



**INDONESIA  
ENERGY  
TRANSITION**

Implementation Joint Office

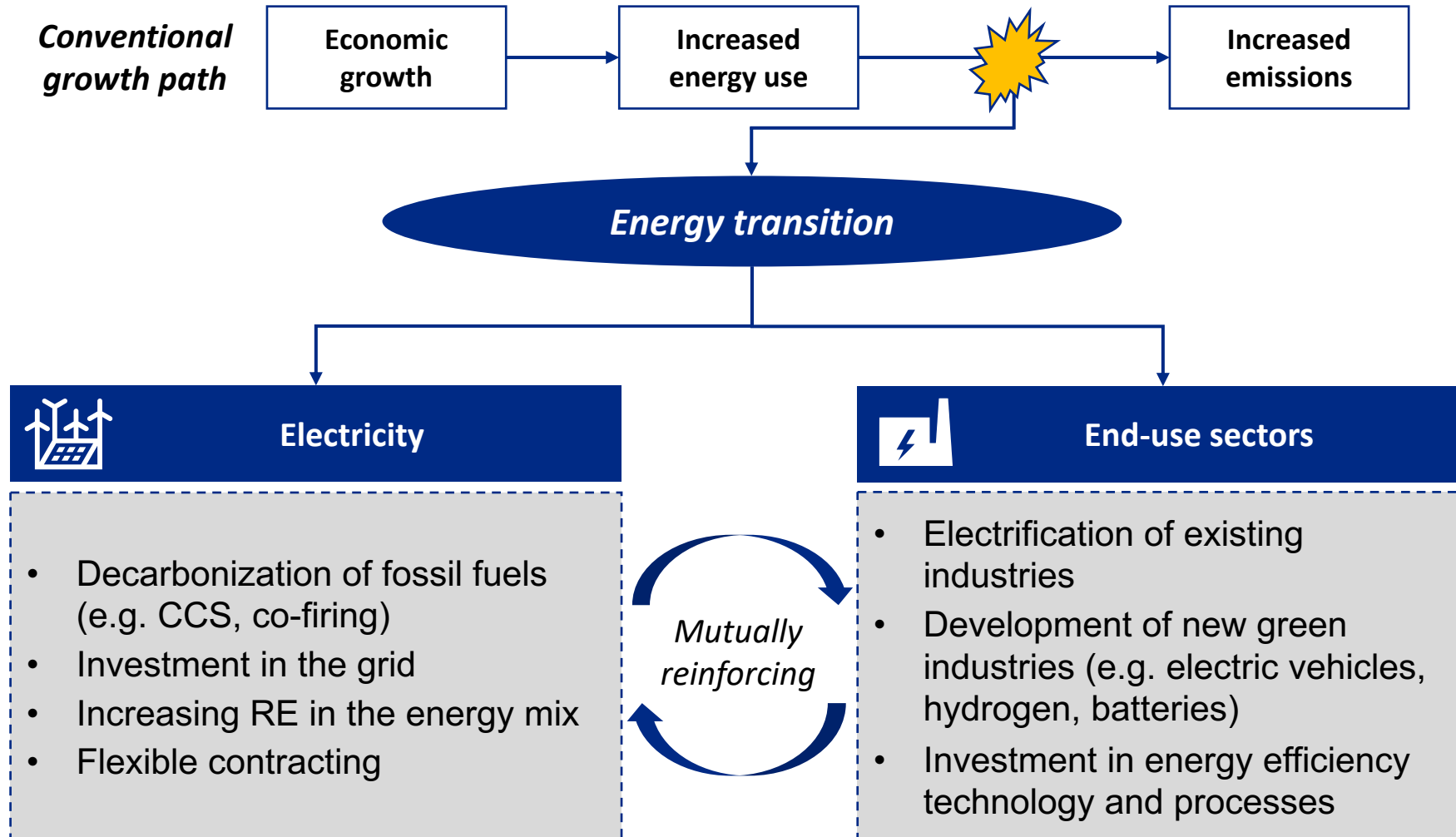
# Financing Energy Transition: Key Elements and Opportunities

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September 2024

# To pave the path to zero emission growth, energy transition requires decarbonization of both electricity generation and end-use sectors

## How to achieve energy transition



**Both electricity and end-use decarbonization are required for energy transition**

**Country-specific context should be considered to assign priority for cost effective transition**

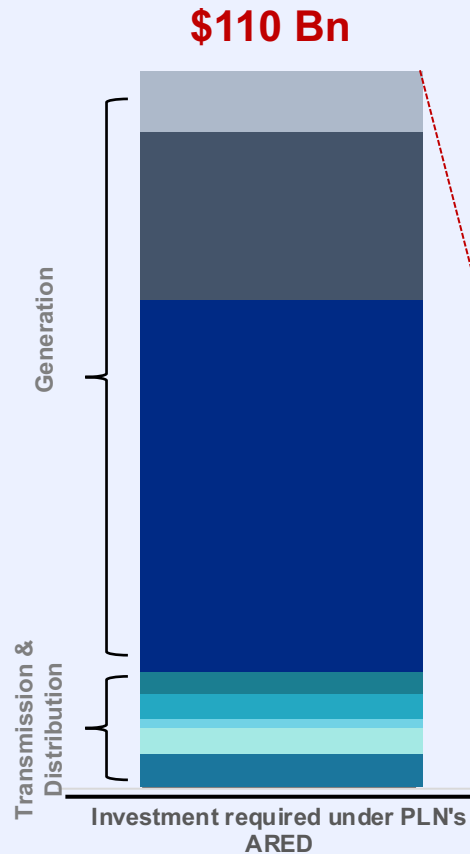
# Key elements to ensure the acceleration of energy transition

Key Elements	Explanation	Examples
Policy and Regulatory Frameworks	Establish strong, clear and supportive policies, including attractive tariffs, incentives, and long-term energy plans to guide investment and encourage private sector participation.	GOI has issued MEMR Regulation No. 11/2024, MEMR Decree No. 191.K/2024, and MOI Regulation No. 34/2024 related to the use of domestic products for the development of electricity infrastructure.
Access to Financing and Blended Finance Mechanisms	Utilize blended finance and sustainable finance mechanism to de-risk investments and scale up RE projects investment. Also, creating schemes to allow non-traditional financing.	The use of <b>blended finance mechanisms</b> by <b>combining</b> concessional funding with commercial funding to <b>support the development of transmission infrastructure</b> in Indonesia.
Technological Innovation and Capacity Building	Invest in local capacity building and technology innovation to scale up renewable energy, focusing on localized manufacturing and reducing costs.	The partnership between <b>SoE, private sector</b> , and <b>Tier-1</b> Solar PV manufacturer in a solar PV modules and solar cell manufacturing facility in Indonesia. This venture should facilitate <b>technology transfer</b> starting <b>6 months</b> after the plant's <b>COD</b> . Moreover, the initiative will achieve <b>80-90% local workforce</b> participation.

# Indonesia's energy transition requires a lot of investment – JETP funding will not be enough

## PLN's ARED required investment 2023 - 2040

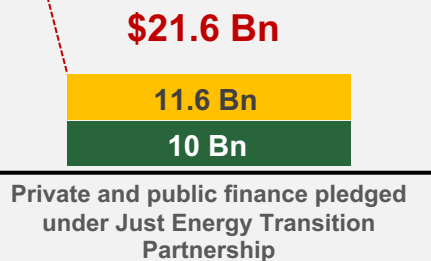
- New energy
- Additional wind & solar (VRE)
- Additional hydro & geothermal
- Smart grid & storage
- Substations
- Interconnection
- Fishbone transmissions
- Backbone (extra high voltage)



## Public and private financing pledged under CIPP/JETP

- Public finance
- Private finance

The \$21.6 Bn public and private funding can be mobilized for ARED program, however more fundings beyond CIPP/JETP are needed to close the investment gap



**Private funding** comprises market rate loans, which can be taken through corporate finance (full-recourse loans), project finance (non-to limited recourse loans), equity, or quasi-equity types of investment that could come in many different structures, customized to each unique project.

**Public funding** encompasses sovereign borrowing, including concessional loans, grants, and technical assistance. It also involves non-sovereign guaranteed, non-concessional loans (at market interest rates) with risk-based pricing from private sector lending arms of public international financial institutions like MDBs and DFIs.

# There are challenges that may pose risks to the acceleration of energy transition



**Most IFI financing packages require sovereign guarantee.** It will increase Gol fiscal burden.



**Most concessional financing are sovereign lending that may have concentrated beneficiary.** Sovereign lending typically could only be access by Government or SOEs, hence potential limiting the access for private entities.



**Prevailing FX risks exposure** due to non-local currency-denominated facilities. Introduction of local currency financing options would eliminate most FX risks.



The **lack of standardized** definition and operationalization of E&S safeguard. Complex environment of safeguard policy leads to **high cost of E&S safeguarding**, e.g., application of specific provisions across different intermediaries.



Most concessional financing often target projects with **specific ticket size** i.e., large-scale projects. This may **limit financing access** for community-based projects.



**All entities should work together to:**

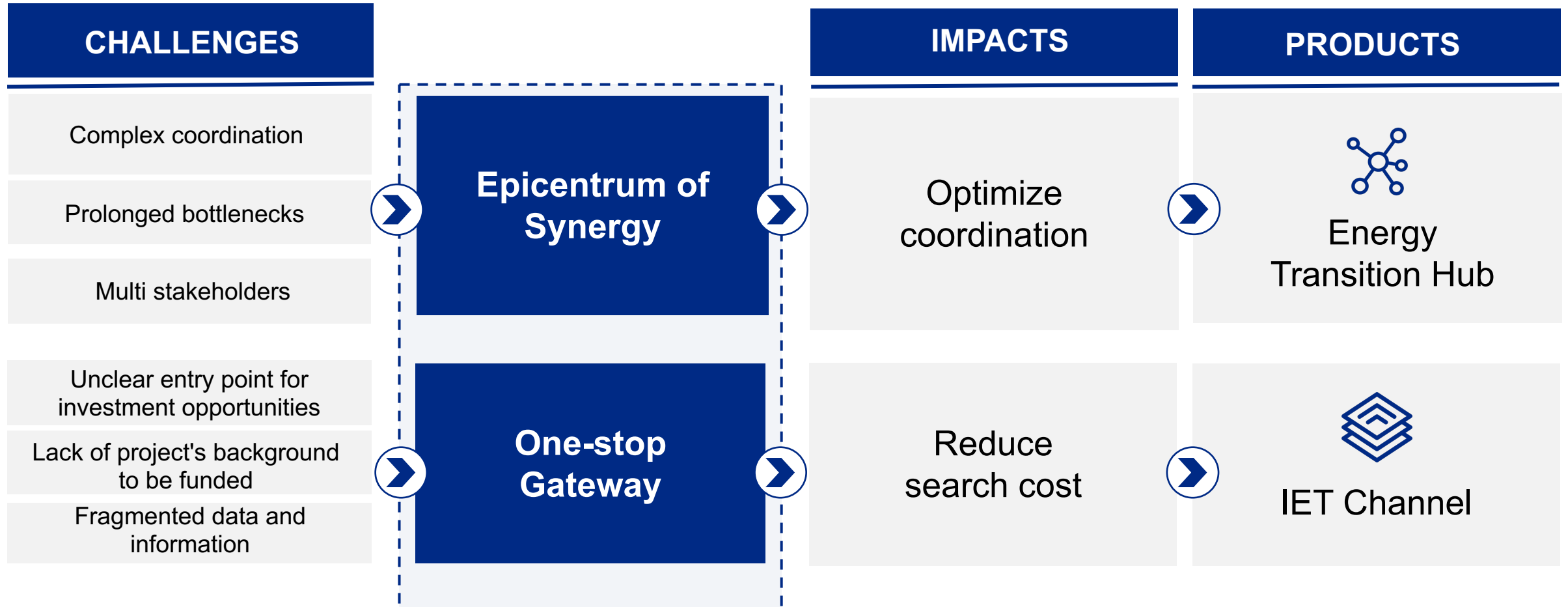
**1**

Explore innovative schemes that promote acceleration and inclusion.

**2**

Go beyond BAU to make blended finance work.

# IET Joint Office plays roles as a One-stop Gateway and Epicentrum of Synergy to reduce search costs and optimize coordination



# IET Joint Office develops IET Channel as a tool for accelerating investment in energy transition projects by lowering the search cost

## Facilitating Investment



### IET Channel



#### Information Exchange

The channel serves as an information exchange for projects, financial products, and other supports including but not limited to grants, technical assistance and capacity building opportunities



#### Ease of Access

The channel supports funding mobilization from numerous sources including public and private finance, blended finance, and philanthropy



#### Inclusive participation

The channel promotes a just and affordable energy transition at various levels



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# Thank You

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# Fostering supportive ecosystem is crucial to expand financial opportunities in Indonesia's energy transition

## Enhancing Regulatory Frameworks

1

Governments should establish clear, stable, and supportive regulatory environments that provide long-term visibility for investors. This includes implementing policies that favor renewable energy, such as government guarantees and flexible power purchase agreements.

## Encouraging the Public-Private Partnership (PPP)

2

Encouraging collaboration between public and private sectors can help share risks and leverage resources. PPPs can provide the necessary support to develop renewable energy projects while ensuring public interests are protected.

## Diversifying Funding Sources

3

Expanding access to international and development finance institutions can help fill funding gaps. These institutions can provide essential capital and support for projects in emerging markets, where traditional financing may be limited. Also, utilizing non-traditional financing such as pension fund, insurance, endowment fund, etc.

## Innovative Financing Mechanisms

4

Utilizing innovative financing models, such as green loans/bonds, sustainability loans/bonds, which can attract diverse sources of capital. These models can help mobilize funds for renewable energy projects and reduce reliance on traditional financing methods.

## Utilizing De-risking Instruments

5

Financial instruments such as guarantees, insurance, and blended finance can help mitigate risks associated with renewable energy projects. These instruments can lower the cost of capital and make projects more attractive to investors.

IET channel provides features that facilitate the needs of Project Owners, Developers, Financiers and the public to access project and financial information



## Each stream has various projects that need to be funded for energy transition acceleration

Stream	Scope of Potential Project
PLN	<ul style="list-style-type: none"><li>• Renewable Generation (Dispatchable RE and VRE)</li><li>• Green Transmission and Substations</li><li>• Smart grid</li></ul>
IPP	<ul style="list-style-type: none"><li>• Renewable Generation (Dispatchable RE and VRE)</li><li>• CFPPs Early Retirement</li></ul>
Private Sector	<ul style="list-style-type: none"><li>• Renewable Generation (Dispatchable RE and VRE)</li><li>• Energy Efficiency Project</li><li>• Captive Power Project</li></ul>
Government	<ul style="list-style-type: none"><li>• Energy Efficiency Project</li><li>• Street Lighting (Penerangan Jalan Umum Tenaga Surya)</li><li>• Acceleration of Electric Vehicle Ecosystem (Charging Station, Electric Motorcycle Conversion)</li></ul>
Community Based	<ul style="list-style-type: none"><li>• Waste to energy company</li><li>• Electric outboard motors and battery swap systems company</li><li>• Electric Vehicle company</li></ul>