Challenges and Opportunities for Implementing Financing Mechanisms for Climate Change Mitigation Guided by Principles of Good Financial Governance: The Case of Indonesia*

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Executive Summary

Indonesia is ranked consistently among the top 10 global greenhouse gas (GHG) emitters. This is mainly due to land use conversion processes (from forest land to agricultural crops and plantations as well as forest and peat fires) followed by emissions from fossil fuel combustion. At the occasion of the G20 meeting in Pittsburgh in 2009, the Indonesian president declared an ambitious commitment to reduce GHG emissions in Indonesia 26 percent by 2020, compared to a "business as usual" scenario. Although this target ought to be capable of being achieved using only domestic resources, a 41 percent reduction was announced to have been achieved with international support. International donors quickly stated their willingness to make contributions while Indonesia transformed the president's commitment into framework regulations in 2011.

The specific challenge of financing climate change mitigation gained momentum due to the president's commitment as well as national and international responses. Several national ministries claimed their stakes in steering, monitoring, and managing funds for climate change mitigation. The initiatives on individual funding mechanisms that evolved were neither based on a comprehensive implementation strategy nor were they always compatible with the existing national budgetary procedures and transfer mechanisms to subnational governments. The challenge was to

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* This case study refers only to advisory processes related to climate finance in the area of the reduction of GHG emissions (mitigation), not to the adaptation of climate change. This is not implying that one topic is more important than the other one, but is due rather to the specific focus of the GIZ technical assistance programs involved.

develop and implement such a strategy and combine it with a coherent funding and transfer system for climate change mitigation with many powerful stakeholders who would each defended their own interests. The Ministry of Finance of Indonesia (MoF) – not a major player until then – realized that it had to play a more prominent role in shaping policies instead of only executing them; financing climate change mitigation is as much a question of public financial management as it is of climate change mitigation policy.

The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) has been supporting the Indonesian government for several years in the focal areas of "environment and climate change" as well as "decentralization and local governance" regarding German development cooperation.[1] This case study explains how the dynamics within a reform process required an advisory approach that could offer technical and organizational development advice to different partner institutions involved in climate finance in order to forge agreement on a financing mechanism that would be effective and sustainable. For this, GIZ gathered climate change policy and fiscal decentralization experts from different GIZ programs and developed tailor-made approaches to support and accompany the MoF and other stakeholders in this process. The aim was to substantially contribute to the establishment of financing mechanisms for climate change mitigation that would also fulfill criteria for good financial governance.

The case study discusses opportunities and challenges within a bilateral development cooperation agency to offer ad hoc, multi-sectoral advisory services to partners, as well as discuss its limitations within a real-time reform process in Indonesia. The case study furthermore gives examples of different approaches to providing support as a policy advisor, and thereby displays the importance of flexibly shifting between providing technical expertise, facilitating between differing interests among stakeholders as an honest broker, and providing platforms for knowledge-exchange. It illustrates the case by reflecting on two processes: first, the development of policies and regulations on the appropriate financing mechanisms for GHG emission reductions; and second, by addressing the highly politicized policy on fuel price subsidies that, if abolished, would have a notably positive impact on GHG emission reductions. The support needed for developing policies and regulations required rather technical

1 GIZ implements these programs on behalf of BMZ.

expertise and facilitation skills. Addressing fuel price subsidies, however, was only feasible by providing platforms for evidence-based discussions between Indonesian stakeholders.

Introduction

One of the 2030 Agenda's guiding principles is the "integrated and indivisible" (United Nations, 2015) character of its goals and targets. Hence, besides improving the ecological dimension of sustainable development, Goal 13 on "combat[ing] climate change and its impacts" must also consider the economic and social dimensions. And building "effective, accountable and inclusive institutions," as claimed by Goal 16, should be pursued as a means to improve the social, economic, and ecological dimensions at the same time. This is undoubtedly ambitious, and there are no clear concepts yet on how to implement and verify such demanding principles.

Between 2011 and 2013 – that is, long before the adoption of the 2030 Agenda – teams from several GIZ-supported programs in Indonesia tried working in a more integrated way. They supported the Indonesian administration in considering principles of good financial governance in climate change mitigation and integrating financing mechanisms for climate change mitigation into the existing fiscal decentralization system. At the beginning, this happened more by coincidence than by design. But soon the interdependence between climate finance and fiscal decentralization became obvious to all stakeholders involved. Later, also the green economy dimension increasingly played a role in the integrated advisory approach.

This case study describes how GIZ advisors on climate policy and their colleagues, who were specialized in fiscal decentralization, developed an integrated approach to support their counterparts in the Indonesian administration, and how they tried to overcome obstacles on the way. Smart implementation, according to this case study, is the flexibility to work across sectors in an integrated manner and to quickly adapt advisory approaches to opportunities and circumstances. But, as this case study also shows, flexibility also has its flip side and needs to be balanced with the right degree of formalization.

Setting the scene: Description of the context

Relevance of climate change mitigation in Indonesia and its impact on the world

Although Indonesia's GHG emission rates have fluctuated over the years, the country is ranked consistently among the top 10 global emitters (World Resources Institute/CAIT, 2016). To a great extent, those emissions stem from the processes of land use, land use change, and forestry, amounting to approximately 65–70 percent, according to the latest official inventory data of 2010. Land use conversion processes (from forest land to agricultural crops and plantations as well as forest and peat fires) rank highest among the factors leading to these GHG emissions. The second most important sector in terms of GHG emission rates is the energy sector, including power generation, transportation, and industry. Waste management still ranks relatively low in its share of GHG emissions, but it is nonetheless of high importance for local development in Indonesia.

Substantially reducing these GHG emissions requires significant changes in land use policies and their enforcement as well as investments in the renewable energy and energy-efficiency sectors, transportation, industry, and waste management. Institutions have to be fit for purpose, equipped with the right level of capacities, and the private sector and civil society need to be engaged in order to address these challenges, as the mitigation of climate change is an urgent matter.

Political commitments from President Yudhoyono and governmental response

In the context of the 13th Conference of the Parties of the United Nations Framework Convention on Climate Change (UNFCCC COP13), hosted by Indonesia in December 2007, the group of developing countries declared for the first time in history that they would be ready to undertake nationally appropriate actions to reduce GHG emissions. Following the COP13, President Yudhoyono took political action by declaring a national target for the mitigation of climate change during the G20 meeting in 2009. The declared target was set, which required a reduction of GHG emissions by 26 percent by 2020 utilizing only domestic resources and efforts; this could be increased to 41 percent by 2020 if international support were to be made available to Indonesia. However, the reduction was calculated not in absolute terms but in comparison to a "business as usual" scenario.

Following the national GHG mitigation targets, announced in 2009, two regulations were enacted by the Indonesian president in 2011: one on the preparation of national GHG inventories (#71), and a second on the implementation of the National Mitigation Action Plan on GHG emission reductions (RAN-GRK) (#61).

Presidential Regulation #61/2011, regarding the National Mitigation Action Plan (RAN-GRK), delineates the reduction of Indonesia's national emissions by 26 percent (or 41% with international support) by 2020. The RAN-GRK provides a policy framework that outlines GHG mitigation actions in five sectors: agriculture; forestry and peat land; energy and transportation; industry; and waste. At the national level, all relevant ministries and institutions were tasked to implement RAN-GRK mitigation activities, monitor them in their respective fields, and report on progress to the State Ministry of National Development Planning (BAPPENAS). At the provincial level, the provincial offices (governors) had to develop Regional Action Plans (RAD-GRK) based on the RAN-GRK policy framework and according to the implementation guidelines developed by BAPPENAS. The compilation of all provincial RAD-GRK and their contributions to the national GHG emission reduction targets have been facilitated by BAPPENAS and the Ministry of Home Affairs. BAPPENAS has been mandated to coordinate the evaluation and review of the RAN-GRK and to report the results to the Coordinating Ministry for Economic Affairs, which then reports to the president of Indonesia.

Estimated financial needs to achieve the GHG emission reduction targets

Estimates of overall financial needs to fund climate change mitigation actions and to provide related investments varied significantly, according to different studies and documents. Whereas Indonesia's Medium Term Development Plan 2010–2014 estimated that around $925 million would be required annually during the years 2010–2014 to master the target, the National Council on Climate Change estimated in 2009 that around $19.26 billion would be needed annually between 2010 and 2030. Instead, the Climate Public Expenditure and Institutional Review (Republic of Indonesia Ministry of Finance, 2012) indicated financial needs on the order of magnitude of about $7–9 billion per annum. These estimates refer to national funding needs, whereas the only source indicating needs from international sources is found in the area of reduced emissions from deforestation and forest degradation in developing countries (REDD+) ($10 billion per year).

The diversity of estimates about financing needs shows that their underlying assumptions on financing needs differ substantially. The fact that not a single governmental finance needs-assessment study was available is one explanation for this phenomenon, pointing to missing benchmarks and guidance on the government's side.

The MoF calculated the actual flows of finance through the established governmental transfer mechanisms to be $1.67 billion in 2012. However, according to the MoF's estimations, this amount would only contribute to 15 percent of the set GHG emission reduction target. This confirmed concerns that were raised after the enactment of the RAN-GRK and the RAD-GRK in 2011, that is, that effective and efficient channeling and disbursement mechanisms are required, as well as potential new sources of finance in order to fully deliver on the GHG emission reduction targets of the government. Although international development partners announced they would provide significant amounts to support GHG emission reduction actions in Indonesia, they actually disbursed funds very reluctantly due to insufficient regulatory and procedural clarity and a lack of transparency.

Indonesia's complex state administration

Indonesia features a very diverse range of landscapes, ecosystems, and cultural spheres that spread across 7,000 islands on an east-west longitudinal stretch of more than 5,000 km. The country is the fourth most populous nation worldwide – almost 260 million inhabitants reside in 34 provinces, which are in turn divided into 491 districts.

Considering this diversity and complexity, it comes as no surprise that the administrative system in the decentralized government is facing challenges. These challenges are also reflected in the policy implementation cycle of the RAN-GRK: Regional Action Plans (RAD-GRK) are developed at the provincial level while implementation of the mitigation actions takes place at the district level. With close to 500 districts, it is a real challenge to keep track of and monitor the implementation progress. The authority-sharing between the local and central governments adds to the complexity, especially when considering that five sectors are included in the RAN-GRK, posing significant challenges for both intersectoral and local–central governmental coordination. Climate change mitigation on an economy-wide basis, such as in the case of Indonesia, requires coordination and implementation across sectors. For example, in the case of emissions related to land use change, processes between forestry, energy, and mining and agriculture need to be coordinated and managed. Coordinating energy supply and demand for industry and transportation is another example of such cross-cutting topics.

The main implementation challenge was that policies that would allow for more effective implementation of mitigation actions addressing structures, mandates, and processes had not yet been developed. The initiatives on individual funding mechanisms that evolved were not always compatible with the existing national budgetary procedures and transfer mechanisms to subnational governments. Furthermore, the national ministries and agencies, as well as subnational governments and services that were primarily involved in the RAN-GRK implementation, were tasked with the development, supervision of implementation, and monitoring of mitigating actions with relatively few additional financial and human resources, which strained already stretched capacities further.

The challenge was to develop and implement such policies and combine it with a coherent funding and transfer system for climate change mitigation with many powerful stakeholders involved – each defended their own interests. A clear regulatory framework for funding procedures and clearly defined roles and responsibilities of Indonesian stakeholders would have made it much easier to attract the much needed international funds for GHG emission reduction actions.

The institutional setup of bilateral German development cooperation with Indonesia

In 2011, the bilateral technical cooperation between Indonesia and Germany was structured in three priority areas: a) good governance and decentralization, b) climate change, and c) private-sector development. This opened a wide range of possibilities for GIZ to address the above-mentioned challenges for the financing of climate change mitigation from various angles, such as public-sector instruments and policies (equitable, efficient, and inclusive); resource efficiency; and a favorable business climate in private-sector development and climate change policy development. In addition, sector-specific issues were targeted, especially in the areas of renewable energy, energy efficiency, waste management, and forestry. This framework provided the option to offer advisory services to the government of Indonesia that emphasize a cross-sectoral approach on climate finance, creating synergies and fostering collaboration among involved entities.

Within this framework, the challenges of climate change financing were addressed from the specific perspectives of each of the three priority areas.

The Policy Advice for Environment and Climate Change program (PAKLIM) worked extensively with BAPPENAS on development, implementation support, and monitoring concepts for the RAN-GRK, both at the national as well as subnational levels, including cities and industries, partnering with municipalities in Java and the Ministry of Industry, respectively. One area of activity was related to the development of finance mechanisms and concepts for the funding of the RAN-GRK actions.

The Forests and Climate Change Programme (FORCLIME) advised its main political counterpart, the Ministry of Forestry,[2] on integrating climate change mitigation policies into sector-strategic plans at the national and subnational government levels. In particular, the RAD-GRK financing in the forest sector, as well as the question about what type of funding mechanism might be most suitable for REDD+ financing made it necessary to involve the MoF.

The Decentralisation as a Contribution to Good Governance program (DeCGG) had no direct link to climate change financing issues. However, one component supported the MoF on matters regarding fiscal transfers and local taxes and charges, which constitute the institutional setting for climate finances at sub-national levels.

2 Before the presidential elections in 2014, won by Joko Widodo, successor to Susilo Bambang Yudhoyono, two important ministries relevant to climate change policies existed separately, namely the Ministry of Environment and the Ministry of Forestry. These two ministries were merged in October 2014 following the elections. Up to 2014, Indonesia also had a National Council for Climate Change, which hosted the UNFCCC focal point and organized the delegation for the international climate change negotiations. Furthermore, the country had a specialized agency responsible for the oversight of the implementation of the UNFCCC's REDD+ scheme, which is now integrated as a unit into the Ministry of Forestry and Environment.

Sudden acceleration: Kickoff of a transformation process

Changing role for the Ministry of Finance

Sometime in early 2011, the MoF realized that it had little influence in an increasingly important policy domain. The president had set the scene with his international commitment at the G20 meeting in Pittsburgh in 2009, international development partners were increasingly making substantial financial pledges, and other key ministries – such as Planning, Environment, and Forestry – were busy carving out the necessary national policies and procedures to achieve the climate targets. However, with all the national and international financial attention, it became obvious that the MoF had to play a more prominent role. It had to start shaping policies instead of only executing them.

The Fiscal Policy Office – an influential policy department within the MoF – took on the charge and created two institutions in mid-2011: a 12-member expert team on climate change mitigation (*tim astistensi perubahan iklim* – TAMPI) tasked to directly advise the finance minister. TAMPI was to consist of renowned experts from academia and representatives from several ministries (Finance, Forestry, Energy, and Planning). Thereby, the MoF clearly made its claim to enter not just as one player among others, but as the coordinator. A division within the Fiscal Policy Office (the Center for Climate Change and Multilateral Policy, *Pusat Kebijakan Pembiayaan Perubahan lklim dan Multilateral* – PKPPIM) was created to act as the secretariat to TAMPI.

The MoF already had a policy paper to position itself: a Green Paper, published in 2009, and several follow-up papers (2011), developed by the Australian–Indonesian Partnership Program. The papers advocated, among other things, for a Regional Incentive Mechanism for fiscal transfers to the subnational levels to finance Nationally Appropriate Mitigation Actions in Indonesia.[3] In September 2011, the pressure to act rose considerably for the Indonesian administration, as the president enacted Regulation #61/2011 on a National Action Plan for GHG emission reductions (RAN-GRK). This regulation was the first concrete translation of the ambitious GHG emission reduction targets – already announced interna-

3 In the UNFCCC context, countries' mitigation actions are called Nationally Appropriate Mitigation Actions, which in Indonesia corresponds to the RAN-GRK.

tionally – into a binding national regulation. It thereby served as a kickoff for the Indonesian administration to put this declaration into action.

From reactive to proactive: GIZ's response to the changing institutional environment

In search of advice on how to breathe life into the newly founded institutions, TAMPI and the PKPPIM turned to the GIZ advisory team on fiscal decentralization (DeCGG/FD team). GIZ's FD team had been based in the Directorate General for Fiscal Balance (MoF) since 2009. The FD team had some insider knowledge about the functioning of the influential expert team on fiscal decentralization (*tim asistensi desentralisasi fiscal* – TADF), which was identified as a potential model for TAMPI. Besides the institutional setup, TAMPI and the PKPPIM sought advice on operationalizing the concept of the Regional Incentive Mechanism. Actually, TAMPI and the PKPPIM not only contacted the GIZ FD team but also a broad range of development partners. The PKPPIM also got in contact with GIZ advisors from PAKLIM.

Both teams used the flexibility given by the mandate of their existing commissions from the German Federal Ministry for Economic Cooperation and Development (BMZ) to seize the opportunities of cooperating with the MoF on climate finance. For PAKLIM, the mandate was straightforward because financing mechanisms for climate change mitigation obviously play a crucial role in achieving objectives, as determined in the commission, especially with regard to implementing the RAN-GRK. The link to the mandate given by the commission for the DeCGG program was less obvious, but nevertheless plausible for two reasons. First, the potentially important amounts from national and international sources challenged the existing fiscal transfer system. A revision of the law that regulates the fiscal transfer system was about to be prepared in the MoF. This constituted a window of opportunity to shape some fiscal transfer funds in order to make the fiscal transfer system compatible with climate finance while safeguarding the overall architecture and its principles. Second, getting the Directorate General of Fiscal Balance (DJPK) and the PKPPIM to work together was already an important step for more coherence within the MoF. For several other reasons, GIZ submitted a proposal to BMZ to alter the existing commission for the DeCGG program in August 2012. At that occasion, the support for climate finance as part of the support for fiscal decentralization was included into the commission, thereby fulfilling the necessary formal requirements to the commissioner.

Obviously, the PAKLIM and DeCGG/FD teams coordinated their responses to the requests from the MoF. Soon it became clear that a strategic choice had to be made: Either each team responds to the requests of their respective partner in the MoF while making sure that support would be complementary, or both teams develop a more coherent response that would go beyond reacting to specific requests and offer a more integrated approach of support. The second option implied that both teams needed to develop a joint support strategy, identify synergies, and develop innovative ideas and approaches compared to the vast expertise on offer by various other development partners. In short, the second option required a considerable investment in time and effort.

Both teams were more or less drawn into the second option for the following reasons. Different rationales among the PAKLIM and FD teams became apparent when support measures began to be loosely coordinated. It was quickly realized that both teams had different viewpoints and understandings about what the desired outcome of the support to the MoF should be. The PAKLIM team focused on getting funds to where they were needed to implement effective measures for GHG emission reductions. Furthermore, their aim was to make sure that planning and accounting standards for the RAN-GRK and the RAD-GRK would meet international standards in order to be recognized as Nationally Appropriate Mitigation Actions. Instead, the FD team focused on the importance of a coherent, rules-based, predictable, and fair transfer system for subnational levels, with climate change being just one of several sectors to be considered. Parallel funding mechanisms seemed a pragmatic option for the climate experts but a red rag to a bull for the fiscal decentralization team.

However, discussions among both teams showed that these differences could be turned into added value for the partner institutions. If approaches that consider the existing fiscal transfer system could be developed with the MoF while responding to the (international) requirements for climate finance, solutions might be more complicated in the short run, but results might be more sustainable in the long run.

A second challenge soon became obvious: An integrated approach would mean working with all institutions involved in climate financing in Indonesia simultaneously. It proved to be much more difficult to develop coherent approaches to climate finance with all key ministries and concerned governmental institutions together. Even progressive cooperation among actors such as the MoF, BAPPENAS, the Ministry of Environment, and the Ministry of Forestry turned out to be close to impossible. Despite having renowned academic experts, TAMPI could not live up to its intended role as a coordinating expert team with relevant representatives from the abovementioned ministries. It was soon overrun by the PKPPIM, which was originally created to be its secretariat but quickly became the major driving force in developing climate finance strategies within the MoF.

A joint support strategy from PAKLIM and FD teams – often also joined by advisors from FORCLIME – allowed for offering support beyond mere technical expertise. The three GIZ teams had developed over the years a trustful cooperation with their Indonesian counterparts and a good understanding of the specific organizational culture within each institution. The FD team was based in the Directorate General of Fiscal Balance of the MoF; PAKLIM had teams with the Directorate of Environment in BAPPENAS and the Ministry of Environment; while FORCLIME was based in the Ministry of Forestry. These teams were able to mobilize their counterparts to join work processes on climate finance. In the end, this did not change fundamental shortcomings in the collaboration culture within Indonesian administration. However, mobilizing stakeholders from these different institutions made a helpful contribution by providing opportunities for fruitful exchanges among them, sometimes at quite a high level of decision-making. The MoF's Directorate General of Fiscal Balance, for example, is the responsible institution for steering and monitoring fiscal transfer funds and subnational taxes and charges. However, it had not been actively involved in policy discussions about climate finance. Due to different meeting formats, facilitated by GIZ, it finally began to play an active role, thereby opening the door for reforms to the existing fiscal balance system in order to allow for integrating climate financing mechanisms. On the other hand, the Directorate of Environment in BAPPENAS – responsible for steering and monitoring the RAN-GRK and the RAD-GRK planning processes – was at first reluctant to discuss the financial aspects of these plans with the MoF but then became actively engaged at the director's level. These exchanges were necessary – though maybe not sufficient – to develop sustainable financing mechanisms for climate change mitigation.

Based on the above analysis and experiences, the offered support strategy to the MoF had two cornerstones: first, technical and organizational development support to the PKPPIM for developing financing mechanisms that integrate and enhance the existing system of financial relations between the central government, the provinces, and the districts; second, facilitation of multi-stakeholder deliberation that brought key players together from central ministries and the presidential monitoring unit – called the President's Delivery Unit for Development Monitoring and Oversight – in order to forge agreement on new or contentious issues that were required to move the agenda of an integrated approach to climate financing mechanisms forward.

A quite successful test run for this support strategy was the development of a policy brief on *Instruments and Mechanisms for Financing of Greenhouse Gas Emission Reduction Programs in the Land Based Sector.* The purpose of this paper was to respond to the existing uncoordinated accumulation of funding and transfer mechanisms for GHG emission reductions and to develop ideas on how to integrate them into the existing budget and fiscal transfer procedures. Requested by the PKPPIM in September 2011, the multi-sectoral GIZ team (consisting of climate change and fiscal decentralization advisors from the abovementioned programs)[4] tried to respond with a more thorough result than just technical expertise. Although the policy brief did not deliver fully detailed proposals for implementation and focused only on the land-based sector, it addressed a major challenge: namely, how to integrate, in a coherent manner, two worlds that had been separated until then – international climate finance and financial relations between the national and subnational levels. The policy brief's main message was that various national and international funding sources could be channeled properly through budget mechanisms, and then – according to purpose and responsible recipient institution – channeled through existing or new but compatible transfer mechanisms. It explained how a coherent system of funding and transfer mechanisms could basically look and suggested next steps to reform the system. The relevance of the paper was clear to all stakeholders: An estimated $4.4 billion of financial support from development partners for GHG emission reductions needed to be absorbed properly. Funds would only be transferred if financing mechanisms were clearly regulated, efficient, and transparent.

4 Subsequently, the case study will refer to this multi-sectoral GIZ team just as "the GIZ team."

The process of developing the policy brief was as important as its main message: The GIZ team carefully orchestrated the process of developing the policy brief. It started with the strategic selection of the consultant team. One expert had a strong professional background in fiscal balance and local taxation and was proposed by GIZ's fiscal decentralization advisors, whereas the second consultant's background was in climate finance and proposed by GIZ's climate change advisors. The first expert had been renowned and respected by the DJPK and a member of TADF; the second expert was well known and respected in BAPPENAS and the Ministry of Environment. The trust that the leading parties had in the consultants aided communication with all sides enormously. Representatives of the concerned ministries paid attention to the consultants' analysis and conclusions. The PKPPIM steered the process of developing the policy brief. With support from GIZ, it organized several "focal-group discussions" with representatives from the MoF (Fiscal Policy Office and the DJPK), from BAPPENAS, and from the Ministry of Environment. Using this format to forge agreement did not always work out well. Not all invited parties participated in the discussions, or they sent low-level representatives. The latter could neither take decisions nor did they have the authority to share their opinions openly in front of a larger audience – a well-known phenomenon in Indonesia. However, it integrated important stakeholders at an early stage, and hence increased the prospects of agreeing on a coherent financing mechanism for climate change mitigation actions.

Shortly after discussing the final draft in a focal-group discussion in December 2011, the PKPPIM published it in January 2012 as a policy brief on its own initiative. It thereby positioned itself among national government institutions that have a say in climate finance. The policy brief helped the MoF to play a more proactive role in shaping policies for climate change mitigation. It formulated a vision for a coherent architecture for funding and transfer mechanisms. This supported the MoF's interest of avoiding a situation in which a confusing multitude of partially incoherent, or even counterproductive, funding and transfer mechanisms coexist.

The policy brief did not go into much detail, but the PKPPIM used it as a basis for further steps to develop more detailed procedures and regulations. To do so, it continued to cooperate with the GIZ team. Hence, throughout 2012 and 2013, the two-pronged advisory approach was repeated to develop a concrete proposal for a regulation on how to finance local action plans for GHG emission reductions (RAD-GRK) based on the national plan (RAN-GRK). This approach also helped to develop policy proposals on "Financing REDD+ through a Trust Fund Mechanism."

In short, combining multi-sectoral technical expertise with facilitation between different interests as honest brokers actually turned out to be helpful as long as the identified problem required technical expertise and agreements among decision-makers. However, during GIZ's cooperation with the PKPPIM and other stakeholders from involved ministries, the significance of another challenge to climate change mitigation in Indonesia rose steadily: Fuel price subsidies increased significantly due to rising international fuel prices. The impact of cheap fuel on climate change is obvious. But because providing technical expertise was not an appropriate response to the challenge, it became something like the elephant in the room.

The elephant in the room: Fuel price subsidies

Fuel price subsidies have been heatedly debated in Indonesia for some time. Because of rising fuel prices in the international market throughout 2011, 2012, and 2013, it has increasingly become a topic of very high political priority. In 2012 fuel subsidies accounted for more government spending than education and health combined, or 12 percent of total national expenditures. However, several studies revealed that these subsidies largely missed their goal of protecting the poor since they were provided according to the number of liters consumed rather than being based on consumer income. Only 3 percent of the subsidized fuel had been used for public transportation, compared to 53 percent for privately owned cars. Furthermore, low fuel prices were an incentive for many households to purchase private vehicles, resulting in even more traffic congestion and GHG emissions. The fiscal and environmental consequences of subsidized carbon-emitting energy consumption and transportation were enormous. A policy change on fuel price subsidies was the untapped potential to reach the set targets for reducing GHG emissions.

However, the issue was highly politicized, and it became difficult for external advisors to address without them being accused of interfering in matters that were considered internal political affairs. Especially in a self-confident middle-income country such as Indonesia, international development cooperation is constantly viewed with a good amount of suspicion.

One obvious answer would have been to provide technical expertise to precisely analyze the problem, its impacts, and (technical) options to solve it. That, however, had already been done by many other development partners, nationally and internationally. All facts and figures were known, and all available numbers had been crunched several times. At that point, providing further technical expertise would not have made any difference.

After some discussions, the GIZ teams and the PKPPIM developed an idea on how to approach this challenge differently in order to make a useful contribution while maintaining good relations with the political level. Although data was available and fiscal and environmental simulations were allowed for evidence-based scenarios, the level of public awareness on the environmental impact of subsidies was low. Understandably, the fear of many citizens of having to bear the direct and personal consequences was more important than the impacts themselves, which appeared to be of a more general and impersonal nature. Of course, there were debates about the issue of fuel subsidies, but there were rarely open exchanges on the subject; rather, polarizing presentations with opposing positions on the matter were the norm. Consequently, creating a level playing field for all participants was a precondition for a discussion forum to be credible, especially on such a politicized topic. The purpose of such a format was to openly discuss the advantages and inconveniences of fuel price subsidies, to raise awareness about the subsidies' many consequences, and to discuss options on how to address these consequences. However, this potentially conflicted with the fact that the MoF had clearly positioned itself in the public as an opponent of fuel price subsidies. As the initiator and host of a discussion forum, it would not have been credible to many. And even if a third party had hosted such a debate, the amount of people reached would be quite limited. Another challenge was that the potential scope of debates about fuel subsidies is nearly endless, be it on the various (financial, environmental, congestion) consequences, or on policies to reduce subsidies and appropriate compensation matters. If the topic is too large, a public debate would not come to conclusions; if it is too narrow, it would become a rather boring discussion among experts.

To address these challenges and obstacles, the GIZ team agreed with the PKPPIM to facilitate the organization of dialogue fora on the matter, allowing for the exchange of key facts and figures in a moderated discussion. To address the risk of polarization, the dialogue format was to allow a fair and free exchange of arguments from all standpoints. The right mix of Members of Parliament and representatives from public administration, the private sector, and civil society would allow for more nuanced discussions. An audience of about 100 to 200 participants could raise questions and challenge viewpoints of the panelists. As neither the MoF nor GIZ could be an impartial host, it was decided that universities should play that part, not only in terms of providing a location but also to act as organizers. Indeed, in Indonesia, a university campus is highly respected as a space for open academic exchange. To increase the potential outreach, the idea was to invite established media institutions and to use alternative channels such as video-sharing websites. Given the vast scope of potential specific topics related to fuel price subsidies, the GIZ team and the PKPPIM agreed to initiate not only one debate but a small series. The first debate was to look at the topic in a comprehensive way. A second forum could then target a more specific issue, ideally the one that turns out to be the most challenging in the first round. The third forum could then build on the conclusions of the former, leading to a progressive discussion.

Three of the most highly renowned universities showed their interest in running this experiment. The first dialogue forum took place at the University Gadjah Mada in Yogyakarta on June 22, 2013. The auditorium was full with around 150 participants and a highly diverse panel with opponents and supporters of fuel price subsidies from the political sphere (a Member of Parliament), public administration, civil society, and the private sector. The location turned out to be the ideal place for the panelists to speak more openly than they would have within the walls of one of the protagonists. The whole debate was put on YouTube, and some radio stations aired broadcasts with summaries and commentaries. Reactions were very positive, especially because the debate was results-oriented and fact-based and not simply the exchange of politically heated standpoints.

On September 17, 2013, the second forum took place at Sriwijaya University in Palembang, South Sumatra province. It was important not to organize all events on the island of Java, although clearly the most renowned universities are on this central – and by far most populated – island of Indonesia. The forum went equally well and allowed for a more focused debate on transportation issues, as this turned out to be the most crucial issue in the first forum in Yogyakarta.

The third and final forum took place at the University of Indonesia in Jakarta in November 2013. Based on positive feedback from the prior events, trust in the format increased and high-level participants were easier to mobilize. TV and radio stations aired broadcasts with summaries, commentaries, and interviews. The outcome of the debates was surely not a policy master plan on how to resolve the issue, but in many ways it was a useful contribution on the matter. It raised public awareness, and it allowed for key stakeholders to approach the challenges in a less polarizing way, allowing for a better understanding of the motives behind each standpoint.

The impact of these dialogue fora cannot easily be measured beyond anecdotal evidence. It would not be serious to pretend that it directly contributed to President Widodo's bold decision in December 2014, shortly after his election, to scrap diesel subsidies and considerably reduce gasoline subsidies. It may have laid the groundwork for better public acceptance of the decision, though. The widely discussed issues created public awareness that something might change.

It was of fundamental importance for the GIZ team to adapt its approach and to entirely slip into the role of a provider of platforms for evidence-based discussions between Indonesian stakeholders. This role required a different self-concept than the role of the technical advisor. Whereas the technical advisor works on content matters directly with one or several counterparts, the provider of discussion platforms focuses on the space provided to others. This role is actively taking place in the background, and the biggest challenge is to refrain from coming in with one's own positions. For this change of roles to be credible, it was also important to give the actual convener – the selected university faculties – enough space.

From three to seven: Increasing coordination challenges

It could be taken as a proxy indicator of a successful approach, or as a failure because it overburdened the system: The truth is probably a bit of both. The successfully close cooperation between GIZ advisors on fiscal decentralization (DeCGG program) and on climate change policy (the PAKLIM and partially FORCLIME programs) triggered the awareness that actually a much larger coordination effort would be necessary. Not only DeCGG, PAKLIM, and FORCLIME programs dealt with climate finance issues, but also four other GIZ-supported programs. All in all, there were seven programs from three focal areas (good governance; climate change and environmental protection; private-sector development) as well as a regional program supporting ASEAN:

- Policy Advice for Environment and Climate Change (PAKLIM)
- Decentralisation as a Contribution to Good Governance (DeCGG)
- Least-Cost Renewables (LCORE-INDO)
- Local and Regional Economic Development (RED)
- Forests and Climate Change Programme (FORCLIME)
- German – ASEAN Programme on Response to Climate Change (GAP-CC)
- Sustainable Urban Transport Improvement Project (SUTIP)

The challenge became apparent when the PKPPIM initiated the organization of a large conference on "Charting the Way to a Green Economy through Fiscal Policy Reforms: A Role for the Ministry of Finance," which was held in October 2012. The conference involved all of the abovementioned GIZ-supported programs. All of these programs worked with the MoF on aspects of climate finance, be it on matters of promoting a green economy, financial incentives for a green energy policy, or investments for an ecologically sustainable urban transportation policy. It would not be possible to coordinate GIZ's cooperation with the MoF in the same informal way advisors from PAKLIM, DeCGG, and FORCLIME had worked together hitherto.

Hence, a more formal agreement between GIZ and the MoF was necessary, involving all concerned programs. The initial idea to call it a "Memorandum of Understanding" was quickly dropped, as this term has clear legal implications, so it became a "Cooperation Agreement." Drafting it took quite some time – a finalized version was only signed in October 2013 by the GIZ country director and the head of the PKPPIM. It outlined key objectives of the cooperation between GIZ and the PKPPIM, responsibilities and contributions, as well as organizational matters on operational planning, monitoring, evaluation, and reporting. The involved GIZ advisors were convinced that, without any tangible coordination mechanism, the agreement would remain just a (toothless) piece of paper. They therefore agreed to create the post of a senior national advisor with the task of coordinating collaboration with the MoF among all these programs.

The intention was good and necessary, but in the course of implementation, limits became apparent with regard to what could be achieved. The coordinator started to work in November 2013, so all in all the whole process took more than a year – from the initial idea during the conference in October 2012 to the implementation of such a mechanism. Furthermore, the mandate of that coordinator was not defined clearly enough and not sufficiently clarified with all programs involved, so he ended up being caught performing several roles. The ambition to manage a meaningful coordination mechanism between so many different programs was probably too high, and the effort to do so turned out not to have a meaningful relation anymore with the outcome.

Conclusion: Smart, but not smart enough?

The best way to quickly evaluate an initiative you were responsible for is to ask yourself "*Would I have done it the same way if I had the chance?*" As the involved GIZ advisors from the initial core team, we, the authors of this case study, come to the conclusion that, in principle, yes, we did the right thing, but we apparently underestimated some of the challenges when setting our goals. We identified the added value that our joint support could provide, and we had the right ideas on how to design and implement support measures. We contributed measurably to a coherent positioning of the MoF with regard to climate finance. The financing mechanisms proposed by the MoF were developed jointly between the Fiscal Policy Office (especially the PKPPIM) and the DJPK, thereby considering the principles of the existing fiscal balance architecture. Furthermore, we contributed to fact-based and solutions-oriented exchanges between key stakeholders, be it as focal-group discussions on specific technical issues or as open fora on a more political level.

Arguably, in terms of measurable achievements, a different story could be told. Technical expertise provided by GIZ supporting the MoF and BAPPENAS to draft regulations has not yet produced the desired effects of them being passed. Although many discussions took place, complications remain for the MoF and BAPPENAS to agree on how funds for RAD-GRK implementation should be transferred and which institution would have which responsibilities in the process. The MoF still has legal concerns with regard to using the International Climate Change Trust Fund. And proposals to adapt transfer funds of the existing fiscal balance system (in particular the transfer fund for earmarked transfers (Dana Allokasi Khusus – DAK), and the one for shared revenues (Dana Bagi Hasil – DBH)) are being blocked because the underlying law – under revision since 2009 – has been submitted to Parliament but not yet passed.

Some of these aspects are beyond the reach and influence of development cooperation, such as the blockade of the law revision on fiscal balance. Others show that accompanying a government's reform agenda involving highly political issues takes time. As programs and their focus had shifted by the end of 2013, other teams – in a different setup and with slightly different mandates – continue to provide advisory support on climate change financing so that more measurable changes might be visible at a later stage.

But as a more generalized conclusion of the experiences we made, we may state the following:

- A cross-sectoral approach can help to change perspectives and find new approaches for solutions. This is especially the case when adding a governance perspective to another sector. To really release its potential, however, cross-sectoral approaches must be based on a true understanding of each side's underlying motives, goals, and priorities. Often, multi-disciplinary teams are a group of experts who do not speak each other's language. It is important to invest sufficient time and effort to establish a common language.
- A tailor-made approach to one challenge that proves successful may not be appropriate for another challenge, even if both challenges are closely linked to each other as part of one process. Smart implementation, to us, also means understanding that an advisor has several roles to offer: provider of technical expertise, honest broker between different actors (and interests), and provider of platforms for knowledge-exchange. What makes for smarter implementation is the capability to know which role is required at which point in the process and to quickly change roles when necessary and appropriate. It is crucial to constantly monitor and evaluate support measures and to anticipate challenges ahead in order to develop and adjust approaches accordingly.
- The advantage of seizing windows of opportunity at the working level is that you are quicker and more responsive compared to institutionalizing a process at a higher level first. Furthermore, first tangible results may convince decision-makers more easily to shift priorities. The risk is that the initiative develops such momentum that any effort to institutionalize the cooperation always lags behind. When this risk becomes apparent, it is important to reshape the intervention strategy and define milestones. A formalization of the advisory approach can take place, including agreement on specific objectives and indicators to make the approach more binding. These may help to synchronize the technical

support and institutional setup by putting the former on hold while investing time and effort in the latter.

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