Financial Institutions Roles in Green Growth
A Focus on Infrastructure PPP & Role of IIGF

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Climate change is impacting all sectors

Climate change creates opportunity

Shift capital flows: High carbon $\rightarrow$ Low carbon

Presidential Decree 38/2015

Source: World Bank

- Climate change’s impact to sectors lead to a need for shifting towards low carbon investments, which creates opportunity for green infrastructure growth
- Presidential Decree 38/2015 opens new avenue for wider application of PPP to promote infrastructure development $\rightarrow$ how does this impact green growth?
Presidential Regulation (Perpres) 38/2015 on PPP Infrastructure Development

- Transportation
- Road
- Water and Irrigation
- Drinking water
- Waste water
- Waste
- Telecommunication
- Oil and Gas
- Power
- Renewable Energy
- Energy Conservation
- Urban facilities
- Education
- Regional Development
- Tourism
- Health
- Prisons
- Housing
Indonesia PPP Value Chain

Infra sectors:
1. Transportation
2. Road
3. Power
4. Water
5. Waste
6. Irrigation
7. Telco
8. Oil & Gas
9. Renewable
10. Energy conservation
11. Urban facilities
12. Education
13. Sports & Arts
14. Regional devt
15. Tourism
16. Health
17. Prisons
18. Public Housing

Government Contracting Agency
(Line Ministries, Regional Govts, SOE)

- MOF PPP Unit
- CMEA
- MOF

GOI direct investment through SMI / IIF

- GoI has developed various tools to enhance Indonesia’s PPP Value Chain & bankability of projects
- IIGF, SMI & IIF are financial institutions that play specific roles in advancing infrastructure investments
Relevance of Green Growth in Infrastructure Development

**Green Technologies**
- Low carbon technologies
- Example: renewable energy, energy conservation

**Environmental Compliance**
- Minimizing carbon footprint in all infrastructure projects
- Example: public transport, emission control

**Environmental Perspective in IIGF**
- Environmental aspects as one of IIGF’s project appraisal criteria
- Environmental risk management is key in guaranteed projects’ risk mitigation plan
- IIGF views projects with desirable environmental impact to be likely obtaining long term public support
Challenges in Green Infrastructure PPP

**Key PPP Success Factors**
- Healthy competition
- Financial Viability
- Social Acceptability
- Presence of local competent developers (also important as partner for foreign investors)

**Green Infra Challenges**
- Limited technology provider
- Higher technical risk
- Greater cost of service

**Important Agenda to Address the Challenges**
- PPP Procurement & Transaction Process (Technology standard, standard documentations)
- Fiscal support mechanisms
- Risk allocation between public & private
- Supporting regulatory framework
- Roadmap for Domestic Capacity Development
INVESTMENT
- Sustainability of investment
- Joint project supervision with the Contracting Agency

RISK
- Professional and efficient risk management
- Workable and clear risk mitigation plan

CREDIBILITY
- The project is seen as more credible in the eyes of the private sector
- Increasing competition → more competitive rates

BANKABILITY
- Lenders confident to lend
- Competitive interest rate

IIGF is GoI’s Fiscal Tool in Managing PPP Contingent Liabilities & to Enhance Creditworthiness of Subsovereign Contracting Agencies
IIGF Guarantee

Contracting Agency
(Line Ministries/Regional Govts/SOE)

Project Company

MOF

Multilateral Development Agency/Others

Risk Mitigation Plan (& Recourse)

Guarantee Proposal

Guarantee Policy & Equity Injection

Liquidity / Guarantee Facility

Cooperation Agreement

Guarantee Agreement

Counter Guarantee

IIGF Guarantee Policy & Equity Injection

IIGF
How does IIGF assure risk is properly allocated?

Factors affecting IIGF will guarantee Infrastructure Risk based on:
1. Actions or inactions of the Contracting Agency or Government other than CA
2. Policies of the Contracting Agency or Government other than CA
3. Unilateral decision of the Contracting Agency or Government other than CA
4. CA breach of contract
IIGF & Emissions Reductions: Central Java Power Plant

Uses ultra-supercritical boiler technology:
• Reduces harmful emissions resulting from coal
• Pushes mechanical limits of equipment
• Provides higher thermal efficiencies
Example of IIGF Guaranteed Project

Central Java Power Plant IPP Project (CJPP) – Ultra Super Critical Coal Power Plant

Guarantee Agreement for Central Java Power Project 2x1000 MW; ~US$ 4 bio

Project
Ultra super critical coal fired power plant, 2x1000 MW

Location
Batang Regency, Central Java Province, Indonesia

COD
2019

PPA Tenor
25 years

PPP Structure
Build, Operate, Transfer (BOT)

Developer
PT Bhimasena Power Indonesia, an SPV of consortium:
- ADARO: 34% (Indonesia)
- J-POWER: 34% (Japan)
- ITOCHU: 32% (Japan)

Guarantee Structure
- Guarantee Agreement: Project Co. with IIGF & GOI
- Coverage: political risks, force majeure affecting PLN & PLN EOD
- Guarantee Tenor:
  - Equity: 16 years
  - Debt: 21 years

*) In accordance with PR no 38/2015 (PPP Regulation)
Scope of IIGF & MOF Guarantee

**Covered:**
- PLN’s Payment Obligations, as in PPA
  1. Obligation to purchase electricity
     - Monthly payment (Capacity and Energy payment)
  2. Deemed Dispatch
     - Due to PLN not being able to receive Sellers output
  3. Buyout obligation due to PPA Termination triggered by Political Force Majeure and Natural Force Majeure
  4. Obligation to pay due to PLN Event of Default (EOD):
     - Non payment
     - Material Breach
     - Merger, Consolidation
     - GOI EOD under GA

**Not covered:**
- 1. Sellers EOD
- 2. Tax for Special Facilities
- 3. Indemnity
WAY FORWARD

The Leaders need action on:

• Low carbon and energy efficiency finance and investing.
• Emission reducing finance and investing.
• Adaptation finance and investing.
• Engagement with companies.
• Engagement with policy makers.
Provide knowledge and education to key stakeholders and general public on the privately-financed infrastructure projects (particularly PPP)

- Financing
- Risk management
- Credit enhancement
Disclaimer

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