Lesson Learned of Project Finance in Indonesia as a Realization of Sustainable Finance

Strategic Partnership for Supported NAMAs and Climate Finance Support to the Indonesia Climate Change Trust Fund/ Indonesian NAMAs Financing Support (INFIS)
National Long Term Development Plan (RPJN 2005 – 2025)

Green and sustainable development pathway

Annual investment needed US$300 – US$530

Critical infrastructure

Environment Area: Agriculture, Forestry, Energy, Mining, and Waste
Energy Sector and National GHG Emission

Energy Mix Target to 2050

- Energy Total: 194 MTOE
  - Power Plant: 51 GW
  - Energy Consumpt: 0.8 TOE/cap
  - Electricity Consumpt: 776 KWh/cap

2013:
- 31% NRE
- 46% Oil
- 18% Gas
- 5% Coal

2025:
- 23% NRE
- 22% Oil
- 25% Gas
- 30% Coal

- Energy Total: 400 MTOE
  - Power Plant: 115 GW
  - Energy Consumpt: 1.4 TOE/cap
  - Electricity Consumpt: 2,500 KWh/cap

2050:
- 31% NRE
- 24% Oil
- 25% Gas
- 20% Coal

- Energy Total: 1,000 MTOE
  - Power Plant: 430 GW
  - Energy Consumpt: 3.2 TOE/cap
  - Electricity Consumpt: 7,000 KWh/cap

Key Points:
- Consume of gas increase
- Consume of coal increase
- Consume of oil increase
- Contribution of RE increased
Lesson learned from 8 banks of *First Mover Sustainable Finance*

- Indonesia banking sector has not applied a full project finance
- No specific product of project finance as a financing scheme
- Corporate finance is preferable
- Financial capacity and experience of sponsor plays crucial role
Lesson Learned of RE Financing in Indonesia

Banks that apply project finance:

- Loan is given to sponsor, not the SPV
- Sponsor to provide a commitment of stand-by financing to anticipate cost overrun or other possible causes
- Collateral: corporate guarantee or letter of undertaking from sponsor(s)
- Work with qualified consultant and/or contractor, supplier for risk mitigation
- Financing green infrastructure is still considered risky
Regulation Framework

- No regulation prohibiting or limiting banks to implement project-based financing/ project finance
- However, existing regulation framework is developed based on corporate-based financing
Institutional Risks and Challenges in RE Development

<table>
<thead>
<tr>
<th>Coordination</th>
<th>Project Identification</th>
<th>Project Development</th>
<th>Tender Process</th>
<th>Development &amp; Construction</th>
<th>Operational &amp; Management</th>
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</thead>
<tbody>
<tr>
<td>Risk of inconsistent regulation (i.e.: fiscal incentive and implementation regulation)</td>
<td>Risk of termination of contract due to the issuance of new regulation, e.g. change of tariff triggers clause in PPA</td>
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<td>Identification of energy demand and potential project are not optimal</td>
<td>Obstacle in land acquisition</td>
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<tr>
<th>Regulation</th>
<th>Incomplete Regulation, e.g. the use of technology, less attractive tariff</th>
<th>Difficulty in accessing finance</th>
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<tbody>
<tr>
<td>Project Financing</td>
<td>Finance support for project development</td>
<td>Credit worthiness of PLN as off-taker</td>
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<td>Limited capacity in adoption of technology</td>
<td>Unclear and inconsistent risk sharing and guarantee</td>
<td>Transactional risk, e.g. exchange rate</td>
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<td>Low quality project feasibility study</td>
<td>Cost overrun</td>
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Identified Enabling Environment

- Insurance to mitigate risks
- Availability of Bankable projects
- Certainty in regulation (energy sector)
- Available best practice

- Adjustment of regulation framework to support project finance (credit guideline, risks management, securitization)
- Capacity building for banks (technical assistance, pilot project, guideline, etc.)
- Guarantee instruments
- Renewable energy credit line
- Development of bankable projects pipeline
- Standardized competency and supporting service
Strategic Partnership for Supported NAMAs and Climate Finance – Support to ICCTF (BMUB-ICCTF) Indonesian NAMAs Financing Support (INFIS)

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