



## Investment Concept Title: Indonesia Infrastructure and Climate Finance Program

Start date: 1 January 2026

End date: 31 December 2035

### A. Development Context

Sustainable and equitable infrastructure development is a key driver for economic growth and poverty reduction. Despite the significant gains made over the past decade, Indonesia's infrastructure gap remains daunting. It is estimated that US\$1.3 trillion in infrastructure investment is needed by 2040 to keep pace with economic and demographic changes<sup>1</sup>, respond to rapid urbanisation<sup>2</sup> and transition to clean energy. Closing the infrastructure gap requires more private financing and improved quality of public and private spending. Indonesia wants a diversity of finance options and is sensitive to the risks arising from international infrastructure financing.

Indonesia's Long Term Development Strategy 2025-2045 (RPJPN) and Visi Indonesia Emas 2045 outline how Indonesia plans to grow and diversify its economy to achieve high-income country status while transitioning to renewable energy and building resilience to the impacts of climate change. It sets out Indonesia's ambition to increase funding and financing for infrastructure by developing innovative schemes from the public sector, such as public private partnerships, asset recycling and blended finance.

Indonesia is the world's sixth largest greenhouse gas emitter. The energy sector is responsible for 43 per cent of emissions, while transportation accounts for 24 per cent.<sup>3</sup> As Indonesia shifts to more renewable energy sources and low carbon infrastructure, it is important to ensure that this transition is fair and equitable. Indonesia is also highly vulnerable to the impacts of climate change. It ranks in the top-third of countries globally on climate risk, with high exposure to flooding and extreme heat. The intensity of these hazards is expected to grow. Without sufficient support, climate change threatens to exacerbate existing gender, social, and income inequalities.

The design of this investment will provide an opportunity to incorporate the new administration's priorities. Indonesia is expected to submit its second nationally determined contribution (NDC) shortly, which will shape GOI efforts to address climate change.

Economic infrastructure in Indonesia is often built and operated by state owned enterprises (SOEs). Further infrastructure policy and regulatory reform is required to help build a business environment conducive to private sector investment in infrastructure. Grant capital for project preparation is highly sought after by project proponents, but the quality of project preparation often falls short of the expectations of private investors. Indonesia's capital market remains small relative to the size of its economy and does not yet offer a deep market for infrastructure financing products.

Without representation in infrastructure planning and decision-making, the unique needs of women and girls are often overlooked, and women are not able to adequately contribute to innovation in the sector, including on climate resilience. This results in infrastructure that inadequately serves them. Many people with disabilities experience widespread exclusion due to inaccessible infrastructure and services. People with disabilities also face higher exposure to climate-related hazards due to their poor access to infrastructure and services, and exclusion from climate change decision-making processes.

<sup>1</sup> G20 Global Infrastructure Hub

<sup>2</sup> About 55 per cent of the population – almost 147 million people – living in urban areas in 2018, compared with just 42 per cent in 2000.

<sup>3</sup> IEA 2021.

## B. Rationale

### Policy objectives

Australia has a strong and growing interest to continue supporting Indonesia's sustainable and inclusive economic transformation. By working together on infrastructure and energy transition, Indonesia and Australia can deepen economic ties while realising Indonesia's development ambitions and increasing resilience. Indonesia is seeking high quality infrastructure finance from a diverse range of investors, including Australia.

The Indonesia-Australia Comprehensive Strategic Partnership agreed to enhance our economic and development partnership to forge a stronger economic partnership for mutual prosperity and target sustainable and inclusive economic growth for our peoples. Continued engagement on infrastructure and climate finance in Indonesia will also contribute to the implementation of *Invested: Australia's Southeast Asia Economic Strategy to 2040* (the Moore report), which identifies infrastructure and green transition as priorities for greater trade and investment. The report recommends additional Australian support for early-stage project preparation.

This investment will continue to position Australia as a significant, long-term climate change partner for Indonesia. By focusing on climate finance, the core enabler of Indonesia's response to climate change, we can support Indonesia to raise private sector financing to address the USD40-60 billion annual climate change financing gap.

This investment will deliver on a number of commitments set out in the Australia-Indonesia Development Partnership Plan 2024-2028 (DPP). Investing in quality infrastructure, including in the clean energy transition, will support Indonesia's equitable and sustainable economic transformation. It will also help tackle the causes and prepare for the impacts of climate change, and 'crowd in' additional finance from the private sector and international financial institutions. The DPP notes that the next phase of bilateral infrastructure support will focus on strengthened planning to attract new forms of finance.

While the investment will contribute to all three of the DPP's objectives, it will most directly advance the second objective regarding climate resilient communities. More specifically, the investment will contribute to both outcome 2.1 'Climate adaptation and resilience is strengthened, including at the community level, and through climate resilient infrastructure' and outcome 2.2 'Indonesia's clean energy transition and economic decarbonisation is supported in line with Indonesia's medium-term targets and long-term goals'.

Supporting Indonesia's accession to the OECD is a priority for the Australian Government. 'Investment in quality infrastructure in a transparent, accountable and inclusive way' is one of the seven key policy areas which will undergo in-depth review by OECD as part of Indonesia's Roadmap for OECD Accession. This investment will be well placed to support Indonesia to meet the OECD standards required for membership.

### Lessons from past DFAT engagement

Australia has a strong history of providing infrastructure development assistance to Indonesia over the last 20 years. This includes the \$300 million Indonesia-Australia Partnership for Infrastructure (KIAT, 2016-2026), the \$40 million Asian Development Bank Sustainable Infrastructure Assistance Program (SIAP2, 2019-2025), and, more recently, the \$200 million Australia-Indonesia Climate and Infrastructure Partnership (KINETIK, 2022-27).

Our partnership with Indonesia has evolved to keep pace with Indonesia's rapid development and policy ambition. This has meant that over time our partnership has transitioned from building infrastructure to technical assistance. This transition recognises Indonesia's leadership, policy ambition and capacity, and provides an opportunity for us to work together on mutual priorities and continue to strengthen our relationships and understanding of each other. It also represents a deliberate shift over time, which follows a locally led development approach: less direct delivery of services and goods by Australia, and in its place more support for Indonesia's development planning and policymaking, especially through high-quality advice.

A hallmark of Australia's development program in Indonesia is our responsiveness and flexibility. We are able to seize opportunities for collaboration that are in the mutual interest of both countries. This has been a key strength of KIAT, which was designed as a flexible and responsive facility with a focus on longer-term programmatic investments. KIAT's evidence-based advice is accessible to policy makers, aligned with their priorities, and used to inform decisions.<sup>4</sup>

SIAP2 is an investment delivered by the ADB to support increased infrastructure financing from the ADB. The 2023 mid-term review of SIAP2 noted there was clear value and mutual benefit in the partnership between the ADB, the Government of Indonesia and DFAT. However, at times ADB has been less focused on coordinating and aligning efforts with KIAT. We would address this in the design of this investment.

### **Locally-led development**

This investment will continue the current practice of working with GOI to support its own priorities, programs and policies largely through high-quality technical advice. It will be demand driven and able to respond flexibly to emerging GOI priorities. At its core, the program is focused on strengthening GOI systems to attract infrastructure and climate finance. GOI will be closely engaged on the design of the investment, and the governance arrangement for the technical assistance facility will be jointly chaired by representatives from both governments.

Locally-led development will also be pursued by seeking to catalyse local private investment in Indonesia's infrastructure and response to climate change. We will ensure gender-balanced Indonesian representation at senior levels within the program and conduct procurement activities (including subcontracting) in a way that supports local firms to be more competitive and inclusive. The investment will also promote gender-responsive procurement to improve opportunities for women-owned businesses and more inclusive employment.

### **ODA Eligibility**

The ODA Eligibility Flowchart confirms the proposed investment is ODA eligible. The design will also explore using non-ODA funding by the investment in pursuit of strategic and/or economic priorities.

## **C. Proposed Outcomes and Investment Options**

The goal of this investment is to support Indonesia's sustainable and inclusive economic transformation by mobilising high quality investment in infrastructure and supporting Indonesia's just transition to net-zero emissions. It will help Indonesia to close the infrastructure gap by providing grant funding to: (a) build a policy and regulatory environment conducive to private sector investment in infrastructure; (b) develop the pipeline of infrastructure and climate projects; and (c) attract private financing through our blended finance mechanisms.

The design will examine how best to build on the strengths of existing programs, KIAT and SIAP2, and the financing components of KINETIK to develop a coherent integrated infrastructure and climate financing investment.

### **The proposed end of program outcomes are:**

- Improved GOI policy and regulatory framework for inclusive infrastructure financing, delivery and management.
- High quality inclusive infrastructure projects are identified, prepared and managed for financing by the private sector, multilateral development banks, DFAT's blended finance instruments, development partners and the Government of Indonesia.
- Indonesia benefits from increased access to diverse sources of high-quality finance to meet its emissions reductions targets and respond to climate change.

Gender equality, disability and social inclusion is a significant objective and will be included as an intermediate outcome focusing on ensuring that benefits flow to all infrastructure users, equitable access to employment and business opportunities, and stronger representation of women and under-represented groups in infrastructure

<sup>4</sup> KIAT MTR, 2021.

planning, design, and decision-making. GEDSI will also be integrated into the three EOPOs. Addressing climate change is a principal objective and is included as an end of program outcome (see EOPO3).

The end of program outcomes may be adjusted in the design phase to reflect the priorities of the new administration.

The following considerations will guide decision-making on infrastructure sub-sectors during the design phase:

- alignment with GOI priorities
- Australian comparative advantage
- builds on existing experience and social capital
- opportunity to mitigate and build resilience to climate change
- contribution to OECD accession
- investment potential/bankability of projects
- potential GEDSI impact of projects
- opportunities to increase connectivity and reduce inequality across Indonesia.

As a result of the current policy uncertainty, this concept will remain sector agnostic and the question of infrastructure subsectors will be addressed at the design stage. However, based on the above criteria, we anticipate the investment will focus on energy transition, inclusive climate-resilient infrastructure, and climate-smart urban transportation. We expect to continue to partner on improving access to clean water, given its links to climate change, OECD accession and the potential for investment. The design will also consider whether we should scale our engagement on solid waste management.

**EOPO1: Improved policy and regulatory framework for inclusive infrastructure financing, delivery and management.**

The investment will maintain the technical expertise of KIAT to support ongoing policy and regulatory reform and to respond to Indonesia's infrastructure and climate priorities. A key to success will be the ability to leverage opportunities when the political economy is favourable by bringing fast and responsive technical expertise behind institutions and reform leaders. This may include facilitating capital markets development to increase private sector investment in infrastructure.

For this outcome, 'policy and regulatory framework' is interpreted broadly to extend beyond the development of formal policies and regulations, to include issues around the quality of regulations, coherence between policy, coordination between institutions on policy issues, and clarity around authority, roles and responsibilities in policy making. This outcome will prioritise issues around infrastructure funding and financing, project identification, prioritisation and selection, project preparation, project delivery, climate change, disaster resilience and the effective consideration and integration of gender, disability equity and social inclusion issues, including support to developing accessible infrastructure and regional infrastructure. It will build on the experience of KIAT, SIAP2 and previous infrastructure development programs. It will include technical assistance and related activities such as analytical and policy advisory work, institutional strengthening, capacity building and knowledge exchange.

While Prospera 2.0 (including Katalis 2.0) will focus on upstream economic policy, this investment is expected to focus on policy issues as they pertain to mobilising high-quality investment in infrastructure and the transition to net zero emissions. Both investments will be designed in the first half of 2025, allowing the respective design teams and DFAT leads to identify complementarities and delineate between the two investments.

**EOPO2: High quality inclusive infrastructure projects are identified, prepared and managed for financing by the private sector, multilateral development banks, DFAT's blended finance instruments, development partners or GOI.**

The investment will also seek to build on the lessons learned from KIAT's infrastructure funding and financing pillar and deliver pipeline development support and potentially an expanded project preparation facility (PPF) to support private sector investment in public private partnerships in infrastructure.

KIAT's PPF is supporting GOI to identify bankable infrastructure investments and develop business cases, including assessment of costs and benefits (e.g. socio-economic, GEDSI, accessibility, environmental impacts and

disaster resilience as appropriate). Early-stage project preparation support was identified by the Moore report as a key gap to be addressed to attract increased foreign investment in infrastructure.

Environmental, social and governance (ESG) principles are a key priority for GOI and many private sector and philanthropic investors. The new investment will support Indonesia to apply enhanced ESG principles to infrastructure projects under this component. This will include ensuring international principles and standards are applied for environmental assessments of infrastructure proposals and ensure projects generate positive socioeconomic impacts, particularly for women and persons with disabilities.

This component may also include loan preparation support for infrastructure financing provided by the ADB or other multilateral development banks.

As part of the design process the design team will be tasked to review and assess the SIAP2 modality with the ADB and deliver an early options paper for DFAT to consider. The paper will consider how best to balance the benefits of delivering funding through the ADB, preserving an Australian program identity, and improving the coherence of activities across the new investment.

### **EOPO3: Indonesia benefits from increased access to diverse sources of high-quality finance to meet its emissions reductions targets and respond to climate change.**

This investment will continue Australia's support for climate finance in Indonesia. It will absorb the final 18 months of KINETIK's climate finance investments in Australian Development Investments (ADI) and the Private Infrastructure Development Group (PIDG) to mid-2027 as well as the KINETIK Hub functions. The design will consider blended finance delivery options from mid-2027 onwards, which may include additional capital contributions to ADI and/or PIDG or other blended finance opportunities that support Indonesia's net zero transition and green infrastructure priorities.

These blended finance mechanisms are intended to 'crowd in' additional finance from private sector, international financial institutions and other multilateral institutions. Blended finance helps to bridge market gaps where risks or perceived risks prevent potential investment by other actors, particularly the private sector. Blended finance can address these gaps by using grants, loans, equity positions, and guarantees, including the use of first-loss provisions, to de-risk and mobilise additional investment for financial and social and environmental returns.

Through this investment we will provide the kind of patient, risk-tolerant capital currently lacking in the Indonesian market to incentivise private and other sources of high-quality capital to co-invest. By using Australian funds to support infrastructure and climate financing we can facilitate a multiplier effect and leverage a far greater expenditure on climate and infrastructure, compared to investing the same amount of funds in a small number of direct projects.

The work of Prospera 2.0 (including Katalis 2.0) will complement this EOPO by working upstream to develop Indonesia's capital markets. KINETIK's Hub, while still in its infancy, currently provides targeted investment in knowledge and learning and supports building coalitions focused on the 'just' transition.

The design will also explore opportunities for further investment in innovative financing in support of Indonesia's green infrastructure and broader development goals, including through the \$2 billion Southeast Asia Investment Financing Facility (SEAIFF) and EFA.

### **GEDSI**

The investment will promote inclusive infrastructure that benefits all users, while creating meaningful leadership, employment, and business opportunities for women and under-represented groups. It aims to close gender gaps in access to economic opportunities and decision-making roles in infrastructure, fostering more equitable power dynamics between women and men. This requires a shift in perspective, recognising women not just as users or beneficiaries of infrastructure programs, but as key change agents in delivering infrastructure solutions.

The investment will also identify pathways towards an inclusive energy transition that fosters more equitable opportunities for women, persons with disabilities, and other marginalised groups to participate in, lead, and benefit from the transition through a more active voice in policymaking and more equitable access to economic

opportunities. The investment will support women-owned and led businesses, fostering more inclusive supply chains and helping small businesses mitigate climate risks and strengthen their resilience against the impacts of climate change.

### **What does success look like?**

Transitioning energy systems and dealing with the increasing impacts of climate change will be one of the defining challenges of the next decade. The success of Indonesia's transition to a climate-resilient, net zero economy will depend on its ability to finance the required infrastructure (in addition to the need for strong national leadership, policy coordination and conducive macro-level policies that will be supported by Prospera 2.0). This investment will help Indonesia to increase the quantity, quality and inclusivity of its infrastructure, leveraging private sector financing where feasible and mobilising finance for development. Women, who will experience this transition differently from men, will have a more active voice in infrastructure policy-making and more gender-equal access to economic opportunities. People with diverse disabilities will also have influential participation in the development of inclusive infrastructure, experience improved access to infrastructure and subsequent opportunities to be involved in socioeconomic activities.

The design team will be tasked to ensure the new program integrates smoothly with other DFAT development programs engaged in infrastructure in Indonesia. This includes the new Prospera 2.0 (including Katalis 2.0), the Australia-Indonesia World Bank Partnership Phase 2, the Australia-Indonesia Partnership for Disaster Risk Management (SIAP SIAGA), the Synergies and Collaboration for Basic Service delivery Acceleration (SKALA) and the regional Partnerships for Infrastructure program.

## **D. Implementation Arrangements and Delivery Approach (How will DFAT deliver it and engage?)**

### **Delivery Approach**

While the design process will confirm the modality/ies for delivery, the most likely approach is set out below.

DFAT procures a managing contractor (MC) to implement the investment's activities and technical assistance. The MC would implement a clear program strategy based around the end of program and intermediate outcomes, but also retain the flexibility of a facility model. The MC would develop an overall implementation strategy, linking assistance to financing and strengthening links with the multilateral banks. The MC would also provide coordination and oversight; and deliver monitoring, evaluation, and learning processes, reporting and communications for its technical assistance activities. The facility model would provide scope to respond flexibly to emerging strategic priorities around infrastructure financing, including with non-ODA funds. The financing windows, such as ADI and PIDG, would be separate to the MC, but the design will build on the lessons learned from KINETIK and will strengthen program integration while respecting their existing governance arrangements. The design will consider whether to retain a separate country level funding arrangement with the ADB to complement the MC and blended finance mechanisms, or whether it is possible to leverage the ADB's work in Indonesia by virtue of Australia's role as a member and major funder of the ADB.

This approach is preferred as it will continue some of the existing (and highly valued) KIAT activities and be better positioned to quickly start new activities. The continued responsiveness will underpin the investment's comparative advantage with key GOI counterparts.

DFAT would continue to oversee the blended finance mechanisms directly, though the managing contractor would play a key role in ensuring coherence across the program.

### **Implementation Arrangements**

#### **Governance**

Currently, the KIAT and SIAP2 programs are governed through Program Management Committees that are co-chaired by DFAT and Bappenas, while KINETIK has a separate governance model involving MOF, CMEA and a number of line ministries. The design will explore the appropriateness of these governance mechanisms once the new administration is established and consider alternative governance structures, noting the range of Indonesian Ministries and agencies involved in the delivery of infrastructure.

## Monitoring, Evaluation and Learning

A robust MEL system will be in place to capture learning across the investment to enable DFAT and implementing partner/s to make informed choices about when to adapt, expand or exit activities. Structured processes of shared learning and reflection will provide lessons to enhance effectiveness and efficiency. KIAT's MEL system, based on DFAT's Facilities performance assessment framework, provides an example of how the new investment could measure overall investment performance while recognising variability across activities. The MEL system will track progress on the GEDSI outcomes and data related to individuals will be collected on a sex-disaggregated basis, and, where possible, will also include markers such as age, disability status, and other socio-economic factors.

In the period to mid-2027, this investment will retain the KINETIK Hub's MEL functions to ensure DFAT can report on the \$200 million investment through to end June 2027.

## Resourcing and duration

The proposed budget for the investment is up to \$650 million over ten years, to be contracted for an initial five-year period with an optional extension for a further five years. The investment will include a core program of up to \$550 million over ten years, comprising an indicative \$450 million in grant funding for a programmatic facility and potentially the ADB, as well as approximately \$100 million in investible capital to build on current investments in ADI (should the cap be lifted) and PIDG or enable investment in alternative blended finance mechanisms.

The design will also build in the flexibility for the investment to absorb up to \$100 million from alternative sources, including ODA and non-ODA sources or co-funding from other development partners, to respond to emerging strategic priorities.

## E. Risks

The design will develop risk identification and mitigation measures in accordance with DFAT's Risk Management Guide for Aid Investments, giving DFAT visibility and decision-making authority over all investment interventions. The design will detail how DFAT policies are adhered to, including environment and social safeguards, fraud control, child protection and prevention of sexual abuse, gender equality and social inclusion and health and safety.

## F. What are the next steps?

The design team will consist of suitably qualified consultants with expertise and experience in investment design, infrastructure funding and financing, climate finance, GEDSI and climate change. Specialist expertise in infrastructure sub-sectors such as energy or water may be engaged during the design as the scope is refined. The design team will be responsible for facilitating design consultations and preparing the IDD in line with DFAT's quality standards.

DFAT will develop an initial list of consultations for the design mission, which will include internal consultations with Jakarta Post and DFAT Canberra, other government agencies such as DCCEEW and Export Finance Australia, key Government of Indonesia ministries and agencies including Ministry of Finance, the National Development Planning Agency, the Coordinating Ministry of Economic Affairs, the Ministry of Public Works and Housing, the Ministry of Transport, the Coordinating Ministry of Maritime Affairs and Investment, and other development partners such as ADB, World Bank, JICA, Netherlands, the US and UK.

Consultations during the design will assist DFAT to confirm the following:

- the scope of the investment and how it can best contribute to GOI priorities, the Indonesia Development Partnership Plan, and the Southeast Asia Economic Strategy
- the theory of change and approach to Monitoring, Evaluation and Learning.
- budget allocation and breakdown for the investment life cycle.
- how the investment will ensure climate change as well as gender equality, disability and social inclusion will be prioritised and integrated into investment
- investment implementation, governance arrangements and stakeholder engagement

- key risks and how they can be managed.

Two key design questions relating to (a) engagement with the ADB and (b) the choice of infrastructure and climate sub-sectors will be considered by the Indonesia AMM during the design process.

The draft design will be developed in consultation with an EL2 DFAT design reference group and undergo formal independent appraisal and peer review as required by the International Development Programming Guide.