Financing Low Carbon Projects

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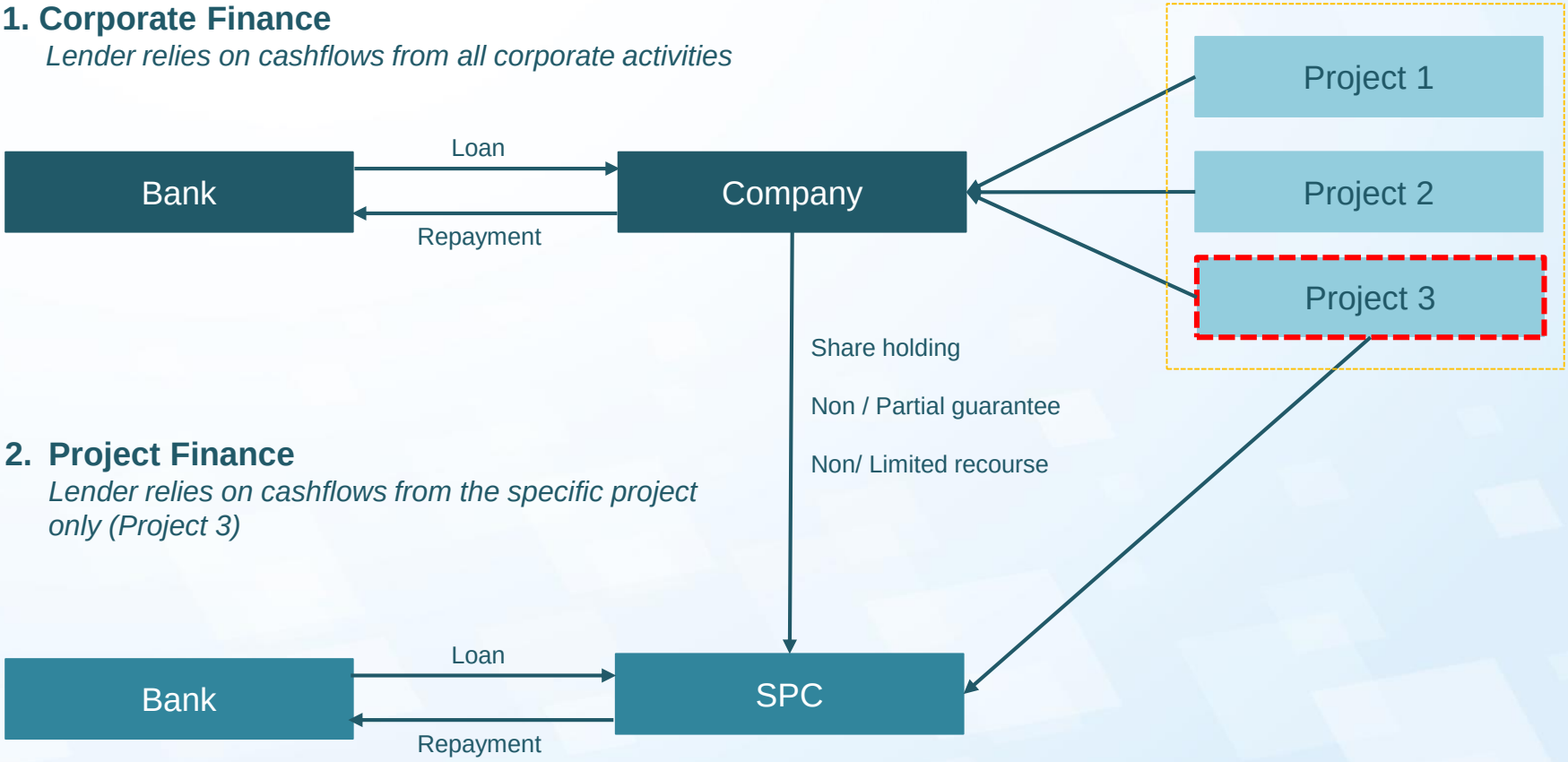
Project Finance and Corporate Finance Structure

1. Corporate Finance

Lender relies on cashflows from all corporate activities

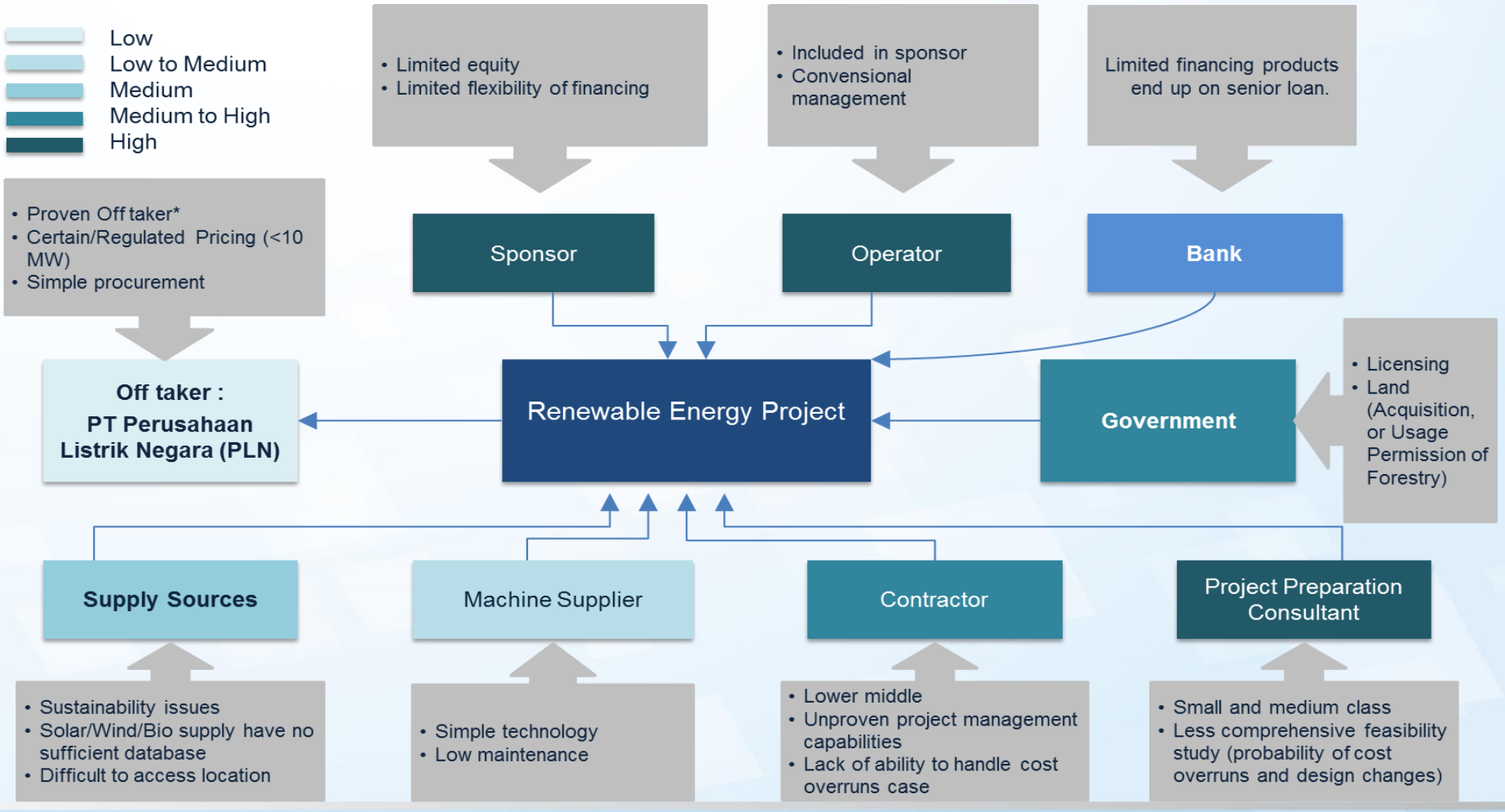


2. Project Finance

Lender relies on cashflows from the specific project only (Project 3)

Project Finance is relying on the project's cashflow as the principal repayment source

Case Study:
Key Issues in Renewable Energy Financing in Indonesia – Risk Perspective



Project Key Considerations and Concerns

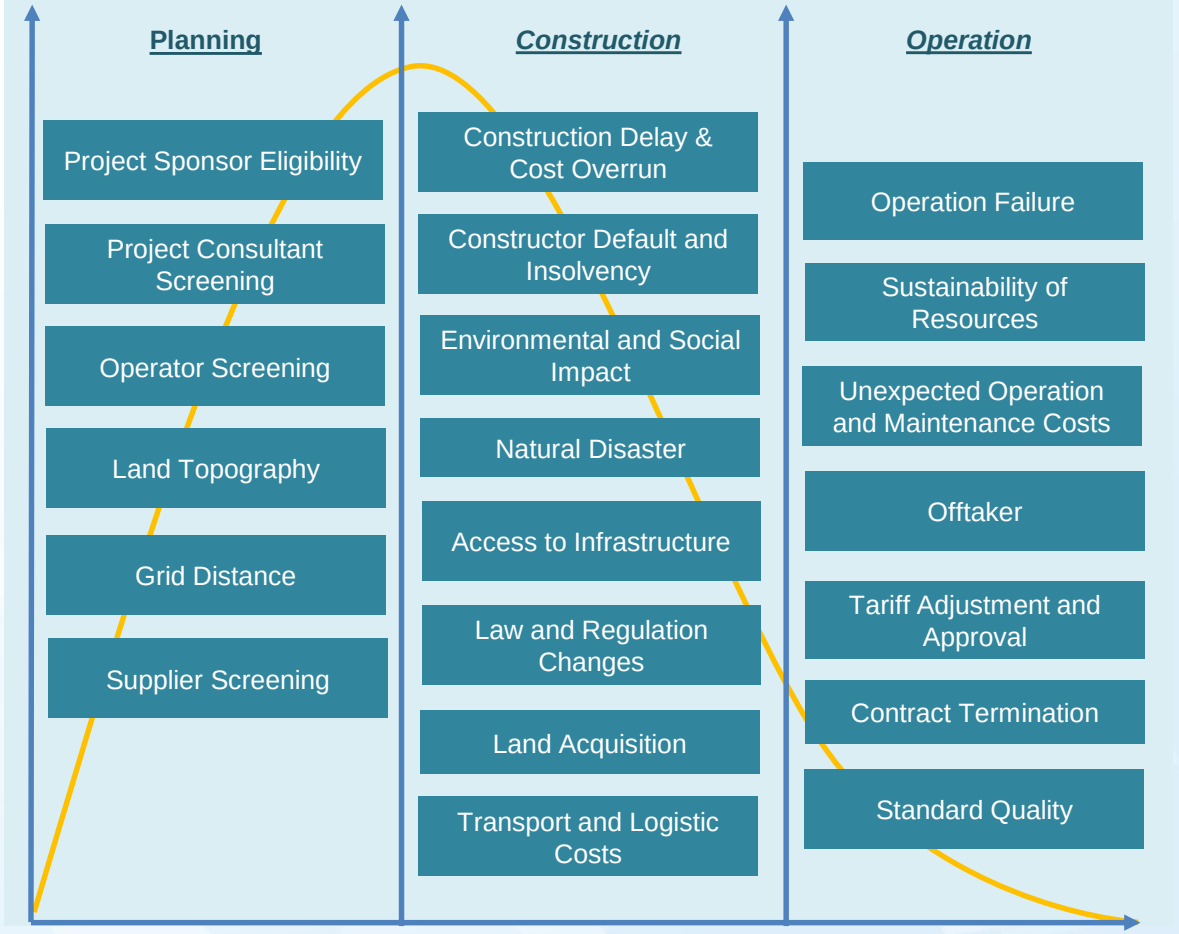
Key Considerations

1. Optimal sharing of risks – principle is that risks should be allocated to the party best suited to manage or minimize it
2. Having a conducive regulatory environment

Key Concerns

1. *Strong project sponsor*
2. EPC contractor with good *track record*
3. *Stable cashflow*
4. Solid project fundamental
5. Suitable financing structure
6. Professional parties

Typical Project Risks of Renewable Energy Projects



Case Study: Project DSCR vs Project Reliability

Scenario-1: base scenario

Scenario-2: with 20% of cost over-run

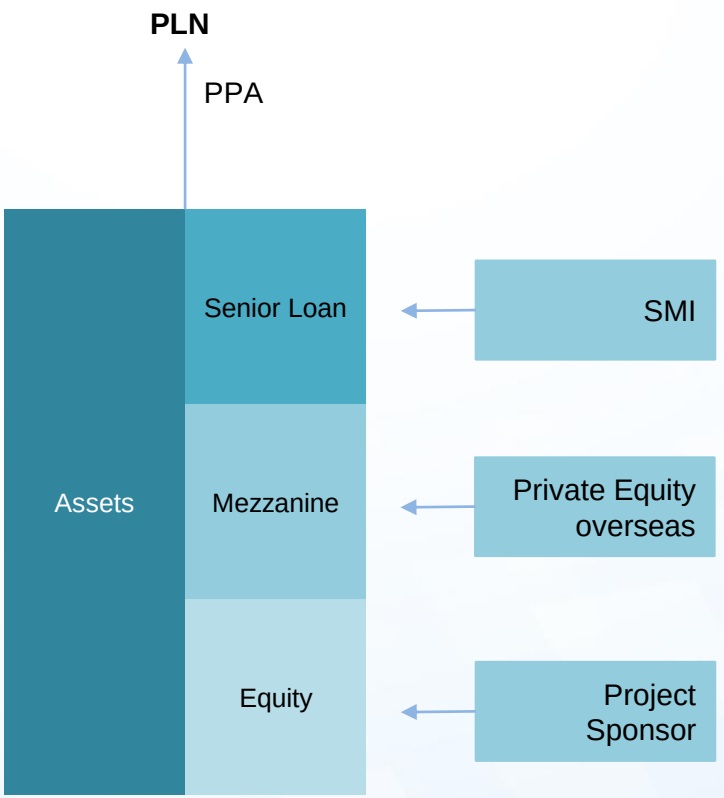
Scenario-3: with 20% of cost over-run & 17,5% of CF (Year-1)

- The Debt Service Coverage Ratio (DSCR) is the ratio of cash available for debt servicing to interest, principal and lease payments.
- It is a popular benchmark used in the measurement of an entity's (person or corporation) ability to produce enough cash to cover its debt (including lease) payments. The higher this ratio is, the easier it is to obtain a loan.
- The minimum DSCR, particularly for new sector, for the banking acceptance is about 1.4-1.5 x

Case Study: Improving Project Bankability

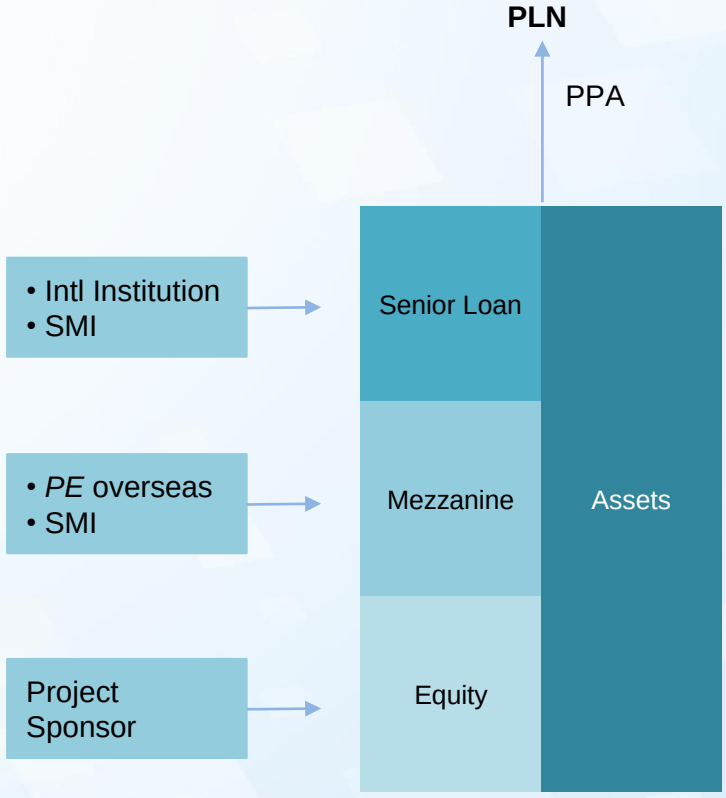
	Indicative Ratio	Remarks
Senior debt	▪ Financing size = 30%	▪ Indicator of project's bankability ▪ With mezzanine portion, senior lenders will more secure or comfortable to finance the project ▪ Limitation of senior debt portion due to new sector ▪ Using cash waterfall mechanism
Mezzanine	▪ Financing size = 40%	▪ Using bullet payment mechanism for principal ▪ Reduce cash flow's burden during senior debt's tenor ▪ Using cash waterfall mechanism
Equity	▪ Equity size = 30%	▪ Equity sponsor still has room for excess cash ▪ Using cash waterfall mechanism

Our case: financing Structure in RE project (e.g: Mini-hydro Power Plants)



Project Finance: Mini-hydro Power Plant

- SMI as a Senior Lender
- PE as a Mezzanine Lender



Project Finance: Mini-hydro Power Plant

- SMI and International Institution (Co-financier) as a Senior Lender
- On the next stage: PE overseas & SMI as a Mezzanine Lender

Typical Financing Structure of Renewable Energy Projects

Typical Financing Mix	Financing Institutions	Source of Funds
Debt	Banks • International Banks • Large Domestic Banks • Local Branch of Foreign Bank • Small-to-medium Domestic Banks	e.g. deposits (mostly short term for domestic banks) & capital market
	ECAs	e.g. government, private investors
	Multilaterals/bilaterals	e.g. multilaterals/ bilaterals member countries, capital market
	Infrastructure Financing Institutions (PT SMI/IIF)	e.g. Government, multilaterals/ bilaterals, private investors & capital market
Equity – Quasi-Equity – Sub-Loan Equity – Quasi-Equity – Mezzanine Equity – Quasi-Equity – Convert Equity – Equity	• Strategic Investors • Private Equity / Hedge Funds • Infrastructure Financing Institutions (PT SMI/IIF)	e.g. private investors, multilaterals/bilaterals, capital market
Grant	• Donors • Multilaterals/bilaterals	e.g. climate funds, green funds, adaptation/mitigation funds, multilaterals/ bilaterals funds

Our Business Model

PT SMI Business Pillars

Sources of Funds

Conventional

- Capital Injection from GOI
- Capital Market (Bonds, Notes, Securitizatio)
- Loans and Grants

Sharia*

- Sharia Capital Market
- BPJS, Sharia Insurance
- Hajj & Syirkah Funds
- *Sovereign Wealth Fund*

FINANCING & INVESTMENT

- **Infrastructure Financing**
  - *Senior loan* (Working Capital, Investment Loan)
  - *Junior Loan*
  - *Mezzanine*
  - *Equity investment*
  - *Arranger & Underwriter*
  - *Standby Lender* PPP
- **Municipal Financing (PIP/RIDF)**
- **IMBT/Lease with Option to Own**
- **Murabahah/Installment Sale with Deferred Payment**
- **MMQ/Diminishing Partnership**
- **MMOB/Restricted Investment**

CONSULTATION SERVICES

- ***Public Sector Advisory***
- ***Training & Capacity Building***
- ***Investment Advisory (Conventional and Sharia)***
- ***Financial Advisory (Conventional and Sharia)***

PROJECT DEVELOPMENT

- **Project Development Facility (PDF)**
  - PPP Project
- **PDF & Donor Funds Management**
  - Renewable Energy Project (Geothermal Exploration)
- **TA & Donor Funds Management**
  - Municipal Projects
- ***Technical Assistance***
- ***Donor Funds Management***

Sectoral Focus

- Electricity
- Transportation
- Telecommunication
- Rolling Stock of Trains
- Oil and Gas
- Energy Efficiency
- Drinking Water
- Road and Bridge
- Irrigation
- Waste Management

Social Infrastructure

- Hospital
- Correctional Infrastructure
- Education Infrastructure
- Region Infrastructure
- Market
- Tourism Infrastructure

* Islamic Business Unit is expected to be operational at the end of 2016

IMBT= Ijarah Muntahia Bittamlik MMQ= Musyarakah Mutanaqisah MMOB= Mudharabah Muqayyadah on Balance Sheet

Sustainable Financing

Focus

- New & Renewable Energy
- Energy Conservation
- Waste Management

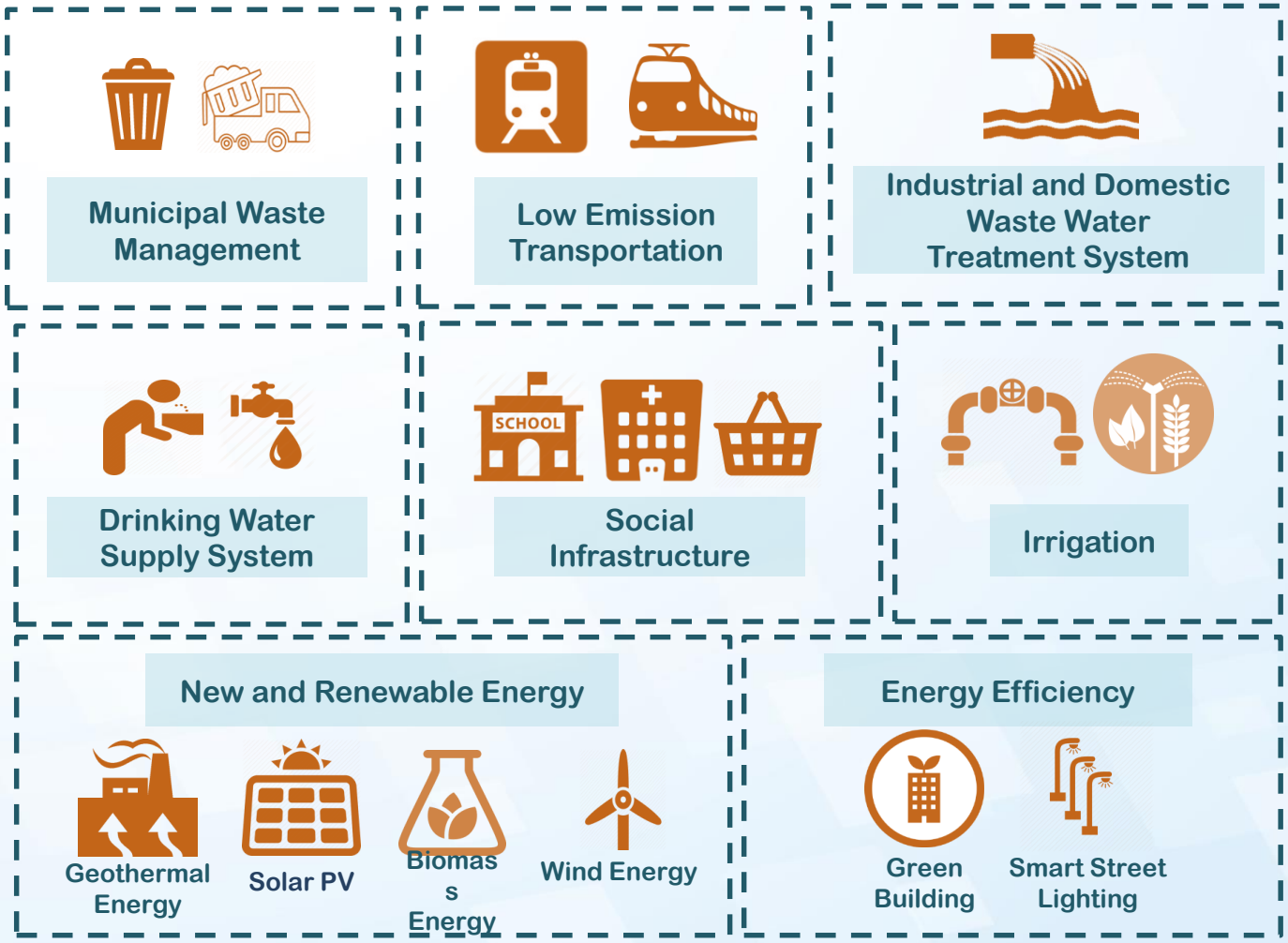
Product

- Loan
- Grant
- Quasi Equity Facility
- Technical Assistance

Strategy

- Create strategic relationship with potential clients
- Create strategic cooperation with multilateral institutions
- Coordination with government institutions

PT SMI Eligible Sectors for Sustainable Finance



PT SMI has Implemented Environmental and Social Safeguard

PT SMI ESS Architecture

Policy

- Compliance of the Environmental and Social Rules and Regulations
- ESS Governance and Management System
- Risk Categories
- Biodiversity and Natural Resources Management
- Land Acquisition and Resettlement
- Indigenous People and Cultural Heritage
- Gender Policy
- Consultation and Grievance Handling Mechanism

Procedures

Evaluating E&S Risk

- Transaction Screening
- Risk Identification
- E&S Due Diligence
- Conditions of Financing

Monitoring E&S Risk

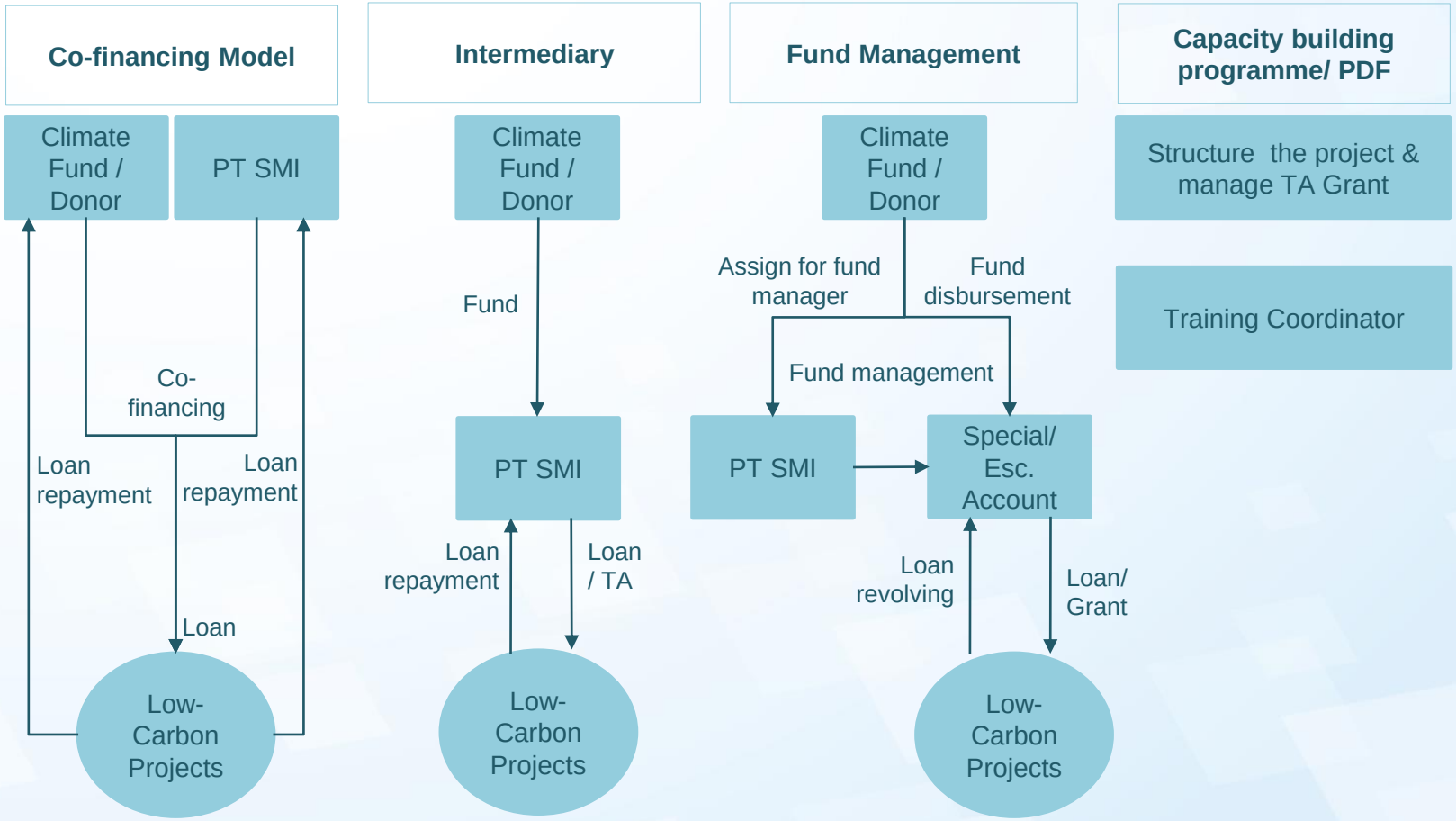
- Reviewing Client/ E&S Performance
- Managing non-Compliance

Continuous capacity and capabilities improvement

Monitoring and Reporting

ESS: Environmental & Social Safeguards

Generic Partnership Model With International Institutions



Partnerships in Climate Change Programs

i.e. Renewable Energy

USD100 million
Credit Facility Aggrement

€400 thousand
Technical Assistance Programme

USD5 million
Quasi Equity Facility

Climate Technology Fund (CTF)*
Grant USD49 million

Geothermal Energy Development

Global Environment Facility (GEF) Grant*
USD6,25 million

Grant for Loan USD6- 8 million

Sustainable Urban Transport (BRT)**

Regional Infrastructure Development Fund
Loan USD500 million

Grant USD3 million
TA & Project Preparation

SECO

Accredited Entity

Low-emission and climate-resilient development*

In Accreditation Phase II

Grant Facility USD300 thousand

Wind Energy Development di Lombok

*) *Preparation Phase*
**) *Planned*

THANK YOU

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#baktiuntuknegeri

Roles of PT SMI in Addressing Sustainable Development Issues in Indonesia

Roles of PT SMI in Addressing Sustainable Development Issues in Indonesia

1	**Infrastructure Finance Company**	The only SOE with focus mandate in Infrastructure Development Financing
2	**Supports Mitigation Actions**	The business sectors are very relevant to sustainable development actions, including renewable energy and transportation
3	**Future Role as a Development Bank**	Future role as a Development Bank with a broader eligible sectors will allow SMI to contribute more significantly in addressing sustainable development issue;
4	**Supporting Impact to Global Target**	Plays significant role in supporting relevant infrastructures in sustainable development projects as well as reducing emission in order to achieve global target in sustainable development goals (e.g.: climate change mitigation).

Partnership between AFD and PT SMI

Renewable Energy and Climate Change Projects

Credit Facility Agreement (CFA)

- **Financing of Renewable Energy and Climate Change Investments**
  - Loan Facility :USD100 million
  - Tenure: 10 years
  - Grace Period: 3 years
  - Project size max: USD50 million
  - Loan size max: USD25 million for each project
- **At least 50% of the facility must be dedicated to Renewable Energy investments and the rest is for Climate Change investments**
- **Renewable Energy: hydropower, geothermal, biomass, solar, wind mills, etc.**
- **Climate Change: Mitigation & Adaptation**

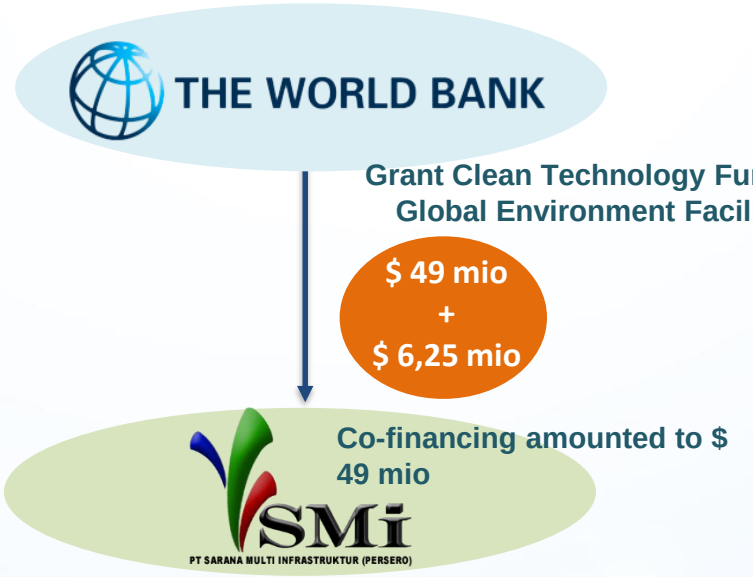
Quasi Equity Facility (QEF)

- **This facility will target either innovative or riskier projects**
  - Facility: USD5 million
  - At least 3 projects to be financed with the QEF
- **This facility will be provided by means of de-risking mechanism for PT SMI or interest-rate subsidy**
  - First Loss Mechanism (FLM)
  - Cost Overrun Junior Debt Mechanism (CJD)
  - Interest Free Loan for Innovation (IFI)
  - Innovative Equity Mechanism (IEM)

Technical Assistance Programme (TAP)-MoU

- **This programme amounting to maximum EUR 400,000 will support the two facilities**
- **TAP will build up PT-SMI's capacity to originate, finance, and monitor more Renewable Energy and Climate Change investments**
- **Scope :**
  - Support PT-SMI in appraising and assessing Renewable Energy and Climate Change investments
  - Assist PT-SMI in upgrading its Environmental and Social Risk Management System (ESMS)
  - Promote Renewable Energy and Climate Change investments in Indonesia

Cooperation in fostering geothermal development in Indonesia



- **The aims of CTF & GEF grant:**
  1. To support Government of Indonesia in unearthing geothermal potential through risk sharing mechanism
  2. To encourage investor participation in developing geothermal project
  3. To leverage the geothermal fund that's been managed by PT SMI

- The World Bank channeled grant from Clean Technology Fund and Global Environment Facility to support the Geothermal Energy Upstream Development Project where Government plays important role to absorb the risk of exploration phase
- Government participation during the exploration phase can significantly decreasing the risk of geothermal development which could encourage private sector participation in the exploitation phase
- Some prerequisite arrangement that should be fullfilled before the grant could be effectively granted:
  - ✓ Government should contribute in co-financing scheme
  - ✓ PT SMI act as the Implementing agency
  - ✓ The grant should be utilized only for government drilling scheme in certain greenfield area determined by GoI

Collaboration to Promote Development of Green Projects

Strategic Partnership between SMI and Global Green Growth Institute:
Collaboration to promote programs, research and joint activities in support of the development of green projects.

Mandalika PV Project

PT SMI and GGGI will support the preparation of feasibility study of Solar PV Power Plant in Mandalika Tourism Special Economic Zone

Location	Lombok, West Nusa Tenggara
Developer	Indonesia Tourism Development Corporation
Area	1.255 Ha
Sector	Eco-Tourism & MICE
Estimated Energy Demand	110 MW by 2030