ECONOMIC GROWTH SUPPORT ACTIVITY (EGSA)

BLENDED FINANCE IN INDONESIA

Submission Date	: December 2020
Contract Number	: 7200AA18D00010 Task No. 72048719F00006
Activity Start Date	: November 1, 2019
Activity End Date	: October 31, 2021
COR Name	: Peter Novak
ACOR Name	: Thomas Crehan

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Brief Study on Blended Finance Interventions

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DISCLAIMER

ACRONYMS

ADB	Asian Development Bank
AFD	*Agence Française de Développement* (French Development Agency)
ANGIN	Angel Investor Network Indonesia
Bappenas	*Badan Perencanaan Pembangunan Nasional* (National Development Planning Agency)
BCA	Bank Central Asia
BF	Blended finance
BLU	*Badan Layanan Umum* (Public Service Agencies)
BNI	Bank Negara Indonesia
BPS	*Badan Pusat Statistik* (Statistics Indonesia)
BRI	Bank Rakyat Indonesia
CDCS	Country Development Coordination Strategy
CSR	Corporate Social Responsibility
DFAT	Australia Departments of Foreign Affairs and Trade
DFID	UK Department for International Development
DFI	Development Finance Institutions
DO	Development Objective
EDC	Electronic data capture
GDP	Gross domestic product
GoI	Government of Indonesia
IBCSD	Indonesia Business Council for Sustainable Development
ICCTF	Indonesia Climate Change Trust Fund
ICT	Information, communications, and technology
IDR	Indonesian Rupiah
IFC	International Finance Corporation
IIF	Indonesia Infrastructure Finance
IRIS	Impact Reporting and Investment Standards
KADIN	*Kamar Dagang dan Industri Indonesia* (Indonesia Chamber of Commerce and Industry)
KfW	*Kreditanstalt fuer Wiederaufbau (*Credit Institute for Reconstruction)
KUR	*Kredit Usaha Rakyat* (Small Business Capital Loan)
MCA	Millennium Challenge Account
MDB	Multilateral Development Bank
MoF	Ministry of Finance
MSME	Micro, small, and medium-sized enterprise
OECD	Organization for Economic Cooperation and Development
OJK	*Otoritas Jasa Keuangan* (Financial Services Authority)
PEN	*Pemulihan Ekonomi Nasional* (National Economic Recovery Program)
Perpres	*Peraturan Presiden* (Presidential regulation)
PII	*Penjamin Infrastruktur Indonesia*
PMK	*Peraturan Menteri Keuangan* (MoF regulation)
POJK	*Peraturan OJK* (OJK regulation)
PP	*Peraturan Pemerintah* (government regulation)
PPP	Public-private partnership
PT SMI	*PT Sarana Multi Infrastruktur*

PwC	PricewaterhouseCoopers
RPJMN	*Rencana Pembangunan Jangka Menengah Nasional* (Medium-Term National Development Plan)
SDGs	Sustainable Development Goals
SME	Small Medium Enterprises
SOE	State-owned enterprise
USAID	United States Agency for International Development

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INTRODUCTION

BACKGROUND

In advance of the Government of Indonesia's (GoI's) 100-year anniversary, it laid out "The Vision of Indonesia 2045." This Indonesian ideal set forth the goals for the country to become a sovereign, advanced, fair, and prosperous nation by its centennial in 2045. The Vision of Indonesia strives to move the country's development toward more sustainable and inclusive processes. This vision is encapsulated under the Sustainable Development Goals (SDGs) framework; GoI is aligning its medium-term national development planning (*Rencana Pembangunan Jangka Menengah Nasional*, or RPJMN) with the SDGs, resulting in a set of actions to be taken to realize the development planning goals. One cornerstone of these actions is financing.

The National Development Planning Agency (*Badan Perencanaan Pembangunan Nasional*, or Bappenas) has identified the total financing needed to support SDGs at approximately USD 2.1 trillion per annum (roughly 29,715 trillion Indonesian Rupiah (IDR)). This figure is far above Indonesia's gross domestic product (GDP) of USD 1 trillion per annum (IDR 14,150 trillion). These investment financing needs are calculated through three scenarios. First, there are "business as usual" interventions, for 2020 amounting to IDR 2,714 trillion and for 2030 amounting to IDR 7,721 trillion. Secondly, there are "moderate" interventions, for 2020 IDR 2,778 trillion and for 2030 IDR 9,405 trillion. Thirdly, there are "high" interventions, amounting to IDR 2,867 trillion in 2020 and to IDR 10,397 trillion in 2030. The GoI is aware that in all scenarios there is a tremendous gap between current GoI capacity and the investment needed; therefore, collaborative and innovative ways of financing are required to bridge this gap. Blended finance (BF) offers alternatives to solve this problem.

SDGs aim at a fundamental transformation of Indonesian society and its patterns of production and consumption. This transformation requires changes in mindset and behavior; realigned incentive systems; a conducive and enabling public policy environment; and the deployment of innovative technologies that are more energy- and resource-efficient. Investments on a massive scale are needed to create a sustainable infrastructure with low-carbon and high-efficiency production methods that will accomplish the transformation. Hence, financing is key to realizing the SDGs.

Since 2015, the engagement of governments, the private financial sector, and other non-state actors in mobilizing resources for SDGs has grown. This new paradigm of sustainability has been well received and adopted by the private sector. Financial sector policy makers, regulators, and stewards, as well as market participants, are taking steps toward building a more sustainable financial system. Sustainable finance has grown rapidly, as demonstrated by the explosive growth of green bonds and the development of innovative SDG-related financial instruments benefitting from BF. Many financial jurisdictions have taken explicit steps in "greening" their financial systems.

Private market participants, particularly institutional investors, are also changing their approaches, encouraging longer-term time horizons on financial markets. They support efforts to integrate environmental, social, and governance factors into business models and encourage disclosure of the sustainability profile of firms in which they invest, thereby driving changes in the way enterprises are managed.

Beyond funding gaps, other shortcomings hinder the progress. In Indonesia, relatively underdeveloped and weak financial systems limit the range of available instruments for mobilizing private resources, while weak institutional capacity in formulating and presenting bankable projects impedes the ability to mobilize private investment. Across many developing countries, the lack of a pipeline of sustainable, bankable projects at scale, and of established and broadly accepted methodologies for assessing the risk of new technologies and sustainable investment projects, hinder the mobilization of more sustainable finance—hence impeding the redirection of flows away from traditional and non-sustainable investments.

OBJECTIVES

The objectives of this report are to:

- Provide basic information on BF in Indonesia
- Identify possible BF interventions to support development activities in Indonesia
- Identify key stakeholders in BF
- Identify economic sectors or subsectors potential for BF interventions

SCOPE OF REPORT

This report is developed based on observations gathered from interviews with identified key stakeholders, the author's own experiences, and lessons learned from past experiences in engaging with the financial sector. It is divided into two sections: the first provides background on how BF is being implemented in Indonesia and the second is an assessment of potential sectors and BF interventions.

As a disclaimer, identification of sectors, key stakeholders, and potential interventions as stated in this report are not fully inclusive, as due to time constraints the report is based on interviews with limited stakeholders and is not extensive in all sectors. It thus poses limitations. As indicated in the last chapter, the author recommends that decision-makers carry out a more comprehensive assessment.

OVERVIEW OF BLENDED FINANCE IN INDONESIA

DEFINING BLENDED FINANCE

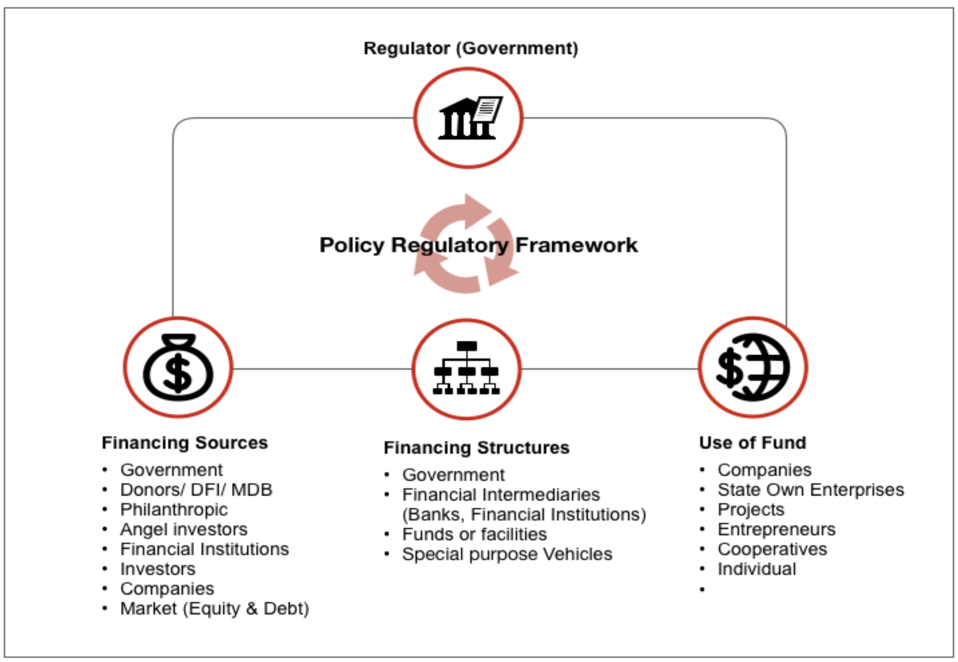
Due to the differing perceptions of many organizations, there are multiple interpretations of BF. Identifying a set definition of "blended finance" requires synchronizing these perceptions to arrive at a mutual understanding on its scope. The Organization for Economic Cooperation and Development (OECD) has been active in consolidating BF activities through conducting research and formulating standards; thus, this report applies OECD definitions.

Borrowing from the OECD framework, for the purposes of this report "blended finance" is defined as the strategic use of development finance for mobilization of additional finance towards sustainable development in developing countries.[1] In this context, *development* finance includes official development finance from concessional and non-concessional sources and private funds that are governed by developmental mandates, such as philanthropy and "angel" investors. *Additional* finance refers to commercial finance as public or private sources whose principal purpose is commercial (rather than developmental).

Designing BF facility presents a dilemma when choosing a priority between financial leverage and financial additionality. *Leverage* is a ratio that measures the ability of concessional capital to catalyze private investment. *Additionality* describes the role that concessional capital plays in closing a deal; a more commonly used term for this situation is leveraging private investment.

Learning from the BF common framework, a group of actors in each stage of the process and the role of each actor can be identified. Then, the demands and necessities of BF implementation can be evaluated from the perspective of each actor, using the value proposition or value perspective of each actor. An overview of the actors is described in the diagram below.

Figure 1. Blended Finance Value Chain



Source: Author's elaboration

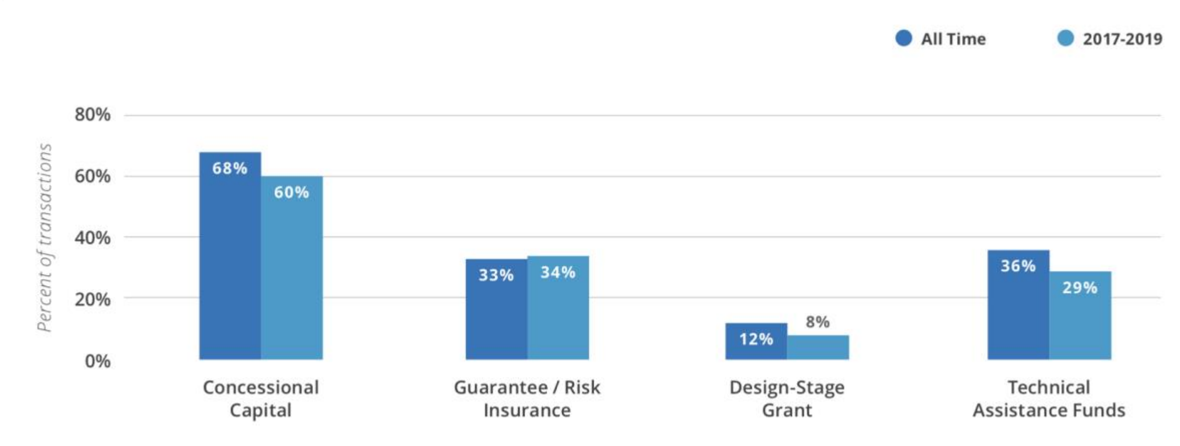
BLENDING APPROACHES AND SECTORS

Based on a survey conducted by Convergence,[2] the financial instruments most commonly deployed in BF structures are concessional capital and technical assistance funds. Sixty (60) percent of BF transactions in

[1] OECD (2018). OECD DAC *Blended Finance Principals for Unlocking Commercial Finance for the Sustainable Development Goals.* Retrieved from: https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/OECD-Blended-Finance-Principles.pdf
[2] Convergence (2020). *The State of Blended Finance 2020*. Website. Accessed at: https://www.convergence.finance/

the database benefit from concessional capital, 29 percent from accompanying technical assistance funds, and 34 percent from guarantee/risk insurance. The most common forms of concessional capital are repayable grants, first-loss capital, and concessional debt (line of credit) and equity.

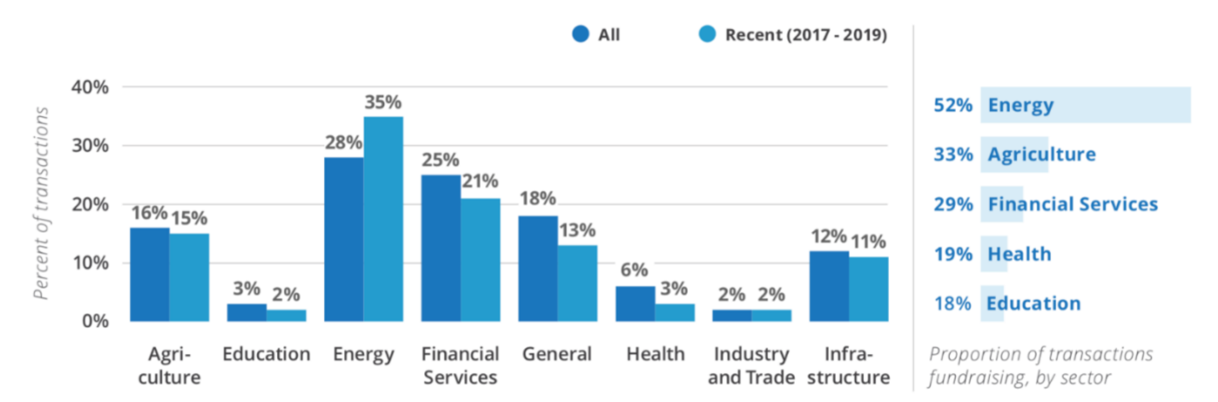
Figure 2. Proportion of Blended Finance Transactions across Blending Archetypes



Source: Convergence report "The State of Blended Finance 2020"

The energy sector is the primary focus of transactions, followed by financial services and agriculture. The most commonly targeted direct beneficiaries of BF vehicles over the past five years (2014–2019) have been companies, including micro, small, and medium-sized enterprises (MSMEs) at 30 percent, and small and growing businesses at 9 percent.

Figure 3. Distribution of Blended Finance Transactions across Sectors



Source: Convergence report "The State of Blended Finance 2020"

OBSERVATION FROM PAST STUDY

Several lessons have been documented from a study conducted by OECD[3]:

1. Sourcing of finance still focuses more on combining different sources of public development finance and less on attracting commercial finance.
2. Blending in middle-income countries is focused on only a few sectors.
3. Differences in understanding of BF, resulting in a lack of policy coherence and standards.
4. There is a lack of evidence and data on BF.

In the context of Indonesia, lesson number 3 is particularly relevant to GoI, as currently there is no GoI focal point for implementing interventions. Lack of coordination and the absence of a regulatory framework leads to scattered approaches among government institutions, resulting in ineffective and inefficient interventions. Because developing new regulation is a very complex and time-consuming process, the GoI is utilizing existing regulations to govern BF structure. However, the resultant lack of BF clarity or solid regulation suppresses the appetite of commercial finance players to participate.

Lesson number 4 above best describes the challenges of non-GoI actors (donors, private sector, and financial institutions). The lack of data and evidence, absence of successful interventions, and lack of transparency in monitoring and evaluation is a barrier to investment.

No comparisons can be found in the Indonesian context for the findings number 1 and 2 above, largely due to the limited data on BF transactions and the absence of a monitoring mechanism.

EVOLUTION OF BLENDED FINANCE IN INDONESIA

Blended finance in Indonesia has a long track record. It was originally implemented as public-private partnership (PPP), and many GoI and private sector actors today still perceive BF as PPP. Indonesia's first PPP transaction was identified in 1970s during the development of the Bogor-Ciawi toll-road infrastructure. Currently, the PPP mechanism has evolved from focusing on public infrastructure, such as roads and government buildings, to social infrastructures, such as hospitals and schools. PPP mechanisms are regulated and managed by the Ministry of Finance (MoF). Notable results among MoF efforts in facilitating PPP include the establishment of PT Sarana Multi Infrastructure (PT SMI) and *Penjamin Infrastruktur Indonesia* (PII). Both are state-owned enterprises under the MoF with the mutual objective of supporting the PPP mechanism in infrastructure development. Among the examples of types of MoF support are ensuring sources of funding for projects (which includes providing funding from capital or debt); providing grants; structuring funding; guaranteeing facilities; providing transaction advisory support; and providing advice on project preparation.

After infrastructure development, climate change and SDGs have become major drivers of BF. The establishment of the Indonesia Climate Change Trust Fund (ICCTF) initiated this change, followed by the establishment of many other facilities, such as the Indonesia Palm Oil Plantation Fund Management

[3] OECD (2018). *Making Blended Finance Work for the Sustainable Development Goals.* OECD Publishing, Paris. Retrieved from: http://www.oecd.org/development/making-blended-finance-work-for-the-sustainable-development-goals-9789264288768-en.htm

(*Badan Pengelola Dana Sawit*), Millennium Challenge Account Indonesia (MCA Indonesia), and Indonesia Environmental Fund (*Badan Pengelola Dana Lingkungan Hidup*). The MoF has emerged as a key driver of these BF entities, as each one needs a specific MoF Decree to operate. Using the state budget typically presents various difficulties: a required approval from the Parliament; not based on earmarks of budgeting mechanism; limited to annual cycles of proposal-to-disbursement; and prone to audit findings. Thus, the MoF established special-purpose vehicles called Public Service Agencies (*Badan Layanan Umum*, or BLU) to manage specific areas of funding. Such an entity enables flexibility in managing funds beyond the limitations of the state budget and government bodies. In this way, the MoF is critical to implementing BF activities.

The establishment of BLU as an approach to funding development has created certain concerns, however, mostly from development partners and the donor community. Currently, more than 200 BLUs have been established, yet their effectiveness and efficiency are questionable, as they lack measurable results and documented success stories. Among the common problems identified are transparency, prudent and efficient procedures, people and organizational capacity, and (frequently commented upon by donors) a lack of independence. The MoF established the SDG Indonesia One fund to address some of these issues, with the ultimate goal of transforming PT SMI into an Indonesian development bank. Since the establishment of SDG Indonesia One in 2018, however, notable improvements have not emerged.

Beside facilities established by the GoI, many donors and development partners have implemented BF mechanisms through their programs. The most common approach is augmented financial instruments such as concessional loans or guarantees with grants or technical assistance. The United States Agency for International Development's (USAID's) successful implementation of credit guarantees is known among the donor community. Other development finance institutions (DFI) such as the Asian Development Bank (ADB), the Credit Institute for Reconstruction (*Kreditanstalt fuer Wiederaufbau*, or KfW) and the French Development Agency (*Agence française de développement*, or AFD) have been successful in implementing concessional loans. However, based on the author's observations, these attempts have not achieved the expected ultimate goal of enabling more private funding to participate in development activities. Among the main criticisms of these donor-supported programs are: mismatched objectives between donors and the GoI; short-term timelines from planning phase to execution; and exhaustive requirements. The most frequent comments from participating private-sector companies is that those BF facilities have higher or similar costs of funding, compared to existing commercial facilities.

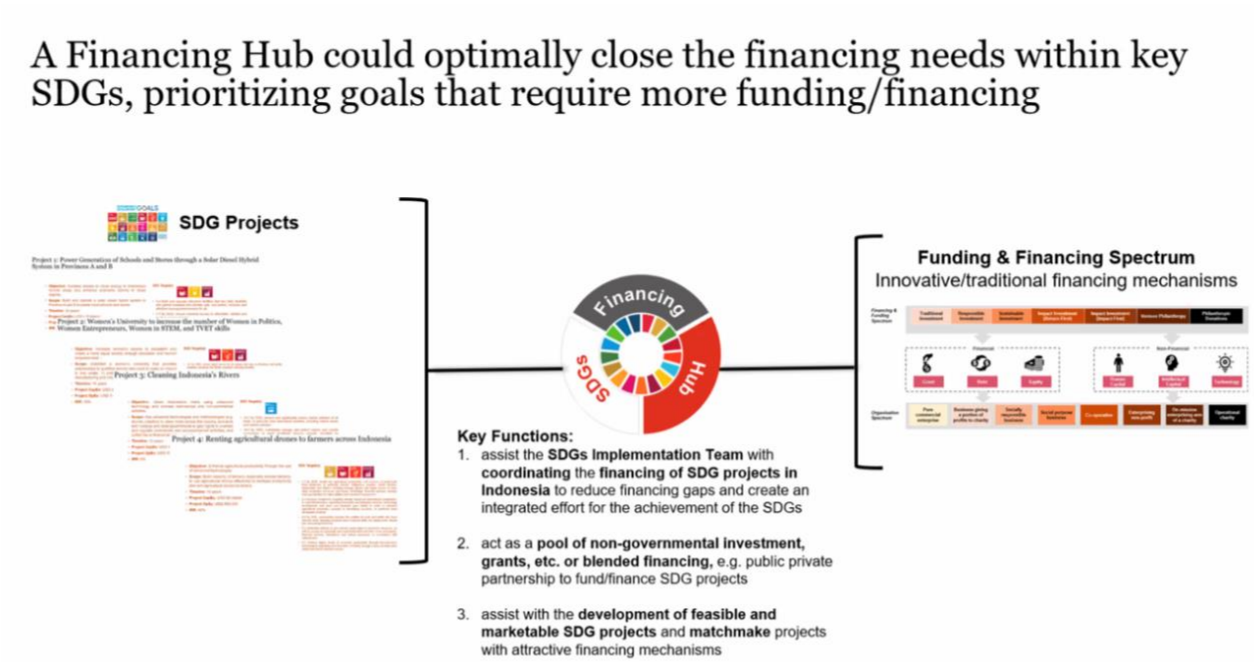
In an effort to address these concerns, Bappenas initiated the Indonesia SDG Financing Hub, of which main objective is to facilitate and coordinate BF initiatives from various sources to fund SDGs projects. Bappenas developed this Financing Hub as part of their mandate in implementing Presidential Regulation No. 59/2017 regarding SDGs. It is the only regulation identified that explicitly mentions that funding for development could come from other sources than the state budget. This line is interpreted as the justification for developing BF in Indonesia.[4]

[4] For more information on this topic, see United Nations Development Program (UNDP) (2017). *Supporting Policy Coherence: Indonesia's Experiences.* Presentation by before the Regional Knowledge Exchange Manila, October 2, 2017.

Among the notable achievements of Bappenas are bringing the Indonesia Financial Services Authority (*Otoritas Jasa Keuangan,* or OJK) into the discussions of BF with the MoF. In the past, OJK seemed to be passive on these issues, due to absence of restrictions on financial institutions conducting BF mechanisms. However, this stance resulted in a lack of understanding and acceptance from the financial sector to engage in BF, thus leading to low adoption and fewer successful transactions. In terms of sources of funding and BF as an application of sustainable finance, then, the domestic financial sector holds the key to success in implementation.

Bappenas, supported by United Nations Development Program (UNDP), has hired PricewaterhouseCoopers (PwC) to formulate the concept of BF under the SDGs Financing Hub. The objective of this assignment is to identify the most appropriate BF mechanism to accommodate requirements from domestic and international financiers; afterward, it will formally institutionalize the mechanism and secure the mechanism with a presidential regulation. This approach is expected to give sufficient political support to the foundation and regulation of BF. A summary of PwC's initial concept of SDG Financing Hub can be illustrated in the figure below.

Figure 4. PwC's Proposed Concept for SDG Financing Hub



Source: PwC presentation for Bappenas, 2020

REGULATORY FRAMEWORK

As discussed above, the current specific regulation that meets the definition of BF is only a presidential regulation (*Peraturan Presiden,* or Perpres) No. 59/2017 regarding SDGs. Bappenas is in the process of identifying derivative regulations from Perpres 59/2017, especially on SDG funding. Bappenas will incorporate lessons learned from their experiences in managing ICCTF and MCA Indonesia into subsequent regulations.

From the MoF point of view, the BF regulatory framework is a set of derivative regulations from certain higher-level ones. A good example of this is the latest process for establishing the Indonesia Environmental Fund. First, it started as a government regulation (*Peraturan Pemerintah*, or PP), No. 46/2017, regarding an Environmental Economic Instrument. Then, it was followed by Perpres No. 77/2018, regarding the Establishment of the Environmental Fund, providing a specific mandate to the MoF to manage the fund. Finally, it was translated into a MoF regulation (*Peraturan Menteri Keuangan*, or PMK), No. 137/2019, regarding the Governance of the Environment Fund. This last step gave the MoF the specific mandate to manage and/or to establish funds through a BLU.

OJK's perspective on BF transactions provides no limitations in sourcing the funding, if it follows prudent principles of financing and protects end users. Blended sources of funding are common practice under the treasury departments of banks or investment banks, with the traditional objective of structuring the arrangement to contribute to cost efficiency. Bank respondents participating in BF mechanisms mentioned these conditions, which OJK confirmed. Nevertheless, OJK still carries out a supervisory role by requesting financial institutions to report any sources of funds utilized.

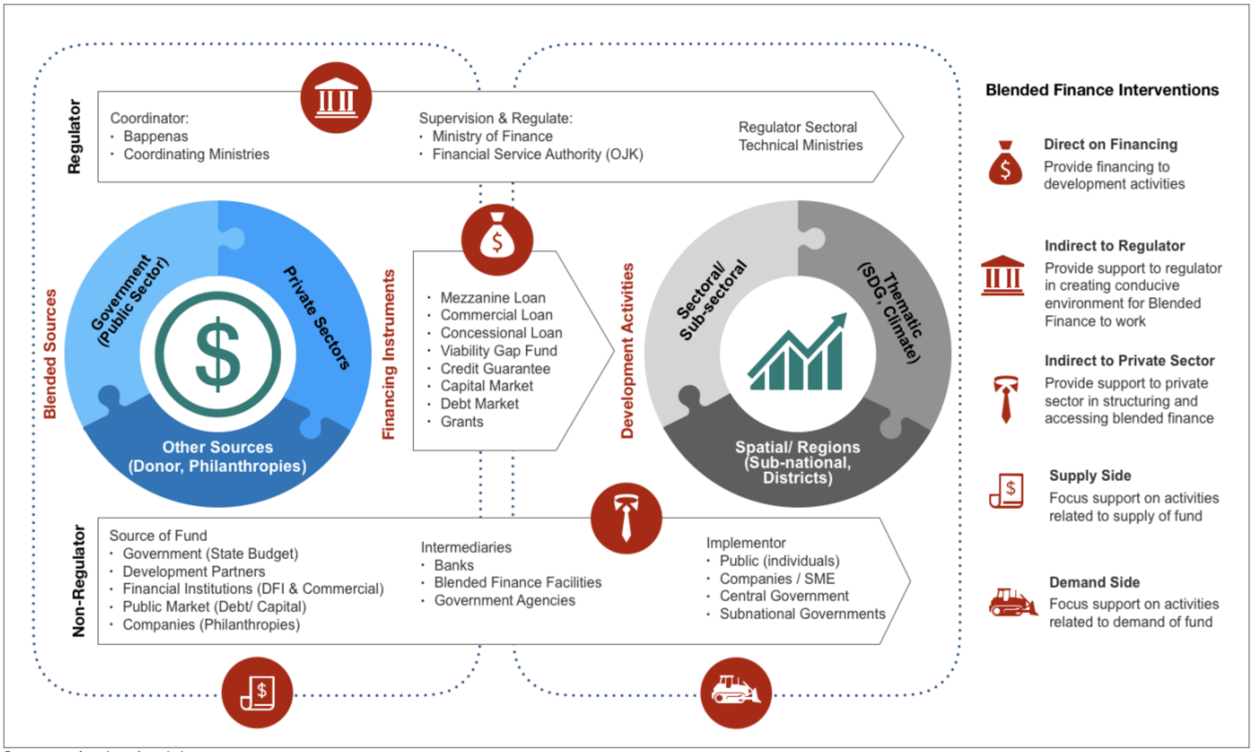
The OJK issued regulation (*Peraturan OJK*, or POJK) No. 51/2017 regarding Sustainable Finance, and POJK No. 60/2017 regarding Green Bonds. Despite no specific mentions of BF, both regulations accentuate sustainability issues, with their main objective to increase private-sector participation in development activities. Similar to Bappenas, OJK is in the process of developing derivative regulation under POJK No. 51/2017. OJK stated that BF, as a specific financing mechanism, has been identified as one priority to be included in the next regulation.

INSIGHTS ON BLENDED FINANCE IN INDONESIA

INTERVENTIONS

Mapping interventions based on the flow of transactions can help us understand BF interventions, as illustrated in the figure below.

Figure 5. Multi Perspective Approaches in Blended Finance Interventions



Source: Author's elaboration

DIRECT VS. INDIRECT

There are several perspectives from which to view BF interventions. The first perspective is the form of support provided, either direct or indirect. *Direct* interventions provide financial support or funding in financial instruments for development activities. Among examples of these are concessional loans, credit guarantees, and direct grants to project proponents. In contrast to direct interventions, *indirect* interventions provide support in non-financial form, such as through technical assistance and advisories. Direct supports are usually not stand-alone activities, as most direct support would be provided in coordination with indirect support.

SUPPLY SIDE VS. DEMAND SIDE

Another perspective is a group of activities on the *supply* side of the funds, versus those on the *demand* side. Objectives from the supply side may be securing funds from various sources, then structuring and channeling the funds for development activities—which determines the sectoral focus on the financial sector's supply side. Interventions on the supply side can be direct, as in providing financing, or indirect, as in providing support to stakeholders in developing financing instruments. Most financing in Indonesia is conventional (utilizing equity or debt), while many alternative financing instruments, such as mezzanine loans, credit guarantees, bonds, and mutual funds, are underutilized. Objectives on the demand side involve identifying and ensuring availability of feasible projects or programs that require financing from blended sources. Interventions on the demand side may range from the micro level (providing advisory support to a single transaction) to a more macro level, working to improve enabling environments in a targeted sector or sectors.

REGULATOR VS. PRIVATE SECTOR

The third perspective is that of the stakeholders, the recipients of support. Referring to a spectrum in the objectives of indirect interventions, a group of stakeholders may each need a different depth of support. The depth of support may range from generic support to improve conduciveness, usually related to the regulator or government; to specific support to access financing, usually related to non-regulator stakeholders. The range of the depth of support will vary within both spectrums, based on the perception of problems from stakeholders' point of view (regulator versus private sector) and aligning interventions' objectives to resolve them.

INDONESIA CONTEXT

The BF process in Indonesia flows from blending funds from three groups of resources: the government budget, the private sector, and others. Historically, the common practice of BF in Indonesia is derived from the collaboration of the government and private sector in the form of PPPs. In the past five years, following global development in BF, other sources have come into play. Beyond conventional donors and development partners, they include philanthropies and the public as individuals. Individuals can participate in BF through crowd-funding, fixed income (bonds market), stock exchange (capital market), and also through *zakat* contributions, the latest interesting phenomenon. Zakat is a form of social donation that is mandatory for Muslim individuals. Increased participation by philanthropies and zakat in BF is driven by shifting paradigms from traditional funding with short-term impact, such as providing social amenities like education, food, health and sanitation, to long-term impact in promoting and making investments in sustainable business.

As shown by their successful alliance-building among financing regulators (the MoF and OJK), Bappenas usually excels in coordinating varying activities. Previously, initiatives and interventions by the MoF and OJK tended to be segregated, resulting in the ineffective use of resources. As discussed in the previous section, Bappenas formed the SDG Financing Hub, and among its objectives is devising a coordinating agency to manage BF. Other identified coordinating agencies are Coordinating Ministry of Maritime and Investment, which is generally driven by the Minister's agenda rather than a regulatory policy platform.

The process then continued to structuring funding resources into financing instruments, which becomes key in delivering BF. The MoF and OJK are the regulators in this process, as the focus of their roles are securing and managing the supply of funds. The MoF has demonstrated its leadership in BF and has become a driver to OJK. Among the MoF's notable milestones are the establishment of SDG Indonesia One as a platform for the participation of interested parties in BF. The MoF holds two key roles in BF: first, its function as the state treasury that manages the state budget; second, its function as the supervising agency for donors and development partners. By law, all donors and development partners programs, both direct and indirect, must register and submit periodic reports to the MoF. As the state treasury, the MoF issues policies and regulations related to state budget and fiscal matters, which are keys to both manage budget disbursement and the flow of funds—eventually impacting BF. The OJK mandate is to supervise and act as a regulatory body in financial sectors. OJK's key roles are developing policies and regulations that dictate how financial institutions may blend various sources of financing into their existing structure, as well as enabling new financing instruments to come into Indonesia's market—such as sustainability bonds, green stock indexes, mutual funds, guarantees, and so on. New financing instruments will increase public and market participation into BF. The MoF and OJK capacities are extended beyond regulatory bodies. These two institutions appear powerful and with strong influence on decision-making of other stakeholders (both public and private). Based on the author's observations, this condition is reflected in their work ethic, where professionalism (in terms of consistently executing predefined work plans) and the promotion of informed decision processes both play a part.

Finally, the process reaches the actual implementation of BF. In the final process, the main concept is the *demand* of funding in identified sectors to finance development activities, as opposed to the *supply* of funding. Based on observations, most development activities are based on the intersection of three focus areas. These are *sectoral or sub-sectoral* versus *thematic* (such as those commonly derived from SDGs or climate change initiatives) versus *geographic or regional* (central to subnational). Assessment in gaps and demands of BF within these three focus areas help stakeholders focus their interventions. For regulators, the demand of funding is related to market or the sector of activities. The role of regulators is developing and ensuring conduciveness of the market in such a way that it will support economic growth and achieve sustainability. However, in Indonesia, not all sectors are fully available to private participation; some sectors, such as energy and financial, are still protected and heavily regulated. Therefore, in these sectors the GoI usually engages with state-owned enterprises in implementing development activities.

CHALLENGES TO BLENDED FINANCE

Many attempts at BF have been made in Indonesia; however, challenges were found in implementation. From the author's observations, the supply of funds is not the primary problem for BF, as many domestic and international financiers have pledged high commitment to collaborate. The biggest challenges are twofold. First, for sectors that have established BF platforms or have proven attempts of implementing BF, the primary problem is the *absence of feasible projects or programs that are ready for financing*. This condition contributes to degraded conduciveness to doing business, mainly caused by regulations or government decisions that fail to support its sustainability. The second challenge is *a lack of BF platforms or facilities that can capture and facilitate sources* of funding from private sectors or others. This condition is caused by relying too heavily on conventional financing when developing a market, i.e., utilizing conventional equity, commercial loan, and government incentives or subsidies.

Table 1. Summary of Challenges to Blended Finance

CHALLENGES FROM SUPPLY SIDE	CHALLENGES FROM DEMAND SIDE
• Lack of prudent mechanism, platform, in delivering BF; No success stories from existing facilities • Lack of awareness and knowledge from domestic financial actors on BF. Many private actors view BF as corporate social responsibility activities • Lack of innovative and weak initiatives from regulators; Regulators still view BF as PPP • Mismatch of priorities between development partners or DFI versus those of GoI • Absence of data and information regarding BF transactions • Underdeveloped domestic capital and debt markets	• Technical ministries are inconsistent and there is a lack of clarity in implementing regulations • In middle to large companies there are few feasible projects or programs that can adopt BF, resulting from low quality data and limited technical knowledge • Small-medium enterprises (SMEs) lack professionalism and capacity in conducting business; Example, many SMEs do not have proper accounting records • Legal and regulatory environments do not support alternative financing; Example, it is difficult to adopt project finance • Absence of project/programs pipeline • Weak market development. Regulators seem to make decisions with minimum or no evidence-based analysis • Weak coordination between regulators

- Lack of awareness and capacity, both in central and subnational government regarding BF
- Lack of transparency and good governance in developing market and incubating a regulation

LIST OF IDENTIFIED STAKEHOLDERS

Table 2. Government Stakeholders

INSTITUTIONS	RATIONALE
Bappenas: • SDGs Secretariat • Deputy Minister for Economic Affairs • Deputy Minister for Development Funding	In policy realm, Bappenas is considered as a pioneer in BF because it is part of implementing the SDGs. Bappenas established the SDG Financing Hub, which facilitates financing from government budget, donors/ philanthropies, and commercial actors. In the SDG Financing Hub, each key regulator acts as leader of specific group. Bappenas leads donors/philanthropies, MoF leads the GoI budget, and OJK leads the commercial sector.
Ministry of Finance: • Directorate General of Budget • Fiscal Policy Agency	MoF is the first ministry that responded to SDG Financing Hub by establishing SDG Indonesia One Fund under PT SMI. Besides managing the state budget, MoF holds the key role in managing funding from donors/DFIs/multilateral development banks (MDBs). MoF also plays a key role in issuing certain fiscal incentives and regulations.
Financial Services Authority (OJK) • Deputy Commissioner International & Research • Deputy Commissioner Supervision Bank • Deputy Commissioner OJK Institute and Fintech	OJK as regulatory and supervisory body of financial sector holds a key role in bridging how commercial funding can enter BF. OJK could apply incentives and disincentives tools for financial institutions to mobilize more commercial funding for BF.
Ministry of Cooperatives and SMEs • Deputy Minister Financing • Deputy Minister Business Restructuring	Focal point of small-medium enterprises (SMEs) and micro entrepreneurs. The Ministry has data and knowledge on SMEs and is the regulator and supervisor of cooperatives.
Coordinating Ministry for Maritime and Investment Affairs	Leads the initiative of Tri Hita Karana, Indonesia's BF initiative. It was launched during 2018 World Bank Annual Meeting in Bali. The initiative mobilizes capital from prominent Indonesian philanthropic actors. Their initial focus is more on infrastructure.
Ministry Agriculture (optional)	Focal point for smallholder farmers
Ministry Marine Affairs & Fisheries	Focal point for smallholder fisheries
Ministry of Internal Affairs	Focal point for any activities in subnational regions and districts. Some target of financing users will be located at districts level.

Table 3. Private Sector Stakeholders

INSTITUTIONS	RATIONALE
Banks • Bank Rakyat Indonesia (BRI) • Bank Central Asia (BCA) • Bank Bukopin • Bank Mandiri Syariah • Bank BPD Jabar/ DKI	These banks have experience in implementing certain types of BF, such as channeling concessional loans from DFI and implementing credit guarantees. According to Bank Indonesia regulation, all banks must have at least 20 percent of its portfolio dedicated to SMEs and micro financing. The main objective is to get insights from different types of banks: state-owned enterprises, fully private, *shariah*, and regional development banks.
Investment Banks • Danareksa • Bahana Securities • Mandiri Securities	Investment banks who have experience in structuring certain types of BF facilities, mostly under direction or request of MoF.
Other financial actors (optional) • Non-bank multi-finance • Rural credit banks, Bank Perkreditan Rakyat (BPR) • Cooperative loan & savings	This group has the potential to become financial intermediaries. However, from initial review, these institutions mostly engage in consumer financing and less on productive credit lines. They contribute to informal financial services in Indonesia. No solid data on how large informal financial sectors in Indonesia. Cooperative is not regulated and supervised under OJK.
Other private actors	In the current state, with no information from key government stakeholders on types of support and how much facility, it is difficult to identify other private sectors.

Table 4. Non-Government Stakeholders

INSTITUTIONS	RATIONALE
Development Partners • International Finance Corp. (IFC) • ADB • AFD • KfW • Australia Department of Foreign Affairs and Trade (DFAT) • UK Department for International Development (DFID) • Other USAID projects	Development partners that have identified and implemented BF. It is recommended to collect data on existing and/or future BF facilities, with potential for collaboration.
Pusat Investasi Pemerintah (MoF)	Government institution under MoF which is the implementor of UMi (*Pusat Pembiayaan Ultra Mikro*), a facility to support ultra-micro financing.
PT Sarana Multi Infrastruktur (PT SMI)	Experienced in implementing BF through SDG Indonesia One.

Others • Indonesia Philanthropy Association • Angel Investor Network Indonesia (ANGIN) • Indonesia Business Council for Sustainable Development (IBCSD) • Indonesia Chamber of Commerce (KADIN) • Indonesia Micro Finance Association • Indonesia Fintech Association	Business associations should be consulted as they can connect/provide access to their members.

MAPPING OF POTENTIAL SECTORS FOR USAID INTERVENTIONS

The author conducted a literature review and interviews to explore potential sectors for USAID/Indonesia's intervention in BF environment in Indonesia. The interviews were designed to explore the potential sectors for USAID-funded BF interventions, identify types of transactions with the private sector, and identify potential private businesses to be engaged in transactions. The full list of respondents and questionnaires are presented in the Annex.

To align potential interventions with USAID/Indonesia strategy and priorities, this analysis will be structured to follow USAID/Indonesia's key priorities as described in the new Country Development Cooperation Strategy (CDCS) 2020–2025. The discussion will follow four Development Objectives (DOs) in the CDCS and sectors that contribute to achievement of those DOs.

DEMOCRACY AND GOVERNANCE

Table 5. Potential sectors related to achievement of DO 1: Effective Democratic Governance Strengthened

ATTRIBUTES	POTENTIAL SECTOR	TRANSACTION IN PRIVATE SECTORS	TARGET ACTORS PRIVATE ACTORS	POSSIBLE BLENDED FINANCE INTERVENTION
• Governance reforms advanced • More informed and active public participation • Rights and tolerance elevated	• Media • IoT (internet of things)	• Access to finance Loan (no data on size of transaction)	• Media companies • Entrepreneurs or start-up in media	• Grants • Loans

The media sector is highly sensitive and political; thus, it is not recommended for foreign agents to enter. If the targets are entrepreneurs or a start-up in media, activities can be designed under financial inclusivity of financial services under DO 2.

ECONOMIC GROWTH

Table 6. Potential sectors related to achievement of DO 2: Inclusive Economic Growth Increased

ATTRIBUTES	POTENTIAL SECTOR	TRANSACTION IN PRIVATE SECTORS	TARGET ACTORS PRIVATE ACTORS	POSSIBLE BLENDED FINANCE INTERVENTION
Workforce productivity increased	• Education/ human capital • ICT (information, communications and technology) to support Education	• Loan to medium or large companies (no data available) • Direct equity to educational institutions is heavily regulated, need to check investment law. (no data available)	• Private universities and schools • Private training providers • If targeted SMEs entrepreneurs in training, can be designed under financial inclusion	• Grants
Public and private capacity to expand economic growth strengthened	Financial services	• Loan to SMEs, Micros, Ultra Micros, channelling via banks or cooperatives, transaction intermediated by banks (max. USD 10,000) • Direct equity to companies or SMEs in financial services is forbidden for foreigners (negative list)	• Banks • Loan & savings cooperatives (note, it is not regulated and supervised under OJK, pose great risk) • Access to finance (loan) to targeted SMEs (see subsector SMEs below)	• Subordinate/ concessional loan to banks with low interest rate • Credit guarantee • Technical assistance supply side to banks for financial product development and risk mitigation based on targeted SMEs subsectors
	Subsector of SMEs • Trading • Processing & manufacturing • Agriculture • Plantation • Stock Farming • Fisheries • Creative Industries • E-commerce • Other services (excluding financial services)	• Donors provide direct equity (grant), participation in SME (USD 10,000 – 100,000) • Donors provide direct loan to SMEs (max. USD 10,000)	• Access to finance loan and equity. Targeted SMEs by subsector or geographic focus, data from BPS (Statistic Biro), as of 2018 registered 64.8 million unit SMEs in Indonesia. • To get good quality data of SMEs is challenging	• First loss equity or grant • Direct concessional loan to SMEs with low interest rate for working capital • Technical assistance demand side, tailored based on targeted subsector
	E-based economy • Fintech (financial technology) • E-commerce • Internet of Things (IoT)	• Venture capital for P2P lending platform (min. USD 1 million) • Venture capital for E-commerce (min. USD 250,000) • Mobile operator to build tower (min. USD 100,000)	• P2P lending platform • Start-up e-commerce entrepreneurs based on targeted subsector • Mobile operator (to extend network)	• Venture capital • Grant • Technical assistance demand side tailored based on targeted E-based subsector

Blended finance interventions have huge opportunities in financial inclusions focus on SMEs, Micro and Ultra Micro, based on following facts. Based on a PwC survey,[5] in 2018 only 29 percent of middle to lower income and 26 percent SMEs have access to finance. The financial inclusion gap for SMEs and microfinance is huge; this is an opportunity for development partners to support the GoI.

Discussion with bank respondents shows that credit guarantees are still in high demand to enable expansion of credit-line facilities, in particular for microfinance. Currently, due to the impact of coronavirus disease (COVID-19), the GoI provides credit guarantees; however, due to limited GoI budgets, this cannot cover sufficient parts of SME and microfinance portfolios, thus causing banks to charge higher interest to cover the additional risk.

OJK regulation set a mandatory rule for all banks to have at minimum 20 percent of its lending portfolio dedicated to SMEs and microfinance. Only handful of banks (mostly big ones) can fulfill this requirement. This poses another opportunity for development partners to provide technical assistance on the supply side in increasing lending from SMEs, targeting particular subsectors of SMEs, developing financial products dedicated for SMEs, mitigating the risks of SMEs and micro loans.

On the other side coin, opportunities in carrying out interventions from the demand side are even bigger. Interventions can be designed and tailored on a multiple focus matrix, at the intersections of geographical, subsector, and thematic (e.g., gender, environment, health, education). The spectrum and level of intervention can also be varied—from simple, easy, low-cost brokering/facilitating SMEs to access to finance from international communities to complex, full-fledged technical assistance for dedicated sub-sectors. Examples of technical assistance on the demand side (user of finance) might include: product development, market development, increased use of technology, integrated SDGs aspects (gender/environments/social aspects, etc.), and many other arenas. However, technical assistance from the demand side poses challenges, as activities tend to be costlier and more difficult to coordinate.

Based on an interview with an OJK respondents, the GoI focus on increasing financial inclusion enhanced is through the use of technology and bank agents. The objective is to reach out to every consumer with a focus on geography and market. In this way, everyone can open and have a bank account, then the data from opening a bank account can be used as assessment in channeling credit lines. The backbone of this concept is technology (mobile phone and internet connection) and microfinance agents. The agent serves as the bank's front-line data collector, managing and monitoring transactions with each individual customer. The agent then uses electronic data capture (EDC) machines that can work based on mobile phone platforms, as long as there is internet connection in the area. Thus, the bank account is not only used to channel credit lines but also to deliver any cash-based social security support (*Bantuan Langsung Tunai,* or BLT).

Based on an interview with a representative of Bank Negara Indonesia (BNI) who handles SMEs and microfinance, the GoI supports SME loans through Working Capital Credit (*Kredit Usaha Rakyat*, or KUR) to SMEs. The facility provides interest subsidized by a GoI credit guarantee for banks to deliver

[5] PwC Indonesia (2019). *Indonesia's Fintech Lending: Driving Economic Growth through Financial Inclusion.* Retrieved from: https://www.pwc.com/id/en/fintech/PwC_FintechLendingThoughtLeadership_ExecutiveSummary.pdf

KUR. The facility is channeled through the 10 largest banks in Indonesia, with Bank Rakyat Indonesia (BRI) as the largest distributor. In 2019, BRI disbursed approximately USD 6 billion, Bank Mandiri disbursed USD 2.5 billion, and BCA and BNI each disbursed USD 1.5 billion worth of KUR to SMEs. The mechanism requires banks to first cover all costs related to the facility, then GoI credit guarantee agents (*Jamkrindo*) assess the credit. Ultimately, the approved transaction can be claimed to MoF together with the subsidized interest and other subsidized costs. In 2019, the total GoI KUR facility is approximately USD 10 billion; this only reached 30–40 percent of the SMEs market, however, as is discussed under Challenges.

In 2020–2021, due to COVID-19, on top of the KUR program the GoI (through the MoF) has a similar program through a banking mechanism that targets SMEs, called National Economic Recovery (*Pemulihan Ekonomi Nasional,* or PEN). The GoI support extends from interest and credit guarantee subsidies, to cover credit restructuring cost (rescheduled installment) from SMEs. The total budget for PEN is USD 2.4 billion for interest subsidies and USD 0.4 billion (guarantees for SMEs credit, USD 8.5 billion) for credit guarantee subsidies.

CHALLENGES IN DELIVERING SME CREDIT

Local Economic Development. The untapped SMEs market was not solely due to an inability of banks or GoI networks to reach a certain region. In some cases, the SMEs or people in an area are lacking stable incomes. Therefore, having a network of financial services is not enough; the region needs a solid program or support to improve economic activities to support stable economic growth. Some regions, particularly in eastern Indonesia, have the same problem of limited economic activities causing low or zero revenues at households. In certain areas, financial inclusivity is a complement to a main program on economic development. These need to be carefully designed and involve subnational, district, and subdistrict governments, in order to integrate financial inclusion with local solutions of improving economic growth.

Internet and Electricity Access. Some areas have limited or zero mobile networks or Base Tower Stations. Some remote areas even with these stations lack reliable electricity (power); power is only available for several days in a week or even no power at all. Lack of internet and electricity pose barriers, as EDC machines cannot function without them.

Mobile Phone Availability. Some agents have problems with their mobile phones, as platforms for internet banking and financial technology (fintech) are evolving. The technology may require certain types of smart phones or hardware.

Capacity of Agents. Banks are training and developing local residents to become agents. This poses issues in capacity and development, as the intervention uses software and technology which require training when a new platform is introduced, or a complex platform is utilized. Agents also tend not to explore new markets or customer bases due to lack of information and skills. Constant and collaborative trainings with local institutions are necessary to guarantee the sustainability of these agents.

Mobile Banking Platform. Many platforms are deployed, however developing a good and reliable platform needs a huge investment that many second- and third-tier banks and/or regional development banks may not be able to provide. Therefore, there is lost opportunity in certain market segments or geographic areas. Big banks tend to develop mobile platforms to target their most profitable customer base, not SME or microfinance clients.

Databases on SMEs. Since many SMEs are informal, many of their businesses are not captured in data. BNI respondents report that the Ministry of Cooperatives and SMEs do not have available data on SMEs or cooperatives; thus, analysts tend to use data from the statistics bureau or MoF. OJK also confirms these issues. The Indonesia Business Chamber (KADIN) also lacks data or information regarding SMEs, because KADIN focuses on mid-size companies. Membership of KADIN requires a formal business license, registered and notarized in the Ministry of Justice. KADIN views financing SMEs as part of corporate social responsibility activities, wherein some companies become as "foster parent" providing technical assistance and some grants to the SMEs. Banks invest on their own to build SME databases, while other banks transform this database as their unique asset (customer base). Banks advised that the best way to start would be from Statistics Indonesia (*Badan Pusat Statistik*, or BPS).

Based on an interview with Paluma Foundation (a women's entrepreneurship community that promotes women in economic activities), beyond problems of access to finance (credit and grants), many women entrepreneurs need technical assistance to improve their business. Some have difficulties in sustaining their business due to technical problems such as technology advancement, product development, market growing (winning competitions), marketing, and so forth. However, if USAID desires to seriously target women entrepreneurships, activities will need to go beyond BF interventions. The business environment and policy regulatory structure in Indonesia is very gender-biased; it is doubly or triply difficult for women entrepreneurs to compete and have an even playing field with men entrepreneurs.

ENVIRONMENTAL

Table 7. Potential sectors related to achievement of DO 3: Environmental Sustainability Improved

ATTRIBUTES	POTENTIAL SECTOR	TRANSACTION IN PRIVATE SECTORS	TARGET ACTORS PRIVATE ACTORS	POSSIBLE BLENDED FINANCE INTERVENTION
Natural resource management Improved	Smallholders • Agriculture • Plantation • Fisheries	Please refer to DO 2 SMEs financial inclusion	Please refer to DO 2 SMEs financial inclusion	Please refer to DO 2 SMEs financial inclusion
	Corporation • Agro-industries • Palm oil plantation • Food estate • Forest management • Environment protection & biodiversity (forest & marine)	Transaction size min. USD 1 Million	• Agricultural Corporation • Forest Product Producers	• Loan • Credit guarantee link to sustainability • Agriculture-based insurance

Urban environmental management strengthened	• Water utility infrastructure • Public works infrastructures • Health facility infrastructures • Other social infrastructures	Transaction size min. USD 10 Million	Water utility companies (state-owned enterprise (SOE))	• Grant • Loan • Credit guarantee
Reliable, equitable and sustainable energy increased	• On-grid power generation • Power & energy infrastructure • Transportation infrastructure	Transaction size min. USD 10 Million	• Power utility (SOE) • Independent power producers (IPP) • Developers • Banks	• Subsidized interest loan • Credit guarantee • Technical assistance
	• Off-grid power utility • Small scale power generation • Isolated smart grid • Isolated power storage facility • Small-scale technology supplier (solar photovoltaic panels)	Transaction size min. USD 500K	• Power Utility (SOE) • Small scale Developers	• Grant • Subsidized interest loan • Credit guarantee • Technical assistance

A good way to explore interventions for DO 3 is to collaborate with other USAID programs, as many of them also have BF interventions.

HEALTH

Table 8. Potential sectors related to achievement of DO 4: Health Outcomes Improved

ATTRIBUTES	POTENTIAL SECTOR	TRANSACTION IN PRIVATE SECTORS	TARGET ACTORS PRIVATE ACTORS	POSSIBLE BLENDED FINANCE INTERVENTION
• Infectious disease burden reduced • Maternal and newborn health Outcomes Improved • Public health Financing and Governance Improved	• Health facility infrastructures • Social security health insurance • Pharmacy manufacturing	Transaction size min. USD 10 Million Assumption to develop health care facility like hospitals or clinics	• Mostly SOEs: Hospitals operators, health facilities operators, pharmacies, social security's agency • Small portion private hospital operators • SOEs pharmacies	• Grant • Low interest rate loan for working capital • Credit guarantee

Based on data from the Ministry of Health and advice from hospital operators, the regulation and mechanism of the health sector currently relies heavily on public funding and state-owned enterprises. Currently, the World Bank is collaborating with USAID to introduce the private sector into the system.

Under a USAID health program, they incubate private sector participation in health starting with capacity building and development of platform for private sector. Currently, health facilities are mostly owned and operated by state-owned enterprise (SOE) or GoI.

A handful of business groups have hospitals and there are opportunities to work with them, although the size of transaction and number of complexities would be high. Based on interviews with a hospital operator, it is suggested that a potential intervention could be in providing a short-term low interest loan for working capital. This would support hospital operators that recently experienced low revenues and longer-term repayment from health insurances due to COVID-19.

RECOMMENDATIONS

INTERVENTIONS

This report proposes numbers of BF interventions which are mapped into four quadrants, based on intensity of demand and the time needed to implement the intervention. Short time interventions indicate "low-hanging fruit" opportunities that are relatively more ready to implement and based on existing initiatives. The time spectrum also indicates the level of complexity in implementing interventions. A more complex intervention will require more time.

Presenting possible interventions based on intensity of demand shows the fundamental problems that must be resolved to have successful BF environment in Indonesia. Experience of the Green Prosperity Program under the Millennium Challenge Account (MCA) Indonesia found that the project had to reconstruct the system, starting from planning/development to execution stages, as there were gaps in BF implementation. The absence of workable system, business model, and soft infrastructure (regulations, standard and procedures, basic knowledge of BF), coupled with lack of feasible projects and programs constrained the implementation of BF in Indonesia so far.

Table 9. List of Possible Interventions

	Most Demanded	Less Demanded
Longer Time	• Establishment of prudent BF mechanism, ecosystem, marketplace • Advancement on technology based (Internet of Things) financial transaction • Business model which accommodates BF • Develop financing mechanism for subnational government • Develop pipeline of projects or programs potential for BF • Piloting BF transactions. Comprehensive end-to-end pilot program in BF	• Development of specific regulations on BF • Support Ministry with SME market development for SMEs in specific subsectors • Compilation of data and information regarding BF transactions in Indonesia • Develop alternative risk-sharing financing instruments

	Most Demanded	Less Demanded
Shorter Time	• Provide concessional low-cost loans for working capital • Provide credit guarantees • Broker, facilitate international funding and other USAID programs in BF • Support Bappenas SDG Secretariat in establishing SDG Financing Hub. • Capacity building on international best practices both for private and public sectors	• Support vehicles or facilities under MoF (SDG One, Environmental Fund, PIP, other BLU). • Transaction advisories to companies

Findings from this assessment highlighted lack of demand for transaction related interventions (such as advisory to individual transactions or pipeline transactions), as there are not many projects or transactions can accommodate BF for financing at the moment. Despite a huge demand for project financing and commitment from various stakeholders to BF, in reality BF financing for non-infrastructure projects is still limited. As expressed by respondents, attempts in bringing low-cost capital (beyond donor funded pilot projects) have not been successful.

SECTORS FOR INTERVENTION

The author mapped out potential sectors and subsectors of BF intervention in relation with CDCS in the previous section of this report. However, this recommendation does not lock into specific sectors or subsectors for several reasons.

First, intervention does not have to be sectoral. There are other aspects that could be considered, such as thematic or regional intervention. Development partners and DFIs tend to anchor BF onto thematic interventions instead of sectoral. For example, in the last two years gender has received the spotlight as a thematic of BF intervention.

Second, the multifaceted nature of the financing sector allows for narrowed/specific activities but also for cross-cutting activities involving several sectors. For example, the use of Impact Reporting and Investment Standards (IRIS) standardized performance indicators helps organization to understand the impact of its investment in a credible and comparable way, including for multi-sectoral investments.

KEY STAKEHOLDERS

The author's recommendation is to engage with three main government actors in BF. These are Bappenas, MoF, and OJK. Eventually, technical ministries need to be engaged, however, identification can be done after the focus on sectors or subsectors is decided.

NEXT STEPS

This spectrum of interventions was derived based on interview with stakeholders, past attempts in BF, and helicopter view on current gaps of BF in Indonesia. Future studies and consultations will provide deeper recommendations on potentials for USAID intervention on BF development in Indonesia.

Future assessments to be considered:

- Assessment on the possibility of programs consolidation within USAID offices. The objective is to identify cross-cutting programs and determine who should be doing what.
- Mapping of existing and future donors and or government programs, facilities, or initiatives related to BF. The objective is to align with the government agenda and explore potential collaboration.
- Baseline surveys on BF transactions in USD value and number of transactions, disaggregated by sector and financing instrument.

ANNEX 1. INTERVIEWS REPORT

Interviews were divided into three groups of stakeholders to provide general thoughts on how BF is perceived by each group of stakeholders.

The first group of key stakeholders is government agencies, which focuses on Bappenas, MoF, and OJK. The objective of the discussion with each government agency was to identify their current status on BF.

The second group is financial institutions and development partners. The objective was to learn from their previous attempts in implementing blended finance.

The third group is businesses, with the intention to learn about their perceptions and hopes relative to blended finance. As mentioned in the body of the report, it is difficult to lock in specific companies at this stage, due to many uncertainties about the specific program. Therefore, the interviewer discussed the topic more generally with various organizations and individuals who represent this group.

LIST OF QUESTIONS

BAPPENAS

1. What is underlying regulation or policy framework for implementing Blended Finance in Indonesia, except Perpres No.59/2017 on SDG?
2. After establishment of the SDG Financing Hub as focal point of blended finance, what are Bappenas' next plans (road map) to implement blended finance?
3. What is current status of the SDG Financing Hub? Any establishment or plan to establish a new blended finance facility after Indonesia SDG One?
4. Is there any data on the size of the gap of funding needed from Blended Finance?
5. What are potential sectors for blended finance interventions, except energy, water, public works, and social infrastructure?
6. In the past, we saw many experiences of donors or DFI introducing blended finance. Typical instruments applied are concessional low-cost loans (KfW, AFD, ADB), credit guarantees (USAID), and technical assistance. What lessons have we learned from these transactions? Which mechanism proved to be the most effective, in particular in attracting more commercial financing? What are the key success factors and obstacles in implementing them?
7. What is Bappenas's role in implementing blended finance?
8. What are the other key ministries and GoI institutions in implementing blended finance? What are their roles?
9. What are the gaps in implementing blended finance in Indonesia? Should Bappenas receive support from USAID in closing these gaps? What type of support is being envisioned (example below, but not limited)?
    - TA to develop framework regulations
    - TA to develop blended finance facilities

- TA to develop blended finance instruments or products
- Seed funding (grants, concessional loan, or equity)
- Other support, please elaborate

MINISTRY OF FINANCE

1. What is underlying regulation or policy framework for implementing blended finance in Indonesia, except Perpres No.59/2017 on SDG?
2. What is the current status of SDG Indonesia One in implementing blended finance? How much funding leverage has been additionality achieved since establishing SDG Indonesia One?
3. What lessons were learned from SDG Indonesia One? What are the obstacles to implementing blended finance?
4. From SDG Indonesia One or other blended finance facility, what are the most effective instruments or mechanisms to implement blended finance?
5. Except SDG Indonesia One, what other GOI facilities are available to implement blended finance? Any plans to establish new facilities in near future?
6. Donors, DFI, and MDB are obliged to register their support with MoF. Any new data regarding their support related to blended finance?
7. Any data on how much the gap of funding is needed from blended finance?
8. What are potential sectors for blended finance interventions, except energy, water, public works, and social infrastructure?
9. MoF established UMi (Ultra Micro Finance Facility). Any information on how great the need (gap) is of Ultra Micro Finance in Indonesia? What sub-sectors are being targeted? Any geographical area being targeted? What are mechanisms for blended finance to be adopted into the facility? Should UMi receive support from USAID, what support is being envisioned?
10. In the past, we saw many experiences of donors or DFI introducing blended finance. Typical instruments applied are concessional low-cost loans (KfW, AFD, ADB), credit guarantees (USAID), and technical assistance. What lessons have we learned from these transactions? Which mechanism proved to be the most effective, in particular in attracting more commercial financing? What are the key success factors and obstacles in implementing them?
11. What is MoF’s role in implementing blended finance?
12. What are the other key ministries and GOI institutions in implementing blended finance? What are their roles?
13. What are the gaps in implementing blended finance in Indonesia? Should Bappenas receive support from USAID in closing these gaps? What type of support is being envisioned (example below, but not limited)?
    - TA to develop framework regulations

- TA to develop blended finance facilities
- TA to develop blended finance instruments or products
- Seed funding (grants, concessional loan, or equity)
- Other support, please elaborate

OJK

1. What is the underlying regulation or policy framework for implementing blended finance in Indonesia, except Perpres No.59/2017 on SDG?

2. Referring to the OJK process in developing 2nd stage Sustainable Finance Road Map for 2020–2025, is any part of the road map accommodating blended finance mechanism?

3. From the compartment financial sector, banking, capital & debt market and non-bank, which compartment is mostly ready and needs to adopt blended finance?

4. In the past, we saw many domestic banks (BNI, Mandiri, BCA, Bukopin, Danamon, etc.) who blended donor or MDB financing instruments to enhance their credit lines. Typical instruments applied are concessional low-cost loans (KfW, AFD, ADB), credit guarantees (USAID), and technical assistance. What lessons have we learned from these transactions? Which mechanisms proved to be the most effective, in particular, in attracting more commercial financing? What are the key success factors and obstacles to implementing them?

5. Aside from typical instruments mentioned above: What are other mechanisms or activities that OJK envisioned for private financial actors to collaborate with USAID in implementing blended finance?

6. What are the potential sectors for blended finance interventions, except energy, water, public works, and social infrastructure?

7. A PwC survey in 2019 estimated that 74 percent of SMEs and micro-entrepreneurs still could not access formal financial services, what are the key obstacles to mobilize funding to SMEs and micro-entrepreneurs?

8. Based on OJK data in 2012, approximately 12 percent of Indonesia market lending, especially for SMEs, micro and ultra-micro entrepreneurs, was being served by non-formal financial agents (loan sharks, brokers, middlemen). What is current status of this issue and what are OJK plans to improve financial inclusivity for this subsector?

9. Do you have any programs or data related to start-up or fintech in channeling SMEs financing?

10. What is OJK's role in implementing blended finance?

11. What are the other key ministries and GOI institutions in implementing blended finance? What are their roles?

12. What are the gaps in implementing blended finance in Indonesia? If OJK receives support from USAID in closing these gaps, what types of support are being envisioned (examples below, but not limited):

- TA to develop framework regulations
- TA to develop blended finance facilities
- TA to develop blended finance instruments or products
- Seed funding (grants, concessional loan, or equity)
- Other support, please elaborate

FINANCIAL INSTITUTIONS AND DFI

1. In the past, your bank has had experience in blended or structured donor or DFI financing instruments to enhance their credit line. Typical instruments applied are concessional low-cost loans (KfW, AFD, ADB), credit guarantees (USAID), and technical assistance. What lessons have you learned from these transactions? Which mechanism proved to be the most effective, in particular in attracting more commercial financing? What are the key success factors and obstacles to implementing them?

2. A PwC survey in 2019 estimated that 74 percent of SMEs and micro-entrepreneurs still could not access formal financial services. What are the key obstacles in mobilize funding to SMEs and micro-entrepreneurs?

3. What are potential sectors for blended finance interventions, except energy, water, public works, and social infrastructure?

4. Should financial institutions be encouraged to enter blended finance, in particular for non-infrastructure sectors? What would your institution envision for the government's role and support?

5. Should financial institutions receive support from USAID to implement blended finance focusing on non-infrastructure sectors? What would be your vision of that support?

LIST OF RESPONDENTS

1. Bappenas

Date: October 23, 2020
Respondents: Setyo Budiantoro, Manager Economic Development Pillar SDG Secretariat
Nizhar Mariji, Deputy Director for Renewable Energy and Energy Conservation

2. Ministry of Finance

Date: October 26, 2020
Respondent: Joko Tri Haryanto, Senior Researcher, Fiscal Policy Agency (BKF)

3. Financial Service Authority (OJK)

Date: November 11, 2020
Respondents: Ahmad Rifqi. Senior Executive Analyst, International Department
Titi Wigiati, Senior Executive Analyst, Integrated Financial Services Sector Policy Group (Blended Finance Task Force)

4. Ministry of Cooperatives and Small and Medium Enterprises

Date: November 11, 2020
Respondent: DR. M. Hanafiah, S.E., M.M, Assistant Deputy for Cooperatives Governance

5. Australia Departments of Foreign Affairs and Trade (DFAT)

Date: November 20, 2020
Respondents: Anna McNicol, Counsellor Economic Governance and Infrastructure
Jason Court, First Secretary, Infrastructure
Piter Edward, Australian Embassy Jakarta.

6. International Finance Corporation (IFC)

Date: October 30, 2020
Respondent: Rahajeng Pratiwi. Sustainable Finance Program Leader

7. WWF Indonesia

Date: November 2, 2020
Respondent: Rizkiasari Joedawinata. Sustainable Finance Program Leader

8. Bank Central Asia (BCA)

Date: October 21, 2020
Respondents: Yuli Melati Suryaningrum, Executive Vice President, Group Corporate Banking
Yayi Mustika Pudyanti, Vice President, Group Corporate Banking

9. Bank Negara Indonesia (BNI)

Date: October 26, 2020
Respondent: Leonard Tiopan Panjaitan, MT, CSRS. Independent Consultant

10. Bank Rakyat Indonesia (BRI)

Date: October 29, 2020
Respondent: Adhi Pratama, Executive Vice President, Corporate Banking

11. Bank Bukopin

Date: October 22, 2020
Respondent: Muhammad Akbar, Vice President, Commercial Division

12. DANA Indonesia

Institution: PT Espay Debit Indonesia Koe (owner and operator of DANA Indonesia)
Date: November 12, 2020
Respondent: Jonanda Yathha Saputra, Chief Financial Officer (CFO)

13. Indonesia Business Council for Sustainable Development (IBCSD)

Date: November 9, 2020
Respondent: Aloysius Wiratmo, Program Manager and External Engagement.

14. PricewaterhouseCoopers (PwC) Indonesia

Date: November 6, 2020
Respondents: Julian Smith, Partner
Maurice Shawndefar, Manager

15. Ernst & Young (EY) Indonesia

Date: November 16, 2020
Respondents: Ika Merdekawati, Manager, Climate Change and Sustainability Services
Nabila, Senior Consultant, Climate Change and Sustainability Services

16. Trisakti Sustainability Centre (TSC)

Date: November 23, 2020
Respondent: Juniati Gunawan, Director

17. Perkumpulan Paluma Nusantara (Paluma)

Date: October 21, 2020
Respondent: Umi Azizah, SE, Director

18. The World Bank

Date: October 19, 2020
Respondent: Pandu Harimurti, MD, World Bank Senior Health Specialist

19. Tiara Sella Hospital (Bengkulu)

Institution: PT Graha Bernoza (owner and operator of Tiata Sella Hospital)
Date: November 23, 2020
Respondent: Hega Bernoza, President Director

20. Start-up Gringgo.co

Institution: Gringgo.co (https://www.gringgo.co)
Date: November 10, 2020
Respondent: Richard Anggadiwirja, one of founder.

21. Allotrope Indonesia

Institution: Allotrope Partners (www.allotropepartners.com)
Date: November 16, 2020
Respondent: Gina Lisdiani, Country Manager