



Frankfurt School
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for Climate & Sustainable Energy Finance

NATIONAL CLIMATE FINANCE INSTITUTIONS
SUPPORT PROGRAMME

CASE STUDY: THE INDONESIA CLIMATE CHANGE TRUST FUND (ICCTF)



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The Programme helps national climate finance institutions become “Fit for the Funds” through the exchange of knowledge, experience, and good practice. National climate finance institutions in an early stage of development, especially those in Least Developed Countries, receive a range of practical services to develop technical know-how, innovative financing approaches and joint pilot projects. The present case study is part of a series intended to provide examples of the set up and management of national climate institutions.

The information presented was compiled through desk research and interviews with the Indonesia Climate Change Trust Fund (ICCTF) Secretariat as well as a review of the literature. We would like to thank Syamsidar Thamrin, the head of Secretariat and Amin Budiarto, Project Manager who have provided valuable assistance and input to this report. It should be noted that some information is not yet available, as the ICCTF is still in its early stages and the ICCTF system of monitoring, reporting and verifying (MRV) the environmental impacts and emissions savings still needs to be refined.

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ABBREVIATIONS

BAPPENAS	National Development Planning Agency
BMKG	Bureau of Met, Climate and Geophysics
COP	Conference of the Parties
CPAP	Country Programme of Action Plan
DNPI	Dewan Nasional Perubahan Iklim
ICCSR	Indonesian Climate Change Sectoral Roadmap
ICCTF	Indonesia Climate Change Trust Fund
ICI	International Climate Initiative
Gol	Government of Indonesia
M&E	Monitoring and evaluation
MRV	Measurement, Reporting and Verification
NAMA	Nationally Appropriate Mitigation Action
NAP	National Action Plan Addressing Climate Change (RAN-PI)
NAPA	Climate Change Adaptation Action Plan
NCF	National Climate Fund
NCFI	National Climate Finance Institutions
NCFISP	National Climate Finance Institutions Support Programme
NIE	National Implementing Entities
PMIG	Project Management Implementation Guidelines
PMU	Project Management Unit
RAD-GRK	National Action Plan For Reducing Greenhouse Gas Emissions
RAN-PI	National Action Plan Addressing Climate Change (NAP)
RPJMN	Rencana Pembangunan Jangka Menengah (five-year Medium-term Development Plan of the Indonesian Government 2010 – 2014 or until 2030)
SOP	Standard Operation Procedures
TC	Technical Committee
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNPDF	United Nations Partnership for Development Framework

1 INTRODUCTION

The Indonesia Climate Change Trust Fund (ICCTF) is designed as a National Climate (Trust) Fund (NCF), which aims to develop innovative ways to link international finance sources with national investment strategies. In general, national climate finance institutions (NCFIs) are mechanisms that enable governments to strengthen national political and fiscal systems through directing financing towards national climate change projects and programmes.¹ As it is country driven, it supports the strengthening of national institutions and coordinates climate change activities to enhance sustainable development and aid effectiveness.² NCFIs also help to manage, blend, evaluate and monitor climate change funding activities.

The benefits of establishing an NCFI include, but are not limited to:

- Allowing governments to innovatively blend international and domestic public and private funding sources, which can be very useful in improving aid effectiveness
- Strengthening national institutions and management of climate finance through capacity building in climate finance (e.g. fiduciary management) to streamline diverse funding sources
- Reducing fragmentation of climate finance within governments through a mainstreaming of efforts; and
- Coordinating and promoting national climate change activities.

With a well-designed NCFI, governments can increase their ability to absorb additional funding from international donors. The capacities and skills gained can also help them achieve the status of National Implementing Entities (NIEs) and use of the “direct access” modality under the Adaptation Fund, the Green Climate Fund or other future funding sources.³ A structural example in Figure 1 shows these key goals.

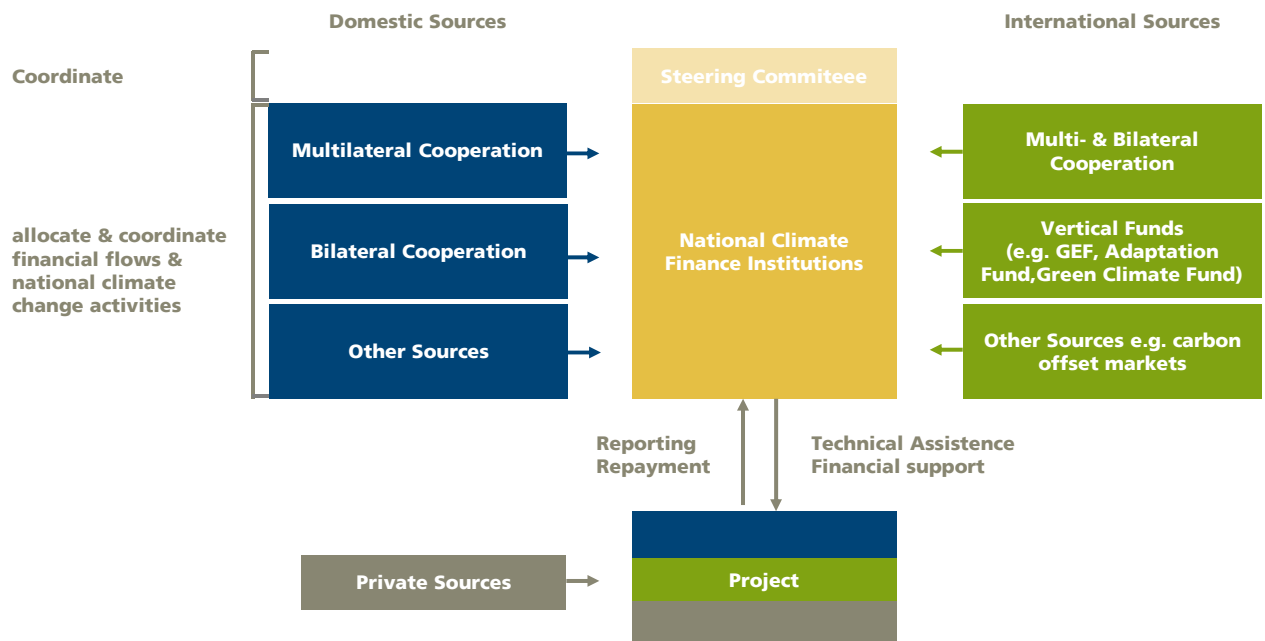
NCFIs typically aim to effectively support national priorities related to climate change and finance, and vice versa, the national context most often determines the design of the NCFI. Key factors influencing the institutional design and fund focus include political and macroeconomic frameworks, national goals and development plans and existing capacity among government ministries and agencies. Consequently, institutional structures of NCFIs differ greatly according to national circumstances and needs, and with regard to their mandate, governance structure, accountability and financing criteria. Nevertheless, there are a number of aspects, issues and challenges that are similar for or common to all NCFIs, pointing to potential opportunities for an exchange of good practices.

Thus, the following three sections intend to provide some initial insight into an institutional set up of an NCFI and might serve to facilitate this exchange between countries. Section two provides an overview about the macroeconomic and evolution of Indonesia’s climate change policy. Section three gives an overview of the ICCTF, including the funding sources, design, governance, administration and current operations. The conclusion in section four presents the key points and features.

¹ This section is based on UNDP (2011a).

² NCFs are aligned with several principles of the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action: national ownership and alignment with national priorities; harmonization and coordination between government agencies and entities; effective and inclusive partnerships between sectors/agencies; and achieving development results.

³ Glemarec, Yannick (2011).

Figure 1: Structural example of an NCFI: funding and coordination

Source: Adapted from UNDP (2011a).

2 INDONESIA: MACROECONOMIC AND POLICY CONTEXT

This section first gives an overview of the macroeconomic situation of Indonesia and then presents the evolution of the climate change policy framework.

2.1 MACROECONOMIC SITUATION

Indonesia comprises more than 17,000 islands along the Ring of Fire and has a geographically fragmented population. Classified by the World Bank Group (2012) as a lower-middle income developing country, Indonesia has an annual GDP of USD 706 billion (in 2010).⁴ Indonesia's financial expenditures are limited by its small amount of nationally-sourced revenues and by the large amount of public spending allocated to fulfil its external debt responsibilities. At present, Indonesia is engaged in a radical transition from an autocratic, centrally planned economy to a democratic community with a much greater reliance on liberalized market principles.⁵

With 237 million people Indonesia has the world's fourth largest population. According to the UNDP (2011b), it is projected that with the current growth rate level the population will exceed 300 million by the year 2030. Unemployment rates decreased from 11 percent in 2005 to a little over eight percent in 2009.⁶ Poverty rates, while still high, have gradually decreased. Indonesia ranks 108 out of the 169 countries in the 2010 human development index.⁷ As noted in its National Medium Term Development Plan for 2010 – 2014 (the RPJMN), a key reason for Indonesia's limited development of socioeconomic opportunities and environmental protection is the sometimes low capacity at the sub-national government level.⁸

The World Bank Group and UNDP (2011) report that Indonesia is among the top ten greenhouse gas emitting nations worldwide, with emissions amounting to 1.79 Gt CO₂ emissions in the year 2005.

⁴ The World Bank Group (2012).

⁵ Ibid.

⁶ Ibid.

⁷ Ibid.

⁸ The Republic of Indonesia (2009a).

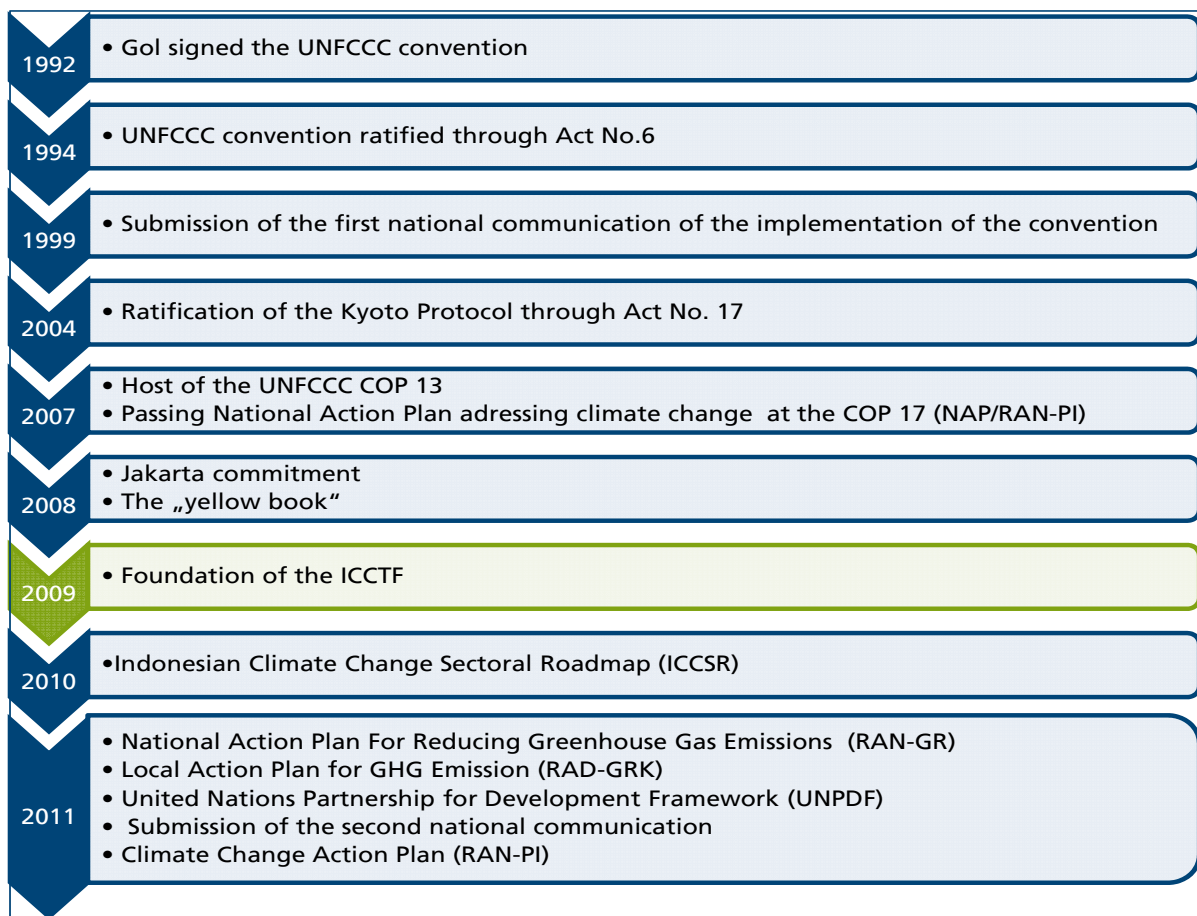
According to its Second National Communication to the UNFCCC, the major portion of emissions comes from land use change, notably the burning of peat lands and deforestation, followed by energy production, waste, agriculture and industry.⁹ It was noted in a BAPPENAS March 2011 Discussion Paper that a comprehensive sector-based study is still needed on national emissions baseline or business as usual and emissions reduction scenarios.¹⁰ The baseline is expected to be adjusted in 2015.

2.2 EXISTING POLICY FRAMEWORKS

Indonesia's existing national policies and international commitments guide the Government of Indonesia (GoI): the National Development Planning Agency (BAPPENAS) and other relevant ministries in multi-sectoral coordination for all climate change-related activities. BAPPENAS's main duties and function are reflected in the organizational structure, process of implementation of national development planning, composition of human resources and their educational background.

To keep these activities streamlined with funding activities, these policies will be integrated into the five-year Medium-term Development Plan (Rencana Pembangunan Jangka Menengah – RPJMN) for 2010-2014, and also for the subsequent RPJMN until 2030. The development of Indonesian's climate change policy on national and international level and the policy drivers that resulted in the foundation of the ICCTF (Figure 2) are discussed below.

Figure 2: Milestones of Indonesia's climate change policy since 1992



⁹ The Republic of Indonesia (2009b).

¹⁰ Thamrin, Syamsidar (2011).

2.2.1 INTERNATIONAL COMMITMENTS

One of the first major steps in the Indonesia Climate Change Policy on international level was taken in June 1992. The Government of Indonesia (Gol) signed the **UN Framework Convention on Climate Change** (UNFCCC) and ratified it through Act No.6 in 1994. As member of the UNFCCC, Indonesia submitted its national communication on the implementation of the Convention to the Conference of the Parties (COP) in 1999.¹¹ The core elements of the national communications are information on emissions and removals of greenhouse gases (GHGs) and details of the activities undertaken to implement the Convention. Indonesia made further commitments to combating climate change through its ratification of the Kyoto Protocol through Act No. 17 in 2004.¹²

In hosting the UNFCCC 13th Conference of the Parties in 2007 in Bali, Indonesia underlined the increasing awareness of climate change actions. Furthermore, the Gol passed its **National Action Plan Addressing Climate Change** (NAP or RAN-PI) at COP 13. The RAN-PI/NAP serves as a multi-sectoral guide to the Gol in integrating climate change into its overall National Development Plan by coordinating its regulatory efforts to implement both long and short-term efforts to tackle climate change.¹³

Under the Jakarta commitments of 2008 the Gol and international development partners agreed to leverage their cooperation by intensifying the principles contained in the Paris Declaration on Aid Effectiveness, which are embodied in the Gol's development plans.¹⁴

2.2.2 NATIONAL DEVELOPMENT PLANS

The commitments made by the Gol have to be integrated in the long and medium-term national development plans (RPJMN, 2010-2014 and until 2030) and the annual development plans.

The Indonesian Development Programmes, such as the joint **United Nations Partnership for Development Framework (UNPDF) for 2011 - 2015**¹⁵ and the **Country Programme of Action Plan (CPAP) for 2011 - 2015**,¹⁶ include development goals and key climate change objectives. The programmes they entail are designed to be fully integrated into the Gol's national development programmes, such as the RPJMN, and guide policies and actions implemented through partnerships with other international development agencies and local governments and communities.

2.2.3 NATIONALLY APPROPRIATE MITIGATION ACTIONS (NAMAS)

Implemented in the national development plan, a set of policies and actions - so called Nationally Appropriate Mitigation Action (NAMA) – are designed to reduce greenhouse gas emissions.

- **Mainstreaming Climate Change into Development Planning “The Yellow Book” (2008)**¹⁷

The Yellow Book serves as a multi-sectoral guide to the Gol in integrating climate change into its overall National Development Plan by coordinating its regulatory efforts to implement both long and short-term efforts to tackle climate change. It laid the **groundwork for the Indonesia Climate Change Trust Fund ICCTF** and outlines a triple track strategy of pro-poor, pro-job, and pro-growth, with pro-environment principles.¹⁸

- **National Action Plan For Reducing Greenhouse Gas Emissions (2011)**

Indonesia finalized its Presidential Regulation for the **National Action Plan For Reducing Greenhouse Gas Emissions** (Rencana Nasional Penurunan Emisi Gas Rumah Kaca pr; **RAN-GRK**

¹¹ In 2011 the second national communication was submitted. Both national communications are online at <http://unfccc.int>.

¹² The Republic of Indonesia (2007).

¹³ The Republic of Indonesia (2009b).

¹⁴ The Paris Declaration on Aid Effectiveness aims to ensure strengthening country ownership over development, improve existing and develop new aid instruments, expand dialogue to include new partners and focus on the delivery and accountability of development results.

¹⁵ The Republic of Indonesia and UNPDF (2010).

¹⁶ **UNDP (2011c).**

¹⁷ The Republic of Indonesia (2008).

¹⁸ The Republic of Indonesia (2008).

¹⁹) in September 2011, which serves as the foundation for relevant Ministries/Institutions, as well as the Regional Governments, to implement greenhouse gas (GHG) emission reduction activities. Since local and regional reduction measures will count towards emission reductions, the **Local Action Plan for GHG Emissions (RAD-GRK)** will be the primary implementation vehicle for the RAN-GRK. Under the RAN-GRK, President Yudhoyono established targets for 2020 of a 26% reduction in GHG emissions below the “business-as-usual” established during its First National Communication. This will be financed with Government resources, and a further reduction of up to 41% is foreseen if adequate international support is made available to the Gol. ²⁰ The RAN GRK is expected to become an integrated, concrete, measurable and practical action plan for the period between 2010 and 2020 for seven identified mitigation sectors.

▪ **Indonesian Climate Change Sectoral Roadmap (ICCSR)**

Launched in March 2010 and developed by BAPPENAS to complement the RAN-GRK, the **Indonesian Climate Change Sectoral Roadmap**²¹ (ICCSR) guides policy instruments and regulations, programmes and projects, funding schemes and capacity building for investments in clean energy, improved forestry and improved resilience.

To this end, the ICCSR serves as a policy guide for mainstreaming and implementing national adaptation and mitigation responses to climate change into national mid-term development plans for 2010 – 2030 (RPJMN). **The ICCTF is one of the Roadmap’s primary financial mechanisms.** Additional functions include:

- Laying the groundwork for the primary policy guide for the Presidential RAN-GRK goal of decreasing greenhouse gas emissions;
- Outlines nine priority sectors for adaptation and mitigation activities and three activity categories for actions, corresponding to timelines outlined in the RPJMN.

2.2.4 NATIONAL ADAPTATION PROGRAMMES OF ACTION (NAPA)²²

The Gol’s **Climate Change Adaptation Action Plan (RAN-PI)** of 2011 corresponds to the Indonesian National Adaptation Programmes of Action (NAPA) and contains outputs to support government institutions in their efforts to address climate change adaptation. Further adaptation efforts are outlined in the **ICCSR** for the water, marine, fisheries, agriculture, and health sectors.

2.2.5 NATIONAL STRATEGY STUDIES AND CLIMATE CHANGE SECTOR ASSESSMENTS

To date, the Gol has conducted several national strategy studies within the above named policies. The Gol’s Fiscal Policy Office within the Ministry of Finance also carried out an analysis for its 2009 “Green Paper” which put forth economic and fiscal policy strategies for climate change mitigation in Indonesia, both on a national and regional level.²³ Under these strategy studies the Gol:

- Identified several potential programmes to reduce emissions from the oil and gas, forestry, transportation, and solid waste sectors by using renewable energy.
- Proposed public policy instruments to guide sustainable development to meet its social-ecological targets for adaptation.²⁴

¹⁹ The Republic of Indonesia (2011).

²⁰ The Republic of Indonesia (2010a).

²¹ The Republic of Indonesia, (2009c).

²² UNDP (2011c).

²³ The Republic of Indonesia (2009d).

²⁴ The Republic of Indonesia (2010b).

3 OVERVIEW OF THE INDONESIA CLIMATE CHANGE TRUST FUND (ICCTF)

The ICCTF is one initiative among many in Indonesia which supports the economy's transition to a low carbon growth trajectory. There are already several donors operating in Indonesia to address climate change and national development, however, additional support is needed.²⁵

Jointly launched by the GoI, Minister of National Development Planning and the Minister of Finance on 14 September 2009, the Indonesia Climate Change Trust Fund (ICCTF) is designed as a national trust fund to attract, manage and mobilize financial investments in climate change mitigation and adaptation. The policy groundwork for the foundation was the Yellow Book (July 2008 edition).

The ICCTF is the first Multi-Donor Trust Fund managed and owned by the Government of Indonesia. Factors and design criteria which have been taken into considered in the process of establishing the ICCTF are lessons learned from similar multi-donor trust funds and learning by doing.²⁶

The ICCTF operates across three priority windows: Land-Based Mitigation; Energy; and Resilience and Adaptation with an overarching investment strategy to guide projects and conform to development policies.²⁷

Table 1: Key parameters of the ICCTF

KEY PARAMETERS	
Foundation	September 2009
Owner	Government of Indonesia
Fund Management	Government of Indonesia via National Development Planning Agency (BAPPENAS)
National Trustee	UNDP as Interim Trustee National Trustee will be assigned by the end of 2012
Objective	To achieve Indonesia's goals of a low-carbon economy and greater resilience to climate change. To enable the GOI to increase the effectiveness and impact of its leadership and management in addressing climate change issues
Financing mechanism	Phase 1 + 2 Innovation Fund: foreign grants Phase 3 Transformation Fund: public private partnership, CSR, Government's budget, reflow of Transformation Fund, capital markets etc.
Eligible borrowers	Phase 1: Sectoral Ministry Phase 2: Sectoral Ministry; Regional/local government; Private Firm acting through a Public Private Partnership; NGOs; Universities Phase 3: Harmonize public sector involvement

The ICCTF is one of Indonesia's key vehicles to achieve the reduction of GHG emissions and meet its goals of a low-carbon economy and greater resilience to climate change.

The ICCTF has the following overall objectives:

- Align and pool international financial resources with national investment strategies and domestic budgetary funds in an innovative, transparent and accountable manner.

²⁵ Brown and Peskett (2011).

²⁶ The Republic of Indonesia (2009e).

²⁷ Interview with Amin Budiarjo (2011).

- Mainstream climate change priorities national and local development planning and policies and implement GHG emissions mitigation measures and adaptation to climate change initiatives.
- The Act's activities and financial contributions are explicitly aligned with Indonesia's national development priorities outlined in its National Midterm Development Plan for 2010 – 2014 (RPJMN) and other relevant policies.

The initial conceptual ideas for the purpose, objectives and operationalisation of the ICCTF are outlined in the "Blueprint for Indonesia Climate Change Trust Fund."²⁸ The Blueprint guided the design and management of the fund. This section offers an overview of the fund's coordination, support and governance, its trustee arrangement and project implementers so as to better understand how it delivers its services and what structural components support the achievement of its priorities.

3.1 ICCTF SOURCES OF FUNDING

As part of its adherence to the Jakarta Commitments, the GoI is using external financial assistance to complement domestic funding resources. The ICCTF acts as a financial portal to receive and distribute funds from international funds, other governments, development partners and other climate change funding mechanisms (e.g. Adaptation Fund, EU Global Efficiency and Renewable Energy Fund; see Figure 1).²⁹

- Funding from international entities includes non-refundable contributions in the form of grants from bilateral donors acting via their development aid agencies. Funding is also channelled multilaterally through UNDP.³⁰
- As of June 2011, the United Kingdom, Australia, and Sweden have pledged support of the ICCTF acting through their relevant development agencies. The funding allocations (pledged vs deposited) are presented in Table 2.

Table 2: ICCTF funding allocations by donors: pledged vs. deposited

DONOR FUNDING CONTRIBUTIONS TO ICCTF	AMOUNT (USD)
Amount <i>pledged</i> by donor countries	18,466,000
Amount <i>deposited</i> into the fund by donor countries	11,254,310
Funds allocated in PREP-ICCTF Projects	5,481,698

Source: Data from the Heinrich Böll Foundation (update September 2011) and ICCTF (2012).³¹

3.2 FUND DESIGN AND STRUCTURE³²

As part of its adherence to the Jakarta Commitments, the GoI is using external financial assistance to complement domestic funding resources. The ICCTF acts as a financial portal to receive and distribute funds from international funds, other governments, development partners and other climate change funding mechanisms (e.g. Adaptation Fund, EU Global Efficiency and Renewable Energy Fund; see Figure 1).³³

²⁸ The Republic of Indonesia (2009e).

²⁹ The Republic of Indonesia (2011).

³⁰ Heinrich Böll Foundation, (update June 2011).

³¹ Current Climate Funding Status, Online at: <http://www.icctf.or.id/node/17>. January 2011.

³² The Republic of Indonesia (2011a).

³³ The Republic of Indonesia (2011).

Table 3: ICCTF timeframes and foreseen executing institutions

PHASE	ESTIMATED START DATE	EXECUTING AGENCIES
Phase 1: Innovation Fund	2009	Sectoral Ministry
Phase 2: Innovation Fund	2010 – 2011	Sectoral Ministry; Regional/local government; Private Firm acting through a Public Private Partnership; NGOs; Universities
Phase 3: ³⁴ Transformation Fund	2012 – 2013	Sectoral Ministry; Regional/local government; Private Firm acting through a Public Private Partnership; NGOs; Universities Harmonize public sector involvement

Source: Homepage of the ICCTC (2011).

3.2.1 THE INNOVATION FUND³⁵

In the first and second phases, which are already in operation, the ICCTF establishes and operates as “Innovation Fund” that serves to overcome barriers and facilitate the Gol’s NAMAs (Table 3).

The first phase is the expenditure phase, whereby grant funding from development partners and other contributors is used for activities that require investment, but do not yet generate direct financial revenues. These activities are underwritten and administered only by national governments institutions but could be implemented by national and local government institutions. It will not provide any direct financial return to the participant government ministries or institutions.

In the second phase, the private sector, public-private partnerships, NGOs and universities can submit applications to the ICCTF.

3.2.2 THE TRANSFORMATION FUND

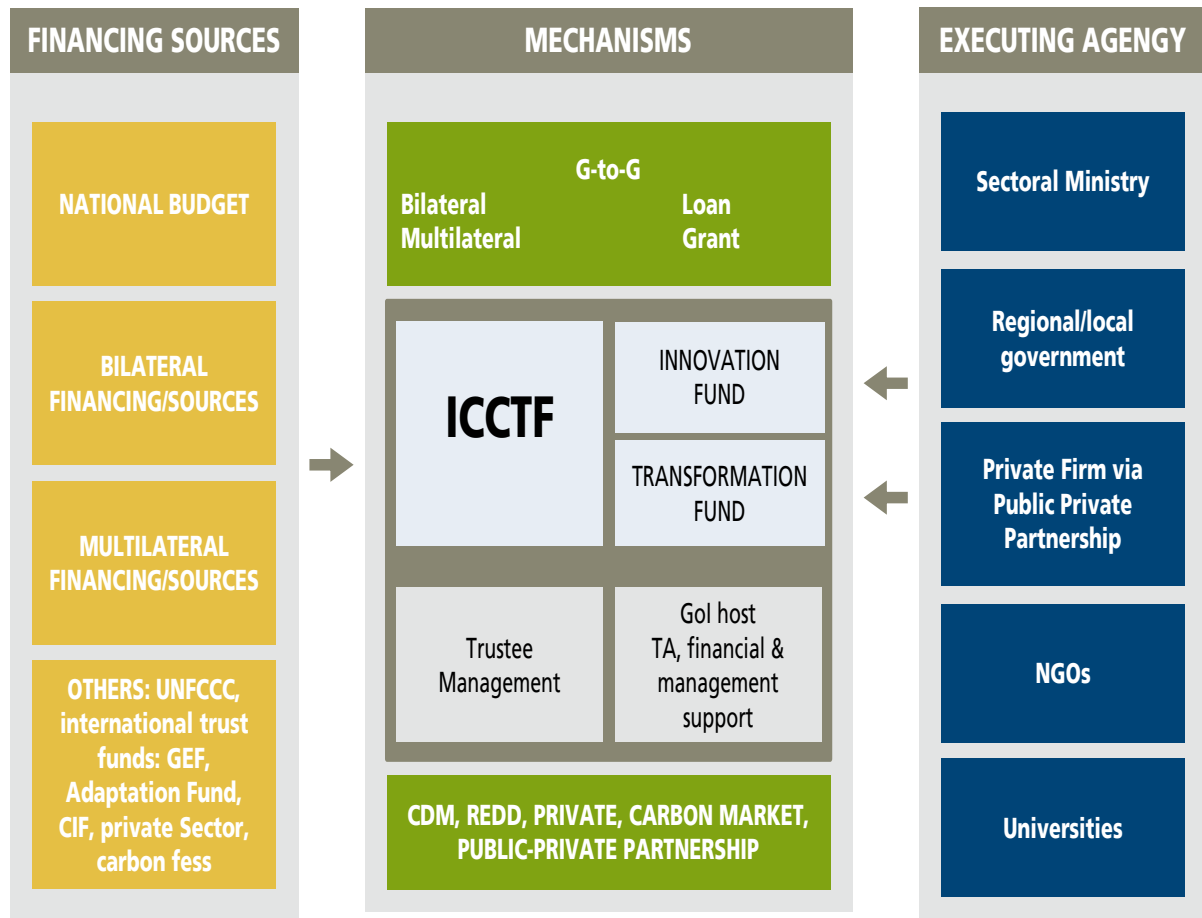
In the third phase, the ICCTF will advance by establishing a “Transformation Fund” to assist in market penetration (Table 3). This fund will act as a revenue-generating revolving investment facility, which may utilize funding mechanisms including public-private partnerships, CSR, Government Budget and world capital markets sources that could mobilize private-sector finance.

If permitted, the fund may also derive potential benefits from the carbon trading/carbon finance market. Examples may include any investments requiring high up-front financing and an accruing return on investment in the mid-term. Figure 3 shows an overarching map of the relationship between funding sources, governing body and executing agencies.

³⁴ In phase 3 are both, Innovation and Transformation fund, in operation stage.

³⁵ Interview with Amin Budiarto (2011).

Figure 3: An overview of the ICCTF structure

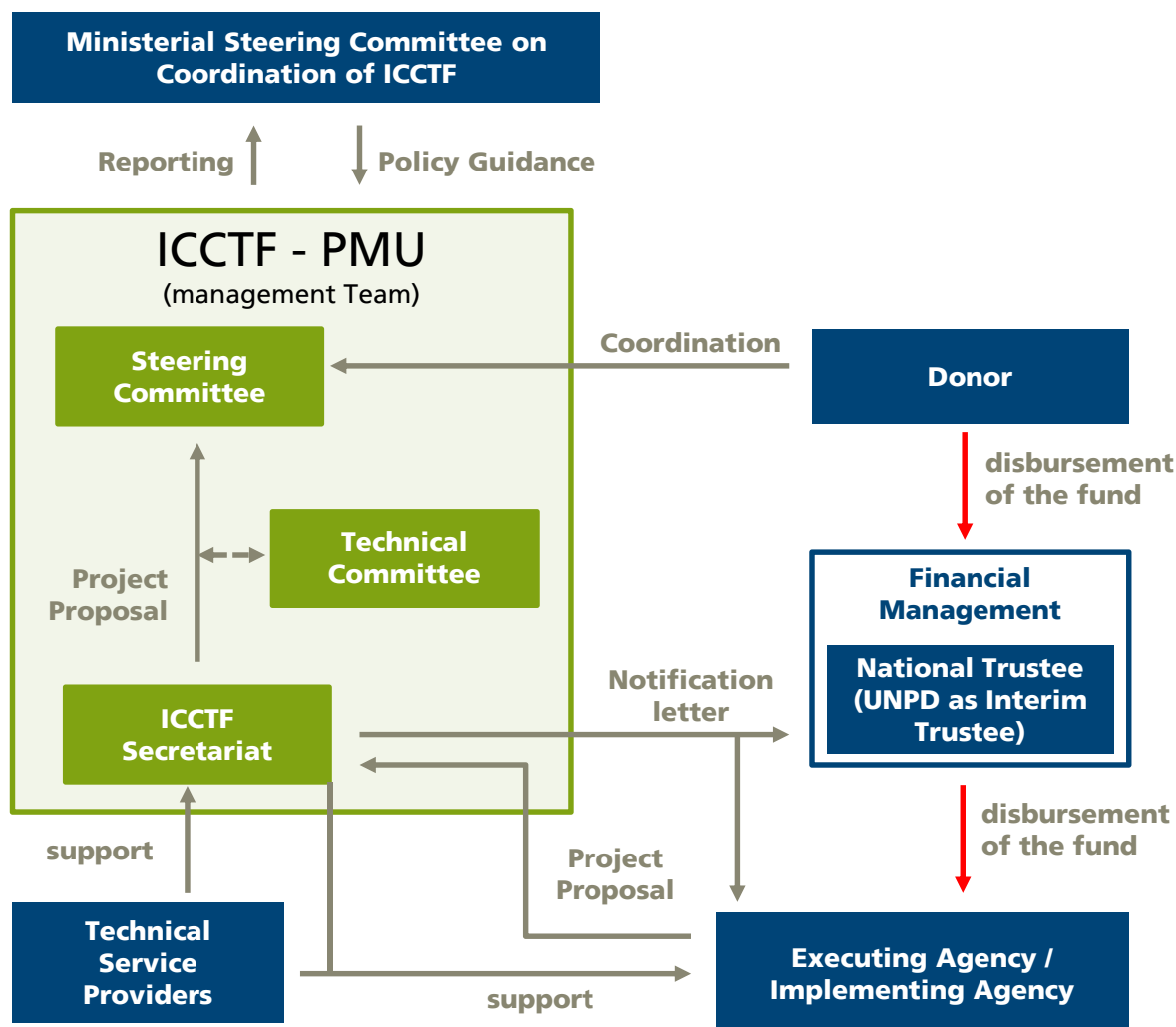


Source: Adapted from EDC2020 (2011).

3.3 ICCTF FUND GOVERNANCE AND ADMINISTRATION

In order to ensure effective management of the fund, governing bodies and clearly defined decision-making processes are necessary. The ICCTF’s governing bodies and decision-making structure includes a Program Management Unit (PMU) who manage the programmatic and technical oversight of the ICCTF in collaboration with development partners and other contributor-supported programs comprises of a Steering Committee (SC), a Technical Committee (TC) and a Secretariat (see figure 4). The Ministerial Steering Committee on Coordination of ICCTF provides overall policy guidance and direction to the ICCTF process. Standard Operational Procedures (SOP), finalized in 2011 present and explain all institutional and management arrangements³⁶

³⁶ The Republic of Indonesia (2009e).

Figure 4: Institutional arrangement of the ICCTF

Source: Adapted from The Republic of Indonesia (2009e).

The **Steering Committee** comprised of a Policy and Management Forum is responsible for policy and operational guidelines, management, and monitoring and evaluation. The members of both forums are (one) non-implementing agency (e.g. BAPPENAS, Foreign affairs) and sectorial ministry involved in the priority areas (Energy, Forestry, Agriculture, Marine Affairs and Fisheries) and the Head of the Secretariat of the National Council for Climate Change. The SOP defines the selection criteria for further representatives from development partners (e.g. bi- and multilateral institutions or public-private partnerships) and selected NGOs/CSOs.³⁷

The main objective of the **Technical Committee** is to advise the SC. in all technical matters: evaluation of project proposals in terms of eligibility, feasibility sustainability and impact on the environment, the society and the economy based on the criteria approved by the SC; provide Technical Assistance to the SC etc. The members of the TC are from BAPPENAS; Ministry of Finance and other line ministries.³⁸

Daily operations of the PMU are supported by the **Secretariat** e.g. supporting the TC and SC on administering grant agreements, development and implementation of monitoring and evaluation mechanisms, preparing progress and financial reports. The Secretariat consists of members with

³⁷ Ibid. See the ICCTF website <http://www.icctf.or.id> for the present members of the SC.

³⁸ The Republic of Indonesia (2009e). See the ICCTF website <http://www.icctf.or.id> for the current members of the TC or SC.

technical, administrative and financial expertise and is managed by the Head of the Secretariat. The Secretariat is overseen by the National Planning Development Agency (BAPPENAS). Experts - so called Technical Service providers - assist the Secretariat in its day-to-day activities (permanent expert) and sectorial ministries with the preparation of applications for the ICCTF (on-call experts).³⁹

The Trustee's key role is financial management, oversight and disbursement of the funds- both domestic and international. The Trustee receives funds from the donors, manages it for the purpose of the ICCTF and reports to the Steering Committee.⁴⁰ Currently, UNDP acts as the ICCTF's Interim Fund Manager (Trustee) and additionally supports training and capacity building for a national entity to take over this responsibility. It is foreseen that a National Fund Manager will be assigned by the end of 2012.⁴¹ Potential National Trustees are national financial institutions that are registered in Indonesia, are credible, competent, and well-recognized, have proven financial management capability and adequate human resources. According to the plans set forth by the Gol in cooperation with the UNDP, a national trustee will be identified through an open and competitive process.⁴²

As the ICCTF is entirely country-driven and is explicitly aligned with Indonesia's national development priorities, it works within the framework of the Paris Declaration on Aid Effectiveness. Accordingly, it mandates national and local ownership of fund-supported activities, alignment with national policies and procedures, effective coordination with outside donors, results-oriented operation and mutual accountability.

3.4 CURRENT OPERATION

Standard Operation Procedures (SOP) of the ICCTF were finalized in 2011 and serve to define future reporting requirements.⁴³ The Secretariat of the ICCTF developed its SOP by combining existing Gol regulations and standards with complimentary standards from the UNDP reporting and staffing systems. These guidelines are used by the ICCTF Secretariat, but not necessarily the ICCTF as a whole.⁴⁴

3.4.1 ELIGIBILITY CRITERIA

Under its current phases 1 and 2 within operation of the Innovation Fund, entities that are eligible to submit proposals to the ICCTF include:⁴⁵

- Government institutions such as Line Ministries, Government Agencies and Local Government as Executing Agencies (EAs). EAs may partner with other institutions including universities and NGOs to implement the project.
- Sector ministries are permitted to partner with other parties such as NGOs or academic institutions or private and public entities active in the Indonesian low-carbon markets. The application and implementation procedure includes several stages (figure 5).⁴⁶
- **Submission of prospective proposals:** Sectoral ministries and local government bodies are invited to submit proposals for activities eligible for financing.
- **Pre-appraisal of prospective proposals:** After ensuring that all documentation required is complete and the project is eligible, the Secretariat will submit the project proposal to the Technical Committee (TC).
- **Assessment of the project proposal by the Technical Committee:** The Technical Committee (TC) assesses the eligibility, feasibility, sustainability and impact of the proposed activities according to criteria set by the Steering Committee (SC).

³⁹ The Republic of Indonesia (2009e).

⁴⁰ The Republic of Indonesia (2009e).

⁴¹ Ibid.

⁴² Interview with Amin Budiarjo (2011).

⁴³ The Republic of Indonesia (2009e)

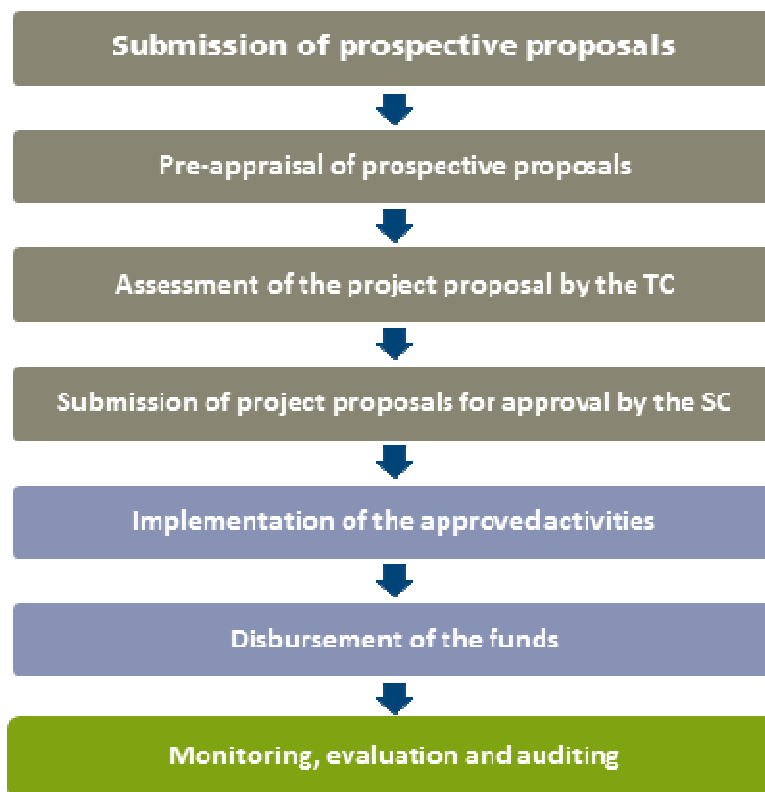
⁴⁴ Interview with Amin Budiarjo (2011).

⁴⁵ The Republic of Indonesia (2011a).

⁴⁶ The World Bank Group and UNDP (2012). For further details on procedures, check <http://www.icctf.or.id>.

- **Submission of project proposals for approval by the Steering Committee:** The SC may approve or reject the project based on TC's recommendation.
- **Implementation of the approved activities:** To implement the approved proposal the proponent must assign a coordination team and a project manager. This team will be responsible for coordinating the implementation of the activities.
- **Disbursement of the funds:** In accordance with the payment terms, the Contractor or the implementation team can submit a payment request to the Trustee along with a copy to the Secretariat.
- **Organize monitoring, evaluation and auditing:** Once a year, the Secretariat will organize missions to monitor and evaluate projects funded by the ICCTF. Also once a year, the ICCTF will be audited.

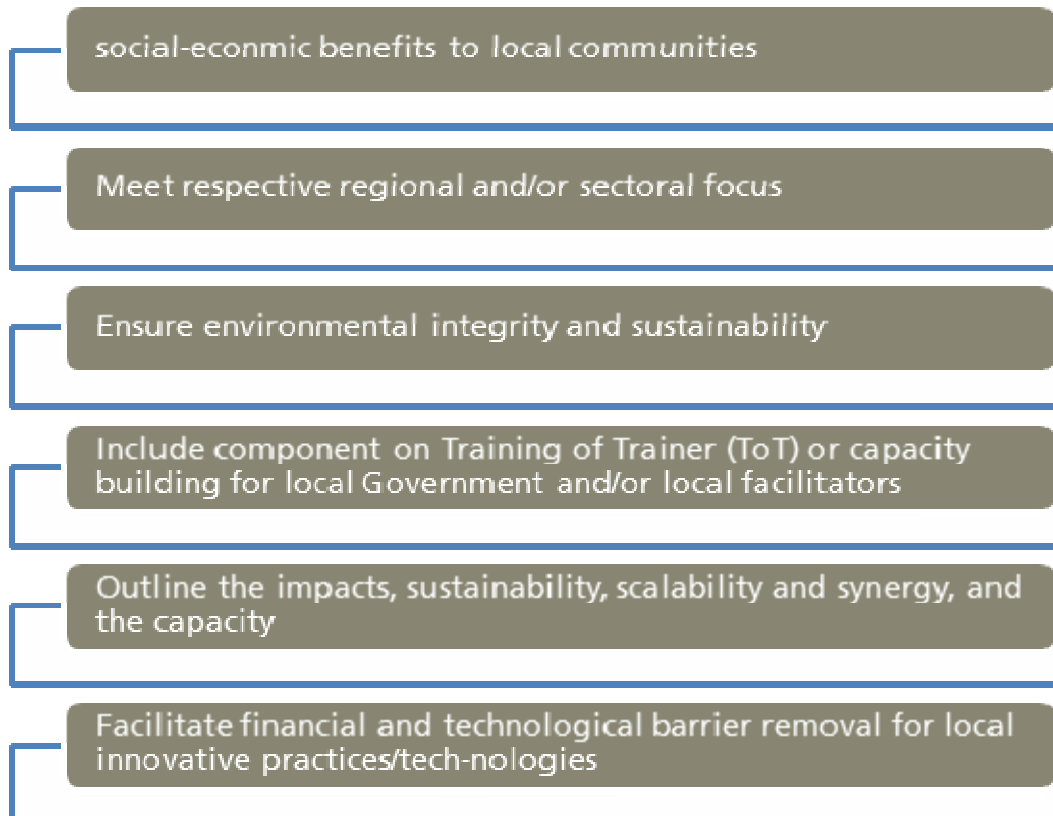
Figure 5: Application and implementation procedure of the ICCTF



SELECTION CRITERIA

In line with its development policy goals, any funded activities within the three investment windows **Land Based Mitigation, Energy** and **Resilience and Adaptation** must adhere to one/some or all the following umbrella principles, stating the projects request:⁴⁷

Figure 6: Selection criteria for projects



Readiness of the project proponent is a crucial selection requirement. The ICCTF considers the following points in evaluating readiness:⁴⁸

- Scope of the project is part of the roles and responsibilities of the project proponent and they have a designated contract person who communicates with the ICCTF.
- Existence of good will and institutional support from higher level management/officials of the institution.
- Ability to provide counterpart fund or support fund from the state budget/APBN (for line ministry/agency) in addition to the ICCTF grant.
- Ability to hire or procure Project Management Unit (PMU) staff and office set up for the project implementation.

Other selection requirements include the proponent's holding the experience required in conducting large and innovative projects in a short time frame, and that projects are of high priority for the

⁴⁷ See for additional project criteria: The Republic of Indonesia (2011). Indonesian Climate Change Trust Fund Standard Operating Procedures.

⁴⁸ Interview with Amin Budiarjo (2011).

Ministries. To avoid conflict of interest, proposals from SC member institutions such as BAPPENAS are not eligible.

3.4.2 RESULTS – PROJECT EXAMPLES

The initial round of ICCTF projects was solicited through two calls for proposals in December 2009. Over 100 project proposals were submitted by various line Ministries. For the initial projects, eligible project duration was set to one year, while project budgets were capped at USD3 million. For projects which exceeded these limits, certain activities were taken out and project durations shortened, under mutual agreement with project proponents. As noted in the fund structure discussion, the ICCTF is using only grants at this stage.⁴⁹

On 18 June 2010, the ICCTF Steering Committee approved three climate change initiatives to be implemented by the submitting line ministries under the ICCTF.

Of the total USD5.48 million ICCTF budget, the following allocations to projects have been made:

- Sustainable Peat Land Management (to the Ministry of Agriculture) USD1,247,843.
- Energy Conservation (to the Ministry of Industry) USD 2,178,484.
- Public Awareness on Climate Change (to the Bureau of Met, Climate and Geophysics, BMKG) USD1,206,872.

Adaptation and resilience efforts: To increase the awareness of the general public, the Indonesian BMKG (the Meteorological, Climatological, and Geophysical Agency) is currently implementing a public awareness, mitigation and adaptation training and education programme on climate change issue throughout all levels society.

Specific objectives include awareness raising for farmers and fishers through local radio programmes and dialogue; integrating climate change into student curricula; and increasing awareness for the general public through various media channels. The project will contribute to enhanced food security and higher adaptive capacity of the targeted farming and fishing communities, which constitute the major proportion of livelihoods in Indonesia.

Land-based mitigation efforts: This window focuses on forestry and peat lands: The Ministry of Agriculture is currently carrying out research for sustainable peat land management which cover an area of about 20 million hectares and store more than 40 gigatonnes of carbon.

Information gained from this project will contribute to the commitment of Indonesia to reduce 26% of GHG emission, of which 9.5% should come from peat lands. Project results will be used to develop strategies, policy briefs and regulations to strengthen the proposed presidential decree on national action plan on GHG emission reduction and inventory.

Energy projects: The Ministry of Industry is currently implementing a project called Implementation of Energy Conservation and CO₂ Emission Reduction in the Industrial Sector (Phase^o1). This project focuses on 50 companies, 35 in the steel sector, and 15 in pulp and paper.⁵⁰

The approach is strengthening the institutional and networking capacity of these industries, mainly by identifying energy saving opportunities. Currently energy managers are preparing capacity building exercises and carrying out technical assessments for energy conservation and efficiency. Industry energy managers have been requested to carry out a feasibility study of their industry or company for both low and high cost scenarios for reducing energy consumption. The results will be used by the Ministry of Energy to carry out development plans. It is expected that the result of this project will show the achievement of industrial sector nationally in supporting the government regulation targeting reducing CO₂ emission of 5% out of 41% by year of 2020.

⁴⁹ Interview with Amin Budiarjo (2011).

⁵⁰ Interview with Amin Budiarjo (2011).

3.4.3 MONITORING AND EVALUATION

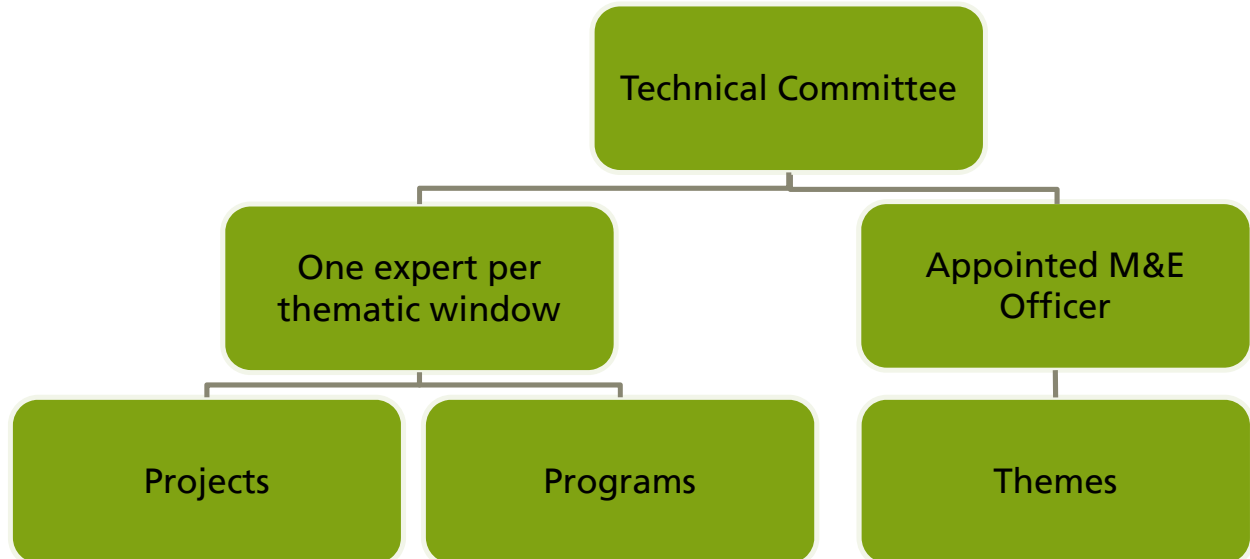
The ICCTF uses a monitoring and evaluation (M&E) system designed after the UNDP model. It has been modified to outline six criteria of M&E practices that apply to projects, programs, and themes but that do not all have to be systematically reviewed in all cases.

The specific monitoring and evaluation criteria, which are efficiency, effectiveness, impact, transparency, relevance and sustainability, are designed to inform all relevant stakeholders of present and future decisions on projects and programs.⁵¹

With the assistance of the Secretariat team, the Technical Committee's appointed M&E officer oversees technical aspects in a regular and systematic fashion, supported by one expert per thematic window (see figure 6). Further details of M&E procedures include:⁵²

- A pre-project assessment, monitoring and spot checking, regular meetings and mid-term and final evaluations;
- The funded project is required to submit a financial report every quarter, which is checked against a financial and programmatic reporting mechanism for ICCTF;
- Lesson learned will be documented and disseminated in form of websites, CDs and workshops; and auditing mechanism to be compliant with the grant agreement between the GoI and UNDP, and the use of an independent international auditor only. The findings are presented to the Steering Committee.
- The results of M&E are to be reported regularly to the Steering Committee and Technical Committee for necessary follow up.⁵³ The Secretariat reports that its annual missions and spot checks to monitor and evaluate projects prove especially useful for its M&E. The status of these checks is included in reports presented to the governing bodies.

Figure 7: Monitoring and evaluation system



Source: The Republic of Indonesia (2011).

Environmental, social and economic impacts: The ICCTF requires that projects support sustainable development and are assessed based on their contribution to environmental and social sustainability.⁵⁴

However, as noted in the project selection criteria, projects must contribute to the national priorities as

⁵¹ Interview with Amin Budiarjo (2011).

⁵² For other M&A guidelines see: BAPPENAS (2009).

⁵³ The World Bank Group and UNDP (2011a).

⁵⁴ Interview with Amin Budiarjo (2011).

described in RPJM and ICCSR, and provide beneficial impacts to communities that do not adversely impact the environment or cause/aggravate conflicts with local communities.

The Technical Committee is responsible for assessing the potential impacts on the environment, society, and the economy as part of its proposal review. Currently, no specific impact measurements have been made, but it is expected they will be verified and provided at a point in the near future.⁵⁵

Total emission savings: The preparation of GHG inventory and monitoring systems is required for all sectors, and it is recognized that Indonesia needs to create a National Baseline (the accumulation of aggregate baselines of each sector), mitigation scenario with abatement cost calculation, national NAMAs registry and MRV indicators.⁵⁶ Its Second National Communication to the UNFCCC and other studies (ICCSR 2009, DNPI 2010) show that the largest greenhouse gas reduction potential is to be found in the forestry and related land use sectors.

In terms of projected savings, total emissions savings are anticipated within the ICCTF's project for Forests and Peatlands, as reductions achieved will contribute to the commitment of Indonesia to reduce GHG emissions beyond the 26% target set forth by the Gol's existing NAMAs and up to 41%. At least 9.5% of these reductions should come from peat land.⁵⁷ The ICCTF design also includes a REDD-plus payment mechanism which will contribute to overall emissions reductions, however, at present there are no estimated figures for emissions saved.⁵⁸

At present, it is difficult to calculate the total emissions savings resulting from ongoing projects. Project managers report, however, that they have calculated the emissions that can potentially be reduced. The ICCTF inform that emissions savings should be available by early 2012.

3.4.4 TOTAL INVESTMENTS TO DATE

As of 2011, all pledged funding had not been made available and thus cannot yet be totally allocated to projects by the ICCTF. The total budget required to conduct the planned projects is USD 4,633,198. Therefore, in addition to the USD 848,499 already allocated in December of 2009 for trust fund expenses and capacity-building purposes, the total allocated budget amounts to USD 5,481,698. The remaining amount of US 5,606,755, which has been pledged to the fund but not yet deposited, will be programmed and reflected in the project budget upon further approval of project proposals by the ICCTF Steering Committee.⁵⁹

3.4.5 FUND SUSTAINABILITY

Considerations for fund stability and future allocations are reflected in the ICCTF structure itself. As noted in the current phases 1 and 2, the ICCTF issues grants only to line ministers to build capacities and technical know-how. This lends to future sustainability.

Under the third phase and within the revolving Transformation Fund (later to become the Green Investment Fund), the ICCTF will issue loans and intends to tap public-private partnerships (PPPs), corporate social responsibility funds (CSR) and carbon trading markets. It should be noted, however that the ICCTF will not move to this intended structure until the Gol has drafted corresponding policies and regulations for cooperating with these funding sources. If successful, these funding modalities too will contribute to the ICCTF's sustainability.

⁵⁵ Ibid.

⁵⁶ Thamrin, Syamsidar (2011).

⁵⁷ The World Bank Group and UNDP (2011).

⁵⁸ Overseas Development Institute (2010).

⁵⁹ Homepage of the ICCTF (2011).

4 KEY POINTS AND FEATURES

The ICCTF was launched in 2009 to attract, manage and mobilize financial investments in climate change mitigation and adaptation to achieve the reduction of GHG emissions and meet its goals of a low-carbon economy and greater resilience to climate change. The ICCTF is the first multi-donor Trust Fund established and governed by the Government of Indonesia (GoI). As such, “learning-by-doing” is of key importance for improving the ICCTF.

The following points and features regarding the institutional establishment of the ICCTF are worth highlighting:

- **Government policies need to be in place** to lay the groundwork for the establishment of a national climate finance institution. The GoI’s **“The Yellow Book” from 2008** mandates the ICCTF as the financing mechanism for GoI’s national policies and programs and supports the GoI’s GHG emission reduction goal.
- The ICCTF was established by the Ministry of National Development Planning (BAPPENAS) and the Ministry of Finance, but it is **independently governed by the Steering Committee** comprising members of line ministries and development partners. This multi-stakeholder arrangement allows for multiple inputs and guidance to reflect the needs of the government as a whole.
- The ICCTF Transitional Committee (TC) and Steering Committee (SC) are made up of members of BAPPENAS, which serves as the coordinating agency for national development planning and to harmonize activities with the Ministry of Finance. This ensures that the programs and projects funded by ICCTF are **in line with the national policies and priorities for climate change mitigation and adaptation**. It also creates feedback loops/awareness within the other government agencies.
- In line with the President’s 2009 commitment on emission reductions, the **contributions made to the ICCTF will be recognized by the GoI as working towards its 41% emission reduction target**.
- The **mandate of the ICCTF was defined by the GoI (BAPPENAS)** in the “Blueprint of the ICCTF”. The Blueprint **clearly defines the purpose, objectives and operationalization of the ICCTF**. This document spurred the launch of the ICCTF and aligns it with the national priorities.
- To design the actual institutional framework, hire and train staff, develop procedures (e.g. submission process, eligibility criteria, monitor and evaluate projects) and promote new fund mechanisms requires time and resources. **Core funding for the ICCTF** in its first years was crucial for its development and procedures.
- To set up a strong system within a short time the GoI uses the **UNDP as the interim Trustee for the fund’s financial management**. The GoI will assign the trusteeship to a National Fund by the end of 2012. The ICCTF plans to use UNDP’s established standards and procedures in the initial stages of self-managing the fund, e.g. monitoring and evaluation (M&E) and then it will develop its own tailor-made standards for their fund.
- The 3-phase design of the fund **helped to promote and attract projects** and to kick-start the first pilot projects. In the first two phases the ICCTF **provides only grants**. This helps to build capacities and technical know-how, raise awareness for climate finance, attract project and to promote the ICCTF and Investments in renewable energy. Opening the first round only for sectoral line-ministries also helps to build up capacities and technical skills in the ministries.
- The first projects were approved in 2010, approximately one year after the fund’s launch. The ICCTF uses a monitoring and evaluation (M&E) system designed by UNDP. But there are also capacity issues among stakeholders to identify, implement, monitor and report, especially for CO2 abatement projects. A system to efficiently monitor and record MRV results needs to be developed to be able to connect project results with fulfilment of long-term development plans.

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