

PEI Indonesia

Theory of Change

2014-2017



Empowered lives.
Resilient nations.

ASIA-PACIFIC

Context and Problem Statement

Indonesia is the largest economy in Southeast Asia and has made significant progress towards poverty reduction and economic growth. Indonesia falls into the medium human development category with a HDI value currently at 0.684 - an increase of 44.3 percent or an average annual increase of about 1.08 percent since 1980. Despite impressive progress, Indonesia faces major barriers in achieving an inclusive green economy. The current economy is based on high-energy intensity, high carbon and exploitation of ecosystem services. To transition to a greener and more inclusive economy it is critical to improve the national and local budgeting processes to create a solid foundation for more targeted public investment and greater private sector investments.

Project Objective

Objective:

Strengthen central and local-level budgeting process and develop fiscal instruments for quality and effective implementation by government of pro-poor environmental objectives (climate change mitigation, climate change adaptation and biodiversity).

Barriers Analysis

1. Weak governmental institutional capacity for sustainable and pro-poor ENR policy design and efficient implementation across government entities.
2. Lack of policy coherence and coordination mechanisms between government institutions responsible for pro-poor ENR management.
3. Inadequate coordination between national development plans and subnational and sector plans and budgets.

Project Objective and Assumption

Objective

Increase P-E awareness and strengthen government capacity to apply evidence-based decision-making and mainstream P-E objectives/ linkages in development policy and planning at national and sub-national levels.

Assumptions

Greening of national and local budgeting processes, integrating planning and budgeting between key ministries and application of performance-based budgeting and environmental fiscal instruments will strengthen implementation of climate change mitigation, climate change adaptation and biodiversity responses at national and sub-national level and lead to a solid foundation for sustainable development.

PEI Interventions

In response to identified challenges, PEI focused efforts in four key areas at the national and sub-national levels:

Enhance transparency and accountability of climate change related budgets through establishment by Ministry of Finance of an inter-ministerial budget tracking system for climate change.

Progress

The climate mitigation budget tagging system established through the Ministerial Decree 134 (2014) improving transparency and accountability of climate change related budgets.

Remaining Interventions

Further enhance the technical capacity of central ministries, in particular, Ministry of Finance (DG Budget, Fiscal Policy Agency) and line ministries (Ministry of Environment/Forestry, Ministry of Energy/Mineral Resources, Ministry of Agriculture, Ministry of Transportation, Ministry of Public Works, Ministry of Industry) and sub-national authorities to effectively implement climate budget tracking systems.

Improve policy coherence among national policies related to pro-poor and gender-responsiveness of climate change programmes/activities in the current performance based budgeting system.

Finalize the review of the PBB system and ensure follow-up by the Ministry of Finance of key findings and recommendations to improve transparency and accountability of climate change related budgets and to better integrate climate change into the budgeting system.

Develop fiscal instruments to assist in financing pro-poor climate change investments, and work towards linking national action plans on climate mitigation, adaptation and biodiversity.

Provincial-level climate change expenditure reviews undertaken in Jambi, Central Java and Yogyakarta, NTT and Babel provinces to identify the structure and patterns of expenditure related to climate change at the sub-national level. The status of the level of climate mitigation budget tagging at the provincial level has been assessed in Jambi, Central Java and Yogyakarta to develop options for more effective tracking at provincial level.

Identify and advocate for additional fiscal instruments for incentivizing investments in pro-poor climate change actions.

A review of the PBB system was undertaken and identified entry points for strengthening the climate integration into Indonesia's existing PBB system.

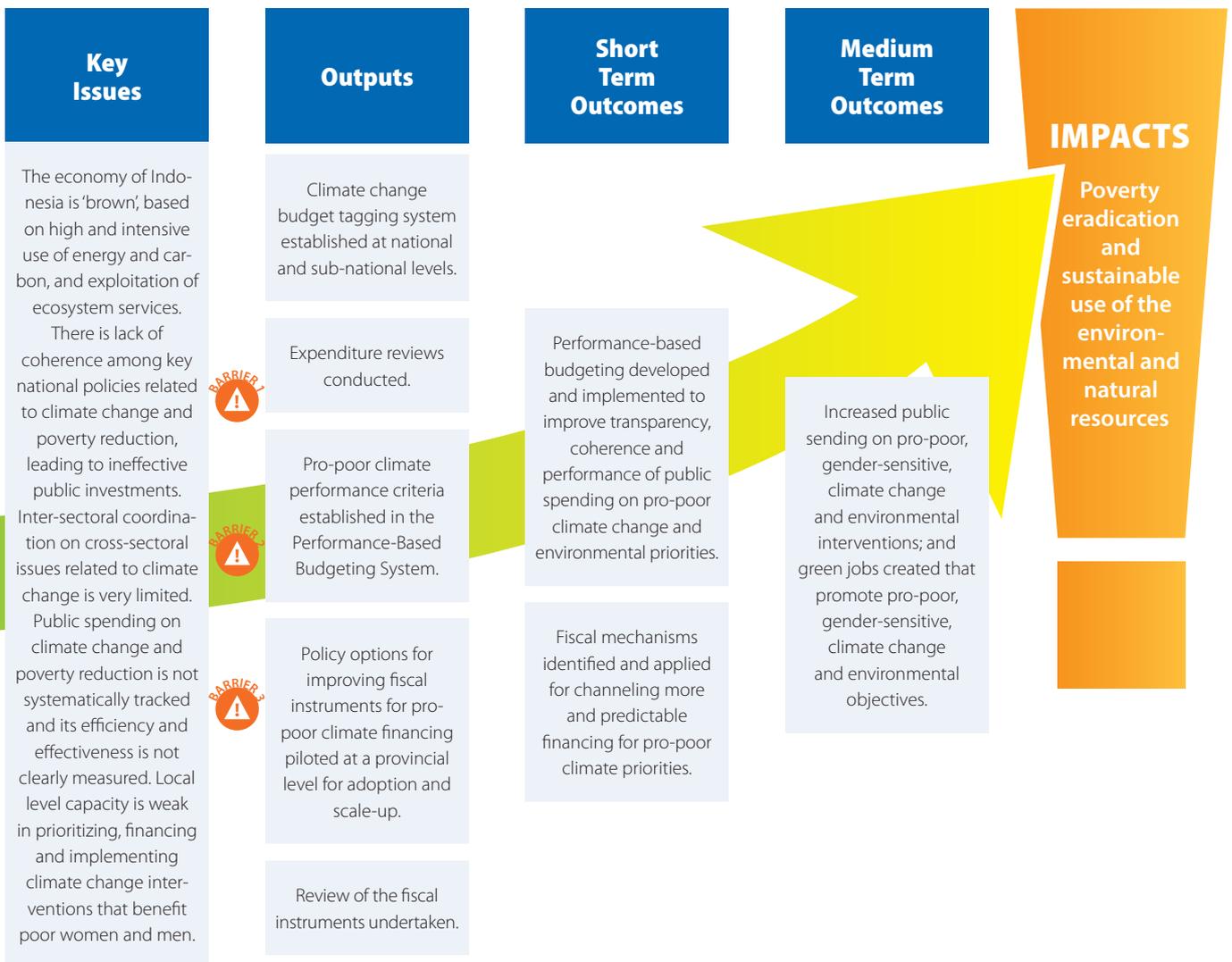
Develop capacity of local governments in integrating poverty and climate issues into local planning and budgeting processes.

Improve sub-national pro-poor climate budget tagging through piloting in selected provinces and policy advocacy for possible adoption and scale-up across the country.

Annex: ToC Diagram

Assumptions

Greening of national and local budgeting processes, integrating planning and budgeting between key ministries and application of performance-based budgeting and environmental fiscal instruments will strengthen implementation of climate change mitigation, climate change adaptation and biodiversity responses at national and sub-national level and lead to a solid foundation for sustainable development.



Barriers: 1) Institutional capacity for ENR policy design and implementation 2) Policy coherence and coordination mechanisms 3) Inadequate coordination between NDP and subnational sector plans and budgets