



A partnership between:



Domestic Capital Mobilization for Climate Finance in Southeast Asia: Indonesia Spotlight

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Glossary of key terms

- **BLENDED FINANCE:** The use of concessional, catalytic capital from public or philanthropic sources to increase private sector investment in developing countries for sustainable development. It is a structuring approach, not an investment approach.
- **ENABLING ENVIRONMENT:** Policies, regulations, financial instruments, and institutional support that lower investment risks, build market confidence, and attract capital from both domestic and international sources for climate-aligned projects.
- **DOMESTIC CAPITAL MOBILIZATION:** Investment from domestically based investors. While regional investments are aligned with the broader goals of local capital mobilization, the terms “domestic” or “local” is used strictly to refer to domestic sources.

Methodology

- This Spotlight builds on sources and insights presented in the broader report, [Domestic Capital Mobilization for Climate Finance in Southeast Asia](#).
- Data analysis on *climate finance* landscapes in this Country Spotlight is based on climate finance transactions between 2017 and 2022 captured by CPI in its [2023 Global Landscape of Climate Finance report](#). The report uses this dataset when referring to *climate finance*.
- Data analysis on *blended climate finance* landscapes is based on blended finance transactions across all years captured by Convergence Market Data, the largest and most detailed database of historical blended finance transactions (capturing over 1500+ deals to date).

AUTHORS

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Summary Stats

USD 26.9B Total Climate Finance Flows
to Indonesia (2017-2021)

27%

Share of total
climate finance
flows coming from
domestic actors

62%

Share of total
climate finance
flows coming from
private actors

35%

Share of climate
finance transactions
targeting energy
systems

USD 7.6B Total Blended Climate Finance
Flows to Indonesia (All Time)

10%

Share of total
blended climate
finance flows
coming from
domestic actors

42%

Share of total
investment
commitments in
blended climate
finance from
private actors

67%

Share of blended
climate transactions
targeting climate
mitigation



Indonesia blended climate finance market exceeds Vietnam and the Philippines

- **Indonesia received a total of USD 26.9 billion** in climate finance between 2017 and 2022, driven mainly by international investors.
- **Indonesia mobilized a higher share of blended climate finance** (USD 7.6 billion) across all years, exceeding both Vietnam (USD 3.4 billion) and the Philippines (USD 2.6 billion) on both an absolute and proportional basis.
- **Renewable energy asset development accounts for 44% of transactions**, followed by agro-finance (19%) and sustainable agriculture (15%).
- **Blended finance has been instrumental in mobilizing capital to support renewable energy generation**, despite a continued high reliance on fossil fuels, as well as advancing early-stage nature-based solutions.

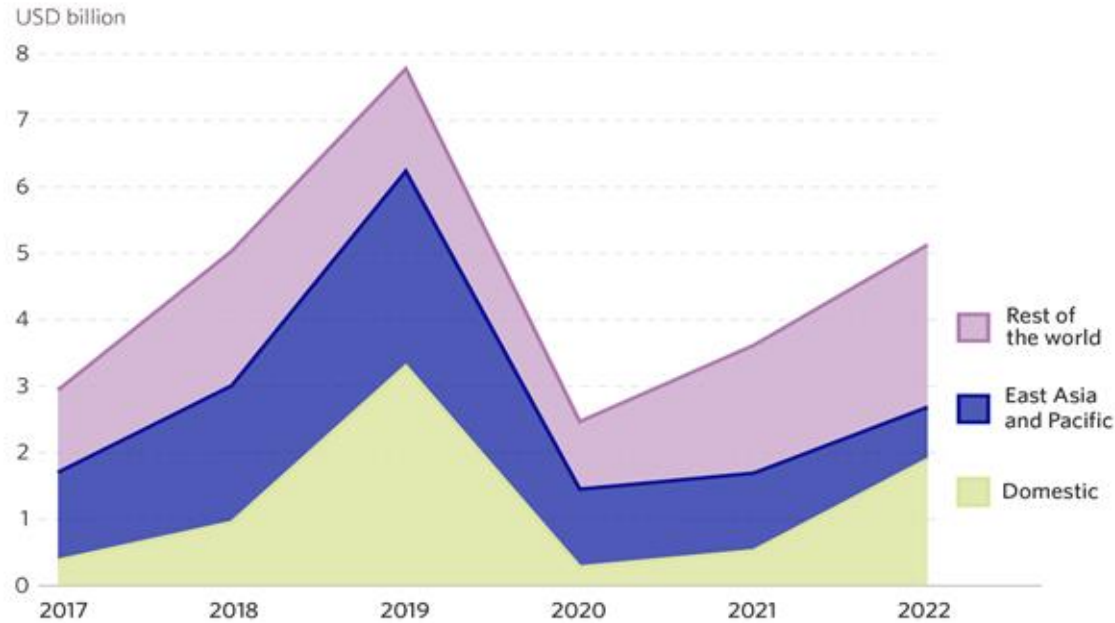


Indonesia's climate finance market has been enabled through its policy environment

	Notable Initiatives	Description
Cross-Sector	Net Zero (NZ) Mandate	<ul style="list-style-type: none"> • NZ Mandate: Indonesia adopted a net-zero target at COP26 and is implementing it through the Long-Term Strategy for Low Carbon and Climate Resilience (LTS-LCCR).
	Nationally Determined Contributions (NDCs)	<ul style="list-style-type: none"> • NDC: The 2022 NDC commits to cutting emissions 31.89% unconditionally and 43.20% conditionally by 2030, requiring ~USD 285 billion with only ~34% covered publicly.
	Energy Transition Policies	<ul style="list-style-type: none"> • Indonesia Just Energy Transition Partnerships (JETPs): The JETP mobilizes about USD 20 billion from Indonesia and IPG to decarbonize power, though disbursement has been slower than planned. • Indonesia's Energy Transition Mechanism (ETM) Country Platform: The ETM uses blended finance to retire coal plants early and scale clean energy, with PT Sarana Multi Infrastruktur (PT SMI) coordinating the country platform.
	Domestic Climate Platforms Advancing Mitigation and Adaptation	<ul style="list-style-type: none"> • SDG Indonesia One: PT SMI's blended-finance platform with >USD 3.2 billion committed for SDG-aligned infrastructure via technical assistance (TA)/grants, de-risking, layered debt, and equity. • IDX Carbon: IDX Carbon is the stock-exchange carbon trading platform for allowances and offsets; still early stage with ~USD 4.7 million traded and 7 offset projects.
Energy Sector	National Energy General Plan	<ul style="list-style-type: none"> • National Energy General Plan (RUEN) and Regulation 112/2022 sets a target of 23% renewables by 2025 and 31% by 2050, halt new coal, cap existing coal by 2050, and streamline tariffs/procurement while allowing strategic-project exemptions.
Financial Sector	Harmonizing the Financial Sector with Green Principles	<ul style="list-style-type: none"> • Sustainable Finance Roadmap (II): The Indonesia Taxonomy for Sustainable Finance (TKBI) taxonomy standardizes what counts as "sustainable" and is designed to be interoperable with the Association of Southeast Asian Nations (ASEAN) taxonomy. • Sustainable Finance Taxonomy: The Financial Services Authority Regulation (POJK) 18/2023 expands rules for sustainable bonds and <i>sukuk</i>, including Green and Waqf Sukuk, strengthening Indonesia's sustainable finance market, which can unlock domestic investor demand.

International investments dominate climate finance flows to Indonesia, backed by investment-grade credit ratings

Figure 1: Climate finance flows to Indonesia

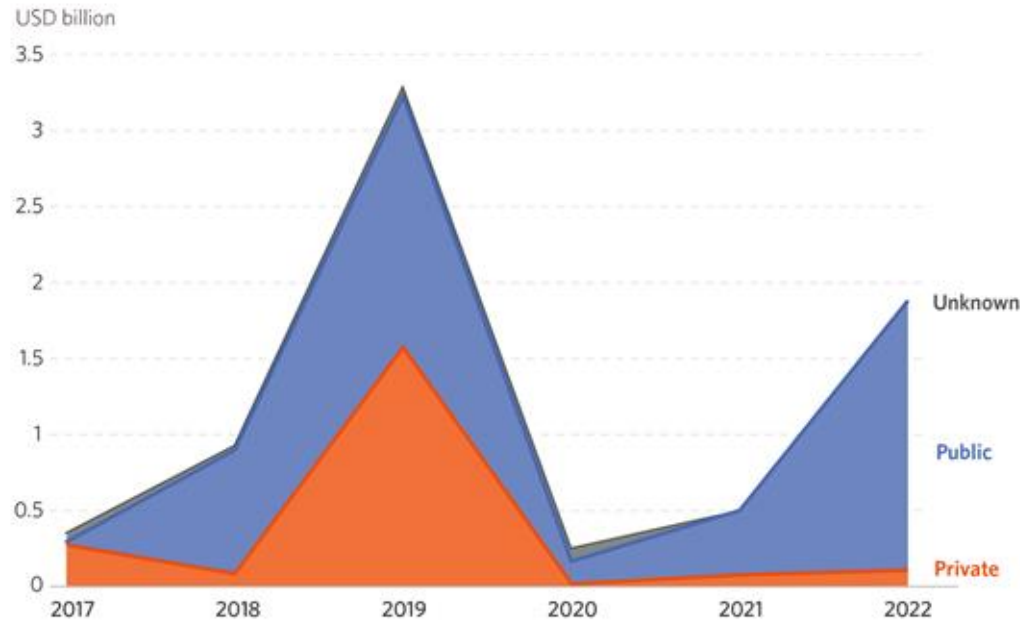


Data source: CPI, 2024. Global Landscape of Climate Finance 2024; Insights for COP 29. / PLN Financial Reports (2019-2021)

- **Indonesia mobilized USD 26.9 billion in climate finance (2017–2022)**, driven overwhelmingly by international capital, accounting for nearly three-quarters of total flows from 2017–2022.
- **Indonesia attracts the highest proportion of climate finance from global investors** relative to Vietnam and the Philippines, bolstered by its investment grade ratings (BBB).
- **Since 2020, climate finance flows have shifted** from regional development institutions towards a broader global investor base.

Indonesia's domestic climate finance flows are bolstered by strong national leadership

Figure 2: Domestic climate finance in Indonesia by funding source

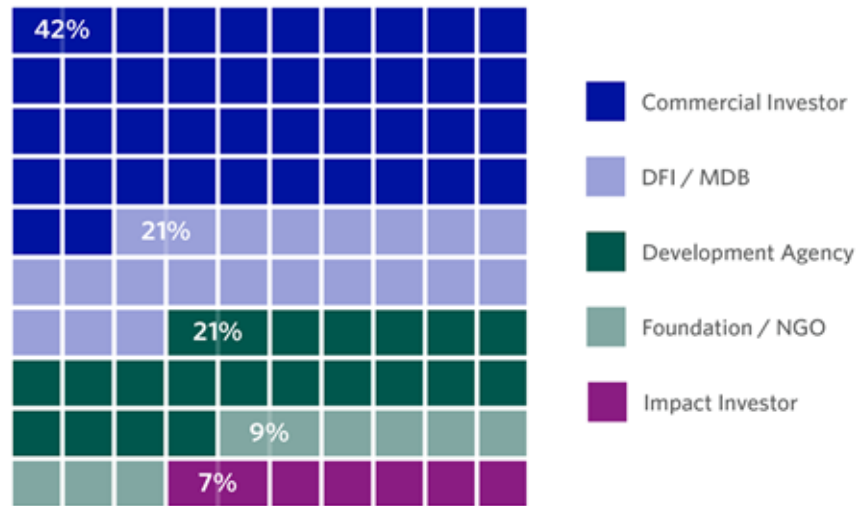


Data source: CPI. 2024. Global Landscape of Climate Finance 2024: Insights for COP 29. / PLN Financial Reports (2019-2021)

- **Domestic sources account for 16%** of Indonesia's climate finance flows and are mainly public sector led (27%), driven by the Indonesian government's green bond issuances.
- **Local corporations (28%) and state-owned financial institutions (16%)** follow as the largest contributors to domestic climate finance in the country.
- **The government of Indonesia has played a catalytic role in supporting climate blended finance** via its SDG Indonesia One initiative, which has mobilized USD 3.2 billion across 111 projects (see case study on SDG One project on slide 17) .

Indonesia receives higher proportion of commercial investment in climate blended finance relative to region

Figure 3: Breakdown of blended climate finance in Indonesia by investor sub-sector



Data Source: Convergence Market Data as of November 2024.

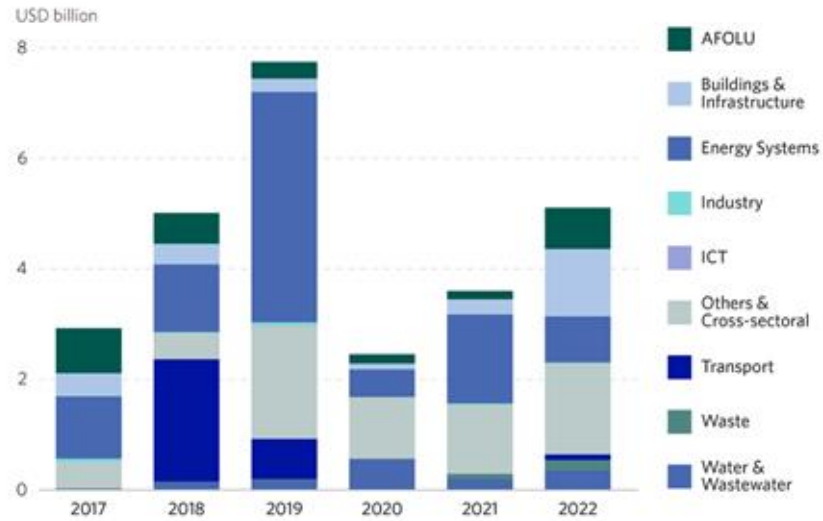
- **Blended climate finance represents a larger segment of Indonesia’s overall market** for climate finance relative to the region, accounting for USD 7.6 billion in financing overall.
- **Commercial investors play a larger role** in climate blended finance in Indonesia than in Southeast Asia overall (42% vs. 35%), while participation from DFIs, MDBs, and development agencies is comparatively lower.
- **Regionally based investors** such as Asian Development Bank (ADB), Mitsubishi UFJ Financial Group (MUFG), and Sumitomo Mitsui Banking Corporation (SMBC) are among the most active, although spillover to domestic investors is limited (10% of climate blended finance is from domestic players), led by project developers and corporates.

Deal Example: Sarulla Geothermal Project

- ❖ ADB and partners structured limited-recourse financing for the USD 1.6 billion, 320-megawatt (MW) Sarulla geothermal project, led by PT Medco Power Indonesia, Itochu, Ormat, and Kyushu Electric. The transaction included USD 100million in concessional mezzanine financing from the Clean Technology Fund and Canadian Climate Fund (via ADB), alongside commercial debt from Japanese banks.
- ❖ Risk mitigation was strengthened through a sovereign guarantee from the Government of Indonesia to backstop PT PLN, and a political risk guarantee from Japan Bank for International Cooperation (JBIC). Donor-funded technical assistance (e.g., USAID) supported early-stage feasibility assessment, helping address high geothermal exploration risk and enable project bankability.

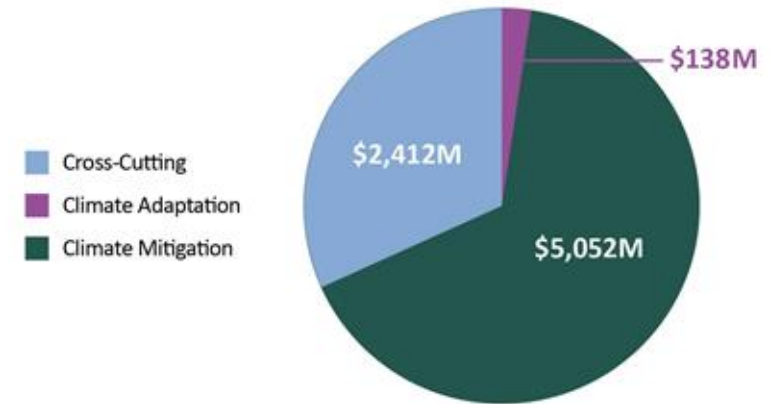
Bended finance complements mitigation-heavy climate finance by enabling adaptation co-benefits!

Figure 4: Climate finance in Indonesia by sector



Note: Less than USD 0.1 bn came from unknown sources in 2022. AFOLU stands for Agriculture, Forestry, Other land uses and Fisheries. ICT stands for Information and Communications Technology.
Data source: CPI, 2024, Global Landscape of Climate Finance 2024: Insights for COP 29 / PLN Financial Reports (2019-2021)

Figure 5: Breakdown of blended climate finance flows in Indonesia by climate theme

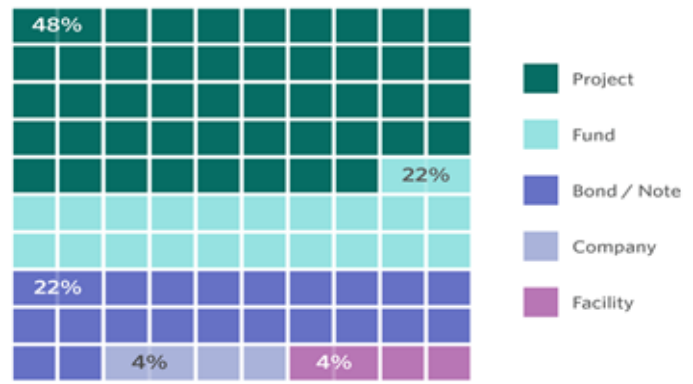


Data Source: Convergence Market Data as of November 2024.

- Overall, climate finance is concentrated in large, capital-intensive mitigation sectors (70% of all financing), particularly energy systems and transport, where investment volumes are highest. In comparison, adaptation represents 30% of all financing.
- Blended climate finance is similarly focused on climate mitigation, with a focus on early-stage assets and where risks are high (e.g. geothermal exploration).
- Cross-cutting sectors such as sustainable agriculture and agro-forestry are more represented relative to broader trends, where there are opportunities for adaptation co-benefits.

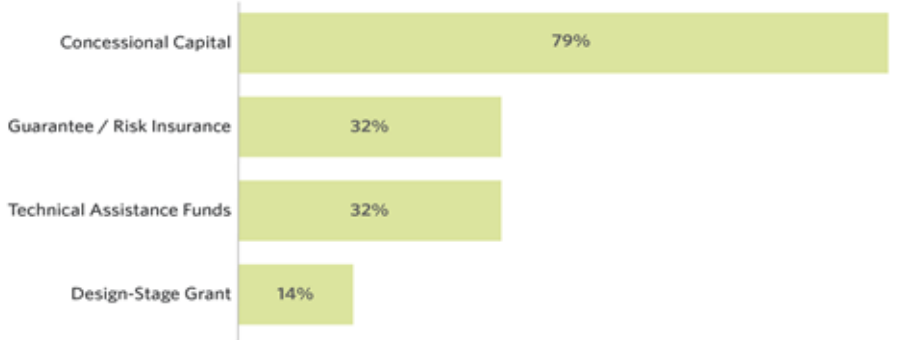
Public-private partnerships (PPPs) and green bonds are primary pathways for mobilizing local investment in Indonesia

Figure 6: Proportion of climate blended finance transactions by vehicle in Indonesia



Data Source: Convergence Market Data as of November 2024.

Figure 7: Proportion of climate blended finance transactions by blending archetype in Indonesia



Data Source: Convergence Market Data as of November 2024.

- **Project-level finance dominates blended climate transactions**, representing 48% of all deals.
- **PPPs represent a core vehicle for domestic investment in infrastructure**, especially in energy, transport, and water, with government capital playing a catalytic role while private investors participate through equity co-investments and structured debt vehicles.
- **Concessional debt and equity remain the primary blending instruments (79%)**, consistent with regional trends.
- **Indonesia features a more prominent use of guarantees (32%)** vs the broader region, to reduce offtake risk and support longer-term loans, thereby unlocking capital-intensive infrastructure investment.
- **TA is a key upstream enabler**, supporting early-stage feasibility and project preparation through domestic platforms such as PT SMI's SDG Indonesia One.

Barriers & Recommendations

Challenge

Distortionary pricing policies slow renewable energy investment

- ❖ Coal pricing policies (DMO) and fossil fuel subsidies keep electricity prices low, contributing to electricity oversupply and reducing incentives for renewable energy investment.
- ❖ Feed-in tariffs for renewables have been set too low and implemented unevenly, making projects economically unviable and slowing renewable deployment compared to regional peers.

Opportunity

Blended finance can redirect private capital toward underinvested areas while supporting the phase-out of fossil fuels

- Guarantees, concessional capital, and TA can help de-risk investments and enable domestic lenders and developers to participate in modernizing Indonesia's power system in key sectors such as energy storage, grid upgrades, and variable renewable energy integration.
- Blended finance can also support early coal phase-out by refinancing existing plants, as demonstrated by the Cirebon-1 transaction, which uses concessional and private capital to accelerate retirement despite long-term purchase price allocation (PPA) constraints.

Challenge

Limited capital flows to nature-based solutions (NbS)

- ❖ Investments towards NbS, smallholder forestry, and regenerative agriculture remains limited due to more complicated financial structuring and longer return horizons.
- ❖ This is compounded by the “missing middle” financing gap that prevents promising early-staged NbS ventures from reaching bankability due to weak structuring, governance, and business models.

Opportunity

Policy and financial incentives are creating positive signals for investment into scalable NbS

- Indonesia’s The Food and Land Use Coalition (FOLU) Net Sink 2030 target commits that the FOLU sector will absorb more GHG emissions than the amount it emits.
- Market infrastructure is improving through the launch of the IDX Carbon platform, as well as incentives provided by Otoritas Jasa Keuangan (OJK) to reduce fees associated with green bonds and listings on the IDX Carbon platform.
- Regional family offices and philanthropies can provide critical support to NbS through project preparation grants and acceleration support.

Challenge

Mismatch in loan tenor financing limits domestic investment

- ❖ Indonesian banks extend short-term lending (7–8 years), while climate and infrastructure projects require long tenors (~20 years); this risk is amplified by non-recourse structures, restrictions on collateral, and scarce guarantees outside PPPs, leaving many climate projects non-bankable.

Opportunity

Use guarantees and create local special purpose vehicles (SPVs) to crowd in domestic lenders

- Liquidity extension and partial credit guarantees from actors such as GuarantCo enable local banks to offer 15–20-year loans by sharing repayment risk, unlocking domestic capital for projects otherwise constrained by short loan tenors.
- In response to the barriers faced by local financial institutions, blended finance practitioners should consider setting up locally-domiciled SPVs that better appeal to local investors.

Case Study

PT SMI – Gresik Drinking Water System (SPAM) Project

Overview	<p>SDG Indonesia One, a blended finance platform launched by PT SMI, supported the Gresik Drinking Water System (SPAM) project, a climate adaptation initiative that reached financial close in July 2022 and began operations in August 2022, to deliver reliable clean water to households and industry in East Java. The SPAM project showcases how blended finance, including TA, syndicated lending, local equity, and take-out financing, can accelerate infrastructure deployment</p>
Capital Structure and Key Stakeholders	<p>Debt: USD 28 million short-term loan facility provided by PT Indonesia Infrastructure Finance</p> <p>Equity: USD 12 million in sponsor equity provided by PT Pembangunan Perumahan Krakatau Tirta</p> <p>Anchor off-taker: Project developer and the off-taker (PDAM) Giri Tirta (water utility)</p> <p>Total project cost: IDR 600 billion (approx. USD 40 million)</p>
Technical Assistance Providers and Key Activities	<p>USAID and IUWASH: Assess off-taker demand, creditworthiness, and operational readiness of the local water utility</p> <p>European Union / KfW Strengthening Investment in Water Infrastructure Program: Conduct legal due diligence, regulatory compliance support, and bankability enhancements for the transaction</p>
Impact and Performance	<ul style="list-style-type: none"> • Expected to benefit approximately 90,000 households • Early progress suggests that infrastructure deployment is on track to meet the government’s 60% coverage expansion target, contributing directly to health, sanitation, and climate resilience goals in Indonesia
Lessons Learned	<p>The Gresik project highlighted the critical importance of:</p> <ul style="list-style-type: none"> • Robust contractual arrangements between the PDAM • Clear alignment between municipal authorities, the PDAM, and the private sponsor • Attention to pipeline design, metering accuracy, and strategies to control Non-Revenue Water, which directly impact repayment capacity

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