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# Development Finance Assessment Snapshot

## Indonesia

Financing the future with an integrated  
national financing framework



Funded by Government of China as input into the 2017 ASEAN-China-UNDP Symposium on  
Financing the Sustainable Development Goals in ASEAN.



# Indonesia: Financing the future with an integrated national financing framework

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## Executive summary

Across Indonesia and the ASEAN region as a whole, ambitions are high for the progress that can be achieved in the era of the Sustainable Development Goals (SDGs). Realizing these ambitions will require mobilizing the right scale and mix of financing, incorporating all resources—public and private, domestic and international. This paper forms part of a project to assess the financing challenges and opportunities that ASEAN countries face and the policies and institutional frameworks that governments can use to address them in implementing the SDGs. It is one of 10 country studies undertaken alongside an ASEAN regional report, in order to facilitate dialogue at the country and regional levels about financing the SDGs.

### Key findings: sustainable development and financing context

Indonesia has made tremendous economic progress since the Asian financial crisis, which has resulted in social gains and positive trends in poverty reduction, but also in environmental degradation due to the substantial role that natural resources have played in driving growth (e.g. palm oil). GDP has increased on average by 5 percent over the past 15 years; unemployment has decreased; the proportion of the population living in poverty has been declining since the mid-2000s; and there have been substantial gains in health, education and gender equality. However, challenges remain in productivity and competitiveness, in inequalities, environmental vulnerabilities and access to basic services— in both rural areas and big cities as a result of rapid urbanization. For the future, an important overarching challenge is to ensure that economic growth becomes more inclusive and ‘greener’ so that it can also effectively support accelerated progress in social and environmental dimensions of sustainable development.

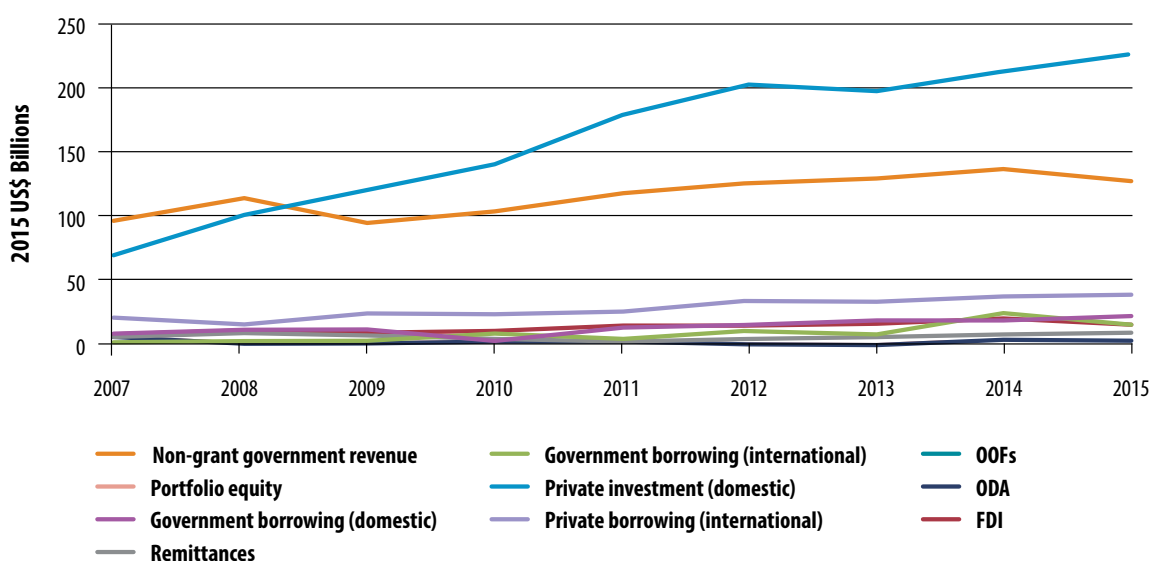
Indonesia is strongly committed to implementing the SDGs. It has integrated SDG targets into national development plans and processes and has institutionalized roles and responsibilities for their implementation. The fundamental SDG principle of “leaving no one behind” is reflected in both the government’s development vision articulated in its Nine-Priority Agenda (Nawa Cita) and the medium-term national development plan (RPJMN 2015–2019), as well as in the country’s approach to national implementation of the SDGs, which is participatory and inclusive.

The country’s ambitious agenda for sustainable development is being implemented in the context of an evolving financing landscape. Domestic private investment accounts for almost half of all resources, but growth has slowed from an average of 24 percent a year over the period 2008–2012 to 4 percent over 2012–2015. Despite this, micro, small and medium-sized enterprises have been growing and play a significant role in job creation, being responsible for 97 percent of total employment. Provided that the government’s approach to private sector development is further strengthened, such businesses will be strategic partners in achieving national and sustainable development goals, particularly as they relate to inclusive growth and innovation.

Domestic public finance has remained relatively constant in volume since 2007 but has decreased as a percentage of total resources, mainly due to Indonesia’s structurally low level of tax revenues.

International financing remains low as a proportion of the overall mix (Figure 1). Trends in international public finance have been driven by external government borrowing, reflecting the government's reliance on external financing to adjust for its low levels of domestic revenue generation. Official development assistance (ODA) has been decreasing as a proportion of other resources, though development partners are increasingly adopting innovative approaches to maximize the impact of scarce resources. Levels of international private financing remain low, accounting in aggregate for 14 percent of all resources and 7.6 percent of GDP in 2015; such investment is hindered by infrastructure and labour skills gaps as well as by remaining challenges related to the business environment.

**Figure 1: International financing flows are relatively low**



Source: Development Initiatives calculations based on multiple sources

## Key findings: Indonesia's Integrated National Financing Framework (INFF)

An integrated national financing framework (INFF) can support a government in taking a holistic approach to managing and mobilizing all types of financing—domestic, international, public, private—for sustainable development results. An INFF has six building blocks, which together provide a structure and a prompt for governments to assess their financing framework as a whole, and to guide thinking about reforms to implement a strategic, holistic, results-driven approach to financing their development objectives. In Indonesia specifically, this approach can support the government to mobilize additional financing for development, including from the private sector; to more effectively spend existing resources to ensure that, though scarce, their impact is maximized; and to provide the basis for necessary structural reforms that may not otherwise be implemented.

Some elements of an INFF exist already in Indonesia's policies, plans and processes. Leadership and institutional coherence are strong in relation to public resources, including across line ministries and between national and local governments. The country's vision for development is set out in the 20-

year national development plan (RPJPN) and in the government's Nine Priorities Agenda (Nawa Cita). The current five-year national development plan (RPJMN) includes an estimate of the total investment required for implementation and indicates both the scale and types of resources required for key sectoral interventions.

There is scope to strengthen aspects of the framework, particularly in relation to non-state resources. The role of the private sector is considered mainly in relation to infrastructure development alone. The overall financing strategy and five-year development priorities lack specific policies regarding the use of private or international public financing. There are a number of parallel monitoring systems but no mechanism to track contributions of non-state actors to identified development outcomes. Indonesia also lacks an effective government-led mechanism for public–private dialogue that could strengthen communication and facilitate collaboration in both designing and implementing development programmes.

## Recommendations

This paper makes three recommendations to strengthen Indonesia's overall INFF, as well as its approach to private sector development and leaving no one behind. First, establish a long-term holistic financing strategy that provides a foundation for developing policies for specific flows and also provides clarity on the types and scale of investments needed for the desired sustainable development results. Second, establish a comprehensive, results-oriented monitoring and review framework that tracks efforts to mobilize the necessary financing, as well as the impact of such financing on development outcomes. And third, formalize a mechanism for systemic public–private dialogue on private sector development to further stimulate private investment that can fulfil its potential in contributing to national and sustainable development goals.



# 1. Introduction

*“Indonesia’s challenge to achieve [the] SDGs is enormous, in particular to ensure that no one will be left behind for its 258 million people, spread over 17 thousand islands, with vast differences in cultures, [ethnicities], religions and languages. However, the enormous challenge is not a source of concern for the Government of Indonesia, [which remains] confident in its efforts. The challenge will be addressed to ensure sustainable development to improve welfare and provide justice for all.”*

Indonesia Voluntary National Review, 2017 (p.105)

Across Indonesia and the ASEAN region as a whole, ambitions are high for the progress that can be achieved in the era of the Sustainable Development Goals (SDGs). Realizing these ambitions will require mobilizing the right scale and mix of financing, incorporating all resources—public and private, domestic and international. This paper forms part of a project to assess the financing challenges and opportunities that ASEAN countries face, and the policies and institutional frameworks that governments can use to address them in implementing the SDGs. It is one of 10 country studies undertaken alongside an ASEAN regional report, in order to facilitate dialogue at the country and regional levels about financing the SDGs.

Indonesia has made tremendous economic progress since the Asian financial crisis, which has resulted in social gains and positive trends in poverty reduction, but also in environmental degradation due to the substantial role that natural resources have played in driving economic growth. The government’s Nine-Priority Agenda (Nawa Cita) sets an ambitious list of priority areas to continue positive trends and minimize negative ones. This is further articulated in the medium-term national development plan (RPJMN 2015–2019), which is based on three pillars—human development, development of priority sectors and equity—and includes ambitious macroeconomic targets for 2019, such as an annual growth rate of 8 percent and GDP per capita of Rp 72.2 million (approximately US\$5,400), as well as lower levels of inequality, lower poverty levels and improved environmental quality.

Indonesia has also integrated the SDGs into national development plans and processes, and its commitment to achieving them is reflected in the fact that it has institutionalized roles and responsibilities for their implementation at the country level through a Presidential Decree.<sup>1</sup> Such an ambitious agenda for sustainable development is being implemented in a context of low government revenues, decreasing significance of official development assistance (ODA) and sluggish international private financial flows.

Action at the country level will be key to implementing the SDGs, Financing for Development and other global agendas. The Addis Ababa Action Agenda (AAAA) states: “Cohesive nationally owned sustainable development strategies, supported by integrated national financing frameworks, will be at the heart of our efforts.”<sup>2</sup> The Inter-Agency Task Force on Financing for Development notes in its 2017 report that

1 Presidential Decree No. 59 of 2017 on Sustainable Development Goals.

2 Addis Ababa Action Agenda, paragraph 9. [http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA\\_Outcome.pdf](http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf)

integrated national financing frameworks (INFFs), which take into consideration all financing sources and policies, can provide coherence across strategies and plans designed to implement the SDGs.<sup>3</sup> An INFF is a framework of policies and institutional structures designed to take a holistic approach towards managing and mobilizing all types of financing—domestic, international, public, private—for sustainable development results. It has six building blocks, which work together to align a government's financing strategy across all available resources. These frameworks provide a structure and a prompt for governments to assess their financing frameworks as a whole, and to guide thinking about reforms that are needed to strengthen them to implement a strategic, holistic, results-driven approach to financing their development objectives.

Using the concept of an INFF, the Development Finance Assessment (DFA)<sup>4</sup> approach<sup>5</sup> that this paper follows can help countries identify areas for strengthening their management of financing for the SDGs with Integrated Financing Solutions. A DFA helps a government to understand and adapt its policies, institutions and strategies for the financing challenges that the country will face in realizing results across the economic, environmental and social dimensions of sustainable development, and supports the government to establish and strengthen an INFF. It assesses two main questions:

1. What are the main financing challenges and opportunities for achieving sustainable development objectives?
2. How can the government strengthen an INFF that will address these challenges and opportunities?

The approach aggregates a wide range of existing assessments from government, international agencies and other partners that analyse specific aspects of this sustainable development, financing and policy and institutional context. It adds value by collating these analyses, taking a big picture perspective across them all and applying an INFF lens to assess the priorities for government across financing as a whole. In doing so, this paper establishes an analytical baseline for an INFF and provides recommendations on how to strengthen the policies and institutional structures that government uses to manage its financing strategies. It also presents a roadmap outlining steps that a government and its partners can take to strengthen the INFF or leverage new flows, including follow-up discussions and analysis that may be developed in a later phase.

More specifically, Chapters 2 and 3 provide an overview of the development context and of the financing landscape, so that key priorities and financing challenges can be identified. The analysis draws on existing publications related to SDG progress (especially Indonesia's Voluntary National Review (VRN)) and public expenditure and budgeting reviews, as well as broader economic growth and development

3 Inter-Agency Task Force on Financing for Development (2017), 'Financing for Development: Progress and Prospects, 2017'. <https://developmentfinance.un.org/financing-development-progress-and-prospects-2017>

4 UNDP's Bangkok Regional Hub has been developing the DFA and Integrated Financing Solutions to respond to growing demand from countries to establish evidence and analysis and to introduce policy and institutional reforms for managing the increasing complexity of domestic and international sources of finance for development. The DFA and Integrated Financing Solutions support governments to use the concept of the INFF to help strengthen policies and actions for mobilizing different types of finance for economic, environmental and social results into a single, coherent framework. See more at: <http://www.asia-pacific.undp.org/content/rbap/en/home/ourwork/democratic-governance-and-peacebuilding/ap-def.html>

5 More on the DFA approach can be found here: <http://www.asia-pacific.undp.org/content/dam/rbap/docs/meetTheSDGs/Achieving%20the%20Sustainable%20Development%20Goals%20in%20the%20Era%20of%20the%20AAAA%20-%20DFAs%20as%20a%20tool%20for%20Linking%20Finance%20with%20Results.pdf>

assessments. Based on the development priorities as well as the financing challenges and opportunities identified in the context sections, Chapter 4 then considers the extent to which INFF building blocks already exist to address these and highlights where the main gaps currently lie, thus providing a baseline for INFF strengthening.

The INFF lens is then also applied to two focus areas—private sector development and the SDG principle of “leaving no one behind”. Chapter 5 on the private sector explores the potential that exists to strengthen its role and contribution to national development outcomes. Similarly, Chapter 6 on “leaving no one behind” provides an overview of how this principle is mainstreamed into the government’s development plans and programmes, and explores lessons learned from other countries in the region on how to finance Universal Health Coverage (UHC)—a key area in this regard and one of the SDG targets that Indonesia has adopted.<sup>6</sup> Finally, Chapter 7 presents initial recommendations to strengthen individual elements of the country’s INFF as well as the way they link together, and sets the stage for further work on more specific Integrated Financing Solutions.

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6 Asian Development Bank, ‘Measures to Implement Sustainable Development Goals’. <https://www.adb.org/sites/default/files/linked-documents/50168-001-sd-04.pdf>

## 2. Context

### 2.1 Sustainable development

Indonesia's briefing note on the 2016 Human Development Report (HDR)<sup>7</sup> provides a snapshot of the country's progress in terms of sustainable development. Based on a series of indicators, it allows for a crude assessment of its performance against economic, social and environmental dimensions of development.<sup>8</sup> Overall, as shown in Table 1, Indonesia is relatively strong in measures of economic sustainability but faces greater challenges in environmental sustainability.

**Table 1: Indonesia's performance in the HDR Sustainable Development Dashboard**

	Environmental sustainability (5 indicators)			Economic sustainability (5 indicators)			Social sustainability (4 indicators)			Oveall (14 indicators)			Missing indicators
	Top third	Middle third	Bottom third	Top third	Middle third	Bottom third	Top third	Middle third	Bottom third	Top third	Middle third	Bottom third	
	Number of indicators												
Indonesia	0	2	2	2	2	1	1	2	0	3	6	3	2
China	1	1	3	4	1	0	1	1	1	6	3	4	1
Philippines	2	2	1	2	2	1	0	3	1	4	7	3	0

Source: Indonesia Briefing Note, 2016 HDR

In fact, Indonesia's impressive economic growth since the Asian financial crisis of the late 1990s has been driven largely by rising global prices for many of the commodities that the country exports, including fossil fuels and palm oil. This has contributed to substantial improvements in living standards and, along with targeted government programmes, has supported the reduction of poverty from 18.2 percent of the population in 2002 to 10.6 percent in 2017.<sup>9</sup> However, it has also resulted in environmental losses and thus to recognition of the need to effectively address the risks associated with climate change and degradation of natural resources.

### Economic development

Indonesia is currently classified as a lower-middle-income country (LMIC), with per capita gross national income (GNI) of \$3,400 in 2016.<sup>10</sup> Economic growth over the past 15 years has been robust, averaging

7 UNDP (2016), 'Briefing note for countries on the 2016 Human Development Report: Indonesia'. [http://www.id.undp.org/content/dam/indonesia/2017/doc/INS-Indonesia\\_Country\\_Explanatory\\_Note\\_HDR2016.pdf](http://www.id.undp.org/content/dam/indonesia/2017/doc/INS-Indonesia_Country_Explanatory_Note_HDR2016.pdf)

8 See Technical Note 7 here for more details on methodology as well as the full list of indicators used: [http://hdr.undp.org/sites/default/files/hdr2016\\_technical\\_notes.pdf](http://hdr.undp.org/sites/default/files/hdr2016_technical_notes.pdf)

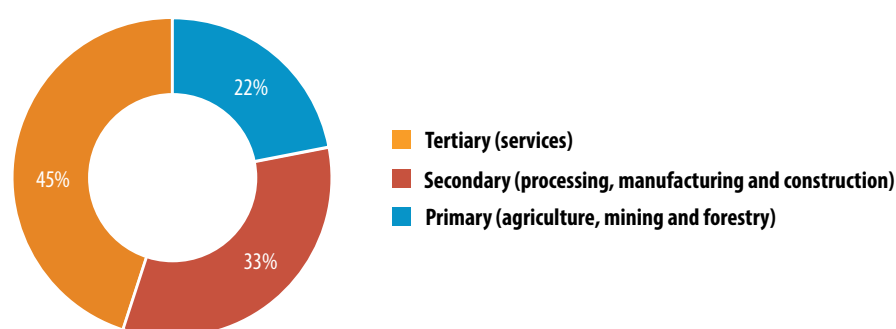
9 Figures are based on Indonesia's national poverty line. National poverty lines are calculated for rural and urban areas for individual provinces. The poverty threshold is based on food consumption of 2,100 kcal/day plus non-food essentials.

10 Data based on World Bank's GNI per capita data, Atlas method used for country income classifications. See: <http://data.worldbank.org/indicator/NY.GNP.PCAP.CD?locations=ID>

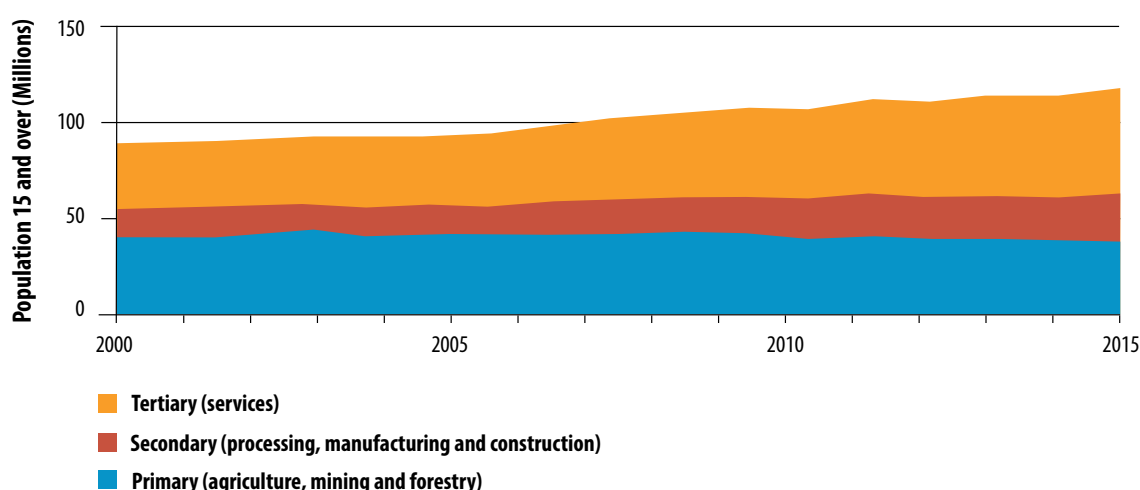
an annual 5 percent increase in gross domestic product (GDP), with commodity exports playing a significant role in driving this trend. Unemployment has decreased over the past decade, from a rate of 10.3 percent in 2006 to 5.6 percent in 2016.<sup>11</sup>

Indonesia has shifted from an agriculture-based economy towards one in which manufacturing and services play an increasingly important role in both GDP composition and employment creation (Figures 2 and 2.1). Recognizing the potential to consolidate diversification achievements and to further expand industrial development, President Joko Widodo's Nawa Cita (Nine-Priority Agenda) includes a set of actions focused on increasing productivity and competitiveness—including infrastructure programmes and the establishment of a development and infrastructure bank—and promoting economic independence, including more research in agriculture and industry and enhanced financial inclusion.<sup>12</sup>

**Figure 2: Services account for the majority of Indonesia's GDP (2016)**



**Figure 2.1: Employment in secondary and tertiary sectors has increased over 2000–2016**



Source: Development Initiatives calculations based on BPS, including National Labour Force Survey (Sakernas)

11 Indonesia Voluntary National Review (VNR) for the 2017 High Level Political Forum (HLPF) (2017), 'Main Messages'. <https://sustainabledevelopment.un.org/content/documents/14846Indonesia.pdf>

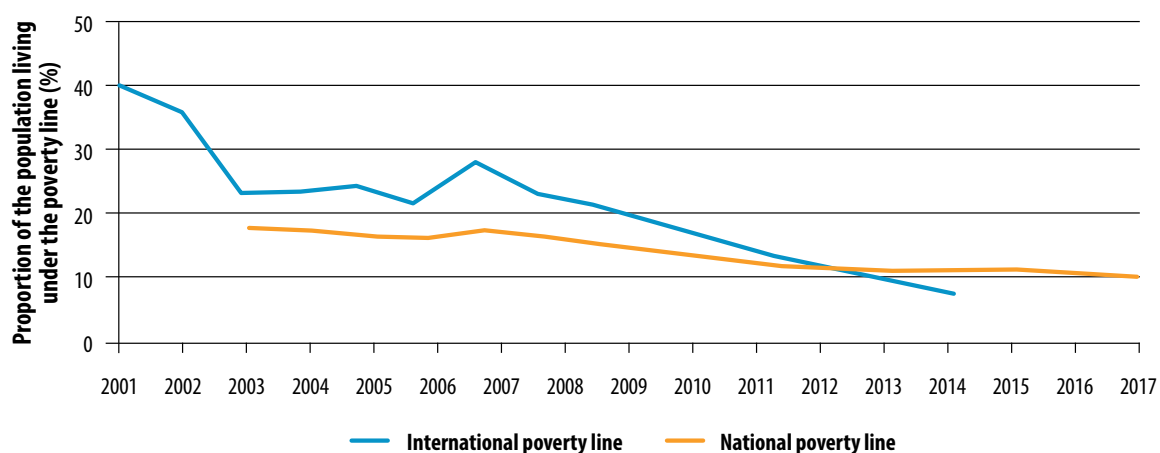
12 UNDP (2015), 'Converging Development Agendas: "Nawa Cita", "RPJMN", and SDGs'.

Although still considered a developing country, Indonesia is the 16th largest economy in the world and is projected to become the fourth largest by 2050.<sup>13</sup> For the future, an important challenge is to ensure that continued economic growth becomes more inclusive and ‘greener’ in order for it to also effectively support accelerated progress in social and environmental dimensions of sustainable development. Indonesia’s 2017 Voluntary National Review (VNR) for the 2017 High Level Political Forum (HLPF) highlights how the country’s integration of relevant SDGs across all three dimensions of sustainable development will facilitate the operationalization and implementation of sustainable behaviour by individuals and businesses alike.<sup>14</sup>

## Social development

The proportion of the population living in poverty in Indonesia has been declining steadily since the mid-2000s—from 18.2 percent in 2002 to 10.6 percent in 2017 according to the national poverty line, or from almost 40 percent in 2000 to 8.3 percent in 2014 according to the international poverty line (\$1.90 per day), with the latest available data being from 2014 (Figure 2.2). However, although Indonesia achieved the MDG target of halving the proportion of people living in extreme poverty well before the 2015 deadline, over 20 million people still live below the national and international poverty lines (28 million and 21 million people respectively).

**Figure 2.2: Poverty has been declining steadily since the mid-2000s**



Source: Development Initiatives calculations based on WB PovcalNet and BPS

There are a number of key dimensions of social development in which significant challenges remain, though recent trends have mostly been positive. On education, available data on MDG indicators highlight the country’s high primary school completion rates as well as its achievement of gender parity in all three levels of education. However, it also shows that in recent years primary enrolment has

13 World Economic Forum. <https://www.weforum.org/agenda/2017/03/worlds-biggest-economies-in-2017/>; PwC (2017), ‘The Long View: How will the global economic order change by 2050?’. <http://www.pwc.com/gx/en/world-2050/assets/pwc-world-in-2050-summary-report-feb-2017.pdf>

14 Republic of Indonesia (2017), ‘Voluntary National Review (VNR): Eradicating Poverty and Promoting Prosperity in a Changing World’, p.9. <https://sustainabledevelopment.un.org/content/documents/15705Indonesia.pdf>

decreased, although it remains high (from above 95 percent to 90 percent in 2014) and that only slow progress has been made in the proportion of primary students reaching the final grade of school (from 78 percent in 1990 to 82 percent in 2013). The indicator on expected years of schooling is the furthest from SDG achievement, according to SDG Index data.<sup>15</sup>

Progress has also been mixed in the area of health, with five of the nine health-related MDG targets being met, but only slow improvement seen in relation to nutrition and infant and maternal mortality, and regression in the area of HIV/AIDS: Indonesia is one of three ASEAN countries where HIV prevalence has been consistently increasing since 1990.<sup>16</sup> The country's VNR for the 2017 HLPF points to the progress made in improving the availability of medicines and vaccines in primary health services as well as in increasing the number of health workers in health facilities, although distribution across regions remains unequal.

In relation to gender parity, despite successes in education and mainstreaming through gender-responsive planning and budgeting, Indonesia has the third highest score on UNDP's Gender Inequality Index (GII) in the ASEAN region and is significantly above the world average. Of its parliamentary representatives 17 percent are women, which is more than double the proportion in 2004; however, this share has not increased since 2010.<sup>17</sup> Challenges also remain in relation to violence against women, with 5,765 reported cases in 2016,<sup>18</sup> though the government has made efforts to address this, including through enhancing the availability of data on the prevalence of violence and by improving the reporting mechanisms available to victims.<sup>19</sup>

In the 2016 HDR, Indonesia was ranked 113th out of 188 countries, with a Human Development Index (HDI) value of 0.689, placing it in the medium human development category. Among ASEAN countries, its level of human development is comparable to that of the Philippines; more broadly, it is above the average for medium HDI countries. Notably, when HDI is adjusted for inequality, the value for Indonesia decreases by 18 percent to 0.563, highlighting the need to support more inclusive growth and development (which is reflected in one of the three pillars of the government's current medium-term development plan).

Demographics will continue to be an important factor to consider in ensuring that no one is left behind. Indonesia is among a number of ASEAN countries that are in the middle of a demographic transition, and has potential to take advantage of the demographic opportunities that these trends present.<sup>20</sup> The country's currently low dependency ratio<sup>21</sup> represents an opportunity to boost national productivity,

15 Indonesia Country Profile, SDG Index and Dashboards Report 2017.

16 MDG indicators data.

17 World Bank data based on Inter-Parliamentary Union: Women in National Parliaments. <http://data.worldbank.org/indicator/SG.GEN.PARL.ZS?locations=ID>

18 National Commission on Violence Against Women. <https://www.komnasperempuan.go.id/siaran-pers-bersama-mendorong-penerbitan-surat-presiden-surpres-ruu-penghapusan-kekerasan-seksual-dan-pembahasan-yang-partisipatif-jakarta-2-juni-2017/>

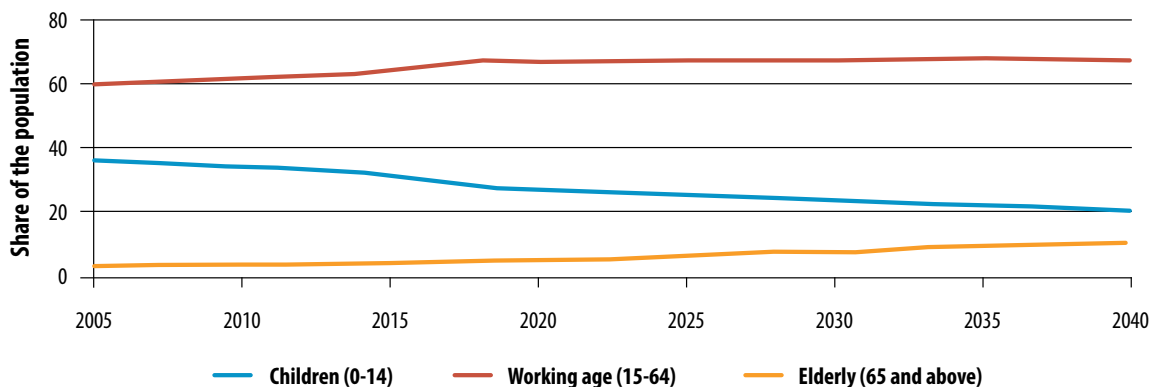
19 Republic of Indonesia (2017), 'Voluntary National Review (VNR): Eradicating Poverty and Promoting Prosperity in a Changing World'. <https://sustainabledevelopment.un.org/content/documents/15705Indonesia.pdf>

20 UNDP (2016), '2016 Asia-Pacific Human Development Report'. <http://www.asia-pacific.undp.org/content/rbap/en/home/hdr.html>

21 'Dependency ratio' refers to the number of people outside the working age compared with people of working age.

but effective use of the relatively larger workforce over the medium to long term will depend on whether the basic needs of young people can be met around education, health and employment.<sup>22</sup>

**Figure 2.3: The share of working-age population is near its peak and will plateau as the elderly population grows**



Source: Development Initiatives based on World Bank WDI (historical data) and UNDESA (projections)

Note: Age categories based on ASEAN Briefing on Indonesia MP3EI (p.17).

Rapid industrialization has also strained both urban infrastructure and the capacity of cities to provide basic social services to growing populations. At the same time, people living in rural areas—including indigenous peoples who depend directly on forests and other natural resources for their livelihoods—face increasing risks related to environmental vulnerability, especially in light of the expected increase in the frequency and severity of natural disasters in the country.

## Environmental development

Economic activity has contributed to robust growth and significant job creation, but it has also increased Indonesia's vulnerability to climate change and has contributed to the degradation of its natural resources. The palm oil industry is a perfect case in point. Indonesia is the world's largest producer and exporter of palm oil, and the industry employs, directly and indirectly, about 16 million people.<sup>23</sup> However, palm oil production practices have increasingly been in the spotlight due to their unsustainable approach to environmental protection, including the conversion and degradation of peat and forest land for plantations.

However, some positive trends are beginning to be seen in relation to environmental sustainability. While forest cover has decreased by 23 percent since 1990 and the number of people affected by disasters continues to fluctuate, CO2 emissions per unit of manufacturing value-added have been steadily decreasing since 2006, and the proportion of the population with primary reliance on clean fuels and

22 Coordinating Ministry for Economic Affairs (2011), 'ASEAN Briefing, Indonesia: Master Plan Acceleration and Expansion of Indonesia Economic Development 2011–2025'.

23 UNDP (2017), 'Sustainable Palm Oil for All'. <http://www.id.undp.org/content/indonesia/en/home/presscenter/articles/2017/06/20/sustainable-palm-oil-for-all/>



technology increased from 18.2 percent in 2005 to 56.6 percent in 2014.<sup>24</sup> The 2015 Green Planning and Budgeting Strategy update report notes how “further progress will require strong collaboration with line ministries, with provincial and local governments and with the private sector and civil society”.<sup>25</sup> In relation to the private sector specifically, Box 1 illustrates two initiatives that have begun to mainstream sustainability principles in the financial industry.

### **Box 1: Environmental and social sustainability in the financial sector<sup>26</sup>**

In 2013, the Financial Services Authority (FSA) issued the Sustainable Financial Roadmap as a new standard for the sustainability of financial service institutions. The policy aims to strengthen the ability of financial institutions to face environmental and social risks and to encourage the development of competencies for innovation in sustainable products and services.

Sustainable financing has also been implemented in the Jakarta Stock Exchange through the Sri Kehati Index, which refers to sustainable and responsible investment by listed companies by considering the impacts of their activities beyond purely financial returns—for example, by including factors related to the environment, human rights, labour practices and corporate governance, among others.

## 2.2 Policy objectives

Indonesia’s National Long-Term Development Plan (RPJPN 2005–2025) envisions a country that is developed and self-reliant, just and democratic, and peaceful and united. It includes a headline target of achieving a level of per capita income of approximately \$6,000 by 2025, with a good level of equity and a poverty headcount below 5 percent of the total population, as well as reaching and being able to maintain food self-sufficiency.<sup>27</sup> When President Widodo took office in 2014, his administration introduced its own vision for development in the Nawa Cita agenda, which is in line with the vision set out in the 20-year RPJPN and which is further elaborated in the country’s current medium-term development plan (RPJMN) 2015–2019. This is the third plan in the time period covered by the RPJPN, and it seeks to consolidate development gains in all fields, with a particular emphasis on equity (across both income groups and geographic locations), economic competitiveness without environmental degradation, human development, poverty reduction and food and energy security. Specific targets that the five-year plan aims to achieve by 2019 are listed in Table 2.2.

24 SDG Global Indicators Database. <https://unstats.un.org/sdgs/indicators/database/>

25 Ministry of Finance (2015), ‘Green Planning and Budgeting Strategy for Indonesia’s Sustainable Development 2015–2019, Update Report 2015’. [http://fiskal.depkeu.go.id/pkppim/en/public/2000/studies/download/GPB Update 2015.pdf](http://fiskal.depkeu.go.id/pkppim/en/public/2000/studies/download/GPB%20Update%202015.pdf) (Preface, p. iii.)

26 Republic of Indonesia (2017), ‘Voluntary National Review (VNR): Eradicating Poverty and Promoting Prosperity in a Changing World’, pp.70–71.

27 <https://www.indonesia-investments.com/projects/government-development-plans/national-long-term-development-plan-rpjpn-2005-2025/item308>

**Table 2: RPJMN headline targets for 2019**

RPJMN 2015–2019 targets	Baseline (2014)	Targets (2019)
Annual GDP growth	5.1%	8.0%
GDP per capita	Rp 43.4 million	Rp 72.2 million
Poverty incidence	10.96%	7.0–8.0%
Gini	0.41	0.36
Unemployment rate	5.9%	4–5%
Environmental quality index (IKLH) <sup>28</sup>	63.0–64.0	66.5–68.5

Source: presentation prepared by the Minister of National Development Planning and Head of BAPPENAS, January 2015

Since President Widodo took office, Indonesia's Green Planning and Budgeting (GPB) Strategy 2015–2020—initially designed under the previous administration to respond to the country's vulnerability to climate change and to address its environmental commitments—has been updated to reflect its relevance to the vision of the current administration. The GPB aims to mainstream green and low-carbon development into national planning and budgeting processes and identifies specific priority areas. As noted in the 2015 GPB Update Report, these areas refer directly to three of the nine priorities set out in the Nawa Cita agenda: enhancing quality of life and social welfare; improving productivity and competitiveness; and achieving economic independence by promoting strategic sectors of the domestic economy.<sup>29</sup>

Indonesia is very much committed to implementing the SDGs. The country played an active role in the process leading up to the SDGs by being part of the Open Working Group on the SDGs, while its former President was one of the co-chairs of the High Level Panel of Eminent Persons advising the UN Secretary-General on the Post-2015 Agenda. Additionally, as the Minister of National Development Planning has pointed out, “the Government of Indonesia had the advantage of formulating its Medium-Term Development Plan (2015–2019) at the same time as the SDGs were being formulated, allowing for an alignment of goals, and targets where they made sense for Indonesia”.<sup>30</sup> Table 2.3 shows the degree of alignment of both the Nawa Cita agenda and the objectives of the Medium-Term Development Plan (RPJMN) with the SDGs. More specifically, BAPPENAS has also undertaken a mapping of SDG targets to the five-year RPJMN and found that 108 of the 169 SDG targets align with national ones; the government is currently working on a final review of SDG targets and indicators to finalize the adoption and implementation of relevant ones at the country level.<sup>31</sup>

28 Indonesia's Environmental Quality Index (IKLH) is constructed using three indicators: river quality, air quality and forest cover.

29 Ministry of Finance (2015), 'Green Planning and Budgeting Strategy for Indonesia's Sustainable Development 2015–2019, Update Report 2015'. [http://fiskal.depkeu.go.id/pkppim/en/public/2000/studies/download/GPB Update 2015.pdf](http://fiskal.depkeu.go.id/pkppim/en/public/2000/studies/download/GPB%20Update%202015.pdf)

30 Statement by the Minister of National Development Planning/Head of National Development Planning Agency on UNDP 50th Year Anniversary, “Indonesia's Lessons Learned from MDG Implementation and on SDG Preparation”, New York, 24 February 2016. <http://statements.unmeetings.org/media2/7656787/indonesia.pdf>

31 <https://www.adb.org/sites/default/files/linked-documents/50168-001-sd-04.pdf>

**Table 3: Nawa Cita, RPJMN and SDG alignment**

<b>Nawa Cita</b>	<b>RPJMN*</b>	<b>SDGs</b>
Nawa Cita 1	Chapter 6.1, 10 sub-chapters	Goals 3, 10, 16, 17
Nawa Cita 2	Chapter 6.2, 5 sub-chapters	Goal 16
Nawa Cita 3	Chapter 6.3, 3 sub-chapters	Goals 1-11
Nawa Cita 4	Chapter 6.4, 6 sub-chapters	Goals 14-16
Nawa Cita 5	Chapter 6.5, 5 sub-chapters	Goals 1-6
Nawa Cita 6	Chapter 6.6, 11 sub-chapters	Goals 1-10
Nawa Cita 7	Chapter 6.7, 9 sub-chapters	Goals 1-5, 8, 9, 12-15
Nawa Cita 8	Chapter 6.8, 1 (sub-)chapters	Goals 3-4, 11
Nawa Cita 9	Chapter 6.9, 5 1 (sub-)chapters	Goals 5, 10, 16, 17

• the titles of the chapters follow the components of Nawa Cita

Source: UNDP (2015), 'Converging Development Agendas: "Nawa Cita", "RPJPN", and SDGs' (p.3)

Moreover, institutional arrangements to implement the SDGs have been legislated in Indonesia with the enactment of Presidential Decree No. 59 of 2017, which recognizes the role of stakeholders beyond the state, including experts and academia, civil society and media, and philanthropic organizations and business. The Decree also establishes the SDG Secretariat (to be supervised by BAPPENAS) and sets out responsibilities for various government agencies, including the Central Bureau of Statistics (BPS) in relation to coordinating and preparing the necessary data to report on progress.

Most recently, Indonesia's commitment and drive toward the SDGs is reflected in its voluntary reporting to the 2017 High Level Political Forum.<sup>32</sup>

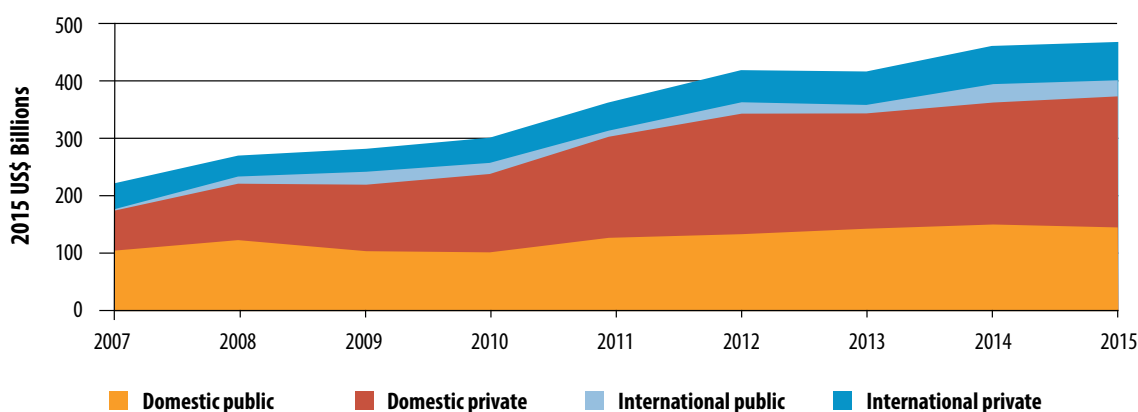
32 Republic of Indonesia (2017), 'Voluntary National Review (VNR): Eradicating Poverty and Promoting Prosperity in a Changing World'. <https://sustainabledevelopment.un.org/content/documents/15705Indonesia.pdf>

### 3. Financing landscape: bottlenecks, challenges and opportunities

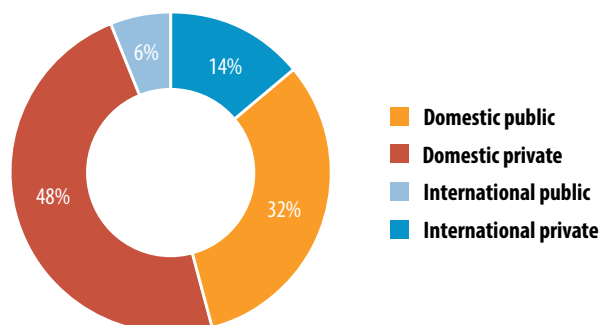
#### 3.1 Overall financing landscape

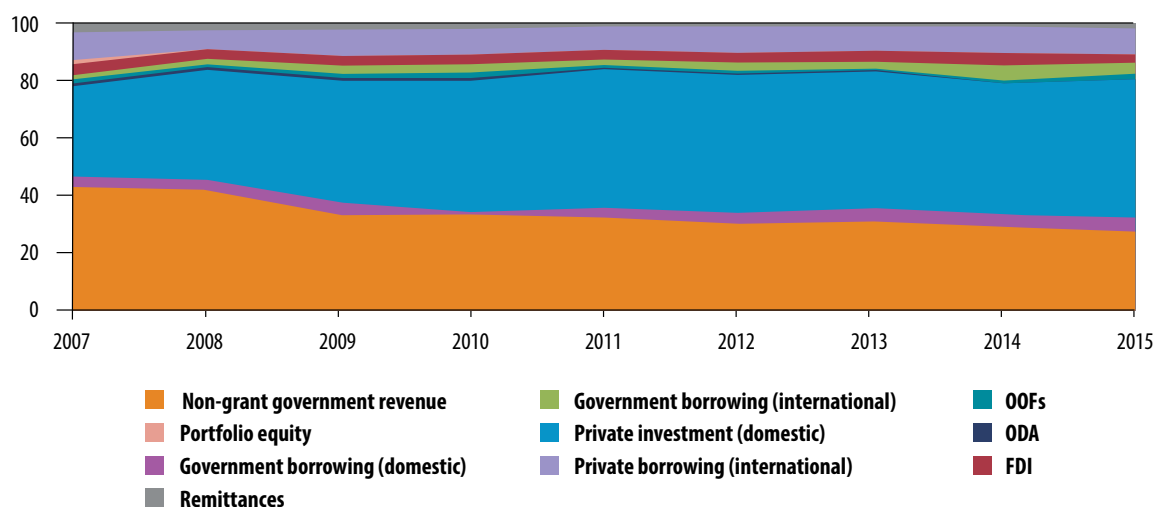
Indonesia's financing landscape has evolved from one where domestic public resources were the main source of funding to one dominated by domestic private finance. In 2015, domestic private investment—estimated based on gross capital formation by financial and non-financial corporations—accounted for almost half of all resources available in the country, compared with 31 percent in 2007. Over the period, it increased from \$71 billion in 2007 to \$226 billion in 2015. International financing remains low as a proportion of the overall mix, with international private flows accounting for 14 percent of the total in 2015, and international public financing for only 6 percent.

**Figure 3: Indonesia's financing landscape has evolved from one dominated by domestic public finance to one dominated by domestic private finance**



**Figure 3.1: Domestic private investment accounts for almost half of all financing (2015)**



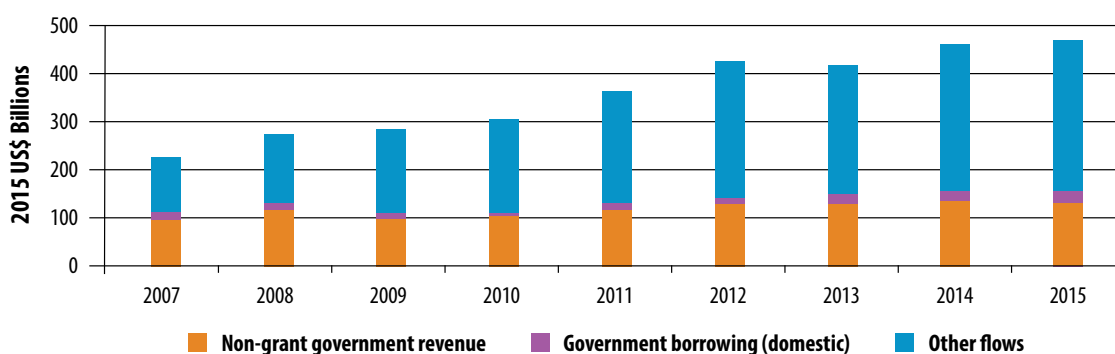


Source: Development Initiatives calculations based on multiple sources

## 3.2 Domestic public finance

Domestic public resources—which consist of government revenue (excluding grants) and government borrowing from domestic sources—have been increasing in terms of volume, from a total of \$106.5 billion in 2007 to \$151.6 billion in 2015. However, growth has been slower than for other flows, meaning that domestic public resources have decreased as a share of total financing over this period, from nearly half in 2007 (47 percent) to under a third in 2015 (32 percent).

**Figure 3.2: Domestic public resources have been increasing more slowly than other flows**



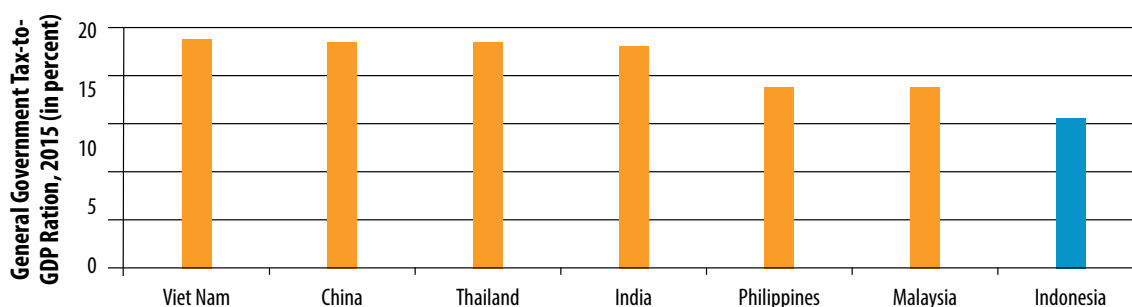
Source: Development Initiatives calculations based on multiple sources

This is mainly due to Indonesia's "structurally low tax revenues",<sup>33</sup> both in terms of commodity-related revenues—which have been affected by decreases in prices in global commodity markets—and non-oil revenues, such as value-added tax (VAT) and excise taxes, which have continued to underperform. Tax and non-tax revenues combined have increased by less than a third, from \$97.7 billion in 2007 to \$128.5

33 2017 IMF Article IV Report, p. 8.

billion in 2015. Indonesia's tax-to-GDP ratio is the lowest among its emerging market peers, including China, India and other ASEAN countries such as Viet Nam, Thailand, the Philippines and Malaysia (Figure 3.3).<sup>34</sup>

**Figure 3.3: Indonesia's tax-to-GDP ratio is low compared with emerging market peers (2015)**



Source: 2017 IMF Article IV (p.35)

Government borrowing, on the other hand, has been increasing at a faster rate as the fiscal deficit has grown, prompting the government to begin a gradual fiscal consolidation in 2016 in order to maintain the deficit within the statutory 3 percent of GDP; this has involved revising revenue levels and lowering spending to keep the deficit at about 2.7 percent of GDP.<sup>35</sup>

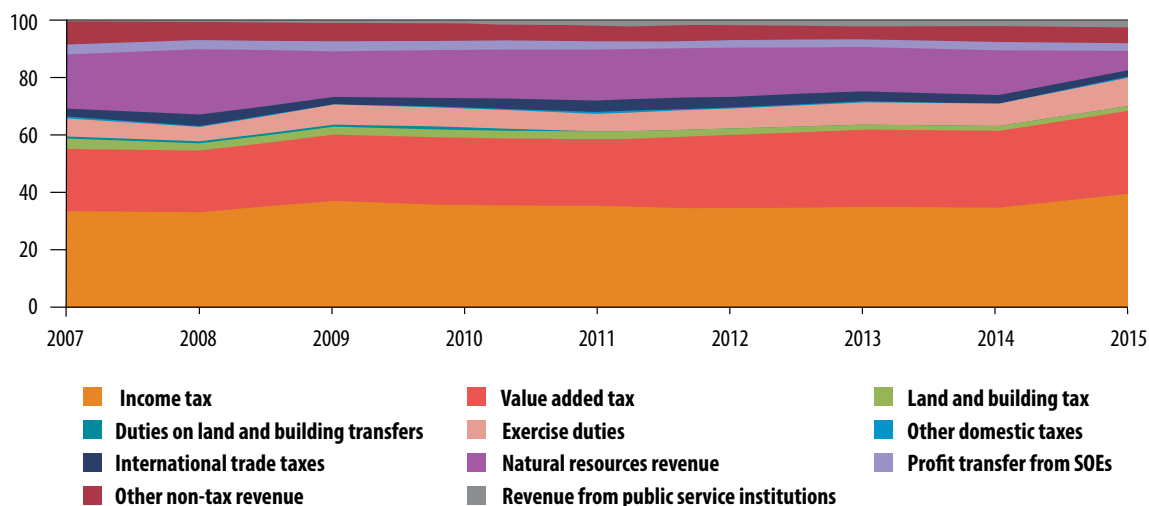
Additionally, the government has launched a tax amnesty programme (from July 2016 to March 2017), with the aim of boosting revenues by, on the one hand, repatriating capital from Indonesians living abroad and, on the other, attracting capital from Indonesian residents working in the informal sector. According to the 2017 IMF Article IV Consultation Report, the programme has been successful in expanding the tax base, with total collections projected to reach 0.9 percent of GDP. As of 30 November 2016, a total of Rp 99.2 trillion (equivalent to around \$7.4 billion) had been collected, mainly related to previously undeclared domestic assets.

Looking ahead, there is scope for mobilizing additional non-oil revenues through reforms and by expanding 'growth-friendly' taxes, such as property taxes and indirect taxes (including excise taxes and VAT), with consideration for the distributional impacts that this may have. Figure 3.4 shows the trends in revenue composition over the past nine years, highlighting the decrease in natural resources revenue in 2015 (due to the fall in global prices of key commodities such as oil, palm oil and coal) and pointing to the small share that land and building taxes account for in the overall revenue bundle (1.96 percent in 2015).

<sup>34</sup> 2017 IMF Article IV Report.

<sup>35</sup> 2017 IMF Article IV Report.

**Figure 3.4: The share of resources revenue in the government's overall revenue bundle has decreased, from 15.6% in 2014 to 6.7% in 2015**



Source: Development Initiatives calculations based on Statistics Indonesia (combined state, province, regency and village revenues)

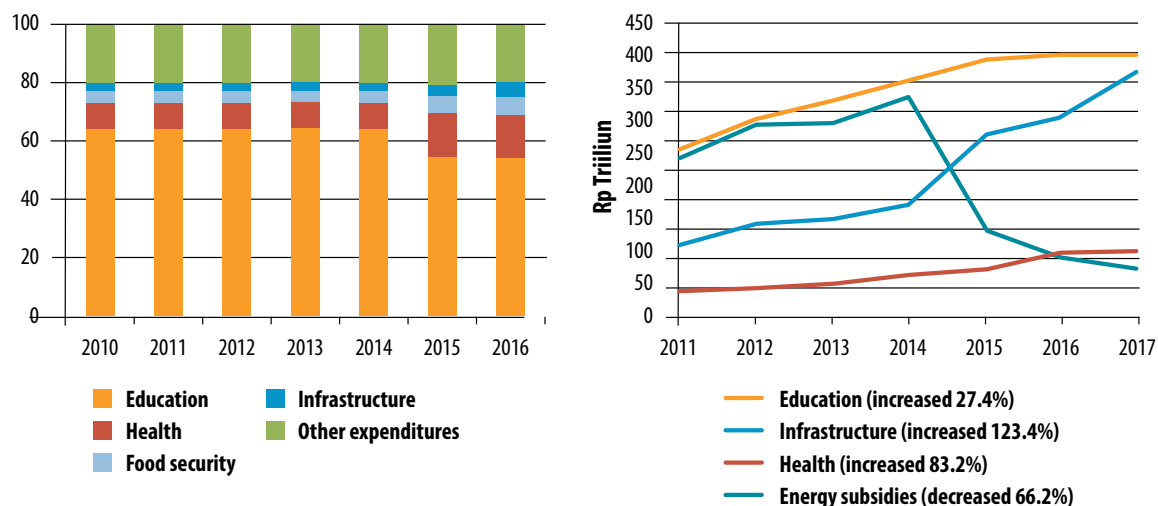
Efforts toward fiscal consolidation are being coupled with programmes to capitalize on the gains of the amnesty programme and to strengthen tax administration and revenue collection, and efforts are also ongoing to strengthen the effectiveness of government spending. Since 2003 the government has been implementing a comprehensive public financial management (PFM) reform programme, which in 2011 introduced a Medium-Term Expenditure Framework (MTEF) and from 2015 has supported the introduction of a performance-based budgeting (PBB) system. In this context, data systems have also been strengthened in order to support enhanced monitoring and strategic prioritization of budget allocations. The introduction of an integrated financial management information system by the Ministry of Finance (MOF) in 2015 represents an important achievement.<sup>36</sup> SPAN (short for *Sistem Perbendaharaan dan Anggaran Negara*) is being used internally by the government to improve the transparency, efficiency and accountability of financial transactions. Such a system used at the central level, along with the programmes of the National Team for the Acceleration of Poverty Reduction (TNP2K)—especially around data use (Box 4)—at the local level, represents a solid foundation for the government to continue to strengthen its systems and processes for results-based resource allocation and spending.

This is particularly relevant in light of current spending trends, especially in sectors that are critical for growth and development—namely infrastructure, health and education. Although the slashing of fuel subsidies in the 2015 budget resulted in increases in allocations to all three of these sectors (Figures 3.5 and 3.6), spending remains low compared with other countries in the region. In 2015, Indonesia's spending on health was 1.3 percent of GDP and spending on education was 3.5 percent of GDP—well below the averages for emerging market economies in Asia, which were 4.4 percent of GDP for health and 4.8 percent for education.<sup>37</sup>

<sup>36</sup> UNDP (2016), 'Indonesia Performance Based Budgeting and Climate Change Finance Review'.

<sup>37</sup> 2017 IMF Article IV Report, p.14.

**Figures 3.5 and 3.6: Slashing of fuel subsidies in 2015 resulted in increases in government spending on education, health and infrastructure**



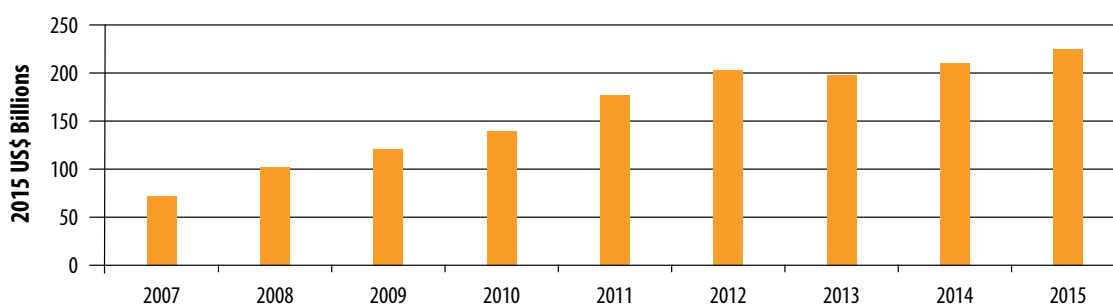
Sources: Figure 3.5: 'Indonesia's 2016 Budget: optimism amidst global uncertainties', ISEAS Yusof Ishak Institute Perspective Issue No. 3 of 2016;<sup>38</sup> Figure 3.6: Ministry of Finance.<sup>39</sup>

Note: *pendidikan* is education; *infrastruktur* is infrastructure; *kesehatan* is health; *subsidi energi* is energy subsidies)

### 3.3 Domestic private finance

Domestic private investment has been an important driver behind Indonesia's overall financing trends. In 2015 it was equivalent to 1.5 times domestic public resources, 8.5 times international public resources and 3.3 times international private flows. However, this is in the context of an annual growth rate that has slowed from an average of 24 percent over the period 2007–2012 to 4 percent since then (Figure 3.7), which highlights the need to address the challenges that are being encountered by domestic private actors in order to further leverage their potential to contribute to national development outcomes.

**Figure 3.7: Domestic private investment has increased from \$70.6 billion in 2007 to \$225.8 billion in 2015, though growth has slowed since 2012**



Source: Development Initiatives based on Non-Financial Investment by Sector, Annual Flow of Funds Indonesia, and Statistics Indonesia

38 ISEAS Yusof Ishak Institute (2016), Perspective Issue No. 3 of 2016, 'Indonesia's 2016 Budget: optimism amidst global uncertainties': [https://www.iseas.edu.sg/images/pdf/ISEAS\\_Perspective\\_2016\\_3.pdf](https://www.iseas.edu.sg/images/pdf/ISEAS_Perspective_2016_3.pdf)

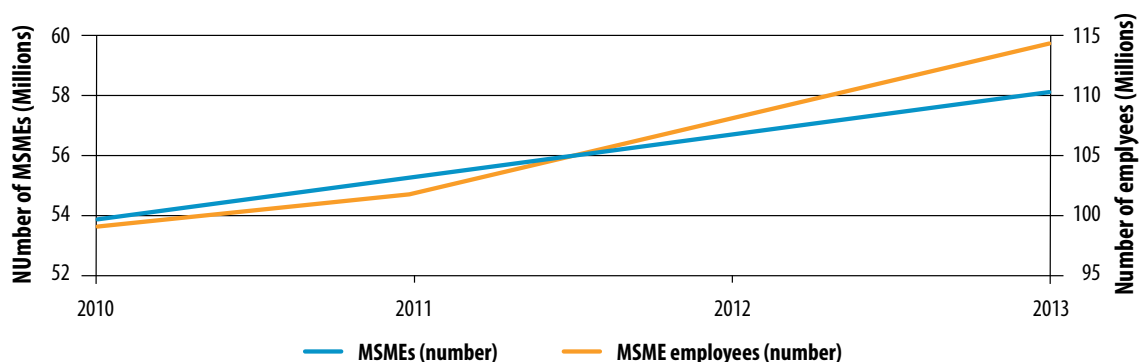
39 Ministry of Finance, Republic of Indonesia. <https://www.kemenkeu.go.id/apbn2017>



According to the World Bank's latest Enterprise Survey for Indonesia, such challenges relate mainly to practices in the informal sector, tax rates and political factors;<sup>40</sup> its Doing Business report for 2017, while highlighting the substantial progress made by Indonesia in most recent years, also points to challenges that remain, including in the area of contract enforcement.<sup>41</sup> The country's highly decentralized structure of government also adds to difficulties in the enabling environment for private sector development, especially as it relates to "inconsistent and often arbitrary regulations imposed by local Governments".<sup>42</sup> Finally, remaining infrastructure gaps further hinder large-scale private sector development. The RPJMN addresses all of these issues; however, as discussed further in Chapter 6, this could be strengthened by a holistic private sector development strategy to guide priority interventions that would facilitate further investment, especially given the level of ambition of both national development objectives and the SDGs adopted by the country, as well as the related funding needed to achieve them.

While overall private sector investment has slowed down, the presence of micro, small and medium-sized enterprises (MSMEs) in the national economy has been growing (see Chapter 5). According to the most recently available data, the number of MSMEs in Indonesia has consistently increased and so has the number of people employed by them (Figure 3.8). As a share of total employment, MSMEs account for 97 percent. Given their significance in terms of job creation, their relative resistance to external shocks<sup>43</sup> and their potential to contribute to inclusive growth and innovation, MSMEs are going to be strategic partners for government in achieving the ambitious development goals set out in both the RPJMN and the SDGs.

**Figure 3.8: The role of MSMEs in the Indonesian economy has been growing**



Source: Development Initiatives calculations based on ADB, 'Asia SME Finance Monitor'

### 3.4 International public finance

International public finance accounted for 6 percent of all resources in 2015, with gross ODA inflows at \$2.0 billion, less concessional other official flows (OOFs) at \$8.9 billion and government borrowing from international sources (including public and publicly guaranteed debt) at \$15.6 billion. In aggregate,

40 World Bank, 'Indonesia Enterprise Survey 2015'.

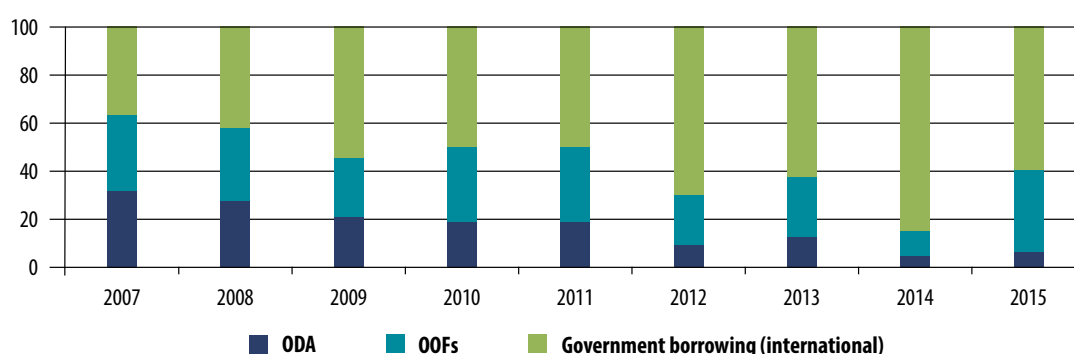
41 World Bank, 'Indonesia Doing Business Report 2017'.

42 ADB (2015), 'Summary of Indonesia's Private Sector Development Assessment'.

43 For example, while the Indonesian economy as a whole was affected by the global financial crisis, the MSME sector kept growing without being seriously damaged by it. See: ADB (2014), 'Asia SME Finance Monitor 2014, Indonesia country profile', p.169. <https://www.adb.org/sites/default/files/publication/173205/asia-sme-finance-monitor2014.pdf>

international public finance almost tripled between 2007 and 2015, with external borrowing driving the trend. It increased from \$3.2 billion in 2007 to \$15.6 billion in 2015, and reflects the government's reliance on external financing, beyond aid, to adjust for its low levels of domestic revenue generation. OOFs have fluctuated as a proportion of international public resources, but overall increased in volume from \$2.8 billion in 2007 to \$8.9 billion in 2015. ODA has remained consistently low (fluctuating between \$1.8 billion and \$3.2 billion), and decreasing in significance from 31 percent of international public finance in 2007 to less than 8 percent in 2015 (or from 5.6 percent of all international flows—public and private—in 2007 to 2.2 percent in 2015).

**Figure 3.9: External borrowing has been driving trends in international public finance, while ODA has decreased significantly**



Source: Development Initiatives calculations based on OECD DAC, World Bank International Debt Statistics (IDS)

However, as Indonesia's economy and financing landscape have evolved over the past decade, so have development partners' approaches to development cooperation. Innovative approaches to maximize the impact of increasingly limited resources, while still contributing to the country's development agenda, have become increasingly common. For example, co-financing schemes involving multiple development partners are being used to pool resources towards common outcomes. Of particular note is the collaboration between multilateral banks and UN agencies, which enables the partners' different approaches, in addition to finances, to complement one another (e.g. the economic focus on the one side with the more human/social focus on the other).

A case in point is the Integrated Participatory Development and Management of Irrigation Sector Project (IPDMIP), supported by the Asian Development Bank (ADB) and the International Fund for Agricultural Development (IFAD), whose goal is to improve food security and livelihoods in rural Indonesia by improving irrigation systems and strengthening support for agriculture and farmer livelihood development. Under IPDMIP, each development partner supports a different component in line with their comparative advantages: IFAD's focus is on activities related to increasing agriculture incomes, including capacity building for farmers, while ADB's is on irrigation systems infrastructure and management.<sup>44</sup>

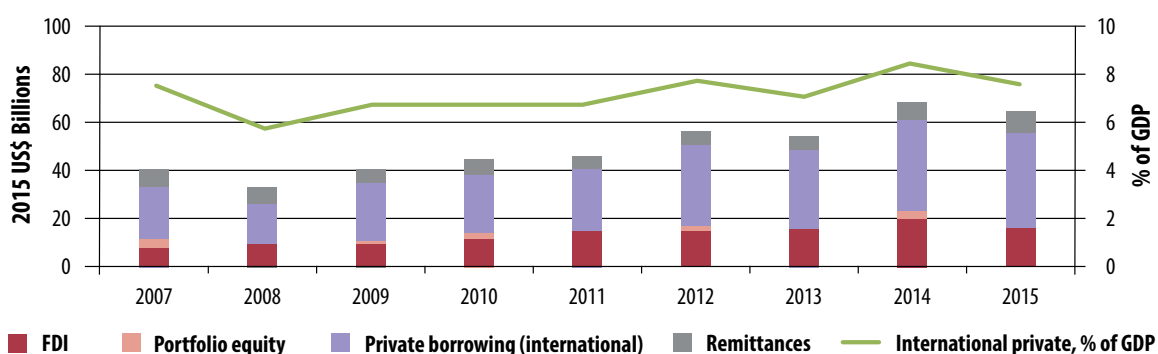
44 IFAD (2015), 'President's report: Proposed loan and grant to the Republic of Indonesia for the Integrated Participatory Development and Management of the Irrigation Project'. <https://webapps.ifad.org/members/eb/116/docs/EB-2015-116-R-19-Rev-1.pdf>; information shared with author during meeting with BAPPENAS on 16 June 2017.

By combining resources according to their areas of expertise, the approaches and key objectives of different development partners are also combined, resulting in contributions to multiple outcomes and supporting all dimensions of sustainable development.

### 3.5 International private finance

Overall, international private finance has grown, with fluctuations, since 2008, but it remains low as a percentage of GDP (Figure 3.10). In 2015, aggregate international private financing was equivalent to 7.6 percent of GDP, compared with an average of 13.6 percent in other ASEAN countries (or 10.9 percent in other ASEAN-5 countries<sup>45</sup>).

**Figure 3.10: International private finance has grown, but remains low as a percentage of GDP**



Source: Development Initiatives calculations based on multiple sources

In relation to other types of resources available in Indonesia, international private flows have decreased, from 18 percent in 2007 to 14 percent in 2015. Remittances have been relatively constant, although they have been increasing since 2011 and in 2015 reached a level of \$9.4 billion (one of the lowest in per capita terms compared with other ASEAN countries). Equity investments remain low and highly volatile compared with other private inflows of financing. Borrowing and foreign direct investment (FDI) have been driving overall trends, with private borrowing from international sources increasing from \$21.8 billion in 2007 to \$39.7 billion in 2015—an 82 percent increase in volume. FDI is the international private flow which has increased the most (doubling between 2007 and 2015), with most of it coming from within the ASEAN region (particularly Singapore), yet it still plays a less substantial role in the Indonesian economy compared with other ASEAN-5 countries (except for the Philippines) (Table 4).

45 Indonesia, Malaysia, the Philippines, Singapore and Thailand.

**Table 4: FDI in Indonesia has doubled over the past decade, but still plays a less significant role than in most other ASEAN-5 countries**

ASEAN-5	FDI volume in 2015 (2015 \$)	FDI per capita in 2015 (2015 \$)	FDI, % of GDP in 2015
Indonesia	\$16.6 billion	\$65.15	1.9%
Malaysia	\$11.1 billion	\$356.62	3.8%
Philippines	\$5.6 billion	\$55.52	1.9%
Thailand	\$9.0 billion	\$133.92	2.3%
Viet Nam	\$14.5 billion	\$158.10	7.6%

Source: Development Initiatives calculations based on multiple sources

In addition to the challenges relating to the business environment already mentioned in section 3.3, international private sector participation, as well as domestic, has been constrained by the state of infrastructure in Indonesia and by gaps in labour skills—which are areas that fall within the priorities identified in the current medium-term national development plan (RPJMN 2015–2019). Mobilizing additional private sector finance and stimulating investments that can have an impact on sustainable development outcomes will hinge on addressing these challenges and on establishing an integrated, holistic framework to identify areas where private sector contributions could be most effectively leveraged and channelled.

## 4. The building blocks of an integrated national financing framework

Chapter 3 identifies the main financing challenges in the country's low levels of revenue generation, slowing growth rate of domestic private investment and sluggish international private investment. Given these on the one hand and, on the other hand, the ambitious development objectives that Indonesia has set in both its long- and medium-term national development plans, the government could benefit from assessing the policies and institutional arrangements that govern its overall financing strategy. This should be done with a view to establishing what is already in place and what remains to be strengthened in order for the government to be able to effectively consider the role that all types of resources could have in contributing toward the achievement of development objectives.

This is also in line with agreements at the global level, especially the Addis Ababa Action Agenda, which calls for countries to keep “cohesive nationally owned sustainable development strategies, supported by integrated national financing frameworks” at the heart of their efforts to finance the SDGs.<sup>46</sup> Integrated national financing frameworks (INFFs) can guide governments in taking a holistic approach towards planning and financing for sustainable development, particularly around managing and mobilizing different resources—domestic, international, public, private—to meet country-specific needs and priorities. Ultimately, INFFs support governments to link finance with results and facilitate nationally led implementation of the SDGs. The INFF concept covers six building blocks and, critically, the way they interact and work together.

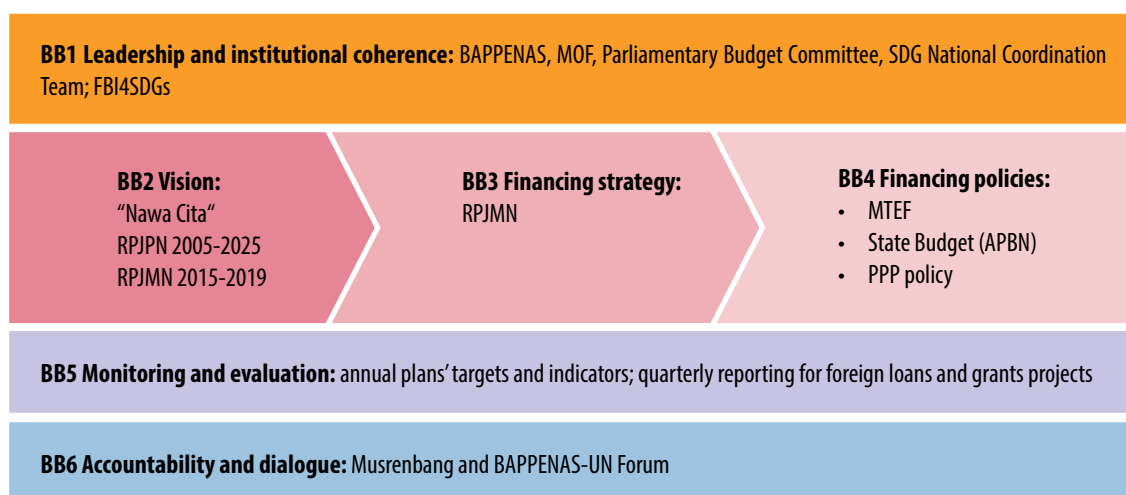
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46 Addis Ababa Action Agenda, paragraph 9. [http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA\\_Outcome.pdf#t](http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf#t)

## 4.1 Assessment of existing framework

Figure 4 is an adaptation of the general INFF diagram, and is used to illustrate the main INFF elements that are in place in Indonesia.

**Figure 4: Elements of Indonesia's INFF**



### Building Block 1: Leadership and institutional coherence

In Indonesia, leadership with regard to the development process is two-fold. The Ministry of National Development Planning (BAPPENAS) is responsible for setting the vision and priorities and for coordinating the contributions of different actors toward development outcomes. The Ministry of Finance (MOF) is responsible for establishing the level of financial resources available and the budget ceiling in the context of the government’s deficit target.<sup>47</sup> Law No. 17 of 2003—which is part of a set of PFM reforms that began within central government in 2003<sup>48</sup>—sets out the process by which these two functions are linked annually in the context of budget preparation.

BAPPENAS articulates the Annual Government Work Plan (RKP), basing priorities on those identified in the five-year RPJMN and the progress made at both the sector and regional levels over the previous year, as well as the broad budget ceiling set by the MOF in the fiscal policy and macroeconomic framework. The State Budget (APBN) is then drafted by the MOF in the context of this framework and taking into consideration submissions by line ministries and regional authorities, which identify sectoral and local development priorities, in line with overall national priorities set by BAPPENAS and relevant budget ceilings. A permanent standing Budget Committee, established by the House of Representatives (DPR), contributes to ensuring coordination between planning and budgeting in its deliberations on the State Budget.<sup>49</sup>

47 OECD (2009), ‘Budgeting in Indonesia’, p.14.

48 UNDP (2016), ‘Indonesia Performance Based Budgeting and Climate Change Finance Review’.

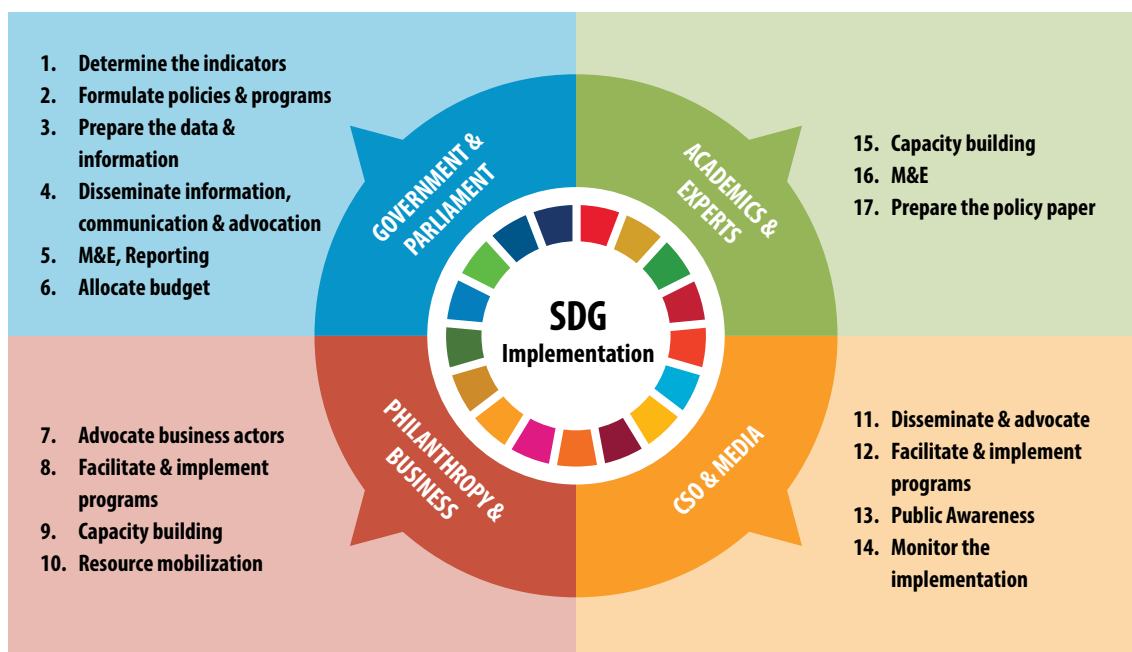
49 DPR RI and UNDP, ‘Handbook on Budgeting and Financial Oversight’; UNDP (2016), ‘Indonesia Performance Based Budgeting and Climate Change Finance Review’.

These processes allow for a high level of coherence across government in terms of planning and alignment of development priorities, both across line ministries and between central and local governments. What remains to be strengthened are the systems and processes to ensure that such coherence also exists on the financing side, as the roles and processes listed above relate mainly to state resources.

BAPPENAS is the government agency responsible for coordinating international cooperation, and for planning and managing non-state resources more broadly. For example, the Non-State Budget Infrastructure Funding (PINAF) scheme was launched by BAPPENAS to seek non-budget sources of financing for major infrastructure projects from actors other than government, including private sector and development partners. However, as discussed in more detail under Building Block 3 below, there is no overarching financing strategy or related institutional set-up to mobilize and use all resources—public, private, domestic, international—in a holistic and integrated way.

Presidential Decree No. 59 of 2017, which sets out the institutional framework for SDG implementation in Indonesia, provides the legal basis for the involvement of all actors in achieving sustainable development objectives. It identifies four “participatory platforms”:<sup>50</sup> 1) government and parliament; 2) civil society organizations (CSOs) and media; 3) philanthropy and business; and 4) academics and experts. Each of these platforms has representatives in the Implementation Team and Working Groups of the SDGs National Coordination Team, which is led by the President. Their participation in both implementing the SDGs at the country level and directing SDG implementation is thus set out in law. In addition, some of the identified roles directly relate to financing. Figure 4.1 shows the functions for each platform, including “allocate budget” under government and “resource mobilization” under philanthropy and business. Although these are not further articulated in the Decree, they represent a starting point from which to build in order to strengthen coherence across actors involved in mobilizing and allocating resources for financing for development.

50 Republic of Indonesia (2017), ‘Voluntary National Review (VNR): Eradicating Poverty and Promoting Prosperity in a Changing World’, p.7. <https://sustainabledevelopment.un.org/content/documents/15705Indonesia.pdf>

**Figure 4.1: Roles of Indonesia's SDG platforms**

Source: Indonesia Voluntary National Review, 2017 (p.6)

Beyond government, and in response to the roles identified in the Presidential Decree, the private sector has established a forum for the coordination of SDG-related action among businesses and foundations, reflecting a proactive approach towards its contribution to development outcomes (Box 2).

### **Box 2: FBI4SDGs—a proactive approach by philanthropy and business to set up a forum for public–private dialogue**

In order to operationalize the role of philanthropy and business set out in the Presidential Decree on the SDGs, Filantropi Indonesia, in partnership with UN Global Compact Indonesia, the Indonesia Business Council for Sustainable Development and the Indonesia Chamber of Commerce, established the Forum Filantropi dan Bisnis SDGs for a better Indonesia (FBI4SDGs) in March 2016.

FBI4SDGs currently consists of 11 member associations, which represent over 700 foundations and businesses.<sup>51</sup> The Forum provides a platform to initiate dialogue with government (BAPPENAS and the National SDG Secretariat) on how philanthropy and business can contribute to achieving the SDGs in Indonesia. It facilitates regular meetings with government representatives, and with experts from other fields when required—e.g. academics, CSOs, media, development partners. To date, specific topics have included the potential of Zakat in contributing toward the SDGs and related best practice.

<sup>51</sup> Membership is expected to be expanded to include state-owned enterprises (SOEs) and the Indonesia Mining Association.



### **Box 2: FBI4SDGs—a proactive approach by philanthropy and business to set up a forum for public–private dialogue (cont.)**

Additionally, FBI4SDGs has six working groups, each representing a focus area for the Forum. These range from Working Group 1 on Tools—which aims to explore existing tools for SDG implementation that can be used by philanthropic and business actors (e.g. SDG Compass)—to Working Group 5 on Localizing, which focuses on pilot projects at the provincial and district levels, and Working Group 6 on Advocacy and Regulation, which seeks to advise government on relevant tax issues and on national and local regulations that may represent impediments to efficient and effective action by private sector players.

In the absence of an effective government-led platform for dialogue with the private sector, FBI4SDGs provides an example of how foundations and business can come together in alternative forums to coordinate efforts and to proactively strengthen their collaboration and dialogue with government, and thus ultimately their contribution to national development as well as the SDGs.

## Building Block 2: Vision for results

The long-term vision for Indonesia's development is contained in the 20-year national development plan (RPJPN) and, under the current administration, in the government's Nine-Priority Agenda. The long-term vision is implemented through four five-year medium-term national development plans (RPJMNs), which run in parallel with the timelines for when a new government takes office, thus enabling different administrations to set their own priorities, while keeping these anchored to a common long-term vision. RPJMNs are then further elaborated into Annual Government Work Plans (RKP) so that medium-term development outcomes can be linked to the shorter-term activities of line ministries and regional governments, which use the RKP to set their own strategic plans (Renstra-KL) and Regional Development Plans (RKPD).

As mentioned in Chapter 2, both the government's vision and the current medium-term development plan are aligned with the SDG targets and, given the focus on infrastructure investment and spending on education, health and food security, SDGs 1, 3, 4 and 9 have particular synergies with government priorities.<sup>52</sup> However, the articulation of results in relation to the SDGs is not yet reflected in the same way at the subnational level. Localization of the SDGs across Indonesia's 514 districts and municipalities is hindered by their political and socio-economic differences; however, some have already demonstrated their commitment to SDG implementation. For example, Bojonegoro District has established a local SDG Secretariat and Pangkep District is preparing to formulate the SDGs Regional Action Plan, with a focus on specific targets that are in line with priorities identified for this area—i.e. poverty, inequality in education and health, and marine ecosystems.

Further progress in subnational results-based planning and SDG implementation will rely on the elaboration of targets beyond the aggregate national outcome level so that regional governments can operationalize them at the local level, and also on prioritization of those SDGs that are most relevant to each local context.<sup>53</sup>

52 <https://www.adb.org/sites/default/files/linked-documents/50168-001-sd-04.pdf>

53 Republic of Indonesia (2017), 'Voluntary National Review (VNR): Eradicating Poverty and Promoting Prosperity in a Changing World'. <https://sustainabledevelopment.un.org/content/documents/15705Indonesia.pdf>

## Building Block 3: Financing strategy

As shown in Chapter 3, Indonesia has access to a wide variety of financing sources, though not all are being leveraged to the extent that they could be (e.g. international private finance). At least in part, this is due to the lack of an overarching resource mobilization strategy that sets out government priorities in order to ensure that contributions from different actors—both state and non-state—can be leveraged to achieve their maximum impact vis-à-vis sustainable development targets.

Useful elements for the development of such a strategy exist both in the ongoing work to develop an effective MTEF<sup>54</sup> and within existing plans. The current five-year RPJMN includes an estimate of the total investment required for implementation, and points to both the scale and types of investments required for key sectoral interventions.<sup>55</sup> These include the acceleration of power generation and distribution (Rp 545 trillion from PLN, Indonesia's state-owned enterprise (SOE) for electricity, and Rp 435 trillion from private sources) and key infrastructure projects in the maritime sector (over Rp 700 trillion) and in relation to 13 industrial areas outside Java (over Rp 55 trillion). The 2015 GPB Update Report (already mentioned in Chapter 2) elaborates on the lead institutional responsibilities for green planning and budgeting across actors—including the MOF, BAPPENAS, line ministries, local government, the private sector and CSOs—and the available policy instruments to implement activities in the identified priority areas (see Annex 2). Both these approaches should be further elaborated on (e.g. by identifying key government interventions that would facilitate increased investment by private sector actors) and applied to other sectors too, in order to identify all financing gaps and to set targets for filling them using the full range of available resources and instruments.

A holistic long-term financing strategy that includes estimates of necessary investments across different sectors and regions, and that sets out an explicit role for actors beyond government to contribute to development outcomes, would support government in doing this. It would enable more effective spending of government resources on the one hand and more effective mobilization of other resources on the other—especially valuable in Indonesia's current context of low government revenue and untapped private sector finance. It would also support government to understand the interconnectedness of different flows and thus enhance its capacity to maximize synergies between them. Additionally, a long-term financing strategy would provide the basis for necessary structural reforms that may otherwise not be implemented due to their potential negative repercussions on the voting base in the short term—such as reforming the tax structure to expand 'growth-friendly' taxes such as property taxes, as mentioned in Chapter 3.

## Building Block 4: Financing policies for specific flows

Responsibilities for planning for and managing state and non-state resources are shared between various agencies in Indonesia. In relation to state resources, four main institutions are involved—BAPPENAS, the MOF, the Ministry of Home Affairs and the Ministry of Administration and Bureaucratic

54 An MTEF exists but is not yet fully functional. See UNDP (2016), 'Indonesia Performance Based Budgeting and Climate Change Finance Review', pp.30-31.

55 These are derived by the Fiscal Policy Agency (BKF) using projections based on statistical economic modelling.

Reform—in addition to DPR committees.<sup>56</sup> As it relates to non-state resources, the responsibility for mobilization and coordination lies mainly with BAPPENAS.

Multiple policies and regulations guide the budgeting process and seek to facilitate coordination among the various institutions involved in, and the consultation levels that are required for, the development of the State Budget, though scope remains to strengthen such mechanisms.<sup>57</sup> Indonesia commenced a series of PFM reforms in 2003, which have resulted in the introduction of MTEFs and performance-based budgeting (PBB). In 2011, ministries implemented a full MTEF for the first time, preparing budget estimates for the following two years,<sup>58</sup> though there is scope for strengthening this tool, especially in relation to forward estimates and the inclusion of performance indicators at the outcome level.<sup>59</sup>

With regard to non-state resources, there are no specific policies that relate the use of private or international public financing to an overall financing strategy or to the priorities identified in the five-year development plan—partly due to the lack of an overarching, long-term financing strategy that they could fall under, and partly due to the lack of an overarching monitoring framework containing financing targets and indicators that they could be linked to (see Chapter 5).

For example, the need to encourage private sector investment in green growth is highlighted in the Green Planning and Budgeting Strategy, which is set to involve “a steady shift away from reliance on direct public expenditure to the use of incentives and regulations that will encourage private green investment”.<sup>60</sup> However, little detail is provided on how this shift will be monitored and integrated with private contributions planned elsewhere.

Indonesia has a very well articulated framework for public–private partnerships (PPPs); however, this is not explicitly linked to a broader financing strategy either. The framework consists of a series of regulations specifically related to the infrastructure sector, including Presidential Regulation No. 38 of 2015 on Cooperation between the Government and Business Entities in the Provision of Infrastructure and other sector-specific and business-related regulations. These regulations represent the framework within which any infrastructure project, in a specified range of sectors, may be financed and implemented through PPPs;<sup>61</sup> they are not linked to any particular infrastructure plan.

BAPPENAS and the MOF share responsibilities in relation to PPPs, with BAPPENAS in charge of prioritizing projects to be implemented through this funding modality (e.g. based on priority projects identified in the five-year RPJMN) and the MOF providing options for financing schemes that can be offered to interested private sector actors—usually either guarantees, viability gap funding or viability payments throughout the life of the project. In 2016 the government signed nine PPP contracts with total project

56 UNDP (2016), ‘Indonesia Performance Based Budgeting and Climate Change Finance Review’, p.18; DPR RI and UNDP, ‘Handbook on Budgeting and Financial Oversight’, p.3.

57 DPR RI and UNDP, ‘Handbook on Budgeting and Financial Oversight’.

58 PEFA Report (2012).

59 UNDP (2016), ‘Indonesia Performance Based Budgeting and Climate Change Finance Review’.

60 Ministry of Finance (2015), ‘Green Planning and Budgeting Strategy for Indonesia’s Sustainable Development 2015–2019, Update Report 2015’. [http://fiskal.depkeu.go.id/pkppim/en/public/2000/studies/download/GPB Update 2015.pdf](http://fiskal.depkeu.go.id/pkppim/en/public/2000/studies/download/GPB%20Update%202015.pdf)

61 Clyde & Co. (2016), ‘Overview of Indonesian Public-Private Partnership (“PPP”) Regulatory Framework’. <https://www.clydeco.com/insight/article/overview-of-indonesian-public-private-partnership-ppp-regulatory-framework>

costs of Rp 81.79 trillion (approximately \$6.1 billion), of which three have reached financial closure.<sup>62</sup> While the process by which PPP projects are identified for implementation is to a certain extent linked to longer-term development plans (through the involvement of BAPPENAS), the framework that sets out the context in which PPPs are to be used does not directly relate to national development plans or broader financing processes.

## Building Block 5: Monitoring and evaluation (M&E)

There are a number of parallel monitoring systems in Indonesia. BAPPENAS is the agency within government with responsibility for monitoring SDG implementation, and it also monitors progress against the five-year RPJMN and the annual RKP, according to a logical structure of indicators that is, however, not aligned with the budget structure. In 2009 the government issued new reporting formats for ministries and agencies to report to the MOF on a quarterly basis. This, however, did not replace existing reporting systems, thus causing duplication of systems and an increased reporting burden for agencies, complicated by the fact that the indicators used by the MOF differ from those used by BAPPENAS. In addition, most of the performance indicators used in these monitoring systems are set at the activity and output levels, thus falling short of providing the necessary linkages between activities funded by the State Budget and their contribution to desired development outcomes.<sup>63</sup>

BAPPENAS is also in charge of monitoring projects funded through foreign loans or grants. This is not done through the same systems used for monitoring activities funded via the budget; instead, it is governed by Chapter VI of Regulation No. 10 of 2011,<sup>64</sup> which involves the submission of quarterly reports by implementing agencies.

There is currently no overarching monitoring, evaluation and learning framework that government and other stakeholders can use to track efforts to mobilize resources beyond the state against identified funding gaps, what the mobilized resources are being spent on or what their impact is vis-à-vis desired development outcomes. This is a key element of a results-based plan, as it can inform an increasingly effective use of resources. It would also support the country's plans indicated in the 2017 VNR to document the contributions of philanthropy and business in achieving the SDGs, including a mapping of corporate social responsibility (CSR) activities.<sup>65</sup>

Building such a system will require data systems to be in place so that the necessary information can be regularly collected and accessed. Strengthening coordination across relevant agencies and institutions will be key. The 2017 VNR highlights how an unclear division of responsibilities between statistics units of local governments (whose establishment is guided by Law 23 of 2014) and statistical offices of BPS-Statistics Indonesia located in districts/municipalities might affect the quality of data.<sup>66</sup>

62 Ministry of Finance. <http://www.djppr.kemenkeu.go.id/page/load/1739>

63 UNDP (2016), 'Indonesia Performance Based Budgeting and Climate Change Finance Review', p.21.

64 Ministry of Finance. <https://www.kemenkeu.go.id/en/Peraturan/regulation-government-republic-indonesia-number-10-2011>

65 Republic of Indonesia (2017), 'Voluntary National Review (VNR): Eradicating Poverty and Promoting Prosperity in a Changing World', p.97. <https://sustainabledevelopment.un.org/content/documents/15705Indonesia.pdf>.

66 Republic of Indonesia (2017), 'Voluntary National Review (VNR): Eradicating Poverty and Promoting Prosperity in a Changing World', p.89. <https://sustainabledevelopment.un.org/content/documents/15705Indonesia.pdf>.

### Box 3: The Philippine Development Plan Results Matrix (PDP-RM)

The PDP-RM represents the overarching monitoring framework used in the Philippines to track progress and evaluate interventions against national development objectives identified in the six-year Philippine Development Plan (PDP). Its hierarchical structure and orientation towards results allow the linking of annual targets across different priority areas to longer-term outcomes and PDP goals, thus providing a holistic picture of where progress is being achieved and informing the prioritization of activities in order to achieve the desired results (Table 5).

**Table 5: Hierarchy of targets and indicators in the PDP-RM**

Objectives/ Results	Socio- economic Agenda	Indicator	Baseline		Annual Plan Targets						End- of-plan Target	Means of Verification
			Year	Value	Y1	Y2	Y3	Y4	Y5	Y6		

Source: UNDP-PH (2017), 'SDG Integration in Planning and Budgeting: the Philippines case study'

The results matrix for the current PDP for 2017–2022 will also contain relevant SDG indicators, thus making the connection between national development objectives and the SDGs explicit and measurable.

## Building Block 6: Accountability and dialogue

Indonesia's Musrenbang (or Development Planning Deliberation Forum)<sup>67</sup> represents an avenue for citizen participation in planning and budgeting at the local level, both long-term and annually. However, some challenges have been identified with the Musrenbang process, particularly in relation to an uneven commitment to encouraging active public participation across regional leadership; legislative gaps in provisions that guide budget preparation consultations and related transparency and accountability issues; and the limited capacity of civil society to understand complex planning and budgeting processes and thus to be able to actively engage in them and push for change.<sup>68</sup>

At the national level, Parliament (DPR) plays a substantial role in scrutinizing the budget. It reviews the draft budget, including the macroeconomic framework, main fiscal policies and revenues and expenditures. It is also involved in discussions related to the annual work plans of ministries, departments and agencies through its sectoral budget committees; these discussions can become quite detailed, down to the level of individual budget lines.<sup>69</sup> Citizens can also track government spending through published budget documents, including mid-year reviews.

67 First institutionalized in Law No. 25 of 2004 on National Development Planning. [http://birohukum.bappenas.go.id/data/data\\_tematik/UU 25 Tahun 2004 versi inggris.pdf](http://birohukum.bappenas.go.id/data/data_tematik/UU%20Tahun%202004%20versi%20inggris.pdf)

68 USAID (2007), 'Good Governance Brief: Musrenbang as a Key Driver in Effective Participatory Budgeting, Key Issues and Perspectives for Improvements'. [http://pdf.usaid.gov/pdf\\_docs/Pnadq129.pdf](http://pdf.usaid.gov/pdf_docs/Pnadq129.pdf)

69 World Bank (2012), 'Indonesia: Repeat Public Expenditure and Financial Accountability (PEFA) Report and Performance Indicators', p.50.

The Indonesia-UN Consultative Forum and the BAPPENAS-UN Forum (established in 2013) are the main mechanisms for dialogue between the UN and the Government of Indonesia. The former focuses on overall cooperation and solving administrative challenges, while the latter, which meets annually, provides a platform for policy dialogue, monitoring and strengthened accountability by facilitating discussions around results and the alignment of UN interventions with the government's national priorities.<sup>70</sup> Equivalent forums exist for dialogue with other development partners—for example, the World Bank has annual consultations with the government. So while there is no overarching platform that brings together all development partners, avenues do exist to ensure regular consultation and coordination.

What is lacking under Building Block 6 is an effective government-led platform or mechanism for public-private dialogue that could strengthen communication and facilitate collaboration both in designing and implementing development programmes (see Box 2 on FBI4SDGs).

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70 Government of the Republic of Indonesia and United Nations in Indonesia (2015), 'UNPDF: Government-United Nations Partnership for Development Framework 2016–2020'.

## 5. Private sector development

The analysis in Chapter 3 illustrates that domestic private sources dominate the financing landscape in Indonesia; however, their potential in contributing to sustainable development outcomes could be leveraged further. Although Indonesia's score in the World Bank's Doing Business index improved substantially last year (from 106th in 2016 to 91st in 2017), challenges remain in relation to the business environment, access to financing for SMEs, competition with the informal sector<sup>71</sup> and broader issues around transparency and accountability.

By using the INFF lens, this chapter considers how the role of the private sector is articulated in the government's plans and processes and how it could be strengthened in order to maximize the impact that private capital could have on sustainable development outcomes, particularly in relation to social finance.

### 5.1 Government's approach to private sector development

While no overarching private sector development plan exists, the government's vision in relation to private actors is reflected in two of the nine priorities set out in the Nawa Cita agenda: No. 6 on increasing productivity and competitiveness, which includes targets around infrastructure development and the business environment; and No. 7 on promoting economic independence by developing domestic strategic sectors, which includes targets related to enhancing the development of the agriculture and industry sectors, as well as to the expansion of financial inclusion.<sup>72</sup> However, these priorities are not costed, nor is the division of labour between state and non-state actors elaborated on in order to guide the implementation and financing of relevant activities.

The five-year RPJMN provides some additional detail, including the envisaged role for private sector actors (in relation to infrastructure development) and specific estimates of investment gaps to be filled by the private sector (in relation to the energy sector).<sup>73</sup> Table 6 summarizes these.

71 World Bank (2017), 'Doing Business 2017: Equal Opportunity for All, Economy Profile 2017, Indonesia'; World Bank (2015), 'Indonesia - Enterprise Survey 2015'.

72 BAPPENAS (2015), 'Executive Summary: Medium-Term National Development Plan 2015–2019' (slide 4).

73 Annual plans of line ministries also include the role envisaged for private sector actors in relation to their annually identified priorities.

**Table 6: Identified private sector role in financing key RPJMN priorities<sup>74</sup>**

RPJMN priority area	Identified role of private sector actors
Financing infrastructure development	<ul style="list-style-type: none"> <li>• PPPs, including small-scale PPPs with SMEs</li> <li>• Substantial emphasis on role of SOEs, including increasing their capacity to lend for infrastructure development</li> <li>• Integrated FDI–PPP promotion—stimulating FDI participation in PPPs (increasing the limit of foreign ownership in certain sectors, deregulation packages for key investment sectors, online permit application services)</li> </ul>
Financing energy production	<ul style="list-style-type: none"> <li>• ‘Master Plan for the Development of Electric Acceleration’: Rp 435 trillion in private investment required</li> </ul>

In addition, the RPJMN includes a series of policy priorities related to improving the business environment: enhancing the investment climate for oil and gas (under the energy and poverty sovereignty sectoral priorities); increasing the participation of local businesses in the national tourism industry and improving the diversity and competitiveness of tourism destinations (under the tourism sectoral priorities); and accelerating progress on aspects of the ease of doing business, including business institutions, certainty and protection, and improving the labour climate (under the equity pillar of the plan).

However, there remains scope for the government to develop a more holistic plan for private sector development—one that is able to articulate specific interventions that it is planning to undertake in order to facilitate investments in key priority areas by private sector actors. Such a plan would fall under the long-term comprehensive resource mobilization strategy recommended under Building Block 3 in Chapter 4.

By including measurable targets and indicators to track progress against identified interventions, such a plan could also be used to inform broader monitoring, evaluation and learning on financing for development in Indonesia. It would do so by providing the necessary information to track progress on government efforts to mobilize private sector resources, the volumes mobilized, the instruments used (and their effectiveness) and the contributions made by the private sector to broader development outcomes. Finally, such a plan would also benefit from the input of private sector representatives so that it could address the main obstacles currently hindering increased investment by businesses towards sustainable development outcomes. FBI4SDGs would be a good interlocutor, given its role of internal consolidation and coordination within the sector and the existence of a specific Working Group on Advocacy and Regulation, whose envisaged purpose is to engage government on issues around the enabling environment.

<sup>74</sup> Note that this list may not be comprehensive, as it is based on a summary of the RPJMN 2015–2019 (in English), not the full document.



## 5.2 Strengthening the role and contributions of the private sector to sustainable development: the potential of social finance

Social enterprises have the potential to contribute to all dimensions of sustainable development, given their motivation not only to be economically sustainable but also to address social and/or environmental issues. In the context of the SDGs, they are especially relevant to targets under SDG 7 (affordable and clean energy), SDG 8 (decent work), SDG 9 (innovation), SDG 12 (responsible consumption and production) and SDG 13 (climate action).

In Indonesia social finance has been gaining significance, especially over the past two years. Data published by the Angel Investment Network Indonesia (ANGIN) show that the number of social enterprises is growing and that an estimated \$20 million was invested in social enterprises over 2015–2016.<sup>75</sup> Development partners are increasingly interested in the sector, as part of their drive to use resources in catalytic ways (e.g. UNDP,<sup>76</sup> ADB<sup>77</sup>). However, the ecosystem to support social finance in Indonesia is still in its early stages of development and remains limited and fragmented.<sup>78</sup> Commercial banks are reluctant to lend to social enterprises due to risk aversion, among other reasons, although many of these are profitable businesses;<sup>79</sup> there is a mismatch between the investment needs of most social enterprises and the offerings of most investors, in terms of both size and instruments (e.g. debt v. equity); the availability of local investors is minimal; and there is no comprehensive platform that prospective investors can use to access reliable legal services in order to navigate Indonesia's regulatory framework.<sup>80</sup>

Currently there is no overarching strategy to facilitate the expansion of this type of finance in Indonesia, nor are there specific policy priorities relating to this in the country's national development plans. Further research on how specific challenges faced by social enterprises and social investors could be addressed would benefit the development of such a strategy, as well as consideration of what the government's action should focus on, in the context of a broader private sector strategy (such as that suggested under section 5.1 above). This way the potential of social finance in contributing to identified development outcomes could be looked at alongside that of other types of private sector financing, so that its unique role may be identified and synergies maximized.

75 As cited in UNDP, ANGIN, Canadian Embassy in Jakarta (2016), 'Social Finance and Social Enterprises: A New Frontier for Development in Indonesia'. <http://www.id.undp.org/content/dam/indonesia/2017/doc/INS-SF Report2 ANGIN.PDF>

76 UNDP (2017), 'Social finance: a new frontier for development in Indonesia'. <http://www.id.undp.org/content/indonesia/en/home/presscenter/articles/2016/12/14/social-finance-a-new-frontier-for-development-in-indonesia.html>

77 ADB, SNV, Ford Foundation (2013), 'Developing the Business Case for Inclusive Business in Indonesia: A Market Scoping Study'.

78 UNDP (2017), 'Social finance will unlock support needed to achieve the SDGs'. <http://www.id.undp.org/content/indonesia/en/home/presscenter/pressreleases/2017/03/24/social-finance-will-unlock-support-needed-to-achieve-sdgs.html>

79 ADB, SNV, Ford Foundation (2013), 'Developing the Business Case for Inclusive Business in Indonesia: A Market Scoping Study'.

80 UNDP, ANGIN, Canadian Embassy in Jakarta (2016), 'Social Finance and Social Enterprises: A New Frontier for Development in Indonesia'. <http://www.id.undp.org/content/dam/indonesia/2017/doc/INS-SF Report2 ANGIN.PDF>

## 6. Leaving no-one behind

The SDG principle of “leaving no one behind” is mainstreamed into Indonesia’s development vision, plans, programmes and processes. Three of the nine priorities in the President’s Nawa Cita agenda relate directly to leaving no one behind; one of the three pillars of the current RPJMN is equity; and one of the RPJMN’s macro targets is to improve Indonesia’s score on the Gini index from 0.41 in 2014 to 0.36 in 2019—with a ratio of 0.39 for 2017 illustrating ongoing progress in relation to income disparities<sup>81</sup>. Specific programmes also reflect the government’s integration of the leave no one behind principle in its approach to reducing poverty and inequality—including the National Health Insurance Scheme (JKN), which provides health insurance for the poor; the Conditional Cash Transfers programme (CCT); and the recently launched Indonesia Electrification Programme (PIT), which aims to improve access to electricity across the whole country.

**Figure 5: “Leaving no one behind” in Indonesia’s development vision and medium-term plan**

Vision	Medium - term plan	
<p>Nawa Cita priorities</p> <p>No. 3: Developing Indonesia’s rural areas</p> <p>No. 5: Improving quality of life</p> <p>No. 9 Strengthening the spirit of “unity in diversity” and social reform</p>	<p>RPJMN 2015–2019</p> <p>Equity (across both income groups and geographic locations) is one of the plan’s three overarching pillars</p>	<p>Relevant policy priorities in the RPJMN:</p> <ol style="list-style-type: none"> <li>1. Develop a comprehensive social protection system</li> <li>2. Improve basic services for the poor and marginalized segments of society</li> <li>3. Develop sustainable livelihoods for the poor through the distribution of labour and entrepreneurship development</li> <li>4. Increase access to finance</li> <li>5. Increase access to education and skills training.</li> </ol>

As these programmes are implemented through the budget, monitoring takes place as described under Building Block 5 of the INFF (Chapter 4). However, decentralization poses a challenge in relation both to coordination across poverty alleviation programmes and to data collection and use. Box 4 describes ongoing efforts by central government to build capacity around data use at the regional level.

81 Statistics Indonesia Gini data available at: <https://www.bps.go.id/linkTableDinamis/view/id/1116>

#### Box 4: Using data for pro-poor budgeting at the local level<sup>72</sup>

Indonesia's Unified Database for Social Protection Programmes (UDB), which is coordinated by the National Team for the Acceleration of Poverty Reduction (TNP2K), contains a wealth of data on a range of socio-economic indicators. It collects and provides data down to the household level, including names of individuals, and aims to support effective targeting of social protection programmes across Indonesia's geography and population. One of TNP2K's key areas of work is to build the capacity of regional authorities to use UDB data for effective priority setting and to inform pro-poor budgeting in the regions.

UDB data collection is led by BPS-Statistics Indonesia, and the process involves verification of households by local leaders as well as consultations with poor communities, in order to ensure that no poor household is unrecorded and thus no poor or vulnerable person is left behind. Data are then regularly updated through three main methods: at the programme level via feedback from UDB users on individuals and households who register or withdraw as programmes beneficiaries; at local level via periodic updates completed by local governments; and at the national level, every 3–4 years, via a more comprehensive process involving central and local governments as well as communities.

While there is scope to further improve these processes and for more effective systems to extract and share data with users (currently this is done manually and there are no links with other government databases), the UDB provides a good example of how data systems can be set up to guide effective planning of social protection programmes. It also illustrates the value of collaboration between central and local levels of government for implementing an evidence-based approach to leaving no one behind.

In addition to mainstreaming across national development planning, the principle of leaving no one behind is integrated into the country's approach to national implementation of the SDGs. The institutional set-up legislated by the Presidential Decree on SDGs (No. 59 of 2017) includes all stakeholders—government and parliament; philanthropy and business; CSOs and media; academics and experts—“to ensure achieving SDGs in line with the principles of inclusiveness and no one left behind”.<sup>83</sup> At the subnational level, in addition to the Musrenbang process, which enables the voices of community members to be heard in planning and budgeting processes, the 2017 VNR highlights the bottom-up, participatory and inclusive process that has been institutionalized for planning and reporting on the SDGs.<sup>84</sup>

The financing aspects of the government's approach to leaving no one behind could be developed further. Given the integration of related policy priorities in the RPJMN (as illustrated in Figure 5), the points made in Chapter 4 around the RPJMN as a whole apply here too and related recommendations would also strengthen the government's approach to financing such initiatives. More comprehensively elaborating estimates of costs and types of resources needed to implement RPJMN priority interventions would include those identified under the equity pillar which directly relate to leaving no one behind.

82 TNP2K Report (2014), 'Reaching Indonesia's Poor and Vulnerable and Reducing Inequality: Improving programme targeting, design and processes'. [http://www.tnp2k.go.id/images/uploads/downloads/Report\\_REACHING\\_Mar30\\_LR.pdf](http://www.tnp2k.go.id/images/uploads/downloads/Report_REACHING_Mar30_LR.pdf); [http://www.opml.co.uk/sites/default/files/Poster\\_Indonesia\\_FINAL.pdf](http://www.opml.co.uk/sites/default/files/Poster_Indonesia_FINAL.pdf); [http://www.tnp2k.go.id/images/uploads/downloads/Indonesia\\_United\\_Data\\_Base.pdf](http://www.tnp2k.go.id/images/uploads/downloads/Indonesia_United_Data_Base.pdf)

83 Republic of Indonesia (2017), 'Voluntary National Review (VNR): Eradicating Poverty and Promoting Prosperity in a Changing World', Preface. <https://sustainabledevelopment.un.org/content/documents/15705Indonesia.pdf>

84 Republic of Indonesia (2017), 'Voluntary National Review (VNR): Eradicating Poverty and Promoting Prosperity in a Changing World, p.99'. <https://sustainabledevelopment.un.org/content/documents/15705Indonesia.pdf>.

Developing a holistic resource mobilization strategy to guide the contributions and roles of different actors in achieving the plan's objectives would include consideration of funding gaps and needs related to outcomes in this area and the identification of relevant resources, including both state and non-state, to be mobilized and effectively allocated to social protection and other related areas of intervention.

UHC is one such area, and one that is of particular interest to government, given the target to achieve it by 2019; it is also one that is directly related to the SDGs (target 3.7 under SDG 3). Indonesia has made good progress in reducing the unmet need of health services through the expansion of its National Health Insurance scheme (JKN). However, more needs to be done in terms of the quality of health facilities, coverage of informal workers and equity of access across regions—including through advancing progress on communication and transportation specifically, so that those living in remote areas and less served islands are not left behind.<sup>85</sup>

Boxes 5 and 6 provide some insight into efforts by Thailand and the Philippines towards financing UHC. Both rely on government resources, but each in a different way: Thailand has funded its Universal Healthcare Coverage System (UCS) through general taxation, while the Philippines has earmarked revenue from its 'sin tax' to expand coverage. As the government seeks to expand health coverage, there may be lessons to be learned from the experiences of these two ASEAN countries, though further research would need to be undertaken to establish the feasibility of either approach to the Indonesian context.

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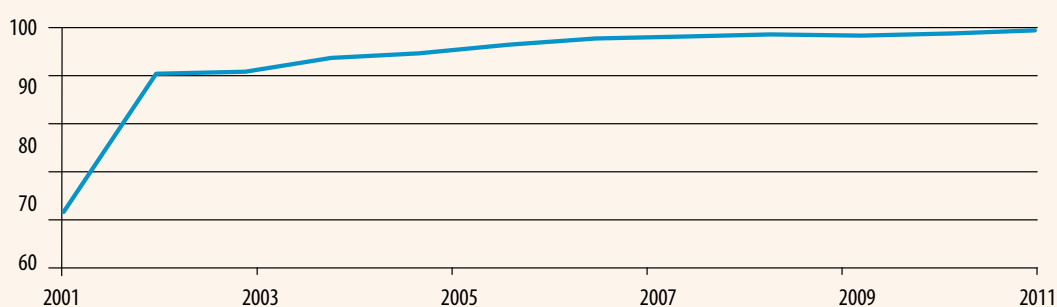
85 Republic of Indonesia (2017), 'Voluntary National Review (VNR): Eradicating Poverty and Promoting Prosperity in a Changing World', Preface. <https://sustainabledevelopment.un.org/content/documents/15705Indonesia.pdf>; Munich Personal RePEc Archive (2015), 'Does Indonesian National Health Insurance serve as a potential for improving health equity in favour of workers in informal economy?.'

### Box 5: Thailand's Universal Healthcare Coverage System (UCS)

Thailand achieved UHC in 2002 through a convergence of three factors: political commitment, civil society engagement and technical expertise.<sup>86</sup> The UCS is characterized by two key features: first, it is a tax-financed scheme and thus not dedicated specifically to the poor, although its universal nature has pro-poor impacts as it benefits the lowest quintile of the population the most; second, the UCS has been legislated, thus making the human right to health care an enforceable legal right, with regular budget allocations and institutionalization of implementation structures that contribute to ensuring its sustainability.

Financing via general taxation enabled a significant jump to universality to happen in just one year (between 2001 and 2002)<sup>87</sup> (Figure 5.1). Financially, the model is more progressive than a contributory scheme would be. The latter type of scheme was ruled out due to administrative difficulties (e.g. in relation to collecting and enforcing contributions by informal sector workers) and also because it was less progressive than general taxation.

**Figure 5.1: Social health protection coverage in Thailand increased dramatically in 2002**



Source: National Health Security Office (2013)

86 ILO (2016), 'Universal Health-care Coverage Scheme'. <http://www.social-protection.org/gimi/gess/RessourcePDF.action;jsessionid=SGhFYGBKtvwXThkGDMdjnZ4GTp9RgsJW79ySxv62rpnCRn95xJV3!79209976?ressource.ressourceId=54059>

87 ILO (2016), 'Universal Health-care Coverage Scheme'. <http://www.social-protection.org/gimi/gess/RessourcePDF.action;jsessionid=SGhFYGBKtvwXThkGDMdjnZ4GTp9RgsJW79ySxv62rpnCRn95xJV3!79209976?ressource.ressourceId=54059>

### Box 6: Financing UHC in the Philippines

The Philippines provides a successful example of how earmarking domestic revenue generated from 'sin taxes' can be used to expand health coverage. Since 2010, three strategic thrusts have been guiding the country's approach to UHC: 1) financial risk protection through expansion of enrolment in the National Health Insurance Programme (NHIP) and delivery of benefits; 2) improved access to quality hospitals and health care facilities; and 3) attainment of health-related MDGs.<sup>88</sup> Before the introduction of the sin tax on tobacco and alcohol in December 2012, nearly 50 percent of health care spending was out-of-pocket. The introduction of the sin tax increased the government budget for health care and helped improve provision: within two years of the sin tax law being passed, the health budget increased from \$1.25 billion to almost \$2 billion.<sup>89</sup>

Fifteen percent of revenue from the sin tax is allocated towards programmes to help tobacco farmers and workers find livelihood alternatives, while 85 percent goes to fund UHC, upgrade medical facilities and train doctors and nurses.<sup>90</sup>

88 WHO (2015), "Sin tax" expands health coverage in the Philippines'. <http://www.who.int/features/2015/ncd-philippines/en/>

89 WHO (2015), "Sin tax" expands health coverage in the Philippines'. <http://www.who.int/features/2015/ncd-philippines/en/>

90 WHO (2015), "Sin tax" expands health coverage in the Philippines'. <http://www.who.int/features/2015/ncd-philippines/en/>

## 7. Conclusions

### 7.1 Recommendations, including areas for further work (Integrated Financing Solutions) and roadmap for next steps

While a number of elements of the INFF building blocks are already in place in Indonesia, there remains scope to strengthen specific aspects, related in particular to the country's long-term financing strategy, M&E systems and public-private dialogue—which would also contribute to strengthening the government's approach to both private sector development and to “leaving no one behind”.

#### 7.1.1 Establish a long-term holistic financing strategy

A long-term holistic financing strategy that sets out the types and scale of investments needed for the country to follow the sustainable development path it desires can provide a firm foundation for implementing policies designed to mobilize and stimulate this financing.

In a context of limited fiscal space and sluggish private sector investment such as that in Indonesia, this clarity can be of particular value to the government. On the one hand, it can strengthen the effectiveness of public spending by facilitating the prioritization of government spending in areas that would not be attractive for financing by other actors. On the other, it can enhance the government's capacity to leverage additional resources from non-state sources—be it international development partners or the private sector—by providing clarity for ministries working in those areas through identifying financing gaps in specific sectors and areas, and providing guidance as to the contributions that those resources should make to sustainable development outcomes. Setting out a long-term approach to financing can provide a strong foundation to carry forward lengthy structural reforms, such as the expansion of ‘growth-friendly’ taxes mentioned in previous chapters that pay off over a time horizon beyond that of short- and medium-term planning.

Such a strategy can be integrated into existing development plans through cost estimates and analyses of funding gaps for the implementation of identified priority interventions, or developed as a sister document to the long-term national development plan. While there are specific references to financing requirements for infrastructure and energy interventions in the current medium-term development plan (RPJMN 2015–2019), neither this nor the long-term development plan includes estimates of costs and types of resources needed for all identified priority interventions.

In addition to quantified financing targets based on cost estimates and resulting funding gaps, institutional responsibilities should be identified in order to ensure that there is overall oversight of planning for the mobilization of resources beyond state finances in a holistic and integrated manner. Currently the MOF is responsible for budgeting and allocating state resources, and for monitoring the implementation of activities by line ministries and local government against the budget; Parliament has overall oversight; and BAPPENAS leads planning and leveraging efforts related to non-state resources,

such as international cooperation and private sector contributions (although to date the latter have mostly been limited to PPPs in infrastructure). Establishing a single overarching approach to financing will also mean ensuring that there is strong coordination between all these institutions, as well as among the ministries and agencies responsible for implementing financing policies.

Establishing a long-term holistic resource mobilization strategy will also benefit progress in both of the focus areas explored in Chapters 5 and 6. The private sector development strategy recommended in Chapter 5 will be informed and guided by this. In relation to leaving no one behind, policy priorities identified in the RPJMN need better costing and a clearer identification of the roles of different actors in financing their implementation. Having an overarching financing strategy for the national development plan as a whole will help to make such identification easier, and could guide the development of more specific financing policies—such as one to facilitate social enterprise development.

### 7.1.2 Establish a comprehensive, results-oriented monitoring and review framework

A comprehensive monitoring, evaluation and learning framework is an essential element of a results-focused financing strategy. Being able to track the volume of various types of investment (domestic, international, public, private); what these are being spent on; the outcomes they produce; and whether these outcomes are linked to set objectives related to national development goals can inform more effective approaches to the use of finance. It can also support government in identifying where the comparative advantage of a particular type of finance lies and therefore where efforts to mobilize it should be focused.

Institutional responsibility for monitoring in relation to development outcomes (including SDG implementation) lies with BAPPENAS, although there are separate systems for monitoring government- and non-government-funded projects; additionally, line ministries and regional governments report progress against the budget to the MOF according to a different set of performance indicators. Unifying these systems, for example by strengthening the alignment of indicators used, could contribute to streamlining monitoring efforts and to integrating learning from the implementation of programmes funded by government across sectors and locations, and from those funded through different types of investments, into a more holistic framework.

It is thus recommended that a central M&E framework is established, including targets and indicators relevant to both government and other actors and which can relate mobilized financing as well as government spending to their impacts on identified development outcomes—for example, by including a results matrix in five-year RPJMN. Building in subnationally disaggregated targets would help to stimulate results-based planning at the subnational level. As illustrated in Box 3, the Philippines has adopted a results-oriented approach to the monitoring of its six-year national development plan. While the framework does not include financing-specific targets, it can still be used as a good starting point to establish the necessary hierarchy of input, output, outcome and impact indicators, as well as the linkages between annual activities and medium-term objectives.



In addition to establishing the framework, it is necessary to give consideration to the data systems available to provide the necessary information to monitor progress in a timely and consistent manner. The Unified Database used for social protection programmes contains a wealth of information that could be used to report on a range of social indicators. In terms of financing targets and broader economic indicators, before establishing new databases, existing ones should be analysed in detail—including any overlaps between them, any challenges encountered in using them to date and any coordination issues among institutions involved in publishing and using data.

### 7.1.3 Formalize a mechanism for systemic public–private dialogue on private sector development

Strong, systematic dialogue between government and the private sector is a key ingredient for stimulating private sector development that fulfils its potential in contributing towards sustainable development. Without strong dialogue, it is difficult for the government to develop realistic objectives for the contributions that the private sector can make, build an informed view of the constraints to private sector development or design and understand the impact of policies or interventions to overcome these constraints.

The role of the private sector in relation to the SDGs was outlined in the recent Presidential Decree on the SDGs, and SDG-related platforms exist, such as the UNDP Post-2015 Partnership Platform for Philanthropy and FBI4SDGs—the latter reflecting the private sector’s internal consolidation and coordination in relation to national implementation of the SDGs. However, there is currently no official government-led forum for systemic dialogue with the private sector. This is a gap in the government’s financing framework, and it needs to consider how best to address it.

Developing a formal partnership with an existing platform such as FBI4SDGs may be an effective mechanism. Such a partnership would be mandated to go beyond the functions of existing platforms and would establish processes for regular, constructive dialogue between relevant government ministries and representatives of the private sector to strengthen participation in the design, delivery, monitoring and review of policies relating to private sector development, as well as the role of the private sector in directly contributing to national development goals and the SDGs.

## Roadmap for next steps

Recommendations	Next steps	Integrated Financing Solutions areas <sup>91</sup>
<b>1. Establish a long-term holistic financing strategy</b>	<ul style="list-style-type: none"> <li>• Consultations between the MOF and BAPPENAS about the value of developing a long-term holistic financing strategy</li> <li>• Commissioning of phase 2 of a Development Finance Assessment:               <ul style="list-style-type: none"> <li>◦ Under the guidance of the MOF, BAPPENAS and other key ministries and agencies</li> <li>◦ To assess and present options about how to structure a long-term holistic financing strategy within existing institutional processes, including roles and responsibilities for monitoring and oversight once established</li> <li>◦ To assess and present technical evidence as a precursor to the development of a long-term financing strategy, including in relation to the need to establish such a strategy to provide overall guidance for the development of more specific financing policies for the two focus areas covered in this paper (private sector development and leaving no one behind)</li> </ul> </li> </ul>	Generate resources; realign resources
<b>2. Establish a comprehensive, results-oriented monitoring and review framework</b>	<ul style="list-style-type: none"> <li>• Establish a medium-term results matrix for the five-year RPJMN that can be used as a central M&amp;E framework to monitor contributions of both government and non-government actors to sustainable development outcomes               <ul style="list-style-type: none"> <li>◦ Led by BAPPENAS, in consultation with private sector, civil society and development partners</li> </ul> </li> <li>• In parallel, review annual M&amp;E systems (e.g. targets and indicators included in Annual Government Work Plan and plans of line ministries and regional government) to ensure alignment between these and the medium-term framework               <ul style="list-style-type: none"> <li>◦ Led by line ministries and regional authorities with oversight by BAPPENAS and the MOF</li> </ul> </li> <li>• Identify overlaps in existing data collection systems and consider if/how these could be integrated to reduce reporting burdens and to maximize effective use for monitoring               <ul style="list-style-type: none"> <li>◦ Led by Statistics Bureau in collaboration with the Central Bank and the MOF (given key role in maintaining financial data), and TNP2K (given role in maintaining the Unified Database)</li> </ul> </li> </ul>	Deliver better
<b>3. Formalize a mechanism for systemic public-private dialogue on private sector development</b>	<ul style="list-style-type: none"> <li>• Consultations between FBI4SDGs and BAPPENAS about the feasibility of formalizing a mechanism for systemic dialogue between government and private sector, based on the existing platform</li> <li>• Based on outcome of the consultation, formalize such a mechanism, including overarching goal and institutional roles and responsibilities               <ul style="list-style-type: none"> <li>◦ Led by BAPPENAS</li> </ul> </li> <li>• To include and be informed by a review of lessons from established public-private dialogue platforms in other countries</li> </ul>	Strengthen transparency and accountability; generate resources; realign resources

<sup>91</sup> See Annex 3.

# Annex 1: Data sources and methodology

## Financing flows data

Analysis of financing flows has been undertaken from the country perspective; thus national data sources were preferred over international data sets, where adequate coverage and metadata were provided. Across the 10 country papers and regional report included in this project, all financing data and analysis are in constant 2015 US\$, unless otherwise specified. Data from national sources reported in national currencies have been converted into constant US\$ using exchange rates and GDP-based deflators, following normal practice.

## Domestic public finance

Domestic public finance refers to government resources that originate domestically. It covers government revenue (excluding any grants received, to avoid double-counting with international resources) and government borrowing from domestic sources (i.e. domestic financing). Both series were sourced from national budget documents where available, with data from IMF Article IV Reports used to fill gaps, where needed.

## Domestic private finance

Domestic private finance refers to investment by the domestic private sector in the country. For Indonesia, data for this type of financing are based on gross fixed capital formation (GFCF) reported in annual flow of funds publications. The data at the source allow for disaggregation between public and private investment; the private component—i.e. financial and non-financial corporations—were used, and FDI deducted in order to obtain a figure for domestic private investment alone.

## International public finance

International public finance includes official development assistance (ODA), other official flows (OOFs) and government borrowing from international sources. ODA is sourced from OECD DAC data. OOFs data are sourced from OECD DAC Table 2B for all countries, as comprehensive data on this type of finance are not readily available from national sources. Government borrowing refers to lending received or guaranteed by the state from bilateral and multilateral institutions and private entities. For consistency across country papers and to ensure that overlaps with ODA loans and OOFs could be accounted for, data for this flow were also sourced from international data sets for all countries.

## International private finance

International private finance includes FDI, portfolio equity, private borrowing from international sources and remittances. FDI data are based on national sources for all countries. Portfolio equity and remittances are based on national sources for countries with enough coverage, or World Bank data otherwise. Portfolio equity data based on national sources were sourced from the liabilities line of portfolio investments (equity component) in balance of payments (BOP) tables. Private borrowing from international sources refers to commercial debt (both long- and short-term) and is based on international data from the World Bank's International Debt Statistics for all countries; this was done for consistency across the country papers and due to the patchy coverage and availability of data on this type of finance in national sources.

## Annex 2: Green Planning and Budgeting—priorities, instruments and lead institutional responsibilities

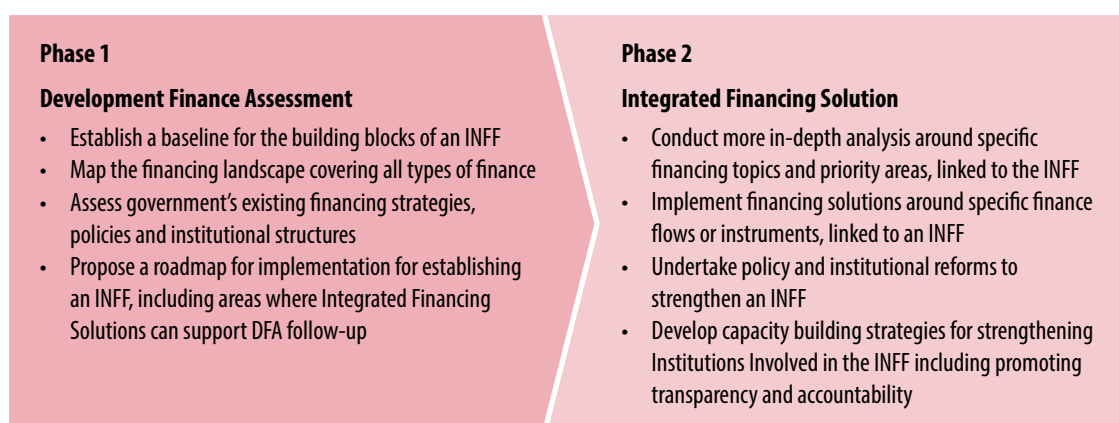
Priorities	Policy Instruments																	
	Direct government expenditure			Government to firms, SOEs, CSOs				Via finance institutions			Regulatory controls and promotion							
	Investment budget	Recurrent budget	Special allocations (Prov/Dist)	Gant (investment/ services)	Operating subsidies (e.g. VGF)	Data/information	Tax incentives	Interest rate subsidies	Loan guarantee	Loanable funds	Licenses	Price controls (incl. FITs)	Quotas	Regulating quality	Regulating practices	Regulating governance	Corp. social responsibility	Clarity/public awareness
Natural Resources Protection																		
Forest protection																		
Peatland rehabilitation																		
Coral & marine protection																		
Agriculture																		
CC adapted crops																		
Plantation crops (esp oil palm)																		
Irrigation																		
Energy and Industry																		
Energy and resource efficiency																		
Renewable energy																		
Resource efficiency																		
Fuel pricing																		
Large scale power																		
Sustainable mining																		
Corporate social responsibility																		
Transport and Urban Planning																		
Public transport																		
Waste Management																		
Climate proofing roads/bridges																		
Regional infrastructure																		
Education & Heath																		
Green education																		
CC sensitive health services																		
Supporting policies																		
Disaster reduction/management																		
GE coordination and M&E																		

■ MOF 
 ■ Bappenas 
 ■ Line ministry/agency 
 ■ Province/municipal/local 
 ■ Private & CSOs

Source: Ministry of Finance (2015), 'Green Planning & Budgeting Strategy for Indonesia's Sustainable Development 2015–2019, Update Report 2015'.

## Annex 3: Integrated Financing Solutions<sup>92</sup>

Following a Development Finance Assessment (DFA) and the establishment of a baseline for the building blocks of an INFF, the Integrated Financing Solutions phase allows governments and other stakeholders to conduct more in-depth analysis around specific financing topics and priority areas linked to the INFF and to implement the recommendations resulting from phase 1.



Integrated Financing Solutions can be grouped into five main areas:

- **Generate resources:** Generate or leverage ODA, South–South Cooperation, international climate finance, vertical funds, impact investment, bonds, etc.
- **Realign resources:** Prioritize and sequence investments, minimize negative expenditures, integrate and prioritize social and environmental expenditures such as through gender-responsive budgeting, climate-related budget reforms and SDG-related budget reforms.
- **Avoid future expenditures:** Amend or eliminate counterproductive policies or expenditures; financing solutions include taxes on fuel, tobacco and renewable natural capital.
- **Deliver better:** Favour a more equitable distribution of resources, prevent inefficiencies such as by strengthening risk mitigation for public procurement, utilizing solutions such as enterprise challenge funds, climate credit mechanisms and biodiversity offsets.
- **Strengthen transparency and accountability:** Integrate sustainable development into financial management information systems, strengthen parliamentary oversight of the budget and other financial flows, engage with civil society, etc.

For more information, see UNDP's online toolkit on Financing Solutions for Sustainable Development at: <http://www.undp.org/content/sdfinance/en/home.html>

<sup>92</sup> AP-DEF, UNDP, 'Development Finance Assessments and Integrated Financing Solutions: Achieving the Sustainable Development Goals in the Era of the Addis Ababa Action Agenda'.



