On behalf of



Federal Ministry for the Environment, Nature Conservation and Nuclear Safety

of the Federal Republic of Germany

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

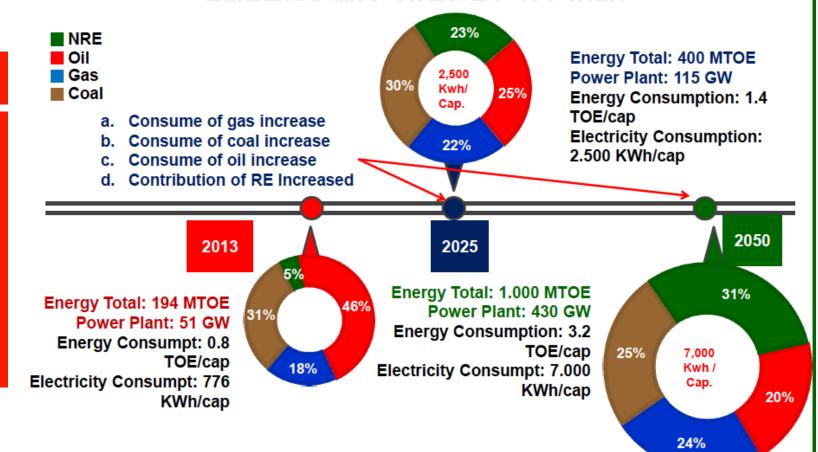
Strategic Partnership for Supported NAMAs and Climate Finance Support to the Indonesia Climate Change Trust Fund/ Indonesian NAMAs Financing Support (INFIS) National Long Term Development Plan (RPJN 2005 – 2025) Green and sustainable development pathway

Annual investment needed US\$300 – US\$530

Critical infrastructure

Environment Area: Agriculture, Forestry, **Energy**, Mining, and Waste

Energy Sector and National GHG Emission



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ENERGY MIX TARGET TO 2050

Lesson Learned of RE Financing in Indonesia

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

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

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



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Strategic Partnership for Supported NAMAs and Climate Finance – Support to ICCTF (BMUB-ICCTF) Indonesian NAMAs Financing Support (INFIS)

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Thank You