Enhancing Philanthropy's Role in SDGs Financing in Indonesia: The importance of achieving SDGs, the role of philanthropists, and stakeholders collaboration

I. Current SDGs landscape and challenges in philanthropy participation

The Sustainable Development Goals (SDGs) describe a universal agenda that applies and must be implemented by 193 countries which were agreed upon at the General Assembly of the United Nations (UN) on September 25, 2015. The SDGs contain 17 goals and 169 targets that are expected to be achieved by 2030. Some of the main goals of the SDGs include life without poverty, energy efficiency, and gender equality. Indonesia is one of the countries that have adopted and implemented the SDGs concept to achieve it by 2030. Indonesia, through the Central Statistics Agency (BPS), the Ministry of Planning and National Development (Bappenas/Ministry of PPN) and in collaboration with other relevant agencies, also participates in monitoring, evaluating, and reporting on the performance of Indonesia’s commitment to adopting the SDGs concept.

The Sustainable Development Report by United Nations Sustainable Development Solutions Network (UNSDSN) shows that since the SDGs were agreed upon in 2015, the index for implementing the SDGs in Indonesia has always experienced changes, both in points and global rankings. It was noted that Indonesia was first included in The Sustainable Development Report/The SDG Index & Dashboards in 2016. In the report, Indonesia was ranked 98th with 54.38 points. In 2021, Indonesia was ranked 97th with 66.3 points. Indonesia itself ranks 6th in terms of achieving the 2021 SDGs in the Southeast Asia region and ranks 97th globally (see Figure 1 and Figure 2 below).

In terms of 17 SDGs target achievement, the Government of Indonesia (GoI) has regularly monitored and evaluated the implementation of SDGs at the national and sub-national levels. The GoI has also released three Voluntary National Review (VNR) reports on SDGs achievement. In the last VNR report, the GoI stated that Indonesia has already achieved 60% of its target by the end of 2020 (Bappenas, 2021). Breaking down the achievement into four development issues, namely social, economic, environment, and governance, there is an improvement in all the targets. For instance, in the social aspect, the prevalence of stunting is reduced from 27.7% in 2019 to 24.4% in 2021, and in the economic aspect, the new and renewable energy mix is increased from 11.30% to 11.70% from 2020 – 2021. Despite the improvement, the achievement is still below the expected target. The government cannot achieve the 2030 agenda alone. Active
involvement of business, sub-regional authorities, capital markets, and other non-state actors is also very important in achieving the indicators that have been set.

Reflecting on Indonesia's current achievement on SDGs, collective action between government and non-state actors, such as business sectors and philanthropy, is crucial to address the gap in SDGs implementation in Indonesia, especially in regards to financing. Without any collaboration and joint action, addressing systemic issues like SDGs may not have a great impact (Rickmers, et al., 2021). There are already directions on collective action between government and non-state actors to support the implementation of the SDGs on the National Action Plan - Sustainable Development Goals (NAP-SDG) 2030. In the action plan, one of the most challenging issues was the financing issue. The Indonesian government has already estimated the financing gap to achieve SDGs was Rp 14.108 trillion for 2020 – 2030 and yet the pandemic has widened the financing gap (Bappenas, 2019 & Bappenas, 2021). Most of the financing needs are estimated for infrastructure (transportation, energy, and water supply and sanitation), health and education sector. Through the state budget, the Government of Indonesia can only cover 60% of the total financing needs (Bappenas, 2021). Thus, non-state actors' contribution is needed to successfully achieve the target.

Philanthropy is one of the actors that potentially can be a collaborator to achieving the target. Philanthropy funding is expected to solve massive problems that the community around the globe are facing rather than expecting any financial return (Rickmers, et al., 2021). According to the OECD report in 2021, the global philanthropy contribution in 2016-2019 was USD 42.5 billion, with 70% of the fund being distributed for SDGs activities in middle-income countries. Most of it is directed toward health, education, and agriculture programs. In Indonesia, philanthropies have disbursed IDR 11.76, IDR 12.52, and IDR 15.40 trillion for Indonesia's development program from 2018 to 2020.
(Filantropi Indonesia, 2022). In terms of SDGs financing, SDG 4 (Quality Education) has the most funded activities by Indonesian philanthropy, while SDG 8 (Decent Work and Economic growth) gets the most funding overall (Filantropi Indonesia, 2022).

Despite having a promising trend, philanthropy still faces several challenges in terms of disbursement of funds in SDGs Financing. Both international and local philanthropy have the same problems, limited internal capacity and funding matchmaking problems (OECD, 2021; Indonesian Philanthropy 2022). In Indonesia, the inflexibility of local governments to collaborate on SDGs actions and low public awareness are also obstacles to forming collaborative actions in handling SDGs issues (Indonesian Philanthropy, 2022). On the other hand, Islamic philanthropy, which is estimated to have a funding potential of more than IDR 327 trillion is still not widely involved in collaborative actions for the Financing of SDGs (Indonesian Philanthropy, 2022). Lastly, there are still limited incentives, both fiscal and non-fiscal instruments, as well as the absence of a strong signal from the government that encourages philanthropy involvement in achieving the SDGs targets.

II. The need for collective action among philanthropists and other stakeholders

Achieving SDGs targets is not an easy task to achieve by only one entity, it needs collaboration among all the stakeholders. There are many problems that are faced to achieving SDGs target such as lack of coordination, high financing gaps, limited activities, as well as many technical difficulties in every activity. For that reason, this section discusses how each stakeholder’s role should be maximized to accelerate SDGs activities. The stakeholders include central and local governments, private companies, Civil Society Organization (CSO), and philanthropy. Table 1 below illustrates the mechanism of interaction among them.

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Central Government: Central government has a crucial role in planning the overall SDGs programs and their targets. The local government is expected to develop a road map that includes details of planning and priority areas. Current Indonesia’s SDGs roadmap (NAP – SGDs) only stated the current SDGs target without any clear chain of command and responsibilities. This roadmap should aim to give a signal from the central government to other stakeholders. Supporting the national planning, the central government should also build an enabling environment as well as incentives for all the stakeholders by developing supportive regulations. Through the central government budget, the government can also implement large-scale SDGs activity projects as an example or to attract stakeholders to be involved in SDGs activities. Lastly, the central government is also expected to monitor and evaluate the achievement of SDGs which is important for developing the next planning document.

Local government: The role of local government, especially at the city or district level, is critical in this stakeholder arrangement. While the central government oversees national and regulation planning, the executions of all SDGs activities take place at the jurisdictional level, in accordance with Regional Action Plan for Sustainable Development Goals (RAD SDGs). SDGs activities at the regional level are also unique, they need to be tailored according to the local context. The local government should play a role in disseminating information about investment opportunities and acts as a coordinator for regional stakeholders. In this regard, firstly, the local government needs to mainstream and align regional planning (RPJMD) with national SDGs planning. In other words, they must include the SDGs’ activities and targets regional priority area. This is critical since the local government still cannot corporate SDGs aspects in their regional planning and activities. Current SDGs activities are also often perceived as burdens (Filantropi Indonesia, 2022). In this regard, to mainstream SDGs into the local government’s planning agenda, there is a need to increase the capacity of human resources in local government (Halimatussadiah, 2020). This problem needs to be solved by the local government while the central government should have a mechanism to ensure vertical integration. After that, local governments should push enabling regulations with respect to their regional conditions and needs. This could play an essential role to enhance collective action.
Lastly, as stated in Law No. 23/2014 about Local Government, local government has been given the mandate to implement activities related to their responsibility, including SDGs. With their limited fiscal capacity, local governments need to engage with other stakeholders to establish collaboration for SDGs action. Currently, this has become the most significant challenge for financers as the local governments are not fully open about their activities in SDGs (Filantropi Indonesia, 2022). Local governments are expected to identify potential SDGs activities or projects to be worked on with other actors to make them easier to collaborate in. They are also expected to monitor and evaluate the achievement of SDGs in their area for developing the next regional planning document. These roles need to be supported by an established new business model that could attract many financers to fund SDGs activities.

**SDGs Focal Point:** Indonesia already has an SDGs focal point which is called the National Secretariat of SDGs (Seknas SDGs). This institution has a crucial role as a leader for stakeholders to spur collective action in achieving SDGs targets. In the collective action arrangement, Seknas SDGs is expected to have three main functions as a planner, an investment hub and a monitoring and evaluating body. Firstly, the Seknas SDGs is expected to have a role to develop action plans for SDGs action in Indonesia. These plans are not only important for the government but also give signals for the private sector to act.

Secondly, Seknas SDG's is expected to have a role as an investment hub. As an investment hub, it will be easier for investors to place their funds as investors tend to gather on one platform with a huge amount of funds. Investment hubs need to play at least two roles to ensure that the funds raised can be distributed properly. First, it is necessary to collect data on potential SDGs projects throughout Indonesia to be funded. Second, it needs to sort the projects and match them with the available funds. These roles are critical because they will inform the philanthropy about the potential project to be funded and lower the risk of projects hence increasing philanthropy's financial contribution towards SDGs achievement. As a fund distributor, the Seknas SDGs is also expected to distribute funds equally. For instance, when philanthropy places their fund through Seknas SDGs, Seknas SDGs will distribute the fund to projects with various development targets hence the unequal development issues funded will be minimalized. Lastly, rather than managing all the funds by itself, the Seknas SDGs could also become a coordinator that helps funders to channel the fund into established funding mechanisms. For instance, funding for forest conservation can be channeled through Indonesian Environment Fund (BPDLH) or funding for infrastructure development can be channeled through PT SMI through its SDGs One Platform.

As a monitoring and evaluating body, this institution will have the responsibility to monitor and evaluate activities that are funded as well as nationwide activities in collaboration with all the stakeholders. These roles are important so that the SDGs targets can be fully evaluated, and the data can be used by the government for...
improving their policy. The best practice of this role can be imitated from what has been done by the National Disaster Management Agency (BNPB) and the Indonesia COVID center, which act as leaders in disaster management and COVID-19 pandemic in collaboration with various actors such as government, CSO, as well as private sectors.

Finally, the Seknas SDGs can also help accelerate SDGs progress in Indonesia through another role. Seknas SDGs can allocate their funds for awareness campaigns. This is important since Indonesians still have limited concerns about SDGs (Filantropi Indonesia, 2022). The awareness campaign would become a highlight that can bring many ideas for achieving SDGs that come from the community.

### Study Case: Philanthropy Involvement in SDG Indonesia One Platform

In 2018, the government of Indonesia through its state-owned enterprise (SOE), PT Sarana Multi Infrastruktur (PT SMI) launched an integrated infrastructure financing framework called SDG Indonesia One. This platform aims to combine public and private funds using a blended finance scheme to fund SDGs related infrastructure projects. This platform has four pillars namely development facilities, de-risking facilities, financing facilities, and equity funds. Through all the four platforms, the funds will be used to finance all phases of the project from development to implementation.

Through the SDG Indonesia One Platform, there have been many donors and investors who have already been involved to fund projects including philanthropy. One example of philanthropy involvement is on Desa Bakti Untuk Negeri (DBUN) III – Bajo Climate Village Program which aims to support mitigation and adaptation activities, economic development, and institutional capacity building. The blended financing mechanism is used in this project by combining funds from several international philanthropy (grant) and the Ministry of Finance (equity) where PT SMI disbursed the fund to the project implementer and provincial government. DBUN III project has contributed to achieving SGD goals 1, 3, 5, 6, 8, 13, 14, and 17. This project also gives an example of how SDGs focal point could take a role as the investment hub while involving philanthropy financing.

**Private companies:** Private companies, in this case, play an important role in implementing as well as funding SDGs activities. Currently, the private companies that initiate SDGs through their Corporate Social Responsibility (CSR) program, can initiate programs related to SDGs targets. For instance, company CSR on waste collection and improvement in informal sectors can be accounted as SDGS activity because it is related to SDGs No. 12, sustainable production and consumption. Unfortunately, the CSR-based program is voluntary and it is not consistent. A solution for leveraging private companies to engage in SDGs is by strengthening the environmental, social, and governance (ESG) practice that is already been mandated by the government. Thus, mechanisms for
ensuring the ESG are being implemented by private companies. Once the mechanisms are established, private companies’ involvement in SDGs could be leveraged with the potential long-term collaboration with Non-Governmental Organizations (NGOs) and socio-preneurs blended financing mechanism. Lastly, companies that run SDGs activities projects could also help Seknas SDGs by evaluating and reporting their own projects.

**CSO:** CSO who got funding from funders, with help of other stakeholders, could play a role as SDGs projects implementor. As an implementor, CSO could also play roles in monitoring and evaluating their own projects to support the monitoring and evaluation of SDGs actions by Seknas SDGs. CSO also can provide some guidance and training for the community to conduct SDGs projects as well as increase society’s awareness about SDGs projects.

**Philanthropy:** Opportunities for philanthropies to be involved in achieving SDGs are widely open. Philanthropy can involve in all SDGs activities from planning to implementation, which could help to achieve SDGs targets (Rockefeller, n.d.). The main role of philanthropy in achieving SDGs targets is acting as a funder. Philanthropy fund could become a catalyst to attract and enable private sector investment as de-risking funds by accepting disproportionate risk or concessionary returns (Rickmers, et al., 2021). This could enhance blended financing instruments towards better- and high-quality funding. The funds become critical since the financing gap is relatively high. However, the government needs to prepare an environment where philanthropies can comfortably finance activities or capacity-building programs for achieving SDGs targets.

### III. Identifying feasible and visible action plans

According to the World Giving Index, Indonesia is still listed as the most generous country in the world in terms of donations (Charities Aid Foundation, 2021). More than 8 out of 10 Indonesians donated money in that year. Despite this encouraging achievement, there are a number of tasks that must be completed to advance Indonesia's philanthropy. The large potential for philanthropic mobilization has not been fully realized because public donations are still primarily made through direct giving and are poorly organized. Donations to religious activities and social services are also significantly higher than donations to long-term programs such as education, health, economic empowerment, environmental conservation, and so on (Filantropi Indonesia, 2021).

To fully utilize the philanthropic potential in Indonesia, feasible and visible action plans are needed to be developed. Here are some identified plans to improve the SDGs financing ecosystem:
1) Establishment of a stakeholders forum. The stakeholders forum has a role to facilitate coordination between stakeholders in the SDGs financing ecosystem. This forum is needed to initiate and design a collective action plan as well as identify the roles of each potential stakeholder involved. In this case, the SDGs National Secretariat can take the role of initiating and leading this forum with the concept of collaborative government, in collaboration with local governments, CSOs, as well as national and local philanthropists. Apart from being implemented at the central level, this forum also needs to be initiated at the regional level to close the information gap between national and local governments and also to ensure the continuity of the SDGs program implementation and financing at the jurisdictional level. The existence of a stakeholder forum at the regional level can also open opportunities for co-creation of projects that are impactful on SDGs between stakeholders in the region as well as adjust the distribution of funding related to SDGs with regional development plans. This forum needs to be held regularly to ensure the sustainability of the SDGs program implementation at both the central and regional levels.

2) Enhancement of SDGs awareness. SDGs and their targets should be integrated as a culture in all elements of society, especially for stakeholders related to SDGs financing at national and regional levels. The important thing to increase awareness about SDGs is by signaling SDGs' priority issues, achievement gaps, and funding needs. In the case of philanthropy, usually, each of them already has its own funding appetite which may not necessarily be in line with the priority issues of the SDGs. In addition, the central government also needs to ensure that the SDGs agendas are included in regional development plans. Central and local governments can take advantage of stakeholder forums at national and local levels to increase SDGs awareness among all related stakeholders.

3) Creation of philanthropy database. A comprehensive philanthropy database is needed for monitoring and evaluating the achievements of SDGs programs that have been implemented and also for planning future programs. In the future, the database needs to be further developed to accommodate data on funded programs, beneficiaries of programs, impacts on SDGs targets, value and schemes of financing, etc. To support the creation of the philanthropy database, funders should be encouraged to track their progress on the SDGs, support data collection, and share their knowledge through convenings, published articles, or their own reporting. This philanthropy database can be
integrated into an investment hub and can yield insight and give funders a basis to discuss their priorities or make program decisions.

4) **Establishment of impact measurement mechanism.** All programs and funding related to the SDGs essentially need to be measured to ensure SDGs achievement. In this case, it is necessary for the government to build a valid measurement framework to evaluate the impact of the programs being financed. The government can also make reporting standards tailored explicitly to philanthropies’ unique transactions and economic events, such as the IFR4NPO which is currently undergoing (Sanderson, 2021). The results of impact measurement can then be integrated into the government’s SDGs dashboard. The results can also be used as guidance to drive funding toward projects with impact and scale.

5) **Employment of digital finance solutions.** The use of digital technology can be a very important element in making funding for SDGs more efficient. New digital funding technologies have emerged as one of the keys to future cross-border philanthropy (Osili, et al., 2020). The current use of digital technology for crowdfunding and online giving can be integrated to finance the SDGs agenda. Digital financing also has the potential to increase philanthropic mobilization and simplify the data collection of philanthropic funds.

6) **Reinforcement of enabling regulations.** Indonesia has committed to establishing a solid and cohesive policy framework for integrating the SDGs at the national and sub-national levels through Presidential Decree (Perpres) No. 59/2017. The decree also defined the relevant government agencies at the national and regional levels to achieve each existing national and global target of each SDG. Although the regulation provides a solid foundation for SDGs implementation, no provisions govern how relevant stakeholders must collaborate to achieve each SDG target. In this case, the government must strengthen existing regulations to include provisions for the establishment of a stakeholder forum as a means of collaboration between all government agencies and other stakeholders. In terms of philanthropic regulations, several legal frameworks can also be strengthened including provisions on tax incentives and deductions, arrangements for digital crowdfunding, and simplification of the permission process for public fundraising activities.
IV. Innovative instruments and incentives as financing solutions

To achieve the SDGs, trillions of dollars will be needed each year, far more than the billions currently contributed by governments and philanthropic organizations. With such a high demand for financing, achieving the SDGs will necessitate even more funds from private sources. To maximize the role of philanthropies and private companies, innovative instruments and incentives are needed as financing solutions.

Identification of non-conventional financing models

Philanthropic financing has so far focused on grants. It is possible to leverage traditional philanthropic activities by using financial instruments which fund profitable activities that also have a positive social impact (Monnet & Panizza, 2017). In this regard, innovative financing can expand philanthropic opportunities to channel funds and create impact at a scale.

To maximize the use of philanthropic funds, it is necessary to identify the nature of the financial viability of SDGs projects in order to place funds and use financing instruments appropriately. The types of projects are mapped out as follows:

1) **Non-commercial projects** are types of projects that are not financially viable. These kinds of projects are usually financed by the government as investors by nature will not put their financing here. Philanthropy can help finance this type of project in the form of a grant.

2) **Less commercial projects** are types of projects that are potentially financially viable but have a higher risk. Projects of this kind usually already have economic viability but do not yet have financial viability. In this case, investors need other funding sources with a higher level of risk tolerance. Philanthropy can fill this role as a source of de-risking funding in the form of low-cost funds or equity financing.

3) **Commercial projects** are types of projects that are financially viable. However, in some cases, commercial projects can produce positive social outcomes that are less likely to occur without additional funding. Philanthropy can also be involved in financing this kind of project to maximize its impact.

Below are several types of innovative financial instruments that can be financed by philanthropies:

1) **Viability gap fund (VGF)** is financial support in the form of a partial contribution to construction costs (usually for infrastructure) which is given to the project in cash at its initial stage. In Indonesia, VGF is usually financed by the government through the state budget in Public-Private Partnership (PPP).
projects. In this case, philanthropic grants can be used as an alternative source of VGF funds.

2) **Seed fund** is equity-based funding where philanthropy could invest funds in a project during its early stages in exchange for shares of the project. This funding can be provided by philanthropy to commercial projects that have a large initial funding need and have the potential to produce positive social outcomes.

3) **Results-based financing** is an umbrella term referring to any program that provides rewards to individuals or institutions after agreed-upon results are achieved and verified. This kind of financing can help direct the desired outcomes of a project and creates strong incentives for project implementers to achieve results.

4) **Revolving fund** is a fund established for the sole purpose of making loans to spending or investing for a specific purpose, with the condition that repayments, benefits, or income from the fund may only be used for these purposes. It is frequently used in developing countries for non-profit organizations and activities.

5) **SDGs bonds** are bond instruments with a cheap cost to provide a source of capital for a variety of stakeholders involved in the implementation of the 2030 agenda. SDG bonds come with a diverse portfolio including sovereign, municipal, corporate and project bonds across developed and emerging markets.

6) **Social impact bonds**, also known as pay-for-success bonds, are contracts with the public sector in which repayment is conditional on achieving a certain social outcome (OECD, 2016). Social impact bonds are different from standard debt contracts because they do not offer a fixed rate of return. Instead, they are equity-like instruments in which the return depends on the social impact of a project.

In an effort to explore and diversify the SDG financing portfolio, the SDGs Financing Toolkit from UNDP can help philanthropic efforts to choose the right financing instrument. This toolkit is intended for practitioners who wish to diversify the mix of development finance tools. It can be used to investigate the potential benefits, drawbacks, risks, and characteristics of financing solutions in the context of the project and country (UNDP, 2020).
The need to enhance current fiscal incentives

Indonesia currently has several incentive mechanisms in place for philanthropic funding. The primary legal framework for tax incentives is contained in Government Regulation No. 93/2010, which explains how tax incentives for natural disaster donations, research and development, educational facilities, sports development, and social infrastructure development costs can be deducted from gross income. Furthermore, the Ministry of Finance issued Minister of Finance Regulation (PMK) number 90 of 2020 and PMK number 128 of 2019, which govern the exclusion of aid, donations, and grants as tax objects and the provisions for super deduction tax. However, these tax incentives are still considered to be limited in terms of the types of tax incentives available and the sectors targeted by philanthropy. In this case, the government should extend tax breaks to other sectors that can help the nation's development agenda. Another potential additional incentive is to look into incentives for taxes other than income tax, such as Value Added Tax (VAT) and Duty on the Acquisition of Rights to Land and Building (BPHTB) as local taxes, as well as Tax on Motor Vehicles and Duty on the Transfer of Motor Vehicle Rights (TMV) (Rosdiana, Inayati, & Murwendah, 2019). Philanthropists also consider that the process of administering tax incentives is complicated (Filantropi Indonesia, 2022), so claiming a tax deduction is often not worth the effort. To improve tax administration efficiency, the government must optimize the digitization process.

Conclusion

Reflecting on Indonesia's current achievement on SGDs, collective action between government and non-state actors, such as business sectors and philanthropy, is crucial to address the gap in SDGs implementation. We recommend that the Seknas SDGs as the Focal Point to strengthening its position in leading the stakeholders collaboration while other actors (central and local government, CSO, and private sectors) should maximize their roles in SDGs activities. To support the roles of each stakeholder, several action plans are also needed to be done such as the creation of stakeholders forum, enhancement of SDGs awareness, creation of philanthropy database and impact measurement mechanism, employment of digital finance solutions, and reinforcement of enabling regulations. In addition, to maximize the potential of philanthropic funding, there must be an expansion of alternative philanthropic financing towards non-conventional financing instruments to expand philanthropic opportunities to channel funds and create impacts on a large scale. The government may also strengthen fiscal incentives from existing regulations in order to boost philanthropic funding for the SDGs.
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