Summary of OECD-Government of Indonesia Stakeholder Dialogue

Clean Energy Finance and Investment Programme

8 November 2019

On Friday 8 November 2019, OECD and the Government of Indonesia (GoI) organised their first Stakeholder Dialogue for the new Clean Energy Finance and Investment Mobilisation (CEFIM) Programme as part of the Indo EBTKE ConEx 2019. This event formally launched the CEFIM Programme in Indonesia.

The joint OECD-GoI Stakeholder Dialogue provided a unique platform to identify solutions for unlocking clean energy finance and investment in Indonesia. Close to a 120 participants representing various government ministries and agencies, project developers, financial institutions, development partners and NGOs gathered during this event to share knowledge and experience in developing clean energy projects as well as to highlight opportunities for implementing new policy solutions.

The Stakeholder Dialogue was structured around four thematic sessions, which covered creating pipelines of bankable energy efficiency and renewable electricity projects; the mobilisation of sustainable finance for clean energy; as well as de-risking instruments and other financial innovation to promote access to long-term, affordable capital.

Session 1 – Developing Indonesia's energy efficiency potential

Despite substantial potential across all end use sectors, energy efficiency in Indonesia remains largely untapped. Indonesia has set a target to reduce energy intensity by 1% annually until 2025 (compared to Business-as-Usual). However, current energy prices do not provide adequate signals to the market and consumers to encourage a more efficient use of energy. While renewables often receive more attention from investors and financial institutions, a clean energy transition strategy should have energy efficiency as the cornerstone of its programme. Session 1 discussed Indonesia's energy efficiency goals and opportunities for scaling up investment in energy efficiency. Mrs. Devi Laksmi (Head of Sub-directorate, Directorate of Energy Conservation, DG New and Renewable Energy and Energy Conservation (NREEC), Ministry of Energy and Mineral Resources) presented an overview of the energy efficiency potentials in Indonesia, highlighting key barriers to the implementation and financing of energy efficiency projects as well as potential solutions to overcoming these challenges.

- Low energy and electricity prices make the business case for investing in energy efficiency less compelling. Consumers do not have the right incentives to change behaviour, as prices do not reflect the full costs of energy.
- Financial innovation, such as aggregation models are needed to overcome the small-scale challenge and high transition costs related to financing and developing energy efficiency projects.
- Incentives are needed to encourage facility owners to undertake energy efficiency investments and to help reduce risks and lower financing costs. A dedicated energy efficiency fund could be considered under the new Environmental Management Fund (BPDLH).
- Support is needed to develop the concept of energy performance contracts in Indonesia to help create an ESCO market that financial institutions will have confidence to finance. ESCO's currently struggle with low capitalisation and limited financing capabilities.

- Project finance schemes could be developed to support the financing of energy efficiency projects. This would help to address the long payback periods of certain projects.
- Knowledge and capacity of local banks to evaluate energy efficiency projects remains low. At the same time, facility owners are not familiar with financing options for energy efficiency projects.

Session 2 – Unlocking potential for renewable electricity projects

To realise Indonesia's renewable energy potential and achieve the country's ambitious clean energy objectives, developing bankable pipelines of clean energy projects will be essential. According to estimates around USD 10-15 billion is needed annually to attain Indonesia's renewable energy targets by 2025. However, notwithstanding the numerous opportunities, renewable electricity development remains at a very early stage of deployment as numerous barriers – including grid access, unattractive tariff structure in certain areas, risk of curtailment, lack of capacity among smaller project developers to prepare bankable feasibility studies, and access to land – have resulted in a relative scarcity of investment-ready projects. Session 2 discussed challenges faced by different stakeholders and identified some key solutions to the barriers affecting the development of bankable renewable electricity projects in Indonesia. Mr. Aris Edi Susangkiyono (Vice-President of Geothermal Energy, PLN) as well as Mr. Surya Darma (Chairman of METI) made interventions during the session, presenting their experience in planning and developing projects in Indonesia.

- Constant changes in and certain provisions of existing regulations (including on currency risk and broad PPA contracts' risk allocation, local content requirements, tariffs and the Build-Own-Operate-Transfer scheme) continue to represent key concerns for projects developers.
- While addressing these regulatory challenges should become a key priority to improve the bankability of projects, this should be done in a way that balances interests of key stakeholders, most notably the Indonesian Government, PLN and private developers.
- Adopting an overarching renewable energy law was put forward as a possible solution to mitigate political risks and regulatory uncertainty.
- Despite PLN's role as a regulation implementer, there remains challenges around vertical coordination between PLN's central and regional offices as developers voiced concerns about patchy and arbitrary application of regulations at the regional level, often unfavourable to renewable energy developers.
- PLN and investors should also start looking further into the market creation opportunity offered by the development of the Ocean Economy, particularly as it is a key priority for the Indonesian government (and notably targeted to represent around 9% of GDP by 2050).
- All in all, stakeholders acknowledged and agreed that a real "paradigm shift is needed" – i.e., in the way electricity systems are designed and operated as well as in the way policy and regulatory frameworks are defined -- if we are to mobilise the billions of dollars necessary to realise a clean energy transition in Indonesia.

Session 3 – Role of the financial sector in the clean energy transition

In 2014, Indonesia launched its Sustainable Finance roadmap defining a pathway towards an environmentally and socially sustainable financial sector, thereby contributing to the global momentum for sustainable finance. This global momentum represents a potential boon for Indonesia's clean energy projects. As a growing number of financial players mainstream sustainable finance into their lending portfolios and investment strategies, there is a unique opportunity for Indonesia to mobilise the investments necessary to help achieve its clean energy objectives. Session 3 discussed some of these challenges and identified possible solutions to capitalise on the global sustainable finance momentum. The Session featured Mr. Ahmad Rifqi, (Senior Executive Analyst, OJK) who presented OJK's current efforts to mainstream sustainability into Indonesia's financial sector.

- OJK is pursuing efforts to implement its sustainable finance roadmap with encouraging success (e.g., 80% of commercial banks have submitted a sustainable finance action plan) and has plans to step up efforts in the coming years (notably through the definition of amount-of-sustainable-finance-mobilised targets).
- Despite concerted efforts during the first phase of the roadmap (2015-19), the financial sector still requires additional capacity building and training to help better appraise clean energy projects (still perceived as high-risk projects).
- In the second phase of its roadmap (2020-24), OJK is developing guidelines to help address some of these issues and help better prepare Indonesia's banking sector.
- However, other incentives (e.g., fiscal incentives, subsidised premium on green products) could be needed to make green products more attractive, although this would necessitate support from the Ministry of Finance.
- Blended finance is perceived as an attractive tool to mobilise commercial finance in Indonesia with an increasing amount of projects using development funds for de-risking to help access private capital at more attractive rates (*see next session on de-risking instruments)*.
- Discussants highlighted the need for banks to commit and significantly step up efforts to reduce levels of financing allocated to fossil fuel projects with a view to fully supporting Indonesia's clean energy transition.
- Concerns were expressed over the "chicken & egg" dilemma faced by some project developers when securing bank loans and signing PPA as certain banks require a signed PPA contract before committing to provide a loan while PLN requires a bank's commitment to provide a loan before signing a PPA contract.

Session 4 - De-risking and transaction-enabling mechanisms to facilitate financing of clean energy projects

As highlighted in Session 1 & 2, realising Indonesia's clean energy potential will require an unprecedented scale up in the level of investment for energy efficiency and renewable energy projects. While strengthening policy and regulatory frameworks will be essential, designing appropriate instruments and financing mechanisms will also be required to increase access to affordable capital for clean energy projects. Such efforts will also need to focus on reducing transaction costs particularly for small projects, which can escalate costs to unaffordable levels. Session 4 provided avenues to improve and further leverage such instruments and mechanisms. During the session, Mr. Herry Indratno (Head of Sub-directorate, DG of Financing and Risk Management, Ministry of Finance) as well as Mr. Adi Pranasatrya (Head of Sustainable Financing, PT SMI) presented their respective institutions' efforts to de-risk as well as reduce project costs.

- The Ministry of Finance, which oversees an important number of public finance institutions, has been putting considerable efforts into designing green funds and instruments (e.g., green budget tagging, green sukuk issuance, creation of the BPDLH jointly with other ministries).
- Strong financial support has been provided by the Ministry of Finance to green projects (including clean energy) through the issuance of green sukuk while there are intentions to (continue to) issue "thematic" and project green bonds targeted at specific sector(s) or project(s), including clean energy.
- The new BPDLH was highlighted as another potential opportunity to further help mobilise clean energy finance and investment in the future.
- In terms of fiscal instruments, reducing fossil fuel subsidies while pricing in carbon emissions from fossil fuel sources was highlighted as an important condition to help shift capital allocation away from fossil fuels and towards cleaner sources of energy; in this regards, the Ministry of Finance is considering the introduction of a carbon tax on fossil fuel.
- PT SMI is playing a leading role in Indonesia's public finance landscape, having used a number of instruments to invest in and de-risk clean energy projects (pulling in both domestic and foreign development finance resources). Illustrating that, PT SMI launched the SDG Indonesia One Fund in 2018 – a 2.3 billion multi-investor blended finance fund – to support projects compliant with the SDGs.

- However, despite PT SMI's efforts, there is still a need for a considerable scale up in support to small-medium size clean energy projects.

Conclusion and Next Steps

This first stakeholder dialogue and launch of the Clean Energy Finance and Investment Mobilisation (CEFIM) programme in Indonesia, marks the start of a multi-year engagement with the Government of Indonesia to support the scale up of finance and investment needed to meet the country's clean energy targets. Working with key stakeholders from the government, private sector, finance sector and other development partners the OECD will identify opportunities for strengthening policy frameworks to overcome key barriers in developing and financing clean energy projects.

The OECD will also provide technical assistance in the design and development of financing instruments and mechanisms that can support a scale up of bankable clean energy projects to meet Indonesia's ambitious climate change, sustainable finance and clean energy goals. To continue building effective collaboration across key stakeholders, the CEFIM team will continue to identify opportunities to join forces with other stakeholders and development partners. In this regards, a future workshop focused on energy efficiency financing is under development together with the ADB and other development partners.

The government of Indonesia welcomes the launch of the CEFIM programme and looks forward to working with the OECD and other stakeholders to relaunch the countries efforts to accelerate the development and scale up of investments in clean energy. The government invited development partners to consider CEFIM as the platform to collaborate and align activities on clean energy finance and investment in Indonesia.