Climate Finance: Lessons from Indonesia

Optimizing Domestic Finance To Reduce Emissions

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In public finance, national budgets play a significant role.
Public climate finance disbursed at least USD951 million in 2011. Domestic resources contributed the majority of public climate finance flows.
The emergence of blended finance

- CPI has repeatedly found that public finance drives private investment. Public finance often makes private investment possible by increasing project revenues, reducing project costs, or developing the frameworks that enable investment.

- From the private sector perspective, challenges blocking climate investment:
  - More risk (of uncertain returns)
  - Less viability (hampering access to finance)
  - Lack knowledge (on climate change risk to business)

- From government perspective, challenges blocking climate investment-friendly policies:
  - More risk (of political opposition)
  - Less viability (uncharted, unregulated territory)
  - Lack knowledge (on innovative instruments)
Mitigating risk

By enabling private investment, governments can achieve the same amount of electricity generation while providing only 15-35% of the financial resources they would have spent had they built and operated the project themselves:

- Sovereign guarantees and long-term Feed-in-Tariff (FiT) unlocked access to long-term debt at competitive rates and provided a strong boost to the project’s expected equity returns.
- Commercial lenders have signaled their willingness to fund construction works once key bankability concerns have been resolved, so public finance can focus on activities where funding gaps still exist.

EXAMPLE: SARULLA GEO-THERMAL PLANT
Increasing viability

- Individual farmers have biggest obstacles to accessing finance.
- Public funding could support better bankability of individual farmers, or provide initial capital for them to become organized.
Better knowledge of innovations

In Indonesia, the mainstreamed use of a Trust Fund / Public Service Agency model for channeling climate finance, could increase government units understanding of innovative funding mechanisms.

EXAMPLE: PUBLIC SERVICE AGENCY FUNDS

Source: GoI Financial Report 2014
The Lab aims to drive billions of dollars of private investment into climate change mitigation and adaptation in developing countries.

Based on proposals from around the world, The Lab has identified, developed and piloted transformative climate finance instruments.

The Lab crowd-sources ideas, provides incubation for innovative climate finance solutions, and introduces solutions to funders.
Key Lessons on Climate Finance for national policy-makers

- Take actions that **help private actors to reduce their exposure to risks and improve their access to financing**, such as providing state backed guarantees.

- **Increase access to concessional finance** and targeted extended tenor debt to help investors to reduce project costs and support the expansion of large projects.

- Support opportunities to **demonstrate the effectiveness of new methods** and approaches. For example, channeling public resources through private or quasi-private entities.