the ICCTF Secretariat are expected to increase in 2014 as the ICCTF management structure expands to include an executive director, two deputy directors, a finance manager, and a monitoring and evaluation manager (ICCTF, 2013c).

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## Reporting procedures

The ICCTF is currently subject to dual systems of reporting that comply with Indonesian government requirements, as well as standard UNDP Trust Fund Management requirements. Funding recipients complete financial reporting protocols for public institutions: this allows ICCTF funding to be recorded under government financial systems known as the DIPA, or counted as ‘on budget on treasury’ (Brown and Peskett, 2011, p. 14). These dual systems increase the transaction costs and burdens associated with accessing ICCTF resources. Many interviewees noted that simplifying these arrangements would lead to efficiency gains.

## Transparency and participation

To date, engagement of civil society organisations (CSO), the private sector, and subnational institutions in ICCTF governance has been largely discretionary. However, the Fund has organised a number of outreach events to raise awareness of its activities and to seek inputs from academics, government institutions and CSO representatives<sup>2</sup> (ICCTF, 2010). In addition, ICCTF has participated in policy fora convened by local and international NGOs (ICCTF Calendar – website). An effort is being made to strengthen public communications about the fund, with a dedicated website that publicises its key features and achievements (<http://www.icctf.or.id>). Updates to the website, however, reportedly need to be more frequent, and it would help to have more information on programmes and priorities available in English (DFID, 2013). The Adaptation Fund review of the ICCTF reportedly highlighted the need to strengthen disclosure and transparency, particularly on financial management. Indeed the disclosure policies of the ICCTF appear to be relatively discretionary. Greater clarity on this count could help support effective governance in addition to building greater confidence in its systems on the part of potential donors and international climate funds.

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<sup>2</sup> CSOs attending ICCTF events include Dana Mitra Lingkungan, IBKA, Telapak, IESR, PMI, Intrans, IIEE, CSF, MPBI, YPB, Oxfam GB, WWF-Indonesia, FAKTA, YBUL, Pelangi Indonesia, Kemitraan, Kehati, KIARA, YLKI, KPBB, HUMA

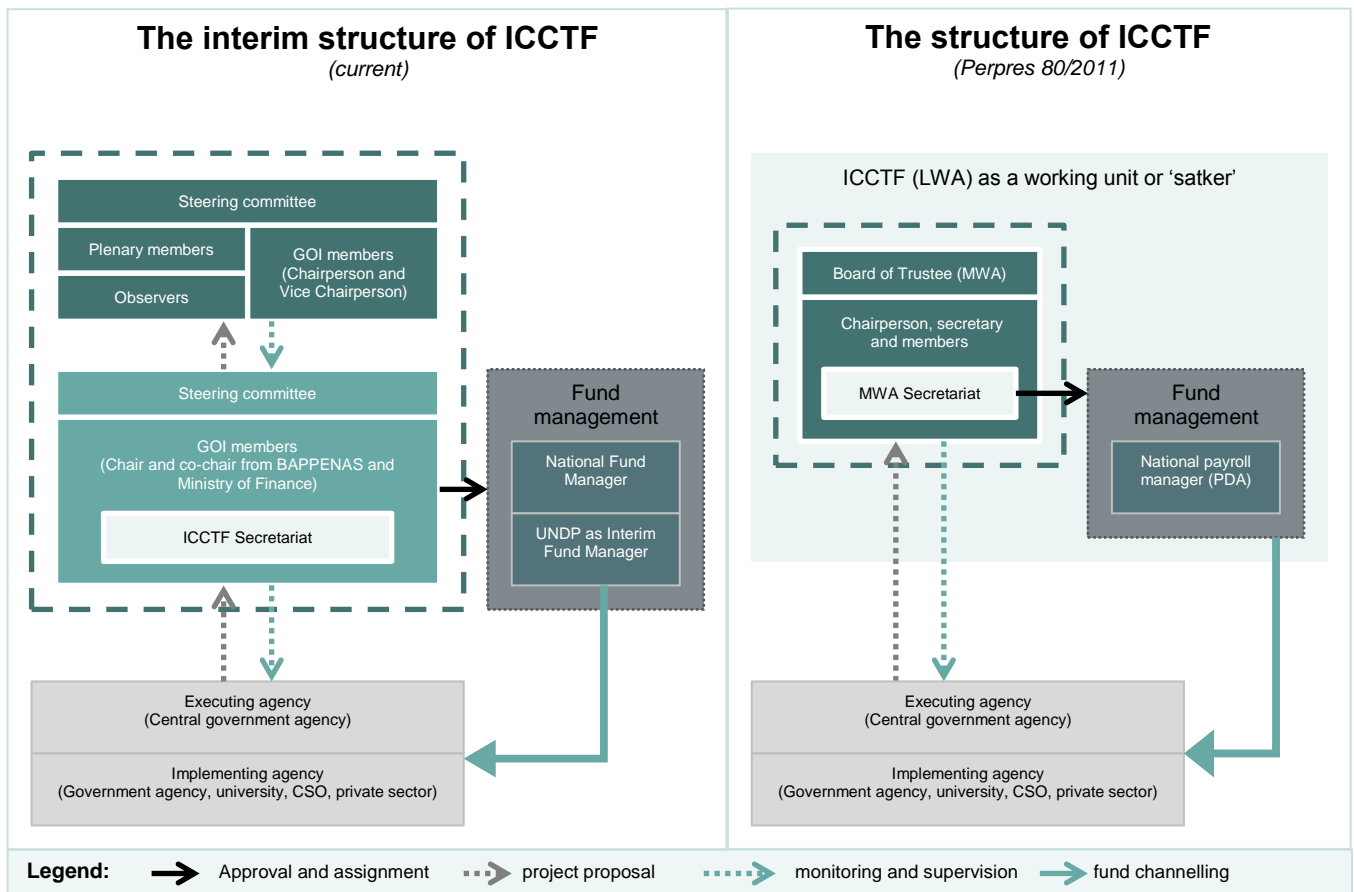


Figure taken from: ICCTF (2013a)

### Figure 4: Current and expected governance structure of the ICCTF

#### Future governance structure

A new governance arrangement that merges the Technical Committee (TC) and the Steering Committee (SC) to form a Board of Trustees, known as the *Majelis Wali Amanah* (MWA), is anticipated to take effect in the future. The MWA will have a formal voting structure, to be used if decisions cannot be reached by consensus. Bappenas as the chair, the secretary, and a member of the ICCTF will get three votes. The Ministry of Social Welfare, The Coordinating Ministry for Economic Affairs and the Ministry of Finance will all receive one vote. DNPI (the Presidential Council on Climate Change) will get one vote, as will a representative of the Chamber of Commerce on behalf of the private sector, an appointed academic, and a CSO representative. They may help respond to observations that there are benefits to be had from closer linkages between DNPI, the presidential body established to coordinate action on climate change, and the ICCTF (DFID, 2013).<sup>3</sup> Bappenas’ three votes will give it a very strong voice in decision making.

Nominations to the MWA will be decided by the Bappenas Minister; although the criteria that nominees will be required to meet have not been specified. The direct representation and involvement of CSOs in decisions regarding the Fund’s resource allocation is seen as an important aspect of promoting public confidence in the integrity of its operations. Finally,

<sup>3</sup> Arrangements will also need to be flexible to accommodate changes that may come under a new administration given that a new President will be appointed in 2014.

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the three largest donors of the ICCTF will also get one vote each. The arrangement will essentially limit the influence that donors have over spending priorities. The exact constitution of the MWA remains to be decided at the time of publication of this report.

### Observations

Many stakeholders interviewed observed that the slow process of operationalising the fund and reaching agreement on procedures and guidelines has resulted in less efficient decision-making processes. The need for senior ministry representatives to sign off on key decisions has also resulted in delays. The ability of the fund to function effectively in the long term will rely on an improvement in the capacity of the ICCTF Secretariat, the experience of which thus far has been hampered by stretched resources and high staff turnover. Steps have been taken to strengthen the Secretariat through recruitment of executive directors, international experts in fund management, and the introduction of a new governance structure. The practical impacts of these proposed changes remains to be seen.

## 3 Investment strategy and allocation

The ICCTF sets its spending priorities based on a combination of national and regional policy framework guidelines (RAN/RAD GRK), the Indonesia Climate Change Sectorial Roadmap (ICCSR), recent studies and expert opinion (Bappenas-ICCTF, 2011c) - as depicted in Figure 5. The ICCSR identifies water resources, marine and fisheries, agriculture and health as priority sectors for adaptation; and forestry, energy, industry, transportation and waste as priorities for mitigation. All funded programmes must deliver socio-economic benefits to local communities; involve wider training<sup>4</sup> or capacity building for local government and/or local facilitators; help to remove financial and technological barriers to local innovative practices/technologies; and ensure environmental integrity and sustainability (Bappenas-ICCTF, 2011c; ICCTF, 2013c). The ICCTF also seeks to prioritise programmes that have the potential to be scaled up or replicated in other areas; and which could mobilise additional financial contributions from the private sector, local governments or communities.

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<sup>4</sup> Often referred to as Training of Trainer (ToT) efforts

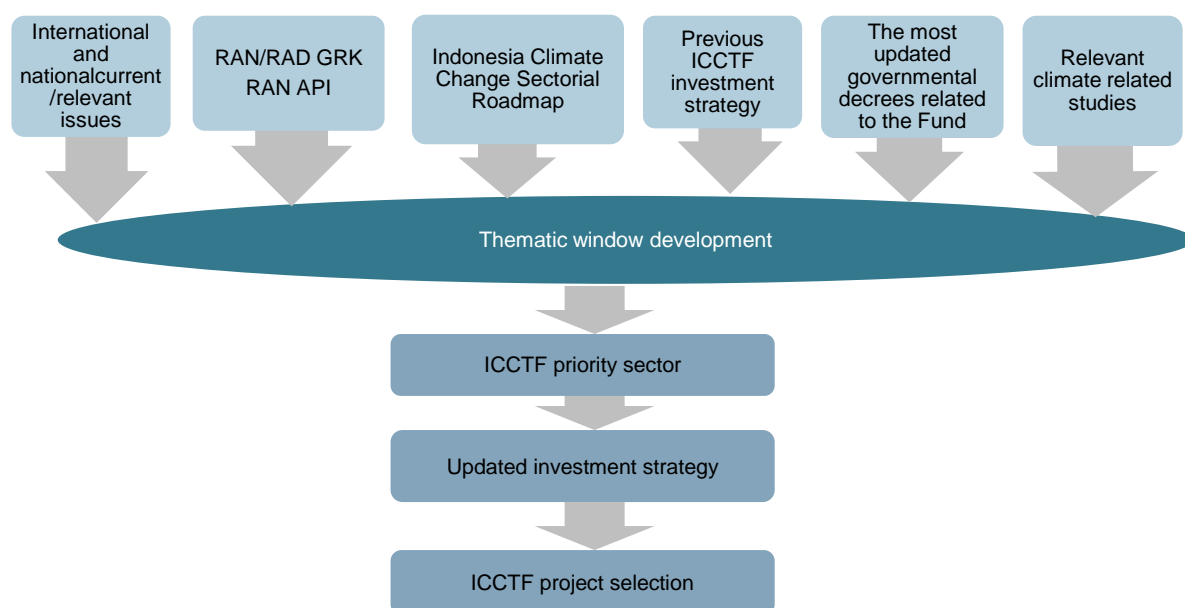


Figure is by authors. Source of information: Budiarjo (2013); BAPPENAS-ICCTF (2011d); ICCTF (2013)

## Figure 5: The guiding principles of ICCTF investment strategy

### Strategic priorities

The first ICCTF investment strategy document was drafted in 2010 and has been revised twice, in 2012 and 2013. The latest 2013-15 (ICCTF, 2013c) strategy prioritises sustainable management of peat land and energy development for the land thematic window. The energy thematic window will support NAMA proposal development, energy efficiency in cities, sustainable land transport and biomass renewable energy. The adaptation thematic window has a particular focus on fisheries and aquaculture.

### Programme selection

The ICCTF investment strategy represents a relatively organic set of priorities that have emerged out of consultation with the government; programme selection is based on a fairly flexible set of guidelines. To date, only ‘pilot’ projects have been approved by the Fund. While the programmes are largely seen to be value added, the need for a more explicit and transparent basis for prioritisation amongst potential investments has been noted (DFID, 2013). Certainly this will be an essential requirement as the Fund moves beyond ‘pilot’ programmes. There needs to be an emphasis on compliance of projects with Presidential Decree PP No. 10/2011<sup>5</sup>, which requires implementers to have an established track record, and budgets to be rational and efficient. As interim fund manager, UNDP has provided strategic and high-level inputs to improve the quality of project selection and associated budgets.

The ICCTF project cycle is supposed to take about 13 weeks from the time a call for proposals is issued, to the point when a project is approved (Figure 6). In practice, however, approvals may take longer, because scheduling ICCTF steering and technical committee meetings, and then waiting for members to comment and approve programmes, has proved challenging (Table 4).

<sup>5</sup> The amendment to PP No. 2/2006



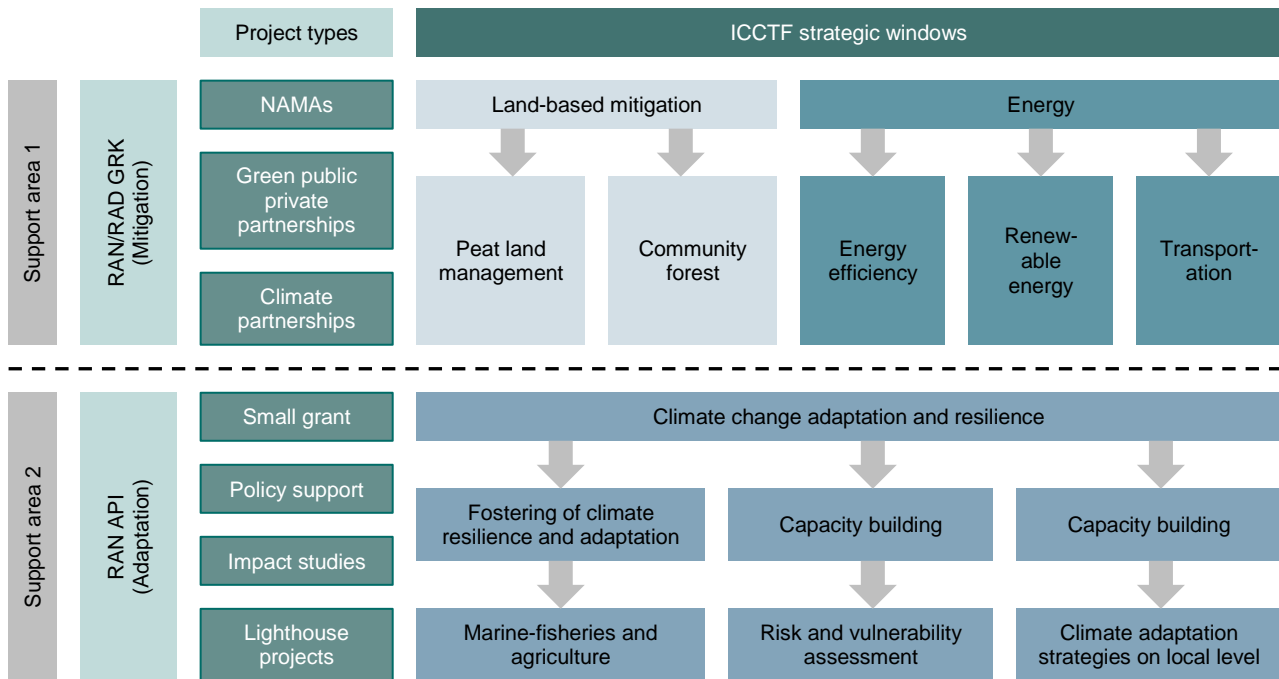
*Note: see Appendix for required documents in each phase*

## Figure 6: Project selection process

Normal projects require more than \$50,000 in funding. As of 2014, the Fund also supports small-scale projects (less than \$50,000), which allows it to support university-based research and CSO activities.

### Observations

Institutional factors have played a role in shaping the ICCTF portfolio, such as the capacity of the Secretariat to identify and monitor funded projects. In addition, the portfolio is fundamentally limited by the resources available from donors and the domestic budget, which have been modest to date. Stakeholders in the Fund have also observed that there are opportunities for the ICCTF Secretariat and Technical Committee to work in closer collaboration with the RAN GRK Secretariat, who was responsible for developing national climate change implementation strategies, to agree investment priorities and identify potential projects. Although Bappenas hosts both initiatives, there is a sense that they are not yet working together as actively as they should. Some contributors have proposed that “the exact form of cooperation between RAN GRK and the ICCTF Secretariat should be clarified and written into the revised business plan” (DFID, 2013, p. 4). GIZ supported the ICCTF to update its business plan and develop a new investment framework linking the RAN/RAD GRK and RAN API with the three ICCTF strategic windows (ICCTF, 2014). Figure 7 shows how these national action plans are linked with ICCTF strategic windows in framing the projects the Fund are supporting.



Source: ICCTF (2014)

**Figure 7: ICCTF project matrix linked to national climate policies**

### Take away messages

- The ICCTF investment strategy is largely informed by national government climate change policies and implementation priorities.
- The Fund has taken a relatively organic approach to programming given the modest resources available, and evolving national priorities.
- There is a case for more clearly defined spending priorities linked to fund objectives and greater transparency about how programmes have been prioritised, if the fund is to manage money at larger scale.
- There is a need to ensure a strategic approach to programming.

## 4 Disbursement and risk management

So far, the ICCTF has relied on UNDP systems for fund management, including disbursement and portfolio related risk management: a relationship that has resulted in a higher degree of dependency than some national actors and donors may have preferred. Given that the availability of resources has been relatively modest, and the ICCTF currently only offers grants, risk management largely comes down to robust due diligence over project selection and adequate monitoring and reporting. A risk log is maintained for each project, and includes an exit/withdrawal strategy. The Secretariat reports spending an increasing amount of time identifying project leaders with good track records, and

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undertaking stakeholder mapping at the project level to identify opportunities for working with respected local institutions and community leaders, such as local cooperatives and *ulamas* (religious leaders) who have direct influence over communities in intervention locations (Budiarjo, 2013; Asycarya, 2013). However, if the ICCTF plans to fund innovation and public private partnerships, by accessing and offering a wider range of instruments, then a more sophisticated and proactive approach to portfolio risk management is required.

### **Transparency and efficiency of disbursement**

Although the ICCTF is managed as one of UNDP's trust funds, spending updates have not typically been made publicly available through its websites. When contacted directly, however, the UNDP Indonesia office provided updates on the status of project approvals and disbursement. Climate Funds Update data suggests that as of 10<sup>th</sup> March 2014, the ICCTF had disbursed \$8.4 million or 88% of deposited funding. 76% of the total disbursed amount had been spent in the period of 2010-2013 (CFU, 2014). The speed of disbursement has increased significantly. The majority of this funding has been allocated to provide grants for six pilot projects which aim to build government capacity relevant to the ICCTF's three thematic windows.

According to PMU leaders, the disbursement of money is quick once reporting requirements are fulfilled. PMUs must demonstrate that they have spent 90% of the previous tranche and have submitted quarterly programmatic and financial reports, including financial evidence such as receipts and invoices. PMU leaders perceive ICCTF reporting requirements to be more stringent than those required by other donors, or for domestic spending. All disbursements are audited by the Finance and Development Supervisory Agency (BPKP), an independent body that reports directly to the President of Indonesia. Annual BPKP audit reports are published on the ICCTF website (BPKP, 2010; 2011; 2012), and list detailed disbursement and spending. However they are only made available in Bahasa Indonesia, which makes them less useful to international donors.

External auditors, other than BPKP, will play an important role once NGOs take on implementing entity roles under the ICCTF. To date, all PREP-ICCTF implementing entities are government-based so there has been no need for non-BPKP external audits thus far. Nevertheless, the Steering Committee - including donors - have the right to request additional project audits by external auditors if necessary (Bappenas-ICCTF, 2011c). Indeed, a particular focus of ICCTF systems and procedures so far has been on tracking the actual spending of committed finance in adherence with multiple accounting frameworks. As we will discuss in Section 5, there is a need to evolve beyond a focus on financial management towards a focus on the impact and outcomes of the Fund.

### **Safeguards**

ICCTF Standard Operating Procedures seek to ensure the quality of operations. The ICCTF's fiduciary responsibility and due diligence requires all staff and associated parties, including PMUs, to sign an Anti-Corruption and Integrity Pact (Bappenas-ICCTF, 2011c). The Fund also conducts regular spot checks and maintains regular communication with Project Management Units. Once the MWA is operational, its chair will be responsible for ensuring that either the Secretariat or PMU follow up on audit results and findings. The respective inspectorate of each executing agency also conducts an internal audit annually, which is useful for monitoring and evaluation purposes. However, the effectiveness of these activities in mitigating the risks of fraud and corruption, or in improving accountability, is less clear. Indeed a lack of transparency in financial management and a lack of clarity about the processes for dealing with potential incidences of fraud was one of the areas of concern flagged up by the Adaptation Fund accreditation committee.



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## Risk Management

The ICCTF planning framework is to be regularly updated by assessing the external environment for factors that may affect project implementation (Budiarjo, 2013). It addresses potential social, economic or political risks related to project implementation, including governance and human rights issues, such as the access of indigenous people to natural protected areas. It stops short, however, of being a full-fledged system to support explicit ex-ante identification of environmental and social impacts. Furthermore, observers have highlighted the need for the ICCTF to account for environmental impacts in its financial management and administrative processes, such as low carbon procurement (Primasari, 2014).

## Observations

To date, programmes funded through the ICCTF have been relatively small and are likely to have limited impact. Over time, however, if future aspirations of the ICCTF operationalisation strategy are realised, higher impacts are possible. The ICCTF will need to demonstrate adequate safeguard policies if it wishes to access international funds such as the Adaptation Fund, the Global Environment Facility, or indeed the Green Climate Fund, as all three now require implementing entities to meet minimum safeguard policy standards.

### Take away messages

- A great deal of effort appears to have been invested in fiduciary management arrangements for the ICCTF that align with both UNDP and national financial management systems.
- Disbursement rates for pilot projects appear to be high, with 88% of deposited funds reported to be disbursed so far.
- There is a need for greater public reporting and transparency of financial management systems.
- More robust risk management systems and capacities are required as ICCTF transitions into its anticipated third phase where it participates in larger scale programmes that engage a wider swathe of public and private sector actors.
- Environmental and Social Safeguards are now required by most global climate funds including the Adaptation Fund, the Global Environment Facility, and the new Green Climate Fund. Demonstrating adequate capacity to assess and manage such risks will be essential if the ICCTF seeks direct access to these mechanisms.

# 5 Monitoring, evaluation and learning

The monitoring and evaluation systems of the ICCTF, set up with UNDP support have, to date, been largely focused on the procedural dimensions of operationalisation of the Fund, guided by evolving investment strategies. Table 3 below summarises the key elements of the UNDP monitoring and evaluation framework. The ICCTF website states that the Fund

will use six monitoring and evaluation criteria: efficiency, effectiveness, impact, transparency, relevance and sustainability.

Objective	Output	Planned activities
1. Provide support to priority climate change initiatives as prioritised by the government of Indonesia, during the interim period, while the ICCTF is being established	Priority climate change initiatives to be funded in the interim period selected	Project proposals identified and pre-selected through a peer reviewed process
	Selected climate Change Initiatives funded, monitored, and evaluated	Fund, monitor, and evaluate selected projects/activities that represents the three strategic priorities/ thematic windows (energy, peat land and resilience)
2. Provide support and development for establishment of the ICCTF	Functioning policy dialogue framework	Conduct quarterly policy dialogues where inputs to ICCTF project proposals will be discussed
	Increased awareness of ICCTF nationally and internationally	Public relations and communication of ICCTF to domestic and global audiences
3. Support the capacity development needs of the Government of Indonesia for the efficient and effective implementation of the ICCTF	Capacity developed for potential beneficiaries	Conduct a rapid capacity assessment; and design and implement capacity development programmes for selected entities
	Capacity developed for ICCTF governance entities	Training/capacity building for the ICCTF Steering Committee (SC), Technical Committee (TC), Secretariat, and national trustees
	Support Secretariat to Appoint National Trustee	Support operation of national trustees, including smooth transition for interim fund management arrangements for fully nationally owned operation
	Monitoring instruments for ICCTF activities	Design and develop project tracker/project management database and make available online
4. Project support cost - Supporting and strengthening ICCTF secretariat	ICCTF Secretariat and TC fully functional. PREP-ICCTF project monitoring and administrative requirements met	ICCTF secretariat and ICCTF TC fully functional PREP-ICCTF project monitoring and administrative requirements met Hire office space, purchase necessary equipment including IT, furniture, and project vehicle, pay bills Budgeting for on-call experts (legal, fund management, sector specialists) Budgeting for domestic international travel, for monitoring evaluation, spot checks and public relation activities

Note: copied from the MOU between GOI and UNDP Indonesia (2009)

### Table 3: The objective, output, and activity of PREP-ICCTF

The framework broadly focuses on seeking alignment with GOI's climate change priorities and facilitating outreach and communication; developing government capacity in relation to climate change; and strengthening the capacity of the ICCTF Secretariat. The Secretariat provides quarterly reports on progress towards achieving these objectives, outputs, and planned activities, based on reports from Project Management Units.<sup>6</sup>

#### Observations

<sup>6</sup> The MOU between GOI and UNDP includes these objective elements as an annex.

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These indicators are entirely process and input driven, and do not seem to capture any of the intended outcomes of the ICCTF. They stand in stark contrast to the relatively ambitious and outcome oriented framing of the Indonesian climate policy related commitments that the Fund is intended to help realise. The process of developing the RAN/RAD GRK has resulted in a much more detailed and technical sense of mitigation potential in Indonesia. Since then, Bappenas has begun working with various government agencies to develop a system for national, provincial and local government to monitor and report on spending on constituent mitigation actions and on ensuing emission reductions. Systems for tracking RAN/RAD GRK spending consider budget allocations, budget actions, and international loans and grants. However, the fact that ICCTF spending is now captured within the national budget system should allow tracking of its impact to take place in the context of monitoring Indonesian action on climate change as a whole. This represents a promising new development at the national level. How well it works in terms of tracking the impact of ICCTF funding on climate change in practice, remains to be seen.

### Take away messages

- The ICCTF results framework so far appears to focus on process and inputs, rather than seeking to measure the impact of programmes on climate compatible development in Indonesia. This is a significant weakness.
- Systems for monitoring the impact of emerging national climate change policies across Indonesian government systems are emerging; linkages between these systems and the ICCTF framework need to be developed.
- The ICCTF has recently recruited new monitoring and evaluation experts with the objective of strengthening its systems: this may support it to develop a more results orientated framework.

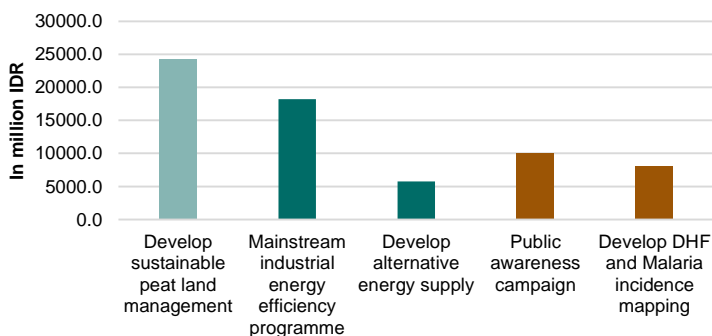
## B. Outcomes

As noted, more than 80% of the funding deposited to the ICCTF has already been committed to six pilot programmes. This is a small portfolio and a limited basis on which to reflect on the impact of the ICCTF. Nevertheless, given that the ICCTF has now been in existence as a concept for more than five years, reflecting on its experience can offer insights into key dimensions of its likely effectiveness. We believe that this discussion, though somewhat incomplete, provides vital empirical depth at a moment when many countries are in the process of operationalising similar mechanisms.

### The ICCTF Portfolio

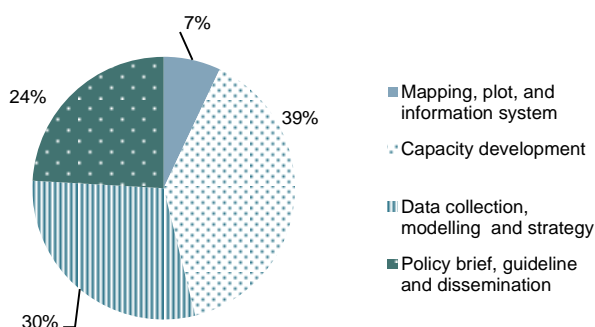
Since the ICCTF's establishment in 2009, PREP-ICCTF has funded six pilot projects, ranging in duration from 16 months to 2 years: two pilot projects on sustainable peat land management, one energy efficiency project, one alternative energy project, one public

awareness campaign project and one health mapping and awareness project (Figure 7A). There has been a strong emphasis on improving government capacity (39% of spending); collecting data, modeling and developing strategy (30%); composing and disseminating policy briefs and guidelines (24%); and mapping and improving information systems (7%) (Figure 7B). The remainder of the funding has been allocated to operational costs. During its inception phase, the project cycle has been relatively slow (DFID, 2012).



Note: Two pilot projects on sustainable peat management or land-based mitigation projects in light green, energy efficiency and renewable energy projects in dark green and communication and health awareness campaign projects or adaptation resilience window in amber  
 Source: ICCTF project approved annual working plans

**Figure 7A: ICCTF pilot projects**



Source: The classification is by authors and the data is adapted from ICCTF project approved annual working plans.

**Figure 7B: ICCTF budget allocation**

## 6 Scale

Given the diversity of the Indonesian archipelago and the prominent role that provincial and local government institutions play in managing responses to climate change, it is important to understand how the ICCTF has engaged sub-national institutions and worked at different scales of government. It is important to consider the ICCTF’s approach to supporting both small and large scale interventions.

## Engaging sub-national and local institutions






The six ICCTF funded pilot projects implemented to date have involved activities in 15 of the 33 Indonesian provinces. ICCTF PMUs have built partnerships with sub-national and local institutions in more than 30 districts, mainly in western and central Indonesia (Figure 8 and Table 4).

ICCTF programming appears to be supporting collaboration on climate change across various levels of government and Indonesian stakeholders. For instance, the ICCTF supported the Ministry of Forestry to conduct a biomass energy estate project: the programme worked with religious leaders to build a forest management unit and to revive critical land (MOF, 2010). This experience has illustrated the important role that respected spokespersons and leaders at local and district levels play in effectively mobilising community members to support programme implementation. However, it has been observed that in recent years the ICCTF has spent less time on outreach to stakeholders within Indonesia; though it has continued to invest time and effort in international policy processes where awareness of its experience can hopefully contribute to its fundraising efforts (DFID, 2013). In 2014, ICCTF is conducting a Media Fellowship Award, to mentor 10 journalists and support them to cover climate change issues; a related hope is that this will increase understanding and coverage of the ICCTF (ICCTF 2014).

The recent adaptation projects in the health sector have provided an opportunity to improve communication and coordination between the Ministry of Health at the national level and public health units at sub-national and district levels in five provinces (Tjahjono, 2013). The National Commission of Meteorology, Geophysics and Meteorology (BMKG) also cooperated with the Ministry of Education to raise awareness and understanding of climate change impacts with local actors, such as radio stations and groups in coastal and agricultural areas (BAPPENAS-ICCTF, 2011b).



**Figure 8: The ICCTF intervention locations across Indonesia**

Project	Project management Unit	Level	Executing entity	Intervention location
 Peat land management (Two consequent projects ran in two phases)	Ministry of Agriculture (MOA)	Local	Researchers	Phase 1: Banjar baru, South Kalimantan; Jabiren, Central Kalimantan; Muaro, Jambi; Pelalawan, Riau Phase 2: Riau, Jambi, Central Kalimantan, West Kalimantan and Papua.
 Energy efficiency	Ministry of Industry (MOI)	National	Private companies in pulp and steel industries	DKI Jakarta, Jakarta; Tangerang, West Java; Banten, West Java; Bekasi, West Java; Bandung, West Java; Bogor, West Java; Klaten, Central Java; Semarang, Central Java; Surabaya, East Java; Gresik, East Java; Siduarjo, East Java; Kediri, East Java; Kudus, East Java; Muara Enim, South Sumatra; Pekanbaru, Riau; Tanjab Barat, Jambi; Toba, North Sumatra; Medan, North Sumatra
 Community forest management and biomass energy estate	Ministry of Forestry (MOF)		Local government, religious groups and leaders, local community, farmer groups	Bangkalan, Madura
 Public awareness	National Commission of Meteorology, Geophysics and Meteorology (BMKG)	Local  Sub-national National	Community radio, Fishermen and farmer communities, academia, district government, local CSOs, local leaders  Provincial government National media, lines of ministries	Serdang Bedagai, North Sumatra; Batu, Malang; Bau-Bau, SouthEast Sulawesi; Kamal Muara, North Jakarta; Indramayu, West Java
 Health vulnerability assessment and community based adaptation	Ministry of Health (MOH)	Local	District leaders Puskesmas	DKI Jakarta, West Sumatera, East Java, Bali and Central Kalimantan.

**Table 4: ICCTF projects and their stakeholders**

#### Providing funding at different scales

So far, the Fund has focused on relatively larger scale interventions, with budgets ranging from \$900,000 to \$1.5 million, with project time frames restricted to 12 to 24 months (Bappenas-ICCTF, 2011b; MOF 2010; GOI-UNDP, 2010a, 2010b, 2010c, 2010d, 2010e). Taken individually these represent a substantial share of the resources available to the Fund, even if the funding may be modest relative to departmental needs. Recognising the opportunity for ICCTF finance to have supplementary impact by supporting smaller programmes and working directly with a wider range of partners, the ICCTF will now be able to work directly with CSOs and universities on climate change response initiatives. The majority of spending in 2014 is expected to support such smaller scale projects. This is a recent development and the impact remains to be seen.

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### Take away messages

- Sub-national government engagement has been a particular focus of the ICCTF as a national fund that can presently only make grants.
- New measures that allow the fund to make smaller scale interventions in partnership with NGOs have recently been adopted. Their impact in extending the reach and influence of the fund remains to be seen.

## 7 Enabling environments

Policies, regulations and governance frameworks are a crucial foundation for making investments in a low carbon environment viable. The ICCTF is part of a new high level policy and governance framework designed to support climate activities. As such, the design of the ICCTF and its structures for channelling and recording spending represent a significant institution building effort.

### Underlying government regulation

ICCTF was established through two Ministerial Decrees by the Minister of National Development Planning: No. KEP. 44/M.PPN/HK/09/2009 No. KEP. 59/M.PPN/HK/09/2010 (UNDP Indonesia, 2012). In addition to these Ministerial Decrees, the Government of Indonesia issued Presidential Regulation No. 80/2011 to provide further guidance on trust funds. This guidance on trust funds was signed two years after the ICCTF establishment in 2009; it has also opened the door for the establishment of other Trust Funds in Indonesia (DFID, 2013). These regulations were expected to improve the speed, volume, diversity and transparency of both financial transfers to Indonesia and the spending of international and domestic climate finance within the country. However, this do not address the need to speed up high-level decision-making over procurement. Decision-making processes remain slow and a decree from the BAPPENAS Minister officially established the structure of ICCTF's Board of Trustee (MWA) in 2013 through PPN3/2013. A ministerial decree from Bappenas on a fully-fledged national trust fund with all nominated Board of Trustee members that accept the offers remains to be completed before the end of 2014.

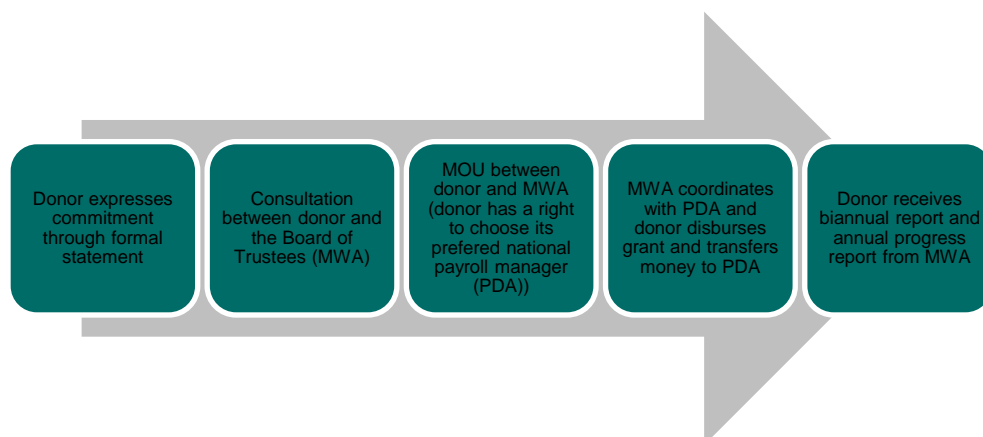
### Adaptation of national guidelines for climate compatible development

As noted, a primary objective of ICCTF programmes so far has been to strengthen the capacity of ministries across the country to address climate change. Trust fund administrators and project implementers report that ICCTF pilot projects have supported the adaptation of national regulations to better support the implementation of climate compatible development. The Ministry of Agriculture, for example, plans to develop a set of national guidelines on the management of peat land in Indonesia, based on the findings<sup>7</sup> of two projects funded by the ICCTF. Similarly, the Ministry of Health is conducting research on the distribution of vector borne disease which will be used as a guide for

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<sup>7</sup> The research in the first phase finds a negative correlation between the level of water and CO<sub>2</sub> emissions, the higher level of water and the lower release of CO<sub>2</sub> emissions. It also reveals that the use of Pugam A and bio fertiliser from chicken waste and rice husks (*abu sekam*) has positive effects on the plant and significantly reduces CO<sub>2</sub> emissions from the peat.

national adaptation planning to help target Indonesian communities most at risk. To date, however, ICCTF funded pilot projects have not resulted in new national regulations.



Based on Perpres 80/2011

### Figure 9: ICCTF fund channeling mechanism based on national guidance on trust funds

#### Coordinating the response to climate change

The ICCTF is one actor in a dynamic set of institutional arrangements trying to grapple with climate change in Indonesia. Appendix 1. and 2. summarise the institutions involved in national climate change responses, and key policies and regulations that have emerged in recent years. The anchor ministry of the ICCTF, Bappenas, has played a central technical role in the development of climate related policies. But as noted, the linkages between the RAN/RAD GRK and RAN API initiatives and the ICCTF Secretariat, all of which are hosted by Bappenas, need to be strengthened. Furthermore, the delivery and execution of these initiatives requires substantial policy, regulatory and governance reform across these diverse institutions.

Bappenas is one of the few agencies in Indonesia expressly tasked with a coordination role. There is therefore, the potential for ICCTF funding to be used more strategically to help bring these institutions together to explore opportunities to make progress on these challenging, politically charged issues. However, if ICCTF resources remain modest relative to the support that ministries receive directly for climate change initiatives from international actors, then they may be limited in the incentives they can offer to bring key actors to the table.

#### Take away messages

- The establishment of the ICCTF as a national trust fund and associated regulations represent significant developments in the domestic climate change governance framework in Indonesia, although final measures to fully establish it are still pending.
- ICCTF pilots have focused on strengthening capacity and awareness, particularly amongst government agencies.
- The delivery and execution of the national climate change mitigation (RAN/RAD GRK) and adaptation (RAN API) plans requires substantial policy, regulatory and governance reform across diverse institutions. Bappenas is one of the few agencies in Indonesia expressly tasked with a coordination role, and there is potential for ICCTF funding to help Bappenas bring these institutions together.



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## 8 Catalytic outcomes

The catalytic outcomes envisioned in the design of the ICCTF recognise the diversity of ways in which investment and implementation capacities may be harnessed in support of low carbon climate resilient development. Unfortunately, progress towards operationalisation of the innovation fund and the transformation fund programmes anticipated in the ICCTF's inception has been slower than originally anticipated.

### **Co-funding and follow-ups**

Pilot programmes financed with grant funding have taken different approaches in their attempts to catalyse wider action and investment by programme stakeholders. Many programmes managed by government departments receive indirect co-finance through the national budget. The Ministry of Health, the Ministry of Industry and the Ministry of Agriculture have all reportedly started developing follow up programmes to the ICCTF funded initiatives that they manage, financed through their own national budgetary allocations (Asycarya, 2013; Tjahjono, 2013; Mahardika, 2013; ICCTF, 2013b).

The ICCTF supported the Ministry of Forestry to develop a programme on sustainable wood pellet production. This has reportedly attracted interest from investors and buyers who seek to explore the use of wood pellets as a larger scale alternative energy solution. The Ministry of Forestry itself is reportedly exploring access to funding to replicate the project at a larger scale (Asycarya, 2013).

### **Engaging the private sector**

Some programmes have sought to engage the private sector directly: for example the ICCTF supported the Ministry of Industry (MOI) to use energy usage audit data to develop and implement energy efficient practices. The project established the first technical guidelines for energy efficiency and conservation for the steel and pulp and paper industries (GOI-UNDP, 2010b). Some companies that participated in this programme, such as the steel manufacturer PINDAD, are now considering adopting the guidelines as part of planned upgrades to their facilities, in order to realise the potential efficiency gains from implementing these measures (ICCTF, 2013b).

### **Unlocking larger scale investment**

In all of these programmes, the key lesson learnt has been the need for coordination across line ministries in order to strengthen the underlying policy and regulatory conditions that will unlock larger scale investment. As noted, greater engagement with public and private sector investors will be a key frontier for the ICCTF in the future. An emphasis on such approaches is anticipated in the ICCTF programme concept, once it progresses to stage III with its "transformation" fund. Given that efforts are now underway to get Bank Mandiri, the ICCTF's new administrator, more actively involved in low carbon and resilience enhancing measures, there may be opportunities to draw on Bank Mandiri's wider expertise on private finance in Indonesia to explore approaches to scaling up such activities. Of course, such initiatives will need to be handled carefully<sup>8</sup>, and undertaken as part of wider outreach and dialogue with key investors and financial institutions in Indonesia. Metrics

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<sup>8</sup> To ensure that Bank Mandiri does not exert undue influence over the approach that the ICCTF takes.

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will be required to assess the robustness of its approaches to designing such programmes and their impact on climate compatible development.

### Take away messages

- Mobilising additional investment has been one of the considerations in approving pilot programmes, though not an express requirement.
- The current pilot projects generally receive additional resourcing through government departmental budgets. At least one project appears to be triggering follow up action and investment from companies.
- Greater engagement with public and private sector investors is likely to be a key frontier for the ICCTF in the future; the particular role and niche that the fund might fill given the domestic financial context needs elaboration.

## 9 Innovation

The establishment of the ICCTF is in itself a significant innovation in international climate finance. The key elements of this innovation have been detailed in some depth in sections 1 – 5. It is a pioneering model of a national trust fund acting as a conduit for international finance. This in turn, has helped support the operationalisation of two other funds related to climate change; namely, the Millennium Challenge Trust Fund and the REDD+ fund (FREDDI). However, as we will discuss in section 10, this raises some challenges in terms of the original vision of the ICCTF.

The introduction of governance frameworks that bring government, local government, donors, civil society, and experts together to deliberate over how to invest in solutions to climate change is also significant. Many of these are nascent arrangements, however, and appear somewhat under-utilised by the stakeholders that they seek to engage.

There is some evidence that the ICCTF has sought to support innovative approaches by government PMUs through the portfolio of pilot programmes selected so far. The Ministry of Forestry alternative energy project presents an innovative delivery model, working through religious groups that may serve to help strengthen government relationships with communities. It remains to be seen whether the portfolio of smaller scale programmes that the ICCTF will fund through NGOs and research institutions will have particularly innovative features.

Transitioning to a model that places a more explicit emphasis on innovation is also part of the Fund's vision for the future, although the exact approach that this will take remains to be seen. In general though, our review of the portfolio of pilot programmes does not suggest that finance has been particularly targeted at supporting more innovative approaches to managing climate change, or the innovative delivery of finance.

### Take away messages

- The establishment of the ICCTF as a national trust fund, and a forum which enables multi-stakeholder deliberation on programming, is in itself a significant innovation. Many of these arrangements are nascent, however,

and it remains to be seen if the MWA will be a forum where stakeholders participate more actively.

- Current pilot programmes have not had an express focus on innovative approaches to managing climate change, or developing more innovative delivery of finance.
- The ICCTF envisions transitioning to a model with a more express emphasis on innovation, though the exact approach that will be taken remains to be seen.

## 10 National ownership and sustainability

The key driving objective for establishing the ICCTF was to support a nationally owned and sustainable approach to financing Indonesia's climate change response. As such, it is vital to reflect on the Fund's experience to date: both the positive developments and the challenges it has encountered.

On the one hand, the process of operationalising the ICCTF represents an important learning experience for all the stakeholders that have been involved in its conceptualisation and execution, notably the Planning Ministry Bappenas, who had little previous experience of managing international resources. The development of systems that allow ICCTF finance to be reported as part of domestic public financial management systems, as well as meeting the standards that international investors expect, has taken substantial time and effort. The sustainability of such a "hybrid" approach, with its dual reporting systems and resultant inefficiencies, remains to be seen.

The trust of the Indonesian government in the ICCTF is demonstrated in part by the decision to nominate it as the National Implementing Entity (NIE) for the Adaptation Fund in Indonesia. While its accreditation remains to be finalised, the ICCTF's role in channelling international climate finance and supporting Indonesia's climate finance priority is formally acknowledged by high-level coordinating entities including the DNPI, the focal point for many of the UNFCCC funds that are financing programmes in Indonesia.

Alongside hosting the ICCTF, Bappenas has developed more detailed guidelines for implementing responses to climate change in the form of RAN/RAD GRK and RAN API. As we have already highlighted, investment in developing the expertise and capacity within Bappenas in the RAN GRK and the ICCTF Secretariats, provides an opportunity to strengthen ownership and effectiveness. National ownership of the ICCTF is also somewhat contingent on Bappenas success in creating practical platforms for implementation of these policies. The ICCTF has the potential to provide a strategic pool of funding that facilitates and supports information sharing and interaction across key actors in this regard.

Yet the legal operationalisation of the ICCTF has been a much slower process than anticipated, and providing assurance that the Fund can meet international standards for fiduciary management, environmental and social safeguards, and results management, has been challenging. In practice, very little international funding to support Indonesia's response to climate change has been channelled through the ICCTF, and there has been little engagement with the ICCTF as a key domestic stakeholder. Indeed the largest

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multilateral programmes currently active in Indonesia are implemented by multilateral institutions such as the ADB and the World Bank, with little participation or involvement from the ICCTF.

This undoubtedly represents a dual responsibility: on the one hand, donors and international climate funds seeking to engage in Indonesia have a responsibility to find ways to engage with a mechanism, which according to official government policy, is positioned to play a prominent role in international climate finance. On the other hand, Indonesian stakeholders, particularly within government, also bear the responsibility of supporting rapid operationalisation of the ICCTF, and must demonstrate a willingness to work in collaboration rather than in competition with the Fund.

### Take away messages

- The design of the ICCTF allows it to work through national financial systems, while seeking to meet the standards expected by international donors. Its operationalisation, however has been a much slower than expected.
- While the ICCTF was intended to help strengthen coordination and coherence across international support for climate action in Indonesia, as yet, very little international funding has been channeled through the Fund, or engaged the ICCTF as a key domestic stakeholder.

## Role in the Global Climate Finance Architecture

The ICCTF model has been pioneering. Indonesia was amongst the first countries to set up a dedicated nationally administered institution to direct finance to its climate change response strategies, in the context of efforts to implement its national climate change strategy. This model has attracted enormous attention internationally. It sought to respond many recognised challenges associated with the delivery of climate finance, including the need to put developing country institutions in the lead in managing finance to support their responses to climate change, and the need to create systems to strengthen coordination across donors and reduce fragmentation. It would also help facilitate access to existing and emerging international climate funds. While the model of a national trust fund was not unique, the ICCTF was the first time that climate change rose to a level of political attention worthy of its own fund in a developing country. Many other countries have since invested in setting up similar institutions to access and manage both international and national climate finance.

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Yet the practical experience of the ICCTF demonstrates the challenges of realising these objectives in practice. It highlights the inextricable links between domestic climate governance and finance, and the fund's investment strategy has necessarily had to be flexible to reflect and respond to Indonesia's deepening plans to mitigate emissions and adapt to the impacts of climate change. It also demonstrates the complexity of coordinating national institutions around an encompassing policy issue such as climate change that necessarily engages multiple actors at all levels of government, as well as diverse non-governmental stakeholders. It has taken time to develop a strategy that engages key national actors in climate policy at a practical implementation level, and establish the ICCTF as a key node for international efforts to support domestic climate action.

It remains to be seen whether as the ICCTF becomes fully operational it will be able to play a more central role in supporting implementation of future national climate change response efforts. In turn, while the focus of the ICCTF until this point has been on its institutional operationalization with a strong emphasis on fiduciary management, this focus must now turn to demonstrating a tangible and concrete contribution to these processes. Our analysis confirms that creating an effective national climate fund is a complex and iterative process that requires commitment from both national stakeholders as well as contributors of finance and international funders.

### Take away messages

- The ICCTF model of a national fund to increase coherence and ownership of international climate finance has been a pioneering experiment
- Its practical experience, however, suggests a vital need to create robust systems and incentives to engage key actors in the national climate finance in the design and operationalization of such institutions

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## Appendix 1: Documents required in the ICCTF's project selection

Stage	Relevant documents
Call for proposal and project proposal submission	<ol style="list-style-type: none"> <li>1. Letter of call for proposal from Chairperson of SC</li> <li>2. Letter from Minister or Secretary General or Executive director</li> <li>3. Term of Reference or Feasibility study</li> <li>4. Application form as provided by the template</li> </ol>
Review of projects according to the BAPPENAS bluebook	<ol style="list-style-type: none"> <li>1. All project proposal documents</li> <li>2. Administrative evaluation form</li> </ol>
Ranking of proposals and technical recommendation	<ol style="list-style-type: none"> <li>1. Technical evaluation form</li> <li>2. Recommendation of short list projects in 3 windows</li> </ol>
Project short listing and recommendation Project approval	<ol style="list-style-type: none"> <li>1. Short list documents</li> <li>2. Consolidated TC recommendations</li> <li>3. Approval documents</li> </ol>

Source: ICCTF's SOP (2011)

## Appendix 2: Summary of the policy, regulatory and governance frameworks supporting, and established through, ICCTF project interventions

Issuance	Level	Type	Year of issuance	Remark	Function
<i>Created in particular to support the ICCTF's operations</i>					
National regulation	National	Policy	2011, 2006	Government regulation (PP)10/2011 jo PP 2/2006	Mechanism of receiving foreign loan and grants
Presidential regulation				Perpres 80/2011	Trust fund management and mechanism of grant channelling to implement Perpres 10/2011 and to channel grants through trust fund
Minister of BAPPENAS	National	Governance framework	2013	PPN no. 3/2013	The establishment of ICCTF Board of Trustee (MWA)
	National		2009, 2010	PPN 44/9/2009 PPN 59/9/2010	The legal basis of ICCTF
<i>A direct result of the intervention of projects funded by ICCTF</i>					
Ministry of Agriculture (Research and Development)	National	Guideline	(in progress)	Litbang Kementan (MOI-ICCTF)	The land-use guideline and practices that minimise the release of CO <sub>2</sub> emissions from different types of peat soils
<i>Simultaneously established during the PREP-ICCTF and supporting the ICCTF</i>					
	National	Guideline	2011	Perpres 61/2011	Guidelines for national (RAN GRK) and regional (RAD GRK) mitigation actions
			2012, 2010	Perpres 70/2012 jo Perpres 54/2010	Procurement
	National	Guideline	2011	INPRES 10/2011	The regulation to postpone all new permit and enhancement of forestry and peat land management
<i>Available before the establishment of the ICCTF</i>					
	National	Governance framework	2006	Government Regulation No.39/2006	The monitoring and evaluation of the Implementation of development plans
			2004	Government Regulation No.21/2004	The preparation of work plans and Budgets by sectorial ministries
Minister of BAPPENAS	National	Policy	2006	PPN/06/2006	Procedures for planning and Submitting Proposals and Assessing projects funded by Foreign Loans and/or Grants
Minister of Finance	National	Policy	2005	52/PMK.010/2005	Procedure of Grants Distribution to the Regions
		Governance framework	2008	PP60/2008	Internal audit
		Governance framework	2006	143/PMK.05/2006	Modalities of Foreign Loans and Grant Disbursement
		Governance framework	2007	57/PMK.05/2007	Regarding Management of Accounts owned by State

					Ministries/Bodies/Offices/Work Units
Ministry of Home Affairs	National	Governance framework	2008	No. 38/2008	Grant Acceptance and Assistance towards Civil Society Organisations (CSOs) from/and to Foreign Party Procedure on registration and legalisation of foreign grants (in revision as grant disbursement without KPPN procedures). Local and regional policies
Decree of the Director General of State Treasury Regulation	National	Governance framework	2006	PER 67/PB/2006	



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