



Indonesia: Sustainable and Inclusive Energy Program (Subprogram 1)

Project Name	Sustainable and Inclusive Energy Program (Subprogram 1)																
Project Number	49043-001																
Country	Indonesia																
Project Status	Closed																
Project Type / Modality of Assistance	Loan																
Source of Funding / Amount	<table border="1"> <tr> <td colspan="2">Loan 3303-INO: Sustainable and Inclusive Energy Program (Subprogram 1)</td> </tr> <tr> <td>Ordinary capital resources</td> <td>US\$ 400.00 million</td> </tr> <tr> <td>Agence Francaise de Developpement</td> <td>US\$ 150.00 million</td> </tr> <tr> <td colspan="2">Loan 8293-INO: Sustainable and Inclusive Energy Program (Subprogram 1)</td> </tr> <tr> <td>ASEAN Infrastructure Fund</td> <td>US\$ 100.00 million</td> </tr> <tr> <td colspan="2">Loan: Sustainable and Inclusive Energy Program (Subprogram 1)</td> </tr> <tr> <td>World Bank</td> <td>US\$ 500.00 million</td> </tr> <tr> <td>KfW Bankengruppe</td> <td>US\$ 200.00 million</td> </tr> </table>	Loan 3303-INO: Sustainable and Inclusive Energy Program (Subprogram 1)		Ordinary capital resources	US\$ 400.00 million	Agence Francaise de Developpement	US\$ 150.00 million	Loan 8293-INO: Sustainable and Inclusive Energy Program (Subprogram 1)		ASEAN Infrastructure Fund	US\$ 100.00 million	Loan: Sustainable and Inclusive Energy Program (Subprogram 1)		World Bank	US\$ 500.00 million	KfW Bankengruppe	US\$ 200.00 million
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Strategic Agendas	Environmentally sustainable growth Inclusive economic growth																
Drivers of Change	Governance and capacity development Knowledge solutions Partnerships Private sector development																
Sector / Subsector	Energy - Energy sector development and institutional reform																
Gender Equity and Mainstreaming	No gender elements																
Description	Sustainable and Inclusive Energy Program design. SIEP is closely aligned with the government's National Medium-Term Development Plan (RPJMN), 2015_2019, the goals of which include (i) expanding electricity access to all Indonesians and increasing per capita consumption from 843 kilowatt-hours to 1,200 kilowatt-hours per year as key goals; (ii) bolstering domestic energy security through expanded production of gas, improved security for downstream oil and oil products, and increased utilization of renewable energy; and (iii) scaling up energy efficiency. The program is also designed to support PLN via the company's Electricity Power Supply Business Plan, 2015_2024. Realizing these goals will require a sustained and multi-year effort. SIEP will be ADB's first policy-based operation in Indonesia that is fully focused on the energy sector. The proposed program takes a chronological approach over the 5-year RPJMN period with three subprograms.																

Project Rationale and Linkage to Country/Regional Strategy

Indonesia under a new president and executive team has set an annual economic growth rate target of 8% by 2019. Achieving this target will depend to a large extent on the government's ability to revive a severely underperforming energy sector. Having transitioned from a net energy exporter to a significant importer of energy, the country has until recently been unable to put in place an appropriate policy framework to adapt to this situation. In late 2014 to early 2015, the government removed subsidies on gasoline and increased the price of diesel by nearly 30%. In the same period, it also removed power tariff subsidies and put in place automatic price adjustment for all but a few consumer categories. During 2015_2019, the government seeks to enact a series of subsector reforms aiming to (i) expand energy production through greater private sector investment and more effective public sector investment, (ii) bolster the sustainability of the energy sector through increased reliance on domestic gas and renewable energy and increased energy efficiency, and (iii) expand energy access to all Indonesians.

The proposed Sustainable and Inclusive Energy Program (SIEP) is aligned with the priorities of the Asian Development Bank (ADB) country partnership strategy, 2015_2019 for Indonesia and the draft energy sector assessment, strategy, and road map, both of which are being finalized. The program is also in line with ADB's midterm review of Strategy 2020, which emphasizes the need for inclusive economic growth, infrastructure development, and policy-based engagements in middle-income countries. By focusing on a series of subsector reforms, the Sustainable and Inclusive Energy Program addresses the unfinished agenda of translating the high-level sector regulatory reform that was implemented under ADB's Infrastructure Reform Sector Development Program during 2006_2010 into sustained subsector actions. The program is included in the draft country operations business plan 2015_2019.

Inadequate investment in the energy sector. Widespread subsidies and the inability to recover costs have led to underinvestment by the public sector. Low tariffs and market prices combined with challenges in permitting, licensing, land acquisition, environmental approvals, and the perceived financial risk posed by monopolistic and subsidized public sector off-takers has resulted in inadequate private sector investment. For example, low domestic prices, aging fields, and an uncertain regulatory framework that discourages private sector investment have together constrained investment in upstream and downstream gas markets. In the power subsector, relatively low investment has been compounded by delays in completing the few large and small fossil-fired, geothermal, and hydro power projects initiated in recent years.

Constraints on scaling up renewable energy and energy efficiency. Renewable energy deployment is lagging, despite an abundance of various forms of renewable energy and national targets to increase renewables in the energy mix from just 5% of the country's primary energy mix to 25% by 2025. The Ministry for Energy and Mineral Resources has tried to attract private sector investment to the renewable energy subsector by issuing feed-in tariffs for small-scale hydro power, biomass, and waste-to-energy systems, and ceiling prices for solar. However, tariff levels were not always appropriate and project developers still face difficult negotiations and delays due to permitting issues. Similarly, the government set economy-wide energy efficiency targets and published the National Energy Conservation Master Plan in 2005 but is yet to enact guidelines which, for example, promote energy efficient equipment or appliance standards and labeling in the household and commercial sectors. These circumstances, combined with low economy-wide energy costs, have resulted in energy efficiency measures being considered financially unviable.

Impediments to achieving 100% modern energy access. Indonesia's national electrification ratio of 84% in 2014 is low relative to its neighbors in Southeast Asia. In many small power markets and parts of eastern Indonesia, supply is limited to a few hours a day. The high cost of delivering fossil fuels to small islands and remote areas, combined with low power loads, limited household ability to pay, lack of interconnected grids that can support larger generating units, and a constrained policy environment have made State Electricity Company (PLN) reluctant to add new consumers. Nevertheless, the rich renewable energy potential of these regions could support a range of grid-connected, mini grid, and household systems. The government's electrification effort overall lacks a comprehensive regulatory framework that incorporates the private sector, a national program, an institutional framework, and the necessary budgetary resources.

ADB's engagement in the energy sector. The Sustainable and Inclusive Energy Program will build on ADB's extensive recent engagement in the sector that is focused on three areas: (i) knowledge and awareness, (ii) policy and mainstreaming best practices, and (iii) financing energy infrastructure. ADB has supported the development of (i) new tariff regimes for geothermal, solar photovoltaic rooftop, and wind systems; (ii) regulations for energy service companies; and (iii) a planning and regulatory framework for expanding electricity access. Other knowledge-related activities include the country's first carbon capture and storage pilot and an analysis of the prospects for strengthening transmission grids in Kalimantan and interconnecting Sumatra with Malaysia. ADB is also involved in financing large geothermal power plants and power transmission lines between Java and Bali and between Sarawak (Malaysia) and Kalimantan, and is supporting energy-savings-based loans through a state-owned bank.

Impact

A more sustainable and inclusive energy sector in Indonesia.

Impacts the program is aligned with:

(i) Strengthen the availability of primary energy for domestic use through increased production of gas (RPJMN, 2015_2019).

(ii) Increase the extent of domestic energy infrastructure for electricity and gas provision (RPJMN, 2015_2019).

(iii) Increase access to modern forms of energy among underserved sections of the population (RPJMN, 2015_2019).

Project Outcome

Description of Outcome

Supply from sustainable and more accessible energy options increased

Progress Toward Outcome

Implementation Progress

Description of Project Outputs

1. Sector governance improved
2. Markets for private participation enabled
3. Access to clean energy increased

Status of Implementation Progress (Outputs, Activities, and Issues)

Geographical Location

Safeguard Categories

Environment	B
Involuntary Resettlement	C
Indigenous Peoples	C

Summary of Environmental and Social Aspects

Environmental Aspects

Involuntary Resettlement

Indigenous Peoples

Stakeholder Communication, Participation, and Consultation

During Project Design

During Project Implementation

Responsible Staff

Responsible ADB Officer	Tharakan, Pradeep J.
Responsible ADB Department	Southeast Asia Department
Responsible ADB Division	Energy Division, SERD
Executing Agencies	<i>Coordinating Ministry for Economic Affairs WIDJANARDO@KIMPRASWIL.GO.ID 2nd Floor, Jl Lapangan Banteng Timur 2-4 Jakarta Pusat 10710</i>

Timetable

Concept Clearance	29 Jun 2015
Fact Finding	27 May 2015 to 27 Jul 2015
MRM	14 Aug 2015
Approval	30 Sep 2015
Last Review Mission	-
Last PDS Update	03 Jul 2015

Loan 3303-INO

Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
30 Sep 2015	16 Oct 2015	13 Nov 2015	31 Dec 2015	-	31 Dec 2015

Financing Plan		Loan Utilization			
	Total (Amount in US\$ million)	Date	ADB	Others	Net Percentage
Project Cost	1,050.00	Cumulative Contract Awards			

ADB	400.00	30 Sep 2015	400.00	0.00	100%
Counterpart	0.00	Cumulative Disbursements			
Cofinancing	650.00	30 Sep 2015	400.00	0.00	100%

Loan 8293-INO

Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
30 Sep 2015	16 Oct 2015	13 Nov 2015	31 Dec 2015	-	31 Dec 2015

Financing Plan		Loan Utilization			
	Total (Amount in US\$ million)	Date	ADB	Others	Net Percentage
Project Cost	100.00	Cumulative Contract Awards			
ADB	0.00	30 Sep 2015	0.00	100.00	100%
Counterpart	0.00	Cumulative Disbursements			
Cofinancing	100.00	30 Sep 2015	0.00	100.00	100%

Project Page <https://www.adb.org/projects/49043-001/main>

Request for Information <http://www.adb.org/forms/request-information-form?subject=49043-001>

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