The Political Economy of Climate Finance: Stakeholder Relationship Dynamics in the Indonesian Just Energy Transition Partnership

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ABSTRACT

As the global community tackles climate change, climate finance emerges as a critical mechanism to facilitate the transition to low-carbon economies in developing nations. This study explores the political economy of climate finance, focusing on Indonesia's Just Energy Transition Partnership (JETP). Through qualitative analysis of stakeholder interviews, the study unpacks the complex dynamics and power asymmetries influencing climate finance mobilisation, governance, and implementation. Key challenges identified include Indonesia's weak institutional framework, policy ambiguity, competing domestic interests, lack of political alignment among international partners, and unrealistic targets. These issues reflect deeper tensions between sovereign decision-making and external pressures, compounded by entrenched coal sector interests and fragmented donor strategies. The findings highlight the climate finance curse, where large-scale financial inflows can create inefficiencies, governance challenges, and perpetuate external influence, akin to neo-colonial practices. This study suggests the need for greater transparency, achievable targets, inclusive governance, and improved coordination among international partners to ensure effective climate finance delivery.

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I. Introduction

As the world grapples with climate change, developing countries—the most vulnerable to its impacts—require significant investment to facilitate their transition to a low-carbon economy.[1] Since these countries often struggle to mobilise the funds for this transition on their own, they depend on the allocation of

[1] Smith, Joel, et al. "Development and Climate Change Adaptation Funding: Coordination and Integration." *Climate Policy*, vol. 11, no. 3, June 2011, pp. 987–1000.

substantial financial resources from developed to developing countries.

However, climate finance transcends mere financial transactions: it is deeply intertwined with the broader political economy.[2] The mobilisation, allocation, and utilisation of climate finance are influenced by complex interdependencies among many different stakeholders, including governments, businesses, non-governmental organisations, and local communities. Understanding the dynamics among these actors is essential for unravelling the challenges that impede effective climate financing.

This article aims to shed light on the complex interdependencies and political undercurrents that shape climate finance activities. Specifically, it explores the political economy dimensions of energy transition finance, focusing on the interplay between partner and recipient countries.

A case study of the Just Energy Transition Partnership (JETP) in Indonesia serves as the focal point for the analysis. The JETP represents a commitment from Indonesia and international partners to facilitate a just transition in Indonesia from coal dependency to renewable energy sources. However, this partnership is not without its complexities. It involves navigating power asymmetries between Indonesia and its partner countries, where divergent interests and levels of influence can significantly impact the partnership processes.

II. **Climate Finance**

According to Article 9 of the Paris Agreement, climate finance is the mobilisation of both public and private finance from developed countries to developing countries to support their mitigation and adaptation efforts. Climate finance became an important climate change topic during the 15th Conference of the Parties (COP15) in Copenhagen. The Copenhagen Accord, particularly in Paragraphs 8, 9, and 10, emphasises the need for climate finance to combat climate change. At COP15 in 2009, developed countries committed to mobilising USD 100 billion of climate finance annually by 2020 to support developing countries.[3] This deadline was postponed to 2025 at COP21 in 2015.[4] The overall amount of climate finance that had been contributed and mobilised by 2021 was USD 89.6 billion, a notable rise of 7.6% from the previous year (see Figure 1, below). In 2022, the USD 100 billion goal was finally reached.

A. *Principles and Challenges in Climate Finance*

The implementation of climate finance initiatives is informed by some generally recognized principles, such as the polluter pays principle (PPP). This principle asserts that those responsible for pollution should bear the costs associated with its environmental impact.[5] According to this principle, developed nations that are cumulatively the largest contributors to greenhouse gas emissions should be accountable for their actions and provide financial and technological support to developing countries. The complementary concept of common but differentiated responsibilities (CBDR) acknowledges that, while all countries share the responsibility to combat climate change, their historical contributions—and their capacities to respond—differ significantly.[6] This principle aims to foster an equitable climate finance framework that considers the historical injustices faced by developing nations.

Despite these ethical considerations, the current dynamics of climate finance raise

[2] Cash, Corrine, and Larry Swatuk. *The Political Economy of Climate Finance: Lessons from International Development*. Palgrave Macmillan, 2023.
[3] *Climate Finance Provided and Mobilised by Developed Countries in 2013-2021: Aggregate Trends and Opportunities for Scaling Up Adaptation and Mobilised Private Finance*. OECD, 2023.
[4] "Climate Finance in the Negotiations." *United Nations Framework Convention on Climate Change Webpage*.
[5] Munir, Muhammad. "History and Development of the Polluter Pays Principle." *SSRN Electronic Journal*, 2013.
[6] Stone, Christopher. "Common but Differentiated Responsibilities in International Law." *American Journal of International Law*, vol. 98, no. 2, Apr. 2004, pp. 276–301.

concerns, such as the so-called 'climate finance curse',[7] and neo-colonialism.[8] According to Jakob et al., the climate finance curse refers to the potential negative macroeconomic impacts that large-scale climate finance inflows could have on developing countries, similar to the effects of natural resource exports. Key concerns include the volatility of financial flows, the risk of exceeding absorptive capacity, and governance challenges in effectively managing these funds to avoid economic distortions. Critics also argue that the prevailing development collaboration can perpetuate a form of neo-colonialism, whereby developed countries impose conditionalities on funding that exert undue influence over developing nations. This can undermine the sovereignty of recipient countries and lead to a situation where international partners prioritise their agendas rather than genuinely supporting local needs and priorities.

Scholars have also observed that the institutional environment surrounding climate finance is fragmented.[9] Pickering et al. identified three types of fragmentation found in climate financing architecture, namely 'institutional fragmentation', which relates to established and emergent institutions with specific mandates in climate financing architecture; different 'actor constellations', which refers to the difference in membership style, such as universal, regional or with restricted criteria; and 'norm fragmentation', which means having different principles, such as historical responsibility.[10]

Owing to this fragmentation in providing and accounting for climate financing, developing countries have encountered challenges in accessing the funds. The fragmentation could also affect the fairness, accountability, and legitimacy of climate financing.[11]

B. *The Just Energy Transition Partnership (JETP) Initiative*

The Just Energy Transition Partnership (JETP) initiative was launched at COP26 in 2021 as a way to unlock climate finance to help developing and emerging countries achieve their net zero climate emissions and renewable energy targets.[12] The international JETP partners are committed to collaborating and channelling the funds to the recipient countries in a way that facilitates programmatic investment tied to decarbonisation plans for the national power sector of the recipient countries.

The JETP is the first climate finance partnership of its kind in terms of structure and volume of capital. There have been over 100 climate finance initiatives to date.[13] Some are national and regional bilateral initiatives, while others are multilateral, through climate funds and development finance institutions. Some are private finance or private-public partnership finance. One example is the USD 16 million Climate Finance Accelerator (CFA), which is funded by the UK and is being implemented in ten countries from 2020 to 2024. By contrast, a JETP employs a partnership model that combines several international partners gathered around a

[7] Jakob, Michael, et al. "Climate Finance for Developing Country Mitigation: Blessing or Curse?" *Climate and Development*, vol. 7, no. 1, 2015, pp. 1–15.

[8] Zylinski, Stefan. "Coloniality Dressed in Green: In Its Current Form, Climate Finance Risks Becoming a New Tool for Colonial Rule." *Global Political Economy*, vol. 3, no. 2, Sep. 2024, pp. 315–22.

[9] Biermann, Frank, et al. "The Fragmentation of Global Governance Architectures: A Framework for Analysis." *Global Environmental Politics*, vol. 9, no. 4, Nov. 2009, pp. 14–40.

[10] Pickering, Jonathan, et al. "Special Issue: Managing Fragmentation and Complexity in the Emerging System of International Climate Finance." *International Environmental Agreements: Politics, Law and Economics*, vol. 17, no. 1, Feb. 2017, pp. 1–16.

[11] Liang, Chao, and Bai Liu. "Challenge or Opportunity of Climate Financial Fragmentation: Evidence from China-Initiated Cooperation with Emerging Multilateral Institutions." *International Journal of Climate Change Strategies and Management*, vol. 12, no. 3, Feb. 2020, pp. 289–303; Michaelowa, Axel. "CDM Host Country Institution Building." *Mitigation and Adaptation Strategies for Global Change*, vol. 8, no. 3, 2003, pp. 201–20.

[12] Martinus, Melinda. *Just Energy Transition Partnerships (JETPs) in Indonesia and Vietnam: Implications for Southeast Asia*. ISEAS – Yusof Ishak Institute, 2024.

[13] Marke, Alastair, and Bianca Sylvester. "Decoding the Current Global Climate Finance Architecture." *Transforming Climate Finance and Green Investment with Blockchains*, edited by Alastair Marke, Elsevier, 2018, pp. 35–59.

single recipient country.[14] JETPs also represent the largest financing sums to date in the climate finance landscape.

The first JETP was agreed between South Africa and international partners during the COP26 summit; it is worth USD 8.5 billion, with a duration of three to five years starting from 2021. The second, third, and fourth JETPs were established for Indonesia (USD 20 billion), Vietnam (USD 15.5 billion), and Senegal (USD 2.47 billion), with each partnership spanning three to five years, starting from 2022 for Indonesia and Vietnam, and 2023 for Senegal.[15]

III. **The Indonesian Context**

Indonesia is a key player in global climate discussions, ranking as the largest carbon emitter among the four countries in the Just Energy Transition Partnership (JETP) and the 10th in the world, compared to South Africa (13th), Vietnam (24th), and Senegal (101st).[16] This makes Indonesia's JETP particularly important. Despite its ambitious goal of reaching net zero emissions by 2060, Indonesia's economy remains heavily dependent on coal, which fuelled a 60% increase in the country's total energy supply between 2000 and 2021.[17]

To achieve its net zero target while maintaining economic growth, Indonesia has developed several key energy sector documents governed by the National Energy Council and the Ministry of Energy and Mineral Resources (MEMR), such as the National Energy Policy (KEN), the National Electricity Plan (RUKN), and the National Energy Plan (RUEN).[18] The Indonesian JETP also requires the development of a Comprehensive Investment and Policy Plan (CIPP) to guide energy transition investments and reforms. Launched in connection with the 2022 G20 Bali summit hosted by Indonesia, the JETP reflects the country's ambition to transition from coal while securing international financial support for cleaner energy development.

IV. **Methodology**

To understand how the dynamics of the political economy shape climate finance, this article takes a case study approach, using qualitative analysis of interviews on Indonesia's JETP. This analysis is based on ten interviews with a range of highly relevant stakeholders, including government and embassy representatives from the Government of Indonesia (GoI), the International Partner Group (IPG), and working group experts from both sides.

We ensured validity, in accordance with Pettigrew,[19] by carefully selecting respondents who were both relevant and representative, to reduce the chance that irrelevant experiences or biases. Thus, the selection of the interviewees focused on (i) relevance: in this case ensuring that interviewees came from the two main sides of JETP Indonesia, i.e., GoI and the IPG; and (ii) salience: in this case, interviewees with high-level positions (at least manager level) involved in JETP governance. The interviewees are annexed and referred to in the text that follows using reference codes (I1, I2, I3, I4 for IPG respondents and G1, G2, G3, G4, G5, G6 for respondents from the GoI side).

V. **Findings and Analysis**

Based on the interviews we conducted, we have identified five significant themes affecting the Indonesian JETP. These are: (i) a

[14] Earsom, Joseph. "Fit for Purpose? Just Energy Transition Partnerships and Accountability in International Climate Governance." *Global Policy*, vol. 15, no. 1, Feb. 2024, pp. 135–41.
[15] Banerjee, Aparajita. "Transforming the Rhetoric of Just Energy Transition Partnerships into Reality: The Devil Lies in the Details." *PLOS Sustainability and Transformation*, vol. 3, no. 8, Aug. 2024, pp. 1–22.
[16] *see* EDGAR, the Emissions Database for Global Atmospheric Research.
[17] "CIF Accelerating Coal Transition (ACT): Indonesia Country Investment Plan (IP)." Fiscal Policy Agency, Ministry of Finance, Government of Indonesia, 2022.
[18] "Indonesia Energy Sector Assessment, Strategy and Road Map Update." Asian Development Bank, Jan. 2021.
[19] Pettigrew, Andrew. "Longitudinal Field Research on Change: Theory and Practice." *Organization Science*, vol. 1, no. 3, Aug. 1990, pp. 267–92.

weak institutional framework; (ii) policy ambiguity; (iii) competing domestic interests; (iv) a lack of political alignment among partners; and (v) unrealistic targets. These themes are expanded upon in this Section.

A. *Weak Institutional Framework*

Indonesia's JETP agreement, like other JETP agreements, is not legally binding. The lack of a legal framework for JETP accentuates the political and institutional weaknesses that impede effective governance. The political reluctance to formalise the JETP partnership reflects Indonesia's desire to maintain sovereignty and avoid external influence. However, without a clear legal structure, Indonesia's JETP secretariat operates in a fragmented governance environment, reflecting broader challenges in climate finance.

One government respondent pointed out: "*The JETP process is not institutionalised. I mean, it's a joint statement. It's not a multilateral agreement that is ratified.*" (G5)

In the case of Indonesia, this absence of a formalised arrangement shows how the political will to establish robust institutions can be undermined by competing domestic interests. Interviewees suggested that Indonesia's political reluctance to formalise these partnerships may stem from a desire to maintain flexibility for domestic actors, avoiding accountability and regulatory oversight that could limit powerful stakeholders, such as the coal industry (G5, G6).

This dynamic reflects broader issues in global climate finance, where institutional voids create inefficiencies and increase uncertainty. The lack of strong institutional support hinders the host country's ability to negotiate on an equal footing with donor countries, deepening the power asymmetry between them.

B. *Policy Ambiguity*

Unclear and inconsistent regulatory frameworks reflect the tensions between the goal of advancing renewable energy and the desire to maintain vested interests in fossil fuels. In the case of Indonesia, regulatory uncertainty is driven by the competing priorities associated with promoting renewables while still relying heavily on coal-fired power plants. These conflicting policies demonstrate how entrenched interests within the political and economic elites influence energy transition strategies.

The slow pace of regulatory reform can be seen as a strategy by those actors with entrenched interests to delay the transition to renewables, as they benefit from continued subsidies for fossil fuels. According to one respondent from the Indonesian side:

> *"I think one of the challenges we've seen in the last five years is just the number of regulations that have come down the pipe. ... If there's uncertainty about how a regulation is going to be enforced or implemented, companies may be inclined to take a more cautious approach ... Sometimes it's hard to get feedback from the regulators ... It can be challenging to get in touch with someone who can answer your questions."* (G3)

This demonstrates how the political economy shapes policy environments, with regulatory ambiguity often serving the interests of powerful incumbents in the fossil fuel industry, while also creating barriers for international climate finance investments.

C. *Competing Domestic Interests*

JETP implementation is shaped by the competing interests of various domestic actors. In the case of Indonesia, powerful stakeholders from the coal sector influence policy decisions, often delaying or weakening efforts to transition to cleaner energy sources. As one IPG respondent stated, "*There is no level playing field for renewables. Coal and fossil fuels in general are still highly subsidised.*" (I3)

Moreover, according to G3, several politically influential people involved in JETP negotiations are not interested in the energy transition, but rather are more concerned with ensuring the ongoing survival of the coal industry:

> "*You know, the coal industry is … backed by some very powerful people in Indonesia … politicians who were negotiating the JETP … those coal projects have somebody powerful, you know politically or a rich family or something behind, so those aren't the projects you take on and say, sorry we're cancelling your project, right?"* (G3)

This means that decisions within the sphere of a political actor carry considerable weight and therefore make it difficult for energy transition projects under the JETP to make progress. The influence of these stakeholders can create conflicts between partner countries and domestic actors resisting change. This can be seen as a reflection of the climate finance curse—where the influx of international funds aimed at mitigating climate change is often accompanied by a lack of strategic coordination, weak regulatory frameworks, and rent-seeking behaviour by powerful domestic stakeholders.

For Indonesia, the internal political economy also complicates the coordination of the JETP and the energy transition. The role of Indonesia's national state-owned electricity provider, Perusahaan Listrik Negara (PLN), is crucial for the JETP process, but creating a unified Comprehensive Investment and Policy Plan (CIPP) under the JETP has been challenging, owing to resistance from PLN, whose agreement is necessary for CIPP endorsements. A government official interviewee highlighted that without PLN's agreement, no progress can be achieved. A member of Indonesia's Energy Council also underscored the challenges of coordinating various government institutions, stating, *"[w]ithin the government of Indonesia, we have to have one voice"* (G4). The interviewee also argued that reaching an agreement on the specific energy mix percentages for each year is crucial for a successful energy transition in Indonesia. Given the dynamic nature of Indonesia's energy transition, speaking with one voice across institutions remains a significant challenge.

D. *Lack of Political Alignment Amongst Partners*

International partners within the JETP may also have competing interests, which can lead to disjointed efforts and a lack of coherent strategy in supporting Indonesia's energy transition. As indicated by respondent I1, *"[i]t might be a case where there will be some competition between the different international partners."*

Each country brings its own policy objectives, energy priorities, and economic interests, which often results in fragmented decision-making and a lack of clear direction in how to allocate climate finance. This is reflected in the disorganization and lack of coordination that has been observed within the IPG. One GoI respondent observed:

> "*It's because of the disorganisation within the IPG countries. So, because the recipient countries are asked to organise themselves, we have been asked to organise ourselves internally, right? In terms of our planning, we have been asked to produce the investment plan, which means we have to, you know, swap everything to get into one room and to talk about, you know, what we're going to put in this investment plan, get your assumptions right.*" (G5)

This argument is supported by the IPG countries themselves. As one IPG respondent observed: "*Partners … they had ten*

international partners. So, this is really, we are not only part of the solution, but we are also part of the problem as well … That's a problem. And from a donor perspective, I think it's also a chance to speak with one voice." (I3)

This misalignment could be thought of as reflecting a neo-colonial legacy of international development, where donor countries shape climate finance agendas in a way that serves their interests while limiting the recipient's agency and autonomy. This situation also highlights the complexity of managing multilateral climate finance, where power asymmetries between donor and recipient countries, as well as among donor countries themselves and within recipient countries, shape the negotiation and coordination processes.

E. *Unrealistic Targets*

Indonesia has been balancing its relationships with all its major partners, particularly when hosting the G20 summit in 2022. Despite concerns about potential implementation capacities and domestic support, Indonesia committed ambitious pledges, such as the targets shown in their JETP Political Declaration, in an effort to project a positive international image and avoid disappointing on their internationally endorsed commitments (G3, G5, I3).

The very ambitious nature of project timelines and emission reduction targets, as mentioned by the interviewees, leads to inefficiencies, delays, and increased costs in implementation. For instance, the inclusion of projects in the Rencana Usaha Penyediaan Tenaga Listrik (RUPTL) plan to meet a target of 23% renewable energy by 2025, despite prior delays, underscores the impracticality of setting ambitious goals within tight timelines. "*It was pretty unrealistic because it had all these projects coming in by 2025 in order to meet that 23% target, even though these projects had been delayed for many years."* (G3)

One of the IPG members thought that the Indonesian JETP had unrealistic targets within the given timeline, such as the goal of achieving 44% renewables by 2030. The respondent felt that this pressure was coming from the IPG itself.

> *"Sometimes I think we are pressing Indonesia too much to do certain things … Our experience is [the goal of] 44% renewables in 2030 is not realistic at all. Nobody wants to lose faith … So sometimes I think we are pressing Indonesia too much to do certain things and then they do some sort of lip service."* (I3)

G3 shared a similar view: *"It's no longer the JETP. It's kind of this international framework. Expecting to accelerate things or to put some external pressure on Indonesia to realise the commitments that they signed up for."* (G3)

This quotation demonstrates how Indonesia's relationships with other nations and their perceptions have a substantial impact on the local environmental and climate change agenda, which is largely driven by political concerns about international environmental policies. The climate finance curse is evident here, as external pressures to meet international commitments may encourage Indonesia to adopt overambitious targets without a clear strategy for implementation, leading to inefficiencies, delays, and increased costs.

Some interviewees placed greater emphasis on the public image and narrative that has evolved around JETP. The narrative around the JETP created an image where funding appeared to be innovative, original, and generous. However, it is not yet fulfilling its purpose since most of the funding was already dedicated years before the JETP was set up (G3, G4, G5).

> *"The narrative that goes out into the world makes it look like JETP is innovative, and you have fresh money, right? And*

> *when in fact it isn't, it just adds to the distrust."* (G5)

For example, Japanese commitments were already in the pipeline, designated for specific purposes. These were previously committed, or they were part of development financing programs already in action. This has raised doubts among stakeholders regarding the authenticity of the international partners' JETP commitments.

VI. **Conclusions and Recommendations**

The mobilisation of climate finance is a complex political process influenced by a myriad of factors, including power dynamics, strategic interests, and political will. Understanding these factors is crucial to ensure that climate finance contributes to global energy transitions in an equitable, effective, and efficient manner. Four recommendations have emerged from our analysis, as summarised below.

First, providing transparency in funding sources, goals, timing, and allocation of the funding is essential for building credibility and accountability, not only within the JETP initiative but across all climate finance initiatives. Transparency in communicating both the challenges and progress of the JETP will further build credibility and manage expectations.

Second, over-promising and setting unrealistic timelines has caused inefficiencies in partnership outcomes. Setting achievable goals will prevent setbacks and loss of trust among stakeholders.

Third, reducing conflicts of interest is vital for effective climate finance governance. Addressing the competing interests of powerful stakeholders requires efforts to reduce the influence of entrenched coal interests by fostering greater stakeholder inclusivity and transparency in decision-making.

Fourth, fragmented decision-making among international partners complicates the JETP process. Improving coordination within the International Partner Group is crucial for more effective climate finance governance. By working to unify their objectives and speak with one voice, international partners can avoid delays and ensure that financial resources are allocated in line with Indonesia's transition needs.

This study has examined the intersections of power, governance, and resource allocation within the framework of global climate agreements, contributing to the understanding of climate finance dynamics. The result highlights how climate finance, intended to support energy transitions, can reveal power imbalances and institutional weaknesses in both recipient and donor countries, as exemplified by Indonesia's JETP. This underscores the need for a more balanced and transparent approach to climate finance, where both donor and recipient countries engage in more equitable, accountable, and collaborative decision-making processes.

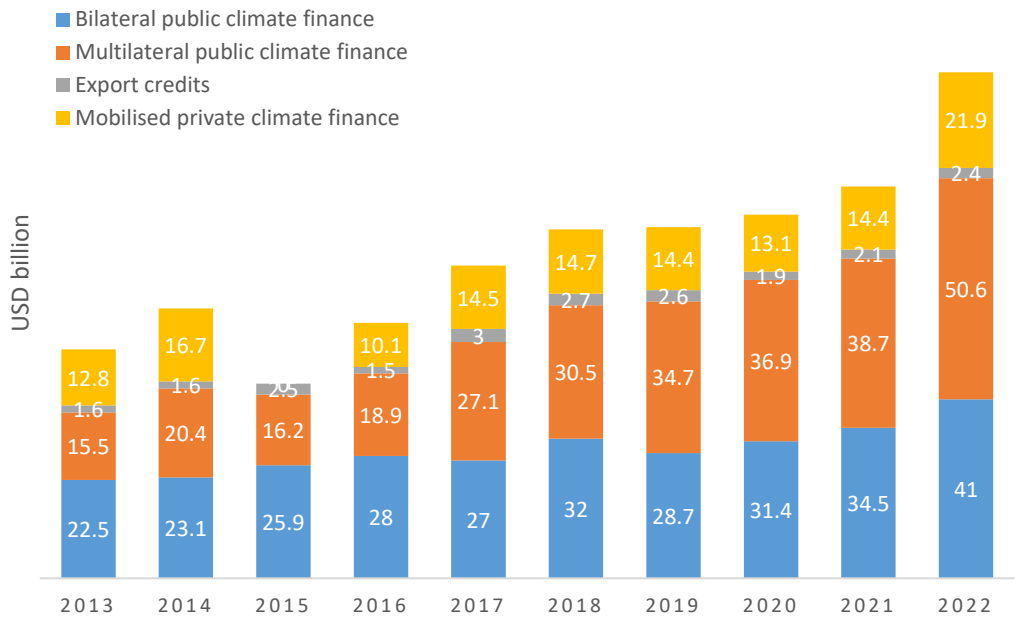


Figure 1: Climate Finance Allocation (Data Source: OECD)

	Side		Organization	Code
1	IPG	IPG	European Union to ASEAN	I1
2		IPG	Royal Norwegian Embassy in Jakarta	I2
3		IPG	Embassy of the Federal Republic of Germany	I3
4		GFANZ & Finance Working Group	GFANZ Working Group & Finance Working Group	I4
5	GOI	Technical Working Group	Institute for Essential Services Reform (IESR)	G1

6		Just Transition Working Group	Indonesian Center for Environmental Law (ICEL)	G2
7		Policy Working Group	Tetra Tech and USAID	G3
8		GOI	National Energy Council & National Energy Transition Task Force of the Republic of Indonesia	G4
9		GOI	JETP Secretariat	G5
10		GOI	Coordinating Minister Secretary for Maritime and Investment Affairs	G6

Table 1: List of Interviewees