

**Consultation Meeting of the Government of the Republic of Indonesia
on Clean Technology Fund (CTF) Investment Plan Update for Indonesia
with Civil Society Organizations and Joint Mission of Multilateral Development Banks**

Jakarta, 29 January 2013

I. OBJECTIVE

The main objective of the consultation workshop with Indonesian civil society organizations (CSOs) was to discuss the status and possible changes to the Clean Technology Fund (CTF) Investment Plan (IP) that is proposed to be submitted to the CTF trust fund committee for review and decision in March 2013.

Specifically, the objectives of the CSOs consultation workshop were to:

1. Share information on the content and status of the IP
2. Obtain inputs from the CSOs on the revision of the IP
3. Identify a process for civil society engagement once the IP has been approved and the CTF is in place

II. EVENT DETAILS

The workshop, hosted by the Ministry of Finance's Fiscal Policy Agency, was held on Tuesday, January 29, 2013 at Hotel Borobudur, Jakarta. It was attended by representatives from 15 Indonesian civil society organizations (CSOs) and industry associations, as well as representatives of the CTF joint mission from Asian Development Bank (ADB), The World Bank and the International Finance Corporation (IFC). The half-day workshop was divided into four parts: (i) an opening by the MOF; (ii) a short presentation by ADB on the latest status of the CTF IP; (iii) a moderated discussion session on inputs to the IP; and (iv) a final dialogue on possible mechanism for future coordination with the CSOs.

III. SUMMARY

The CTF IP was generally welcomed by the CSOs as an additional mechanism to speed up clean energy development in Indonesia particularly on financing. However, it seemed that most of the CSOs were unfamiliar with the technical aspects of the CTF, such as methods of disbursement and interest rates. In particular the industry associations such as Indonesian Geothermal Association, Indonesian ESCO Association and Indonesian Renewable Energy Society took a very active part in discussions.

Most of the concerns concentrated on the insufficiencies of existing GOI and MOF financial regulatory frameworks to incentivize clean energy development, which included criticism of the current inadequate Feed In Tariff (FIT) policies for renewable energy and the lack of support to mitigate risks associated with EE and RE projects such as government guarantees. While these issues were addressed to the MOF, they did not directly correlate with the scope and objectives of the CTF.

The inputs on the actual CTF mostly focused on how CTF funds could be accessed and how to best utilize the funding by ensuring that CTF interest rates remain low and attractive for the Indonesian market. Suggestions to allocate some of the funds to financing high quality feasibility studies to help mitigate risks associated with RE and EE projects were also stressed by multiple CSOs.

All of the workshop attendees agreed on the importance of continued engagement with both national CSOs on the IP implementation and with NGOs and community based

organizations at the field level to liaise with local communities and as a monitoring and evaluation partner.

IV. INTRODUCTION

By Irfa Ampri, Vice Chairman Fiscal Policy Agency for Climate Change Financing and Multilateral Policy, Ministry of Finance

- CSOs are an important and active partner in addressing sustainability issues in Indonesia, and inputs from CSOs are necessary to ensure that the CTF IP and other programs implemented by the MDBs will be relevant to the needs of Indonesian society.
- The background of today's consultation workshop is the current energy dilemma faced by Indonesia where hefty energy subsidies are being increased each year while development of cleaner energy remains relatively stagnant. The GOI is sustaining its energy subsidies which exceed \$30 billion this year and are predicted to continually increase. If oil prices remain stable, energy subsidies will reach up to \$40 billion in 2013 – taking up 22 – 25% from the entire state budget. There are only two or three Southeast Asian countries, including Indonesia, which still maintain energy subsidies, while the rest have removed subsidies and are starting to shift towards renewable energy sources. Subsidies not only hamper allocation of funding to other strategic priorities such as education and health, but also hinder the competitiveness of renewable energy for which the cost of production is still higher than its market price (price per kWh).
- Energy subsidies are not being utilized effectively; a case in point is how Rp 6 trillion in energy subsidies are wasted in Jakarta due to the impact of heavy congestion and traffic. Keeping in mind the projection of escalating ownership of motorized vehicles including motorcycles, the transportation sector will be one of the main contributors to rising GHG emissions in the coming years.
- As part of the National Action Plan for Mitigation vision, where Indonesia aims to reduce 26% of GHG emission by its own efforts and 41% with the help of international partners, the CTF aims to help reduce GHG emissions by financing clean energy projects in the form of loans. The CTF is expected to help leverage funding for EE and RE projects while involving the private sector in the initiative, not only as independent power producers (IPPs), but also producers who are utilizing energy efficient technologies.
- The MOF is working to create a productive policy framework that will accelerate RE and EE project development, benefiting producers and manufacturers who will profit from renewable energy sources. The CTF is expected to be the trigger for more projects, heavily involving the private sector. The EE and RE projected in the CTF portfolio are also expected to bring added benefits such as increased foreign investments as well as addressing social and poverty issues.
- We are expecting a healthy discussion today to capture inputs from the CSOs so that Indonesia can achieve the end goal of gradually removing energy subsidies and fulfilling the GHG emission target of 26% by its own effort and 41% with international effort.

V. PRESENTATION ON INDONESIA CTF IP BY ASIAN DEVELOPMENT BANK

The presentation provided the rationale for the CTF in Indonesia and an overview of the structure and governance of the fund as well as the financial products provided. The content of the original IP was reviewed and the need for, and limitations to, a revision of the IP were explained. It was emphasized that sector priorities would not change and that the main revisions would cover financing aspects of the plan.

VI. DISCUSSION

Session 1

Questions from Indonesia Electrical Society / Indonesian Renewable Energy Society

1. MKI and METI are developing biomass projects now that the FIT has been issued by the GOI. Looking at the viability and readiness of biomass in Indonesia, how can we tap into CTF for biomass development? There are also some projects we have in our portfolio such as a 50 MW geothermal plant in Gorontalo , how can we cooperate with CTF?
2. There are some substantial problems in the fiscal policies for the FIT issued in 2012. The FIT is still too low and unattractive for business developers; it is not economically viable at the local level. We need more support from the GOI for geothermal and mini hydro projects which can cut electricity costs by half. Why isn't the FIT supported by the Office of Fiscal Policy? Is it because of fear of duplicating existing energy subsidies by shifting the subsidies into a different sector?
3. I believe the 12% mentioned in the CTF IP presentation previously is too high for consultation expenses. Usually consultant fees make up to around 2% of the entire project budget.
4. Other than increasing the FIT, GOI can also explore more proactive policies such as banning of waste exports to encourage more waste-to-energy projects in country.

Questions from Indonesian Renewable Energy Society

5. There are plenty of small scale project developers other than geothermal in Indonesia, such as biomass and biogas that also need financial support, can the contribution from CTF be increased for this sector?

Questions from Green Building Council Indonesia (GBCI)

6. The CTF IP plans to realize GHG emissions reduction through the buildings sector – what are the incentives for existing buildings to be retrofitted into green buildings under the CTF?
 7. Why is the CTF focused only in geothermal and not other renewable energy projects?
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Response from MOF

1. The Office of Fiscal Policy is in the process of analyzing the FIT to avoid “double subsidies” because the impact of subsidies reduction is significant, for instance cutting off of Rp 500/kWh will save Rp 2 billion in energy subsidies. The MOF is supporting the GOI commitment to diversify the energy mix through fiscal policy and financial framework and is looking at how initiatives like the CTF can help. The MOF is studying the impacts of FIT in the renewable energy sector such as waste, biomass and solar PV.

Response from ADB

2. To clarify, the 12% is not a consulting fee, but the likely contribution of CTF funding to the overall funding of a project.

3. The CTF IP can also include other types or non-geothermal projects such as biomass however we need to prioritize based on the readiness of the project. It is encouraging to hear about the projects and if the plans have been properly developed, IFC / ADB can help with the financing
4. For energy efficiency buildings projects, most emphasis will be on retrofitting, but CTF can include new building projects. The important issue is the potential GHG reduction from kWh saved.

Session 2

Questions from Indonesian ESCO Association

1. What are the procedures to access the CTF?
2. What is the interest rate? What is the minimum size of an EE project that can be supported by CTF? As an EE investment may not be as substantial as RE project, this information will be important for our industries / buildings members who are interested in implementing EE solutions.

Questions from Institute for Essential Services Reform (IESR)

3. What is the duration of the IP? After the review in March, how long is the IP in place?
4. What is the relationship between CTF and the Green Climate Fund (GCF), once the GCF is fully operational?
5. If someone wants to propose a new project, how can they be included in CTF? The window from now until March 2013 is very small while Indonesia has many potential projects, such as ESCO projects, but they will need more time to prepare.

Questions from Indonesian Geothermal Association (API)

6. While geothermal is highly promising for Indonesia's energy sovereignty the FIT is not enough to increase its economic value. The FIT calculation did not include inflation, escalation and other financial calculations. Geothermal needs public-private partnership to be successful but the private sector is not interested if the price is flat. What is the GOI doing to address this?

Response from MOF

1. The MOF is supporting the GOI commitment to diversify the energy mix. I think we should arrange a separate forum with the industry to discuss fiscal incentives, the FIT and subsidies. . For today let us focus on the objective which is to collect inputs for the CTF IP Update.
2. Regarding EE and ESCO support, there are existing fiscal incentives for EE and green buildings, and the MOF is in the process of establishing a revolving fund with low interest rate loans for green buildings projects.

Response from ADB

3. CTF funds cannot be reserved indefinitely, thus it must be prioritized for projects that are "ready" which means ready to be implemented in 1 year time. If the projects are implemented efficiently and effectively, Indonesia can request for more funds through the GCF, once that is ready, or request more funding from the CTF depending on how climate financing develops.
4. We are not excluding projects, but selecting them based on the priority sectors of the CTF and readiness
5. For ESCO and EE issues: EE projects are often small and savings are widely distributed with smaller impacts. A system is needed to aggregate these projects so that we can work to scale and more easily engage financial institutions.

Response from the World Bank

6. The CTF is also meant to generate lessons on policies, project investments and mechanisms for stakeholder engagement. It will also help countries get project pipelines organized and ready for the emerging climate financing architecture. .

Session 3

Questions from Indonesian Geothermal Association (API)

1. Regarding "readiness", at what stage of a geothermal project can CTF funds be allocated: exploration, extraction, or others? Exploration is the most expensive and so funding is needed at this stage and before obtaining permissions we need to know the capacity of the resource. Will there be published criteria from the CTF in regard to geothermal project "readiness"?
2. Which are prioritized by the CTF, SOE or private sector geothermal?
3. How should the various "risks" be covered and documented in the project proposal?
4. Will there be a government guarantee provided when we receive loans from CTF? I believe we need to clearly discuss on guarantee mechanism in the CTF.

Questions from Indonesian Institute of Energy Economics (IIEE)

5. We should ensure that measures in the CTF and MOF policies are attractive to industries with energy use of more than 6000 Tons of Oil Equivalent/year. What is the readiness of the fiscal incentive policies such as customs tax exemption or lower interest rates?
6. Indonesia still has no standards on EE which could provide the basis for project development, how will CTF address this?
7. What are the detailed procedures to access CTF?

Questions from WWF Indonesia

8. What is meant by the "development impacts" in the CTF criteria?
9. How is the CTF managing the risks in geothermal projects, from drilling to license issues? The largest portion of CTF funds is allocated for geothermal energy which are more expensive investments compared to other RE projects while it has higher risks.
10. Can the interest rates of the CTF be adjusted based on location and scale of the project?
11. Can we utilize cooperatives as financial intermediaries for RE projects development in remote areas?
12. If I were an investor, how do I access the CTF? Do I send a proposal to ADB or to MOF?
13. What is the role of NGOs in the CTF? It is mentioned that NGOs are "Observers" under the CTF plan, but CTF funds are allocated for the private sector.

Response from ADB

1. CTF can support both upstream and downstream projects, and both SOE and private projects. The priority is readiness of the project. "Ready" does not mean ready to start immediately, but project proposals must be submitted to the CTF Committee within the next 12 months and will then be submitted to the relevant MDB Board for approval. Geothermal projects which have found resources and have started drilling can qualify, and projects in the feasibility study stage that have identified their risks can also qualify.
2. Development impacts could include local air quality, nature conservation, income generation and other potential benefits that can be identified when preparing a project proposal.

3. On the risks of geothermal projects, all RE projects have their risks that need to be understood and it will be reflected in the pricing of the loan especially when financed through the private sector.
4. Involving cooperatives as financial intermediaries for RE projects in remote areas can be included in the project design.
5. CSOs are represented on the CTF Trust Fund Committee with observer status, while CSOs in the country level can be directly involved in monitoring, evaluation and community partnership. This is why engagement with CSOs must be sustained for CTF implementation.
6. For geothermal projects readiness usually means that there is a power purchase agreement signed with PLN, access to site, rights to steam and local government sponsorship or relevant permissions. The projects should have at least enough faith to go into production stage.

Session 4 - Inputs

Inputs and Comments from Indonesian Renewable Energy Society

1. Incentives from GOI for RE project development, including FIT, are still problematic for two reasons. Firstly incentives, such as FIT, do not include the financing of building interconnections with the network. While PLN must purchase the electricity from geothermal power plant, they do not have budget to build the network and place that responsibility onto the developer, making geothermal production more expensive and unattractive for the private sector. Secondly the FIT tariff is flat while prices for raw resources, such as for biomass, fluctuate and differ per area and per year
2. There are problems with licenses issued by MEMR overlapping or conflicting with licenses issued at district and province level. Also the extended period in license registration (from 90 days in the regulations, to 1 year in actual practice) is problematical. Overall the licensing procedure is quite messy and a simpler mechanism is required.
3. Who will claim the carbon credits of CTF funded projects?
4. Is the target of reducing 5.5 million ton CO₂ per year from the USD 100 Million funding realistic? How was this calculation done?

Inputs and Comments from GBCI

5. PLN and MEMR should also be engaged as stakeholders in CTF, especially since we are talking mainly about IPPs.

Inputs and Comments from IIEE

6. Other than providing soft loans, CTF should also fund consultants and feasibility studies, in order to ensure smaller scale RE project readiness (for projects under 10 MW).

Questions from Indonesian ESCO Association

7. ESCOs are successful in Japan because investments are 1/3 subsidized by the Government, while Indonesia clearly can't replicate this model so we must utilize IFIs. What is the interest rate from CTF? CTF will be channeled through local commercial banks who will charge a margin, so will CTF in the end still be attractive for developers? What are the procedures to apply?

Inputs and Questions from Indonesian Geothermal Association (API)

8. API wants to propose 2 projects, namely (i) "Indonesian Code" to calculate reserves (probable, possible and proven geothermal resources) to ensure that there will be a national standard calculation that adheres to international standards in order to make geothermal projects more bankable; and (ii) capacity building projects, from technician

to geoscientists, working together with MEMR Pusdiklat (Training Centers) and universities.

9. Under CTF who would own the assets especially in respect of how physical assets and equipment could be used as collateral?
 10. One suggestion is to separate the discussion on geothermal because the issue is too complex.
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Response from ADB

1. CTF is concessional lending, provided for existing or planned projects that are not moving because the interest rates are too high. We need to create critical mass of projects for banks to consider a lower interest rate (because of lower risks).
2. It is difficult to determine the exact interest rate if we have not assessed the risks involved. The key is to have a good feasibility study to prove that projects are bankable. Banks use their terminologies of standard products / packages for them to fully understand risks, but banks are not familiar with RE and EE projects as they do not have a track record. We need to aggregate industries and different projects, and start creating risk profiles for the banks.
3. CTF is short term funding aimed at leveraging additional funding so the two proposed ideas from API cannot be supported through CTF. However proposals can still be submitted to ADB to see if we can help fund the initiatives. A suggestion is for API to take a position of inviting donors to avoid overlaps and redundancies in their activities.
4. The CTF is looking to reduce for GHG emission at a large scale. The CTF funds are engaged to leverage additional funding (up to a billion dollars) from MDBs and other funding sources to achieve a reduction of 5.5 million tons of CO₂/year. The calculation of potential GHG savings (5.5 million tons of CO₂/year) is based on a number of independent market assessments including those by IFC and ADB, and details are explained in the original Investment Plan.
5. Carbon credits will belong to the project owners not the MDBs.

VII. DIALOGUE ON CONTINUED INVOLVEMENT OF CSOs

Indonesian Renewable Energy Society

- We need to ensure participation from CSOs in monitoring the disbursement of CTF.
- We need to ensure open access to information.
- We also need to involve the local community, for instance biomass projects can hire hundreds to thousands of employees, making the project attractive for local government.

Indonesian Geothermal Association

- CTF needs be further socialized to the CSOs by using strategic communication channels not only to inform on the status but also provide updates on CTF progress.
- NGO engagement is very important for socialization and consultation at the local level. Engagement with NGOs is also an important aspect of corporate social responsibility for power developers.

WWF Indonesia

- CTF needs to engage two levels of CSOs: (i) NGOs and (ii) local community or indigenous peoples organizations. Accommodating inputs from the communities will provide a sense of ownership to the project and will help ensure sustainability of the project.

Bank of Information Center

- CTF and the MDBs need to ensure continued engagement with the CSOs, especially since this process has not been done since 2010.
- CTF needs to create a system to involve CSOs to ensure smooth implementation of projects, this needs to be accommodated especially because CTF mainly allocates funds through the private sector

VIII. CLOSING REMARKS

By ADB

- Consultation with CSOs is ongoing process and we need to continue this process in a more focused setting with small group meetings and discussion groups.
- The inputs given today addressed both the investment level, which is where the process of the CTF is currently, and the implementation level. At the project level consultation with NGOs and local communities will be a clear part of project preparation and is indeed mandatory for MDB projects. The CTF team will continue to receive feedback and inputs from CSOs before submitting the IP for re-endorsement, and any comments can be sent via electronic communication. Drafts and minutes will also be circulated.

By Irfa Amri, Fiscal Policy Agency, MOF

- There were many valuable inputs today particularly from the industry associations. The MOF will continue close consultations with the associations.
- The climate change finance / multilateral unit in the MOF was established last year so this marks the 1st CSOs consultation done by the unit. Seeing the valuable inputs and the importance of close coordination, the unit will continue to hold more consultations in the future.

IX. NEXT STEPS

1. Once a summary of this consultation meeting has been completed, its draft should be shared to all participants for their comments and inputs.
2. The proposed IP update will be made available to all participants on the Government's website for their inputs.
3. Further stakeholder consultation and discussion will continue to be held, particularly in the areas of geothermal and energy efficiency/renewable energy.

X. CSOs Invited and Represented

1. Fabby Tumiwa - Institute for Essential Service Reform (IESR) – *attended*
2. Indra Sari - WWF Indonesia – *attended*
3. Hindun Mulaika - Greenpeace Indonesia – *attended*
4. Djoko Winarno - Indonesian Renewable Energy Society (METI) / Indonesian Electrical Society (MKI) – *attended*
5. Aisyah Kusuma - Indonesian Geothermal Association (API) – *attended*
6. Sanusi Satar - Indonesian Geothermal Association (API) – *attended*
7. Sudarwo - Indonesian Geothermal Association (API) – *attended*
8. Rachmat Sugandi H. - Indonesian Institute of Energy Economics (IIEE) – *attended*
9. Asclepsias Rahmi - Indonesian Institute of Energy Economics (IIEE) – *attended*
10. R. Basuki - Association of Energy Conservation Industries (APKENINDO) – *attended*
11. Firdaus M. Yusuf - Bandung Hydro Association – *attended*
12. Retnosari H. - People Centered Economy and Business Institute Foundation (Yayasan IBEKA) – *attended*
13. Megawaty - Green Building Council Indonesia – *attended*
14. Bryanna AS - Green Building Council Indonesia – *attended*
15. Nadia Hadad - Bank of Information Center Indonesia – *attended*
16. Feri Lasman - Indonesian ESCO Association – *attended*
17. Bambang Sulistiyono - Indonesian Carbon Management Association (APKI) – *attended*
18. John Manoppo - Indonesian Lighting Association (APERLINDO) – *attended*
19. Diana Goeltom - DebtWatch – *attended*
20. Wahidah Rustam – Indonesian Women Solidarity
21. Pius Ginting – WALHI (Friends of Earth Indonesia)
22. Nur Amalia – Rainbow Foundation
23. M.S. Sembiring – KEHATI Foundation
24. Dani Setiawan – Anti-Debt Coalition
25. Henry Subagyo – Indonesia Center for Environmental Law
26. Sugeng Bahagio – International NGO Forum on Indonesia Development (INFID)
27. Representative from Indonesia Civil Society Forum for Climate Justice
28. Abdon Nababan – Indigenous People Alliance of the Archipelago
29. Harry Jaya Pahlawan – Indonesian Electricity Society (MKI)

XI. Photos



The CSO Consultation Workshop was held on 29 January, 2013 in Hotel Borobudur, Jakarta.



The Workshop was opened by Irfa Amri, Office of Fiscal Policy, Ministry of Finance.



Representatives from 15 Indonesian NGOs and Industry Associations attended the Workshop.



Updates on the CTF IP were presented by the Multilateral Development Banks in the CTF.