

Making climate finance work for women and the poor

Insights from national climate finance mechanisms in Indonesia

Stibniati Atmadja, Hiasinta Lestari, Houria Djoudi, Nining Liswanti and Ade Tamara

Key messages

- Climate finance mechanisms (CFMs) can either help or hinder women and the poor from adapting to and mitigating climate change.
- CFMs in Indonesia are attentive to poverty alleviation, but gender equality has not received commensurate attention. Systems for monitoring, evaluating and learning from gender and poverty outcomes are weak or nonexistent. Few feedback mechanisms channels.
- Indonesia's national level policies support gender equality, but people implementing them in CFMs do not have a common understanding of what it is and why it matters.
- Performance-based budgeting (PBB) can help advance gender equality and poverty reduction if government ministries and agencies agree on the importance of gender equality, acknowledge the vital role of women and the poor, and learn from experiences.
- We recommend improvements in the way CFMs are conceptualized and designed, and funds are allocated and used. Monitoring, evaluation and learning systems need to focus on impact, give voice for women and the poor, and enable improvements with time.

Introduction

Climate finance mechanisms (CFMs) are a set of institutional instruments that govern finance that are used to support climate action - activities aimed at mitigating or adapting to climate change. Climate action, gender and poverty are entwined, which means CFMs have the potential to either reduce or worsen inequality. At the national level, CFMs can influence inequalities through the way they are designed, planned, administered and monitored. Therefore, an urgent need exists for gender-responsive and pro-poor CFMs, particularly in developing countries. These countries face acute vulnerabilities to climate change, face budget constraints to tackle those vulnerabilities and have underlying economic and gender inequities. To date, little analysis has been conducted into how developing countries deliver and administer climate finance (Atmadja et al. 2018).

Worldwide, there is growing recognition that climate finance needs to integrate gender concerns (Habtezion 2013). At the same time, interest and financing for forest-based climate actions have skyrocketed in recent years, putting Indonesia at the forefront. In 2019, Indonesia established the Public Agency for Environment Fund Management (BPD LH), a dedicated mechanism to manage funds for environmental and climate action. In August 2020, Indonesia received more than USD 100 million in results-based payments from the Green Climate Fund for reducing forest-based emissions in 2014 to 2016.

CFMs in Indonesia such as BPD LH and others can be potential instruments for reducing gender inequalities and poverty if gender equality and pro-poor objectives are integrated into their processes. In 2003, Indonesia started implementing the Performance-Based Budgeting

(PBB) approach, which links state budget allocations with expected results. PBB can be a powerful tool to ensure financial resources are aligned with social objectives. Our work focuses on how financial mechanisms in Indonesia can advancing gender equality and pro-poor, at the national level.

Study design

We analyzed the integration of gender equality and poverty reduction objectives in five financial mechanisms at the national level: Village Fund (Dana Desa), Public Service Agency - Center for Forest Development Financing (BLUP3H¹), Indonesia Climate Change Trust Fund (ICCTF), Special Allocation Fund (DAK), and BPD LH. In 2019, BLUP3H merged into BPD LH.

The five CFMs represent a diversity of institutional characteristics, objectives, incentive structures for beneficiaries, and scope of work. Their objectives are aligned to climate change or environmental goals, although they do not necessarily have to be the main objective of the mechanism. They are well-established, based on longevity (since 2010) or volume of funds managed or expected (at least IDR 1 trillion [USD 68 million] a year).

We assessed CFMs using an analytical framework described in Atmadja et al. 2020. We collected the data from June to September 2019 through interviews with 23 key informants at the national level, representing 10 government agencies that manage the funds. This was complemented by a review of public documents such as institutional publications, laws, theses, journal articles, social media, blogs and newspapers stories. Detailed results of our analysis are also found in Atmadja et al. 2020.

Findings

CFM concept and design

Each of the five CFMs integrate gender equality and poverty reduction in a unique manner. ICCTF mainstreams gender throughout its processes and can offer lessons learned in the context of project-based funding mechanisms and the cost of doing so. Dana Desa includes gender in its design through government regulations, but still struggles to provide the enabling conditions for village administrators and community members. DAK and BLUP3H have not included gender in their strategies and procedures, although there are efforts from BLUP3H to identify gender issues. All CFMs in this study embrace poverty alleviation objectives through job creation, but do

not have the means to monitor the number and quality of jobs created and ensure the poor benefit from financed activities. In addition, there is no data on the participation of the poor, despite explicit aims for poverty reduction.

To avoid creating larger gaps between women and men, and the rich and poor, CFMs should be designed to address existing inequalities.

In BLUP3H, almost all beneficiaries are men. There is no rule against female beneficiaries, but all the practical requirements are difficult to attain for women. For example, requirements of asset ownership, business skills, access to information, and memberships in cooperatives favor men or the rich. This is an example of the type of implicit barrier against women and the poor limiting their ability to access and benefit from CFMs. In the case of Dana Desa, fund allocation is based on village discussion forums. Outcomes depend on how women, men, the rich and poor share power in these forums. These social dynamics can result in Dana Desa either improving or worsening gender and poverty gaps. At the household level, benefits to women and men depend on how they make decisions for the family, share roles and responsibilities and understand each other's interests.

CFMs and the government ministries that manage them should reach common ground on what gender equality is and why it is important.

While several Indonesian laws promote gender equality and poverty alleviation, implementation still depends on the institutional context. Although there is a general agreement about the importance of poverty alleviation, we found varying interpretations of the meaning of gender equality and its relative importance. BLUP3H is becoming more gender-aware by implementing the gender analysis pathway (GAP) that identifies gendered-constraints in accessing the CFM's benefits. Despite this, some officials said they felt the mechanism is gender-inclusive because it is accessible for all, including women, as long they fulfill the requirements to access financing. Nevertheless, their 2018 GAP results found that very few beneficiaries are female, suggesting that there are underlying issues preventing higher female participation that need to be addressed.

Technical aspects of CFMs can have impacts on gender equality and poverty reduction.

Regulations on interest rates, subsidies and budgeting can determine whether the mechanism has adequate funds to cover operational costs of providing equitable access in addition to monitoring impacts. Loan requirements (e.g., land ownership, skills, membership in certain institutions) can effectively bar women and the poor. Even if finance is allocated to districts or provinces instead of villages and households, the activities being financed also need to consider impacts on gender equality. DAK funding is part of the state

¹ Also known as BLU Pusat P2H.

budget that supports activities proposed by district, city or provincial bureaus through their respective ministries. It has two notable features compared to other mechanisms we studied. First, it does not allocate funds to villages, non-governmental organizations, community groups, private entities or individuals. Second, gender equality is practically absent in DAK guidelines. DAK defers to each technical ministry for setting the tone on gender equality. In 2017, the DAK funds for environmental programs (DAK-LH) encouraged local governments to consider gender in their DAK funding proposals. We could not find information on how local governments are responding.

There are limited opportunities for women and the poor to voice their concerns and influence fund management and use. The decisions on how to use Dana Desa are based on village-level forums to ensure inclusive decision-making processes. Nevertheless, interviewees acknowledge that most forums do not sufficiently include women and the poor due to the social norms. BLUP3H's GAP and Gender Budget Statement (GBS) results show that women lack access to the fund. There are no specific provisions that consider poverty status, nor are there well-documented efforts to ensure that rural poor can access the funds. In determining fund eligibility and allocation amounts, DAK guidelines do not explicitly include gender indicators. Poverty indicators are assumed to be included by factoring in fiscal capacity, but our analysis finds these indicators are not positively correlated: the poorest areas may not be the ones with the lowest fiscal capacity.² Gender mainstreaming is recommended during the planning stage, when local governments design proposals for activities, but is unlikely to be practiced. Poverty reduction is an important motivation for the use of DAK funding, but we could not find any documentation to suggest that the poor are involved in any aspect of design, planning, implementation or monitoring.

Aligning procedures and systems with mainstreaming gender in the financial mechanisms are challenging. The mandates for specific mechanisms within a financial institution can lead to difficulties in providing services to women and the poor. To some extent, most CFMs are required to use existing systems where barriers against women and the poor are inadvertently built in. For example, BLUP3H is mandated to manage the Reforestation Fund, a national fund financed by a volume-based timber levy to support forest rehabilitation and reforestation. The use and disbursement of this fund is subject to specific regulations such as proof of individual or communal land

rights. Nevertheless, these conditions mostly exist in Java, which has low poverty rates compared to other islands in Indonesia. Women are not well-represented in forest farmer groups and cooperatives, on which communal land rights are based. Efforts to reduce financial risks by financing "safe" recipients with clear tenure, technical abilities and financial abilities could create barriers for women and the poor.

Many financial mechanisms lack monitoring and evaluation to understand their specific impact on beneficiaries and on climate change. They may have a theory of how financed activities could produce these impacts, but these theories are as yet unproven. Dana Desa uses district-level poverty statistics to monitor performance on poverty reduction. This statistic captures income changes across districts, but does not capture how the funds produces those changes and how changes are distributed across men, women, the rich and poor. BLUP3H aims to reduce poverty through employment generation, yet data on poverty status among beneficiaries and the employment generated is not available. Government and non-governmental institutions are collaborating to ensure women can benefit from Dana Desa, through capacity building and awareness-raising activities to village community members and leaders related to gender, for example. These collaborative efforts must be better documented, supported, and acknowledged.

Monitoring and evaluation (M&E) of impacts and documentation of actions must be improved to advancing CFMs' implementation. Each action is an opportunity for learning. The CFMs studied had financial and output monitoring systems (e.g., whether activities were implemented, and funds were used), but little – if any – system to monitor the impacts of their actions on gender equality or poverty reduction (e.g., whether gender gaps and poverty were reduced). In some cases, there are efforts to monitor indicators of social impacts. In BLUP3H, for example, the indicator proposed for measuring improvements in gender equality is the proportion of women that signed a credit agreement for a year. One study shows that the current rate is very low (e.g., 1%).³ Impact-oriented monitoring systems could help institutions (ministries, mechanisms, villages) to learn and identify ways to improve the design and implementation of CFMs.

A transformational PBB system needs a more robust monitoring and evaluation system and – above all – human resources. Specifically: people who understand and can operationalize gender equality and poverty reduction in budgeting at the national and sub-national levels; can operate the PBB system at the ministerial, unit and sub-

² Based on data from PMK 119/PMK.07/2017 on Regional Fiscal Capacity (<http://www.jdih.kemenkeu.go.id/fullText/2017/119~PMK.07~2017Per.pdf>)

³ Syamsu et al., 2019. <https://doi.org/10.29244/jpsl.9.1.114-127>.

unit levels; can generate the data needed to monitor outputs; can oversee and coordinate PBB implementation across ministries; and can link PBB processes with gender mainstreaming processes (e.g., GAP, GBS) so that inputs from one can feed into the other. For example, BLUP3H implemented GAP and GBS, which helped identify indicators for gender-mainstreaming that could be used as indicators for PBB. PBB needs to go beyond programmatic synchronization, monitoring and evaluation, to become a platform for learning and rewarding good performance. PBB can become a more effective tool for advancing gender equality and poverty reduction when institutions integrate these issues in a mechanism or into a project's vision, mission or objectives linked to input, output, outcome, and impact indicators for the PBB process.

Fund allocation and use

Financial mechanisms must be designed to invest in addressing inequalities. Such efforts entail additional short-term costs with long-term benefits. Financial support for small businesses, especially women and the poor, can mean managing large numbers of small and risky loans, retaining skilled field staff, providing regular interactions between beneficiaries and staff and building the capacity of beneficiaries. Lessons can be learned from existing micro-credit programs. For example the Mekaar micro-credit program of PT. PNM, a state-owned enterprise, serves 4 million women living in poverty and has demonstrated its impact on poverty reduction and gender equality (PNM 2019).^{4,5} Loans range from IDR 2 to 5 million (USD 141 to 353).⁶ Mekaar charges high interest rates (25% per annum in comparison to 8 to 12% capped for BLUP3H) to cover its high operational costs, which includes 15,000 local facilitators, five-days of training and weekly meetings for credit recipients throughout their loan period.⁷ Compliance with international standards to better integrate gender and pro-poor norms come at a high operational cost. For example, ICCTF uses international governance and safeguard standards, resulting in comparatively strong monitoring, evaluation and learning processes and deeper integration of gender equality and poverty reduction into various parts of their process. Meeting these standards

4 <https://www.pnm.co.id/business/pnm-mekaar>

5 Based on impact stories recorded on Instagram (#Mekaar, @pnm_persero). The program also received an award for poverty reduction from the government of Central Lombok in February 2019 (<https://seremonia.kontan.co.id/news/pnm-menerima-penghargaan-dari-pemkab-lombok-tengah-ntb>)

6 Based on 2019 exchange rate from <https://data.worldbank.org/indicator/PA.NUS.FCRF?locations=ID>

7 Interest rate imputed based on <https://www.pnm.co.id/news/pnm-nasabah-mekaar-jadi-4-42-juta-per-akhir-maret-2019>

is costly, as reflected in high percentage of institutional indirect costs (34%).

Activities that can reduce poverty in the short term must be sustained by long-term investments in the building of human capital through community empowerment activities.

Villages need support and encouragement to start using more funds for such empowerment activities. For example, the cash-for-work program in Dana Desa provides short-term employment to millions of marginalized people through wage labor to build infrastructure. Beneficiaries could progress beyond being short-term wage labor if they could receive practical training in project management and skills (e.g. carpentry, masonry) as part of the program. Even if villages could use Dana Desa to fund empowerment activities, the fund is rarely used for such activities (e.g., 7% of funds in 2016). Instead, most funds were used for development activities, notably for building infrastructure. Shifting to empowerment activities requires support (e.g., access to training programs and trainers) and encouragement from subnational and national leaders.

Village administrators need support in managing their finances efficiently and equitably.

Technical support to help villages better manage their finance is being provided, but it is not sufficient. For example, Kemendes PDTT contracted and trained approximately 40,000 village facilitators (*"Pendamping Desa"*), who are at the forefront of empowering villages to manage their own financial affairs. Nevertheless, the scope and reach of this technical support is limited and the ministry is trying to address issues related to the large turnover in facilitators. These issues are being addressed by the ministry during the time of study. Kemendes PDTT's Basic Social Services unit (PSD) was preparing a guide for women empowerment at the village level that can help address village-level governance issues.

In places where gender gaps are widening, extra support is needed for women to be more active in village governance.

There are existing collaborations between Kemendes PDTT's PSD unit and PEKKA (Empowerment of Women Household Heads) foundation to facilitate women's participation in village government bodies and to actively participate in village discussion forums. Efforts to encourage villages to make more gender-conscious choices for Dana Desa exist and are ad-hoc, taking advantage of existing collaborations, programs, projects or staff.

Recommendations

Indonesia has laws and policies that support gender equality and poverty reduction, but there are widespread

challenges in integrating them into policies and practices within CFMs. There are differing ideas on what “gender equality” means and whether and how to achieve it. This hinders the necessary investments needed to mainstream gender and poverty reduction into CFMs. In this infobrief, we offer the following general recommendations, while CFM-specific recommendations can be found in our report on the same topic (Atmadja et al., 2020).

How can gender equality and poverty reduction be better integrated into the concept and design of CFMs?

- Integrate gender equality and poverty reduction in vision, mission and implementation. Consider that gender equality enables equitable poverty reduction. Such integration entails strengthening human resources by covering the range of skills necessary to run a financing mechanism that can equally serve women and men and assist the poor. For example, hiring finance experts at the national level or extension agents at the local level to be effective ambassadors of financial mechanisms that care about gender equality and poverty reduction (e.g., BPD LH, Dana Desa).
- Evaluate human and operational resource needs in relation to poverty reduction and gender equality goals, estimate the costs required, and build a business strategy to match.
- If not yet conducted, perform GAP and Gender Budget Statement analyses and similar analyses focusing on the poor, every three to five years. For those who have done GAP and GBS (e.g., BLUP3H), improve the quality and evaluate the effectiveness of follow-up actions. Ministries and government agencies can start with existing guidelines and examples (Nurhaeni n.d.; KemenPPA 2010; Ministry of Public Works 2013; Bappenas 2011).
- Conduct an internal assessment of perceptions on gender equality and explore the meaning of gender equality for CFMs using internal forums. Such assessments can be used as a basis to provide training on gender mainstreaming at the ministerial/agency level, and training on value-based financing at different levels of the CFM (national to local). Discussion can be sparked by events like awards, which KLHK has established to acknowledge gender mainstreaming performance internally (KLHK, 2020). The Ministry of Finance in collaboration with the Ministry of Women Empowerment and Child Protection should launch a program that identifies and addresses the human resource gaps in understanding and implementing PBB. Moreover, a program that can provide sufficient financial and political support and motivation to line ministries to address those gaps.

- If seeking international funding sources, harmonize policies, strategies and procedures with those espoused by international donors, and ensure safeguards principles are applied. Extra compliance costs must be viewed in the context of potential social benefits. Learn from successful mission-oriented financial institutions, and from value-based banking⁸ on how to overcome these systematic barriers unique to financial institutions.

How can CFMs allocate and use funds to reduce gender inequalities and poverty?

- CFMs need to consider investing in capacity building for beneficiaries, to ensure men, women and the poor can access funds equally and use them effectively. Funds such as Dana Desa need to balance fund allocation between development and empowerment. Empowerment activities are more complex. Shift towards more empowerment activities will need to be supported with technical support and practical guidelines. Provide continued, local support for village leaders so they can manage funds in a way that benefits men and women equally, and provides long-term economic opportunities for the poor.
- Use gender equality indicators and poverty alleviation indicators to calculate fund allocations (e.g., DAK). Reward recipients who have shown improvements in advancing gender equality and poverty alleviation publicly through awards, with prizes (e.g. flexible fiscal allocation), which recipients can use for meeting locally relevant needs aligned with national goals (e.g., Dana Desa, DAK). Ensure that recipients are aware that additional allocation is a “prize money” for good performance, rather than making it an obscure part of a fiscal transfer.

How can CFMs monitor progress on improving gender equality and reducing poverty?

- Use indicators to monitor outcomes on gender equality (men and women) and poverty reduction; document and monitor efforts to improve these outcomes.
- Collect gender-disaggregated and poverty data during various financing phases, e.g. financing proposals, appraisals, agreements, repayments, and reporting.
- Use methods that explicitly link MEL with internal strategy and policy-making cycles and procedures to ensure that data is collected, lessons extracted, and a course of action is taken based on these lessons.
- Link gender equality and poverty reduction outcomes with organizational objectives assessed in the PBB system.

⁸ For example, UNEP, 2015; <http://www.gabv.org/>

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