Evaluation Summary

Ex-Post Evaluation of first Green Credit Line to PT Sarana Multi Infrastruktur (Persero) (PT SMI - CID1056)

Country: **Indonesia** | Sector: **Green Finance**

Evaluator: **adelphi consult GmbH, Climate & Energy Solutions**
Date of the evaluation: **March 2020 – July 2020**

Key data on AFD's support

Amount: AFD: USD 100 million credit line (CL)
DFID: USD 5 million Quasi-Equity Facility (QEF) + EUR 0.4 million Technical Assistance Programme (TAP)

Disbursement rate: 100% CL and TAP; 0% QEF

Signature of financing agreement: December 2015

Completion date: early 2019

Total duration: 3 years

Context

Prior to the AFD intervention, the share of lending in Indonesia identified as green was rather insignificant, accounting for only around 1% in 2013[1]. This was the result of the following main factors:

i) Indonesian financial institutions did not generally consider any environmental, social and governance factors in their lending or investment process because of a lack of experience and capacities.

ii) Furthermore, due to a rather unfavourable and unstable policy and regulatory framework regarding low-carbon and climate-resilient (LCCR) investments, financial institutions were generally risk-averse to investment and particularly to LCCR investments.

Actors and operating method

In order to boost investments in green finance projects in Indonesia, AFD entrusted to PT SMI (a specialised state-owned entity having the mandate to catalyse the acceleration of infrastructure development in Indonesia) the implementation of a three-year financing programme.

The programme deployed three instruments: a senior non-sovereign non-concessional CL of USD 100 million, a QEF of USD 5 million, and a TAP of EUR 0.4 million in the form of external consultancy services made available to PT SMI. Funding for the QEF and the TAP was provided by DFID as a grant.

Objectives

The objectives of the financing programme were:

- To strengthen the supply of finance for green infrastructure projects, in particular renewable energy projects, in order to promote low-carbon growth and contribute to the fight against climate change;
- To make it possible to finance and bring out projects whose bankability was not necessarily guaranteed until now.

Expected outputs

- At least 5 financed projects, of which 4 "innovative" renewable energy projects / projects with a climate co-benefit;
- Total investment flows supported (EUR 300 million);
- 30 MW renewable energy capacity newly installed;
- At least 100,000 tCO2 annual greenhouse gas emissions reduced vs. baseline.b

[1]Survey among 29 Indonesian banks. Volz, U. (2015): Towards a Sustainable Financial System in Indonesia.

Performance assessment

Relevance and Coherence

AFD correctly diagnosed the lack of LCCR investments in Indonesia, which relies to a large extent on fossil fuels for power generation. Its choice to work with PT SMI —a relatively new public non-bank FI— reflected its mixed track record with commercial banks (Mandiri, Bukopin), and the perception that owing to its explicit specialised mandate to finance infrastructure PT SMI was potentially the right partner to scale up green investments, and particularly RE investments, in Indonesia. The AFD intervention assumed that a key barrier to investments was a lack of adequate funding, but i) PT SMI was substantially capitalised by the state and has easy access to the domestic bond markets, and ii) foremost, the main barrier was the policy and regulatory framework, which has been making investment into LCCR projects difficult for commercial financiers for a variety of reasons (low profitability, high risk, etc.), and which was not targeted by the intervention (nor the broader set of AFD climate-related interventions).

Effectiveness and Efficiency

The CL was fully disbursed and six climate-related projects were financed. The project achieved its quantitative targets, except for installed RE capacity. The TAP came in late, was too remote and too focused on facilitating disbursement. It played a very minor role in generating new projects. Compared to AFD interventions in other countries, the budget for the TAP was also low relative to the size of the CL. The CL facilitated extending tenors beyond PT SMI's typical range. However, there were indications that PT SMI could and likely would have financed the projects without it as it had access to plentiful domestic finance. There is no indication that the financed projects were less bankable than the average project financed by PT SMI. The QEF was complex, not fully understood by PT SMI at the time, and too small to make an impact. PT SMI would have preferred (retrospectively) a guarantee reducing its net exposure.

Impact and Sustainability

AFD helped PT SMI develop its awareness and knowledge about 'green' projects and build internal skills in particular for environmental and social safeguards (ESS). Beyond that, it seems that the intervention has not changed (e.g. through compelling demonstration effects) the appetite of private investors and other commercial financiers for LCCR investments in the absence of policy reforms enhancing the risk-return profile of such investments. Overall, the AFD intervention together with those of other DFIs contributed to the expanded role of PT SMI and increased its reputation and clout, which the Government of Indonesia has recognised by entrusting it to be manage the "SDG Indonesia One" fund.

Added value of AFD's contribution

- AFD provided funding on a non-sovereign basis and with a tenor that was not then available to PT SMI, which allowed to extend long-term loans to most of the projects refinanced under the CL;
- AFD contributed to strengthening the skills of PT SMI in appraising LCCR projects (although it is not clear that this went beyond ESS) and developing a greater awareness and better capacity to identify 'green' projects.

Conclusions and lessons learnt

The overall rating of the project success is 2.75 out of 5.00 and thus rather unsatisfactory.

Based on the performance assessment, the following recommendations were developed:

- Allocate sufficient resources to high quality preparatory work;
- Put policy and regulatory frameworks at the core of donor intervention in countries, where these frameworks fall short of best practice and the potential for scaling up investment is very significant;
- Coordinate efforts with other donors in larger countries where policy and regulatory frameworks are a key investment barrier and a single donor's interventions has unavoidably a small impact;
- Work with the broader financial ecosystem;
- Enhance the role of TA and calibrate the TA budget to the objectives sought;
- Strive to offer local currency financing wherever and whenever suitable;
- Where partner FIs have relatively easy access to liquidity but have perceptions of elevated risk, consider a wider use of guarantees;
- If PT SMI is to be turned into a fully-fledged development bank, provide relevant capacity building to perform its new functions and strengthen its pro-climate mandate;
- Carry out a study to identify the most pressing investment needs for the utilisation of the second CL.