

## Conference Paper

# Strategy of Managing International Environment Aid Sustainability in Post-Reform Indonesia

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## Abstract

Climate change and environmental degradation are several of the biggest contributing threats to business and economic sustainability, given the vulnerability of Indonesia's geography and financial architecture. The financial crisis on the West has brought opportunities for Indonesia to pursue another source of assistance with less political intentions and loose concessional economic reforms.

The Paris Agreement in 2015 also offers flexible mechanisms for developing countries to meet its target. DAC countries are known to contribute support of poverty reduction and environment assistance, while most of non-DAC countries build its core assistance in infrastructure development programs. However, other non-DAC countries demonstrate significant growth in environmental aid, as well as its capacity of delivery. This paper will establish an analysis to balance Indonesian dependence of foreign assistance for environmental conservation between those two types of donor countries. Using international assistance approach, this study will try to establish an argument prior to policy input for above circumstances. The study finds that there are no coherence and communications among policies and stakeholders in terms of aid compatibility to national development programs, funding schemes, harmonization of policies, valid measurements of emission reduction commitments.

**Keywords:** foreign aid, environment aid, Indonesia, development policy

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## 1. Introduction

Indonesia has long been eligible to receive Official Development Assistance (ODA) from Development Assistance Committee (DAC) of Organization of Economic Cooperation and Development (OECD). Indonesia is classified as *Lower Middle-Income Country* with the criteria of per capita GNI US\$1,046 – US\$ 4,125 in 2013, despite its G20 membership. As a recipient country, Indonesia is intended by major donors to place their assistances with or without conditionality.

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After the collapse of the New Order, the The Government of Indonesia (Gol) struggled to return the debts while also faced its growing environmental degradation caused by growth-oriented economic development. Environmental degradation then was not regarded as a fundamental sector to be nurtured, due its small political and economic leverage. Agriculture and manufacture were also not observed as vital sectors in significance to climate change. Moreover, the public and the media also had only frail social and cultural modality to build resilience against climate change.

During the era of post-reform Indonesia, the decline of the western economies provided Indonesia alternatives to restructure the economy, oriented to exit the debt trap. Environmental sectors gained its importance as a key segment to attract more foreign investment and assistance as well. This went along with the rise of new environmental regimes since Earth Summit in Rio on 1992. In fact, the Gol had never integrated environment and energy sector until after Paris Agreement entered into force in 2016. The biggest sources of carbon emissions from Indonesia post-1998 are actually from the land use sector, land use change, and forestry / land use, land-use change, and forestry (LULUCF). Carbon emissions from LULUCF in Indonesia in 2000 reached 2563 metric tons, 34% of all LULUCF carbon emissions in the world. The global recession during that period also had effect to industrial slowdown, then carbon emission was reduced by up to 3% [1].

Structural adjustment and fiscal austerity would not take effect prior to achieving global targets to reduce emission and development goals. Moreover, liberalization of policy has proven to lay the environment and energy sector as a mere concession to invite foreign investment and capital. Meanwhile, The World Bank estimated the cost of environmental conservation to be more unpredictable and as high as US\$ 75-90 billion, where the most fragile and dependent region will suffer further from conflict over natural resources due to climate change. This figure is expected to rise to US\$140-175 by 2030 [2].

This urgency calls for a developing economy to re-examine their debt structure and to start inserting environmental concern as s source of national economic security. Indonesia has had more severe environmental damage during the year of economic recovery post-1998, however, this is not addressed much as a problem of exploitative economic behaviour. Instead, lack of fund, technical expertise and data access are the focal target of Gol as a policy input for environment and energy policymaking. The paradigm of “debt for nature swap” dominated the implementation of Kyoto Protocol or Montreal Protocol. In addition, other terms of MNCs investment often undermine the environmental impact assesment in developing countries.

## 2. Methods

### 2.1. Theoretical Framework

According to neoliberal institutionalism approach, the regime is considered to have an imperative role in supporting cooperation between countries. Cooperation among countries itself is coordinated to manage balance of power and interests among them as well. However, in the structure of an anarchic international system, there is no highest authority that can ensure the compliance of countries involved in cooperation, so that there is a risk of cooperation hampered by the fear of fraud from other parties [3]

Upon assessing state strategy to manage dependence of foreign aid, there are three key policies that must be synchronized to achieve climate compatible development [4].

1. Mainstreaming climate change into national development programs
2. Funding schemes and harmonization of policies related to climate change;
3. Valid measurement related to the emission reduction limit that becomes a commitment

To enhance the analysis of the relations of Indonesia, DAC Countries Donors, and emerging donors, multilateral level of analysis is also required. Environmental foreign aid regime is governed through international institution and agreements. Even though states and other actors attempt to distribute aid bilaterally, international frameworks are still in effect as a legal basis of assistance as many countries are also part of the United Nations' environmental agreements. Politically, multilateral aid is regarded to be more neutral and needs driven. Multilateral foreign assistance is also considered less tied to political and strategic interests of individual donor countries. Although the rise of nationalism and populism is growing rapidly in terms of financial crisis, global governance of foreign assistance is still in place, in regard of the global development agenda. The governance tends to adhere to widely-shared principles, ethics, and measures [5].

However, emerging donors tend to disburse aid bilaterally, while maintaining economic interest as its core concern. The characteristics of bilateral channels are assumed to be easily manipulated by vested interests and high desire for political expansion, specifically assistances involving asymmetric partnerships [6].

## 3. Results and Discussions

### 3.1. Financing Structure

To date, Indonesia has three sources of funding, both in terms of finished and ongoing cooperation. They are bilateral, multilateral, and CDM sources despite the end of Kyoto Protocol. All donors are traditional donors to Indonesia, with most of them being DAC members and divert the financing into multilateral and bilateral channels. The donors would disburse the assistance into three schemes of choice, namely ODA mechanism (with OECD guidelines), UNFCCC Financing Mechanisms, and other non-conventional mechanism under the Global Environment Facility (GEF). The GoI established legal foundation to receive aid, based on Government Regulation no.2 year 2006 on Climate Change Program Loan, permitting aid inflows in form of loans, grants, contributions to Climate Change Trust Fund, and Debt for Nature Swap.

On November 2016, Indonesia submitted its NDC to UNFCCC, including a target of reducing GHG emissions including land use, land use change and forestry (LULUCF) by 29% or 41% conditional on international support below business-as-usual in 2030. This is nowhere close to meet the target of Paris Agreement, due to high dependence of foreign support. South-south Development Cooperation is not functioning enough to meet environmental target, let alone to attract emerging donors. The proposed bill on Sanitation, has been included in the List of Changes to the 2015-2019 National Legislation Program. The DPR RI needs to encourage the Sanitation Bill which can be discussed soon because it has an urgent level of importance. Nonetheless, Deputy Minister of Finance Mardiasmo noted, the Regional Government (Pemda) has not utilized the reforestation budget of IDR 7 trillion until 2018. The budget, given through non-physical Special Allocation Funds (DAK) worth IDR 115.1 trillion is contained in the 2017 State Budget (APBN). On 2016, GoI formed a Climate Change Public Service Agency (PSA) tasked with managing foreign grant funds precisely for environmental conservation.

### 3.2. Synchronization among Policies Related to Climate Change

Perspective of one nation's development should first adjusted to become a climate compatible one. Climate change is a local as well as global natural transformation and should be supported with local actions. Countries in Africa, such as Ghana and Mozambique have adopted a "climate compatible development" or CCD perspective to gradually mainstream issues covering the concept. The most vulnerable and the poorest communities are lifted through participatory action planning. However, this is

too time-consuming and often requires the “buy-in” actions to win the commitment of the people, making it more expensive to be applied in state-level governance [7]

Theoretically, states should prepare its society to confront altered conditions. Complex changes require transformation of cultural norms, emergence of strong support groups, and changing competition patterns over scarce national resources. The latter requirement should be buoyed by integrated economic policy [8]. However, environment and economic sectors in Indonesia are nowhere close to integration, particularly in provincial level and below. This may result from decentralization of local government since 2002 while trade and investment could also be regulated sub-nationally, thus increasing the bargaining power of the market.

Practically, there are environmental bills and laws that will be legally issued by the central and regional government in Indonesia by the end of 2019. However, from several areas of environmental management in Indonesia, the author has classified policies of environmentally-related ministries into several categories, namely hazardous and toxic materials, water management, accelerating the development of sanitation, including the sub-field of domestic wastewater, in order to improve its effectivity. Legal supervision, both at the central and regional levels, will specifically regulates the management of domestic wastewater. Arrangements are needed to ensure efforts to accelerate the development of subfields which are part of the operational aspects, institutions, financing, rules and community participation. However, it is not certain whether the classification of policies follow a set of international rules and norms. On the other hand, Gol has published Policy Direction and Adaptation Objectives of Climate Change in Indonesia [9].

Indonesia is caught between two perspectives of climate change strategies; those are the adaptation strategies and mitigation strategies. The latter one has widely adopted in Indonesia in a reactive fashion after a major catastrophe e.g. forest fire and massive flooding took effect.

On the other side, Paris agreement is nationally oriented. Parties could have a more relaxed policy as they would measure their own capability in compliance to the agreement. This would imply that bilateral actions are in point again, where the global financial assistance disbursement will be finding its own balance as well. Reports also support the evidence for this, as several major donors respond to global financial crisis by strengthening their partnership to developing countries to secure their market. DAC donors review their aid volumes, either in cuts up to 40-56%, retain it steadily, or increase of budget. Some donors also reprogram or re-allocate the aid, managing multilateral channels, while other donors create new initiatives and supplementary assessment of

aid effectivity [9]. Through Indonesian Second National Communication of UNFCCC, the arguments are often stated that developed countries should bear more load to actualize mitigation and adaptation resulted from their respective immense economic activities (UNFCCC, 2014). However, grants are accepted and should there be more demands of fund, loan scheme would be allowed according to Ministry of Environment and Forestry. Regulations P.19/menhut-II/2013.

### 3.3. Balancing Interdependence among Funding Schemes

DAC Countries placed its growing concern for environmental conservation in developing countries. Aid focused on environment in 2015 had reached a constant 2015 value for USD 31.8 billion in total. In 2015, Indonesia was eyed as top ten recipient countries for environmental-focused aid, despite not had been the top ten total aid recipient in countries like Finland, South Korea, Netherlands, Switzerland, and United States. Following the ratification of UNFCCC's Paris Agreement, developing countries tend to negotiate bilaterally toward their respective donors, as multilateral attempts are often very exorbitant and time-consuming. The loose terms of Paris Agreement create more possibilities for developing countries to have fluid relations among them, thus produce more bargaining influence toward DAC countries as series of financial crisis strokes Europe and United States. China will be taking hold of trust among developing countries in terms of compliance toward the agreement.

The argument is based on several development of international environmental regime on 21<sup>st</sup> century. First, environmental agreements and terms are largely and subsequently attached with international development agenda. Consequently, international environmental assistances are often subject to business development and economic security, directed to create green jobs and commercialization of nature e.g. the development of ecotourism. Even though this is a popular transformation established in many developing countries, it has not been a successful policy, neither to conserve the environment nor to reinforce national economic posture.

During the year 2005 to 2012, Indonesia had registered 82 CDM projects. A total of 75 projects have been approved, 4 projects are under review, and 3 others are rejected during the period. More than half of Indonesia's projects are waste management projects, almost half of them are energy projects, and others are in the manufacturing sector. there are a great number of small-scale and low-cost Indonesian CDM projects. Although there are many Annex 1 countries cooperating with Indonesia, most of the projects are in collaboration with Indonesia's main business partners who have long partnered in

the economy and development with Indonesia such as Germany, the Netherlands, Denmark, Switzerland, Sweden, mainly Japan [10].

Following other trends, there is a significant shift in aid landscape in Asia due to the rise of China and India, however in the case of Indonesia, that adjustment should be examined further. Indonesia is currently in attempt to gain more international influence by establishing itself as an emerging donor. Apart from the absence of aid agency, Indonesia strives to take advantage of the decline of environmental ODA in the first decade of 21<sup>st</sup> century. From DAC of OECD Countries, donations and transfers of core environment sector is below 5% of total bilateral and multilateral ODA in 2005 [9].

Moreover, the call for aid reform is getting more intense after converged worldwide critics on aid efficiency, debt trap, and the growing risk of fragile and failed states. Therefore, it could be said that Indonesia as a middle power has a higher dependence toward foreign environmental assistance, while also putting more energies to create dependence to other smaller power such as countries of Pacific Region.

Chinese government transform itself to be more adaptable to multilateral politics, as their growing economy starts to have more influence in market expansion to its Asian counterparts. China is not one of the top bilateral donor to Indonesia. In contrast, Indonesia is not the main recipient countries for China. Nevertheless, this not necessarily implies that Chinese assistance would be much dissimilar with DAC Countries. Chinese government also has its concessional loan, but with lower interest rate and longer grace period. China focuses on infrastructure development since the signing of strategic partnership agreement with Indonesia in 2013, as China also developed its Belt and Road forum. To finance its worldwide ambition of the Land and Maritime Silk Road, China finances major developing countries' program through Asian Infrastructure Investment Bank.

China does not directly mention that the aid is in the form of ODA, while technically it conforms the characteristics of ODA. More than 25% of total ODA allocation contains grant element, while other types of inflows are other official flows (OOF) mainly directed for commercial support, and vague official finance (Vague OF). China principally donates to African countries and Cuba as the top recipient, nevertheless Indonesia is among other emerging economies to receive aid from China by USD 9,3 billion that is surpassing India by USD 5,6 billion, all in 2014 [10]

China utilizes miscellaneous source to fund its projects in Indonesia, explicitly Bank of China, China Development Bank, China Ministry of Foreign Affairs, Export Import Bank of China, and other unspecified government sources. Reports mentioned that China only completed its environmental projects in 2008, 2011, and 2014 with minor

measurable projects such as building Sorong Fishing School worth RMB 10 million, delivering Ramadan Packages to Agency of Social Welfare Activity Coordination (BKKKS), and the protection of the Bali Mynah [11]. Striking characteristics of Chinese aid is that Chinese Government channels the aid through non-governmental agencies or banks, thus make it difficult to address it as an official flow. China does not report to DAC, therefore it is difficult to track its projects and effectivity. The State Council of Chinese government stated the importance to work within South-south Cooperation Development Framework and not commanding any political conditions. During 2010-2012, China committed to deliver RMB 89,34 billion in three types of aid: grant, interest-free loan, and concessional loan [12]. Chinese environmental assistance trail could be found in sub-Saharan African Countries and The Pacific for over 120 countries, but Indonesia is not the main recipient for the sector. On the other hand, Southeast Asian countries like Myanmar and Cambodia receives larger amount of environmental aid in terms of construction projects and technical assistance [13].

In context of Paris Agreement compliance, China is on its path to meet or exceed its 2030 Nationally Determined Contribution (NDC). However, it is often criticized as too low for a coal dependent country. It is frequently regarded of being not ambitious enough to limit heat to below 2°C, let alone limiting it to 1.5°C as required under the Paris Agreement. This precondition could only be achieved if other industrial countries makes comparable effort to overwhelm Chinese performance cumulatively [14].

India just strengthened ties with Indonesia in a plan of strategic partnership framework, also making path to ensure its connectivity with ASEAN countries. In 2018, two leaders of the countries agreed explicitly to mitigate climate change within the Paris Agreement Framework. India underlined the urgency of obtaining predictable financial resources, capacity building, and technology transfer to meet each country's NDC target [6]. India Ministry of Environment, Forest, and Climate Change has adhered to UNFCCC goals to reduce emission with national development plan as the guidelines.

After the 2008 global financial mayhem, India had never specified certain environmental section by terms, however the aid scheme considers agriculture and water & sanitations area of work. Combined, the two sectors account for more than 25% of their total aid allocation [6]. As economic growth rises, India increase its new profile as a new donor. Compared to DAC donor behavior toward environmental issues, India has only limited concern on climate change mitigation as many areas in India are still underdeveloped. However, the decision making of aid allocation by sector and by recipients remains unclear, even though India is to establish a separate development agency, India is still a disadvantaged donor. Moreover, geopolitical and economic

interest may become a singular purpose to be served, as top recipients of Indian aid is their neighboring states of similar development stages [8]. Total disbursed aid reported to DAC during 2008/2009 is USD 610 million in total [9].

While China and India still struggles to enhance their international prudence as new emerging donors, Russia is moving forward to re-emerge since the breakdown of Soviet Union at the conclusion of Cold War. The Russian Federation performed a dramatic delivery of aid just after the 2008 financial crisis by USD 800 million of ODA, from just USD 210 million in 2007 and USD 50 million in 2004 [6]. Russia tends to provide aid through multilateral channels, abiding to DAC principles and practices, even shows a cooperative behavior by reporting to DAC every year from 2010 to date. Therefore it is safe to assume that Russia anticipates to have closer relation with DAC members.

### 3.4. Indicator Construction to Measure Policy Effectivity

Climate change happens very gradually, as it is difficult to be locally measured and by the time it reaches tipping point, it is already too complicated to solve. Meanwhile local actions are urgently needed to be implemented simultaneously. Therefore, institutional development indicators on national level up to local level should be adjusted to meet Indonesian NDC target.

Indonesia has committed several targets to meet after its NDC was planned. Gol agrees to control temperature rise below 2°C in Declaration no.1/CP.21 to lower the risk in all sectors of development, namely agriculture, water resources, energy security, forestry, maritime, fisheries, health, public service, infrastructure, and urban system. Gol has also established National Data and Information System of Climate Fragility, operated by the Ministry of Forestry and Environment. However, the target to reduce emission by 26% in 2019 is considered too ambitious and quite unmanageable to occur due to complex transnational impact of climate change or natural disasters. Politically, states also requires balanced legal framework among themselves in order to achieve effectiveness of international agreement. Therefore, determining technical target locally where climate change is happening transnationally would be contributing little for the success of climate regimes.

On the micro level, local and provincial governments are encouraged to establish policy and technical innovation on the smallest unit of government through ProKlim Program. Central government points that public participation and capacity building to spread the responsiveness of climate change is imperative. This sort of appreciative program hopefully could reallocate the burden of central government, however, not

all provinces obtain such policy preference to be mainstreamed. Conflict of natural resource ownership and land grabbing does not automatically linked to an environmentally motivated rationale. In contrast, economic intentions and nationalism of natural resources often stand behind the movement of people. This kind of phenomenon is often found in low-income country, where economic globalization transforms their economic structure to be more market-oriented. In addition, low-carbon economy is measured to be incompatible to economic growth target.

New international institutions would provide funds if the management of the Climate Change PSA would professionally conduct business. For this reason, GoI also stretched the qualification of its human resources to include representatives of donors and independent stakeholders. Institutions that pass the selection of environmental fund management are professional institutions such as the World Bank or Asian Development Bank (ADB). This PSA is under the supervision of the Ministry of Finance (MoF), so that the legal umbrella and technical provisions are based on the Minister of Finance Regulation. The fund allocation set is prioritized for peat restoration, reducing emissions from deforestation and forest protection. Moreover, this PSA does not only manage grant funds, but also manages the State Budget funds.

Paper-based annual institutional reports in Indonesia is largely practiced. According to the repetition of procedure, the raw data of working reports should be widely available but not all of them are publicly shared. Technical departments and ministries are the core institutions to build a system of policy effectivity measurements related to climate change. Instantaneously, reporting and monitoring capability of local government Therefore, public reporting and transparency of government are expected to be increased in global level. However, nationally, many of national extractive industries are engaged with deep political interests thus resulted in high degree of public distrust.

## 4. Conclusion

Classic paradigm of foreign aid is to distribute wealth and to fulfill moral responsibility. However, on the critical side of the bargain, anarchy of international development cooperation is also present on the environmental sector. The contemporary regime of international cooperation under UNFCCC and Paris Climate Agreement creates more room for cosmetic compliance or non-compliance even though DAC states except the US, are fully committed to Nationally Determined Contribution (NDC). In 2017, 174 parties even had submitted their separate plan for NDC to UNFCCC.

The pattern of environmental aid diplomacy is almost continually on the context of multilateral and transnational terms. On the contrary, actions reflected in DAC countries in regard of environmental assistance tends to be in more bilateral context, and this is certainly in decline. Unfortunately, this is not regarded as a pressing issue although the campaign against climate change rises over time. Intense notion of nationalism and populism among major states also sparks the tendency for major donors to act individually, while Indonesia become gradually more dependent toward multilateral financing mechanism.

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## Conflict of Interest

The authors have no conflict of interest to declare.

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