

## Call for inputs for the sixth technical expert dialogue under the ad hoc work programme on the new collective quantified goal on climate finance

### Submitted by

Climate Strategies

on behalf of the SNAPFI project

**In Response** to the Call for inputs from Parties, constituted bodies under the Convention and the Paris Agreement, the operating entities of the Financial Mechanism, climate finance institutions, observers and observer organizations, and other stakeholders, particularly from the private sector, to submit their views on the sixth technical expert dialogue under the ad hoc work programme on the new collective quantified goal on climate finance, regarding:

- What specific issues should be proposed for in-depth discussion at the sixth technical expert dialogue, with a view to identifying clear options regarding:
  - How the quantum should be set; and
  - Mobilisation and provision of financial resources, including contributors, sources and integration with Article 2, paragraph 1 (c) of the Paris Agreement.
- What should be the format of the sixth technical expert dialogue, noting that it is shorter in duration compared to the fifth dialogue.

## **Background to the SNAPFI Project**

The SNAPFI project – [\*Strengthening National Climate Policy Implementation: Comparative Empirical Learning & Creating Linkages to Climate Finance\*](#) – explores how transformative change can be enabled by international climate finance through domestic policies in developing countries.

The project spans 4 developing countries - Brazil, India, Indonesia and South Africa - alongside the EU, to support ambition raising in countries nationally determined contributions (NDCs) with a focus on unlocking climate finance. Each country partner is working to inform their national policy-makers with science-based policy advice on the effectiveness of a range of financial instruments, building capacity and aligning climate finance to enable effective national climate policy.

Each year, 5 national studies and a cross-country study are produced designed to inform decision making and the policy process. They aim to contribute to the following long-term impacts:

- National decision-makers are better able to utilize robust evidence when designing policies and corresponding finance instruments to support the implementation of NDCs.
- Decision-makers at national and international finance institutes are supported to design and implement instruments to strengthen NDC implementation.
- Countries beyond the direct project scope benefit from positive examples of climate finance support for NDC implementation.

Partners in each country have identified 'change agents', key stakeholders with the capacity to use the research to enact change, who are embedded throughout the research. They are from ministries, politics and the financial sector whose work creates conditions that enable the achievement of the long-term objectives.

## Executive Summary

The 2020 climate finance target was undermined by several factors, including a lack of adequate links between the target and the needs and priorities of developing countries, as well as a lack of clarity regarding the connection between finance under Articles 9 and 2.1(c) of the Paris Agreement, and ambiguities in tracking and accounting for progress on finance.

Research on international climate finance highlights a significant gap between the financing needs of developing countries and the provision of climate finance by developed countries, and failure to respond to the urgency of required climate action. Furthermore, national-level assessments of international climate finance indicate no clear trend of increasing funding over time.

Developing countries are deeply concerned that the existing goal has not been met. Even developed countries acknowledged that they have not jointly mobilised US\$100 billion by 2020, in 'Climate Finance Delivery Plan: Meeting the \$100 billion goal'. The New Collective Quantified Goal must be higher than \$100 billion per year, as agreed in Paris. Rebuilding trust and confidence that a higher goal will be met requires political will by developed countries to meet their obligations.

## The following key messages emerged from research led by SNAPFI partners

which shed light on the importance of linking international finance with country priorities and local realities, transparency for finance, and the importance of finance that is equitable in enabling just transitions and avoid adding to debt burdens.

*The University of Cape Town, South Africa*

***The quantum of the finance target should link to the needs of developing country Parties related to implementing the Convention and the Paris Agreement.*** Current efforts to track progress in implementing the Paris Agreement reveal that more work is needed to link the demand and supply of climate finance. Linking the quantum of the finance target to the expressed needs of developing country Parties has two steps. Firstly, concrete needs for support should be identified, e.g. what activities are to be funded under mitigation, adaptation and loss and damage. Secondly, identified needs should be costed, and so linking the quantum to needs could incentivize further work on identifying costs and costing. Work done by SNAPFI partners identified gaps, particularly in costing adaptation, and can contribute to further articulation and understanding of needs (such as future reports by the Standing Committee on Finance on the Determination of Needs of Developing Countries).

***The finance target should explicitly address the balance between mitigation and adaptation, as well as loss and damage.*** Historically international climate finance (ICF) has primarily focused on reducing emissions, which has led to limited funding for adaptation and loss and damage. In South Africa, 93% was dedicated for mitigation objectives, only 1% for adaptation, with 6% for both adaptation and mitigation simultaneously, according to data from 2014-2018. Developing country Parties already communicate their finance support needs in this way, and this approach could be extended to the finance target. Explicitly addressing the dimensions of climate finance in the target, such as the balance between mitigation and adaptation and loss and damage, would help bridge the finance gap for adaptation and loss and damage, more accurately reflect national priorities, and promote that finance reaches those most in need.

***The finance target should enable technical work to distinguish the net value of finance support, which would enable the development of standardized metrics for climate finance instruments.*** A clear understanding of how finance is counted is a *sine qua non* for transparency in delivering the quantum of the NCQG. The question of how much is linked to how it is counted. Standardized reporting metrics and targets are identified in the literature on climate finance as enabling measures for more efficient and equitable delivery of international climate finance (ICF). To accurately track ICF, it is essential to distinguish between finance provided and finance mobilized as required under Article 9.3 of the Paris Agreement. Grants and loans should be clearly distinguished. Loan repayments from developing countries should be accounted for separately to ensure transparency and accuracy in reporting. Developing standardized methodologies and accounting practices are crucial for narrowing ranges and increasing understanding of funding volumes and needs. ICF provided in the form of loans is more transparent and accountable, when also reporting grant-equivalent values. As for mitigation, double and multiple-counting finance is not consistent with environmental integrity, or even rigorous accounting. Standardized metrics for tracking and accounting for the net value of finance (less repayments and transaction costs, as two examples) would assist with effective and equitable flows under both Articles 2.1(c) and 9, and enhance transparency as required under Article 13 to promote collective progress toward the long-term goals and objectives of the Paris Agreement.

Learning from past experiences, establishing clarity on finance metrics, and recognizing that finance delivery is a means to build developing country Party institutional and implementation capacity are important elements related to the quantum of finance. They are also crucial for enhancing the role of climate finance and international cooperation, fostering trust between Parties, and unlocking progress towards the long-term goals and objectives of the Paris Agreement.

***Mobilizing finance for climate action should aim to alleviate debt burdens in transitions to low carbon, climate resilient economies.*** Debt relief initiatives may be necessary to alleviate the debt burden of developing country Parties and enable them to invest in climate action. Differing loan rates offered by international finance organizations offers opportunities to reduce debt burdens or create finance flows for climate action. Given that developing countries have no fiscal space, are still recovering from COVID and feeling pressures of food and energy crises, debt relief needs to be seriously considered.

***Financing just transitions is particularly important in a developing countries, with pressing developmental needs.*** Disinvestment pressure reduces finance for fossil fuel infrastructure, including high-emission electricity generation, while green finance flows into green infrastructure, such as renewable energy and other cleaner energy technologies. In the period between, transition finance may be required to mitigate negative economic, employment and social impacts during transitions. An example of this is South Africa, where just transition to net zero CO<sub>2</sub> by 2050<sup>1</sup> must address social justice for workers and communities that are adversely affected by phasing out coal. Transition finance would support an accelerated phasing-out of coal and fund the transition for communities in affected regions like Mpumalanga. The implication is that financing just transitions includes addressing cases of companies or state-owned enterprises with balance sheets dominated by fossil fuel assets. Transition finance should support these companies and not exclude them from financial markets.

---

<sup>1</sup> In its low-emissions development strategy (LEDS), South Africa has committed to 'ultimately moving towards a goal of net zero carbon emissions by 2050'(RSA 2020).

**Summary of National Study of Indonesia: Enhancing the Private Sector's Roles in Climate-Energy Policies Towards the Indonesian NDC Target**

In this study, the public policy in the energy sector will be identified to understand the connections of climate-related policies with the role of private sectors in - climate change mitigation from a renewable energy sector perspective. This study explores to what extent the climate-energy policies can enhance the private sector role in the context of NDC achievement by 2030 and NZE by 2060. This study uses public policy evaluation analysis and content analysis to investigate the relationship.

Our evaluation assessment of these policy instruments, however, shows mixed results. While several policy instruments have been prepared and/or enacted, several instruments indeed are able to increase the RE shares in the energy mix, as stipulated in both RUEN (Rencana Umum Energi Nasional/ National Energy General Plan) and NDC. However, the political and social accessibility and feasibility of implementing such instruments are complex. Informality practices in Indonesian governance has enabled energy policy making and implementation favouring the coal sector than RE, particularly in navigating energy trilemma. As RE requires more capital to be established as dominant in the Indonesian energy regime, the discourse needs to be moderated and upheld. Hence, the mandatory and voluntary policy instruments can be collectively effective in cementing a pathway to achieve NDC by 2030 and NZE by 2060.

Three main conditions remain vital in implementing our proposed policy instruments. The development of RE requires the converging agenda setting in energy policy making. The influence of PEPs (Politically Exposed Persons) from the coal sector are hindering productive efforts toward a cleaner energy transition. An integrated approach that combines the advancement of implementation network capacity, administrative feasibility, and flexibility of policy instruments to be manipulated is needed to influence both market readiness in embracing clean energy transition and sustainability of policy instruments themselves. The second condition is the independence of DEN (Dewan Energi Nasional/ National Energy Council) from the coal sector's influence. Providing more authority and emphasising the independence of DEN will improve the political and social acceptability towards the clean energy transition. The third condition is that BPD LH (Badan Pengelola Dana Lingkungan Hidup/ Environmental Fund Management Agency) as the environmental fund manager in Indonesia needs to be enhanced. The current global discourse that revolves around collective actions to mitigate and adapt to climate change also signifies the importance of ICF. The capacity to mobilise finance from international sources needs to be equipped to BPD LH, particularly concerning the challenges in developing new RE projects. Here, other policy instruments must be developed to improve all these conditions.

The private sector has an influential role in helping the Gol in achieving NDC by 2030. The emergence of RE technologies in Indonesia has invited companies of all sizes to utilise such opportunities. In this study, we found that being a policy entrepreneur, advocate, financier, and/or R&D contributor is possible for the private sector. While this study encourages their contribution to the escalating RE sector in Indonesia, the Gol needs to develop stronger mechanisms to support them. These mechanisms include the linking National Industry Master Plan (RIPIN) 2015-2035 to the national technology development roadmap and human resources development master plan – where both are still not made yet and a selective R&D fund allocation mechanism tailored to the geographical context of the private sector.

**Climate-Energy Governance Model in Indonesia**

This study tries to synthesize the findings from the first to third year study to better understand the climate governance model in the Indonesian energy sector. This study aims to develop a climate governance model for the Indonesian energy sector through a qualitative approach. We used the climate governance framework to develop climate-energy governance framework in Indonesia which consists of four components namely key actors, key regulation, policy process, and renewable energy financing.

Related to key actors, this study found that the Ministry of Environment and Forestry (MoEF) and Ministry of National Development Planning (MoNDP) are the primary actors of climate change management in Indonesia. The Ministry of Energy and Mineral Resources (MoEMR) is also an important actor, with the energy sector as the second-largest contributor to the NDC target. In the energy sector, National Energy Council (DEN) becomes central in overseeing the coordination between pertinent ministries in implementing the NDC. The State Electricity Company (PLN) also becomes a central stakeholder while is in coordination with the Directorate of Electricity of the MoEMR. However, the number of stakeholders from different sectors and perspectives sometimes triggers internal conflict. The prominent actors are still consistent with the job, function, and power constellation for each institution, distinct interests left climate change management to be differently prioritized by different institutions. At the political dimension, the relevant ministries perceive of climate change action in silos, rather than seeing it as an integrated system within the Indonesian development agenda. These vested interests can be distinguished in several layers. It is known that during the consensus-building of the NDC target, there were often internal conflicts caused by different interests, causing the consensus results and implementation to be ineffective.

Related to key regulations, in Indonesian energy policy trajectory there are several key energy policies, which are National Energy Grand Strategy and Net Zero Emission (NZE) 2060. Currently being enacted and drafted, the Grand Strategy of National Energy with the aim to increase national energy security and reduce dependency on energy imports. However, the Grand Strategy is seen as a setback towards the national NRE target. Some strategies planned include increasing national crude production and acquiring foreign oil fields for refinery needs; increasing the capacity of the fossil fuel refinery; optimizing the utilization of natural gas, i.e. gas fuel for transportation and gas for industry; and increasing the use of battery-based electric motorized vehicles (BEV). Related to NZE, the Gol estimates that Indonesia will reach the peak of GHGs emissions with net sinks in forestry and land use (FOLU) in 2030, and towards net-zero emissions in 2060. Nonetheless, Indonesia's commitment to achieve the target of NZE in 2060 is considered too long compared with global target, and not in accordance with the provisions of the Paris Agreement. The Indonesian energy sector also has a different policy trajectory namely the national energy policy (KEN) 2014, Electricity Supply Business Plan (RUKN) 2019-2038, and Electricity Supply Business Plan (RUPTL) 2021-2030. KEN 2014 aims to optimize the energy mix and stipulates that renewable energy should be at least 23 % of the energy mix by 2025. However, projections in 2025, coal will remain Indonesia's most significant energy source with a proportion of 30 % in the energy mix. RUKN 2019-2038 contains the national electricity policy, the direction of developing the electricity supply, the current condition of the electricity supply, and the projected electricity demand for the next 20 years. Furthermore, in the newly released RUPTL 2021-2030, there is an increase in the addition of new renewable energy capacity. However, coal will still dominate the overall generation mix for the next ten years. In summary, there is a gap between the Gol's pledge to NDC, national policies, and programs to achieve it, where the RE development is still stagnated and coal-based energy is still preferred.

In terms of the policy process, findings from our study suggest that there are informality practices in the Indonesian energy sector. The current gap in energy policymaking is caused by the inconsistency

in related policy trajectories where coal is more favored. This condition culminates in a situation where powerful groups can operate through different mechanisms or outside the formal mechanism to ultimately influence energy policy according to their interests. In other words, the policy-making process is often coloured by political and economic interests, which causes the Government of Indonesia's focus on the energy sector to shift over periods without changing NDC target and the national energy mix target. Besides these oligarchic practices, the lack of transparency in the involvement of actors in the energy governance, where there is no boundary between power and business, also enhance the difficulty of the energy sector in Indonesia to phase out coal towards renewable energy. Thus, the most favourable approach so far is to phase down coal policy.

Related to finance, financing for NRE projects in Indonesia is still limited even though NRE is intended to be the first contributor to GHG emission reduction. The financing for NRE cannot rely on state budget since it is very limited. Therefore, other innovative schemes involving non-state actors are expected to be implemented for financing NRE such as International Climate Fund, environmental fund managed by BPDH, public-private partnership (PPP) scheme, private funding, community funding, etc. ICF in Indonesia continues to develop, but it also has many limitations. Several ICF opportunities, such as GCF, AF, and GEF, could be accessed more optimally by disseminating information on the standards required for each type of ICF source. In addition, the roadmap NDC for energy still do not take sides on the NRE investors. Policy-wise, the electricity price set by MoEMR and PLN is still considered low and causing investors to back down. Therefore, the innovative financing scheme needs to be supported with a better policy on feed-in-tariff. Related to BPDH, BPDH has adequate capacity to manage and allocate financial resources to energy transition. The capacity to mobilise finance from international sources needs to be equipped to BPDH, particularly concerning the challenges in developing new RE projects. Here, other policy instruments must be developed to improve all these conditions.

**Contact Details:**

**Julie-Anne Hogbin**

Programme and Networks Director

Climate Strategies

[Julie-anne.hogbin@climatestrategies.org](mailto:Julie-anne.hogbin@climatestrategies.org)

**Britta Schmidt**

Programme and Networks Associate

Climate Strategies

[britta.schmidt@climatestrategies.org](mailto:britta.schmidt@climatestrategies.org)