

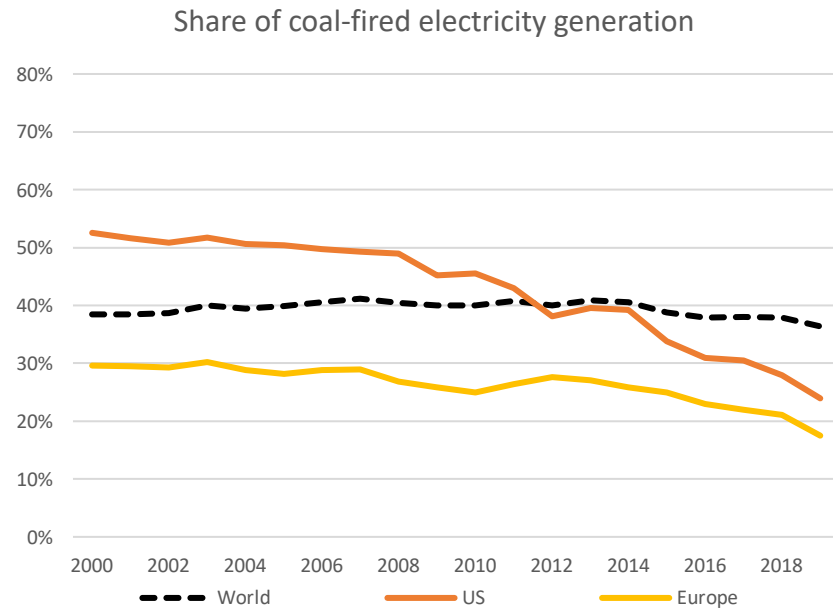


Energy Transition Mechanism(ETM)

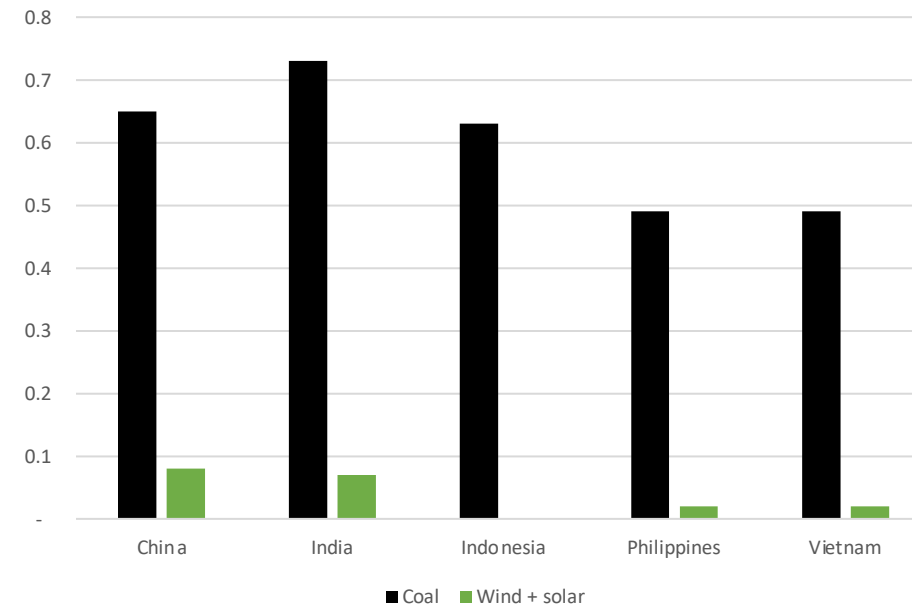
Paving the Way toward Coal Phase Out in Indonesia

Coal-fired electricity must drop radically, but remains significant in developing Asia

Share of coal-fired power has dropped in US and Europe...



But remains very high in Asia (2019)



Large-scale solution needed to simultaneously rapidly decarbonize and build-up clean energy in Asian developing countries

Source (left): Carbon Action Tracker 2020 and calculations based on IEA Data

Source (right): BP "Statistical Review 2020"; IPCC "Special Report on Global Warming of 1.5°C"

Author: Donald Kanak (WEF blog "How to accelerate the energy transition in developing economies" <https://www.weforum.org/agenda/2021/01/how-to-accelerate-the-energy-transition-in-developing-economies>)

ETM Southeast Asia Partnership Launch at COP26, Glasgow UK

- Joined by Indonesia and Philippines as key partners to launch the pilot study for ETM.
- \$25 million grant announcement by Japan's Ministry of Finance, the first seed financing for the mechanism.
- The partnership was endorsed by senior cabinet-level officials from Denmark, the United Kingdom, and the United States, as well as leading global financial institutions and philanthropies.
- MOU signed with Rockefeller Foundation, with a % of support towards the ETM



Philippine Finance Secretary Carlos G. Dominguez, Indonesian Finance Minister Sri Mulyani Indrawati and ADB President Masatsugu Asakawa during the ETM Launch at COP26, Glasgow on 3rd Nov, 2021



"I am pleased by the Asian Development Bank's work to accelerate the decommissioning of coal facilities. The world needs forward-thinking creative approaches to financing, especially from the multilateral development banks. And we need to find creative solutions so that our public funds crowd in additional private investment, as the bank is aiming to do here."

- Janet Yellen, Secretary, US Department of the Treasury

"I want to thank the Asian Development Bank for its work, which will help bring many benefits. Cutting coal use doesn't just reduce the risks we face from climate change, it also reduces air pollution that kills so many people, including in Asia. Today's announcement will help to jumpstart more climate finance that helps to retire coal plants faster and improve many lives."

- Michael Bloomberg, UN Secretary General's Special Envoy on Climate Ambitions and Solutions



ETM Program: ADB's commitment to urgent climate action in Asia and the Pacific

- *ETM is a scalable, collaborative initiative developed in partnership with developing member countries that will leverage a market-based approach to accelerate the transition from fossil fuels to clean energy.*
- *Public and private investments—from governments, multilateral banks, private sector investors, philanthropies, and long-term investors—will use low-cost capital to incentivize early retirement of coal power assets .*

ETM Fund/vehicle

Direct Transactions (IPP/State owned assets)

Sustainability Linked Corporate Finance (e.g. PLN)



Accelerate climate action

Countries participating in ETM will be able to reach more ambitious emissions targets than under their current commitments.



Just Transition and Safeguards

ETM will make a positive contribution to public health, and just transition of developing economies by managing direct socio-economic impacts and catalyzing finance for longer term just transition needs.



Drive investment

ETM will help unlock or “crowd in” investment in cost-effective renewable generation and support and enable clean technologies, such as smart grids, hydrogen, and electric vehicles.

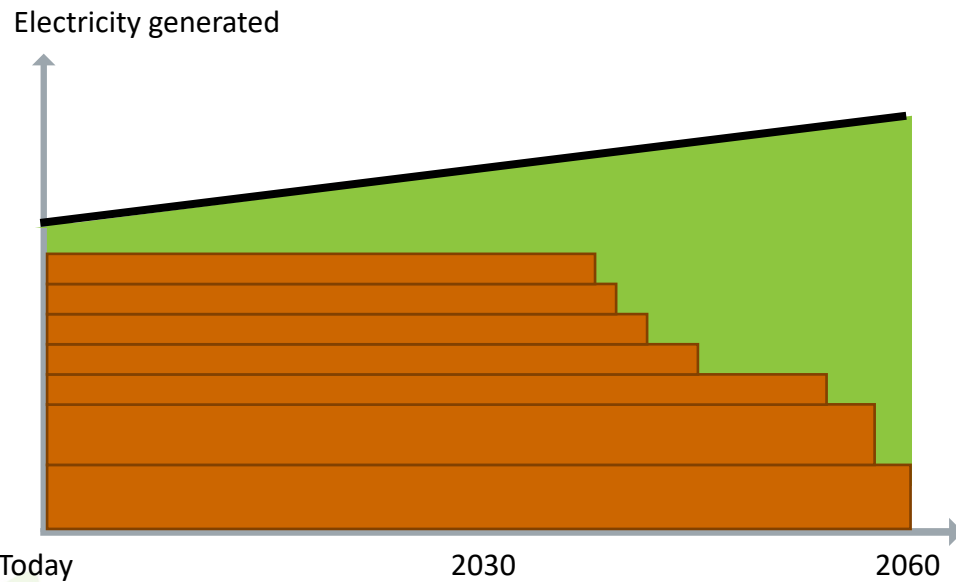


Provide a scalable model

ETM has the potential to be scaled up to other parts of Asia and the Pacific, as well as Latin America and Africa, which could drive significant reductions in global emissions.

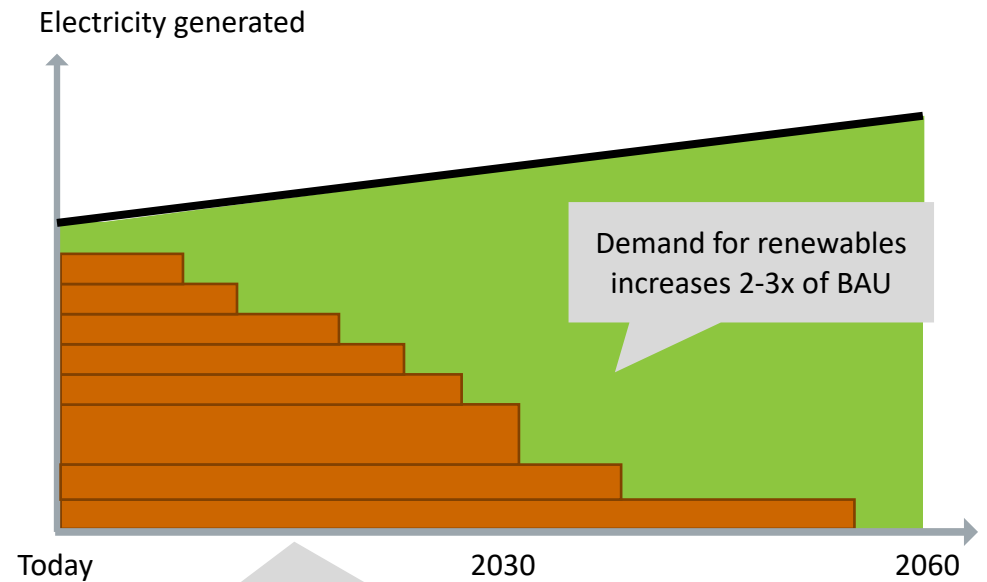
Speeding up the retirement of coal-fired power plants can increase the demand for clean energy investment, reduce emissions, and lower generation costs in the long run

Business as usual



- Total energy demand
- Coal-fired assets generation and retirement over time
- Renewable energy generation over time

With the Energy Transition Mechanism



Feasibility study is investigating how best to tackle the key questions that the ETM poses

01



Project Selection

- Critical factors to focus on when selecting power plants
 - Grid stability
 - Utilization
 - Plant Age
 - Renewable replacement potential
 - Transactional appetite

02



Transaction Structuring and Financial Analysis

- Commercial and legal structure to efficiently retire the assets
- Valuation approach
- Role of existing stakeholders
- Cost of capital needed to achieve a significant lifetime reduction
- Potential additional revenue sources/costs (e.g. carbon, decommissioning)

03



Fund/Vehicle Structuring

- Legal structure of ETM entity
- Capital structure and sources of funding
- Management structure
- Incentive structure
- Return expectations
- Major risks
- Safeguard policy
- Governance requirements

04

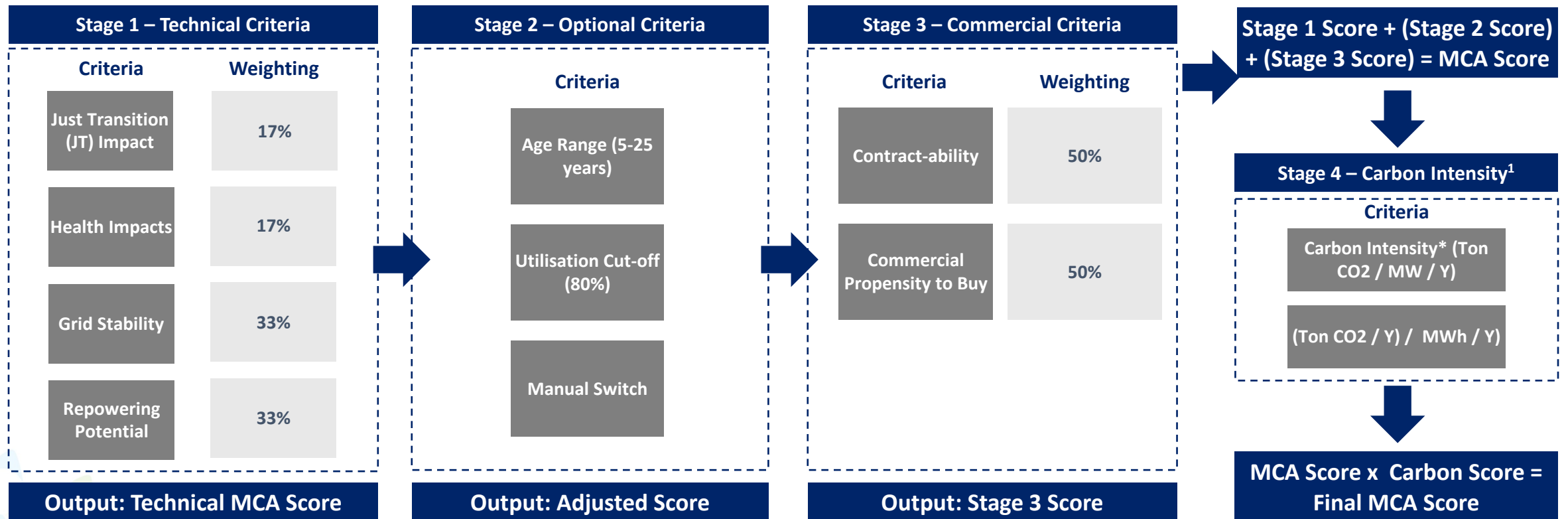


Environmental, Social, and Governance

- Replacement plan for retired capacity to ensure the ETM has positive climate impacts
- Assessment of Employee, Community and Supply Chain (including informal sector) related concerns
- Assessment of Just Transition activities over short- and long-term
- Funding source for Just Transition activities to be enacted by the ETM

01 Project Selection

Multi-criteria Analysis for Asset Selection



The MCA results can be aggregated separately by Stage or by applying the multiplication of the carbon intensity measures.

Transaction Structuring and Financial Analysis

ETM will explore various funding/transaction models to accelerate retirement / repurposing

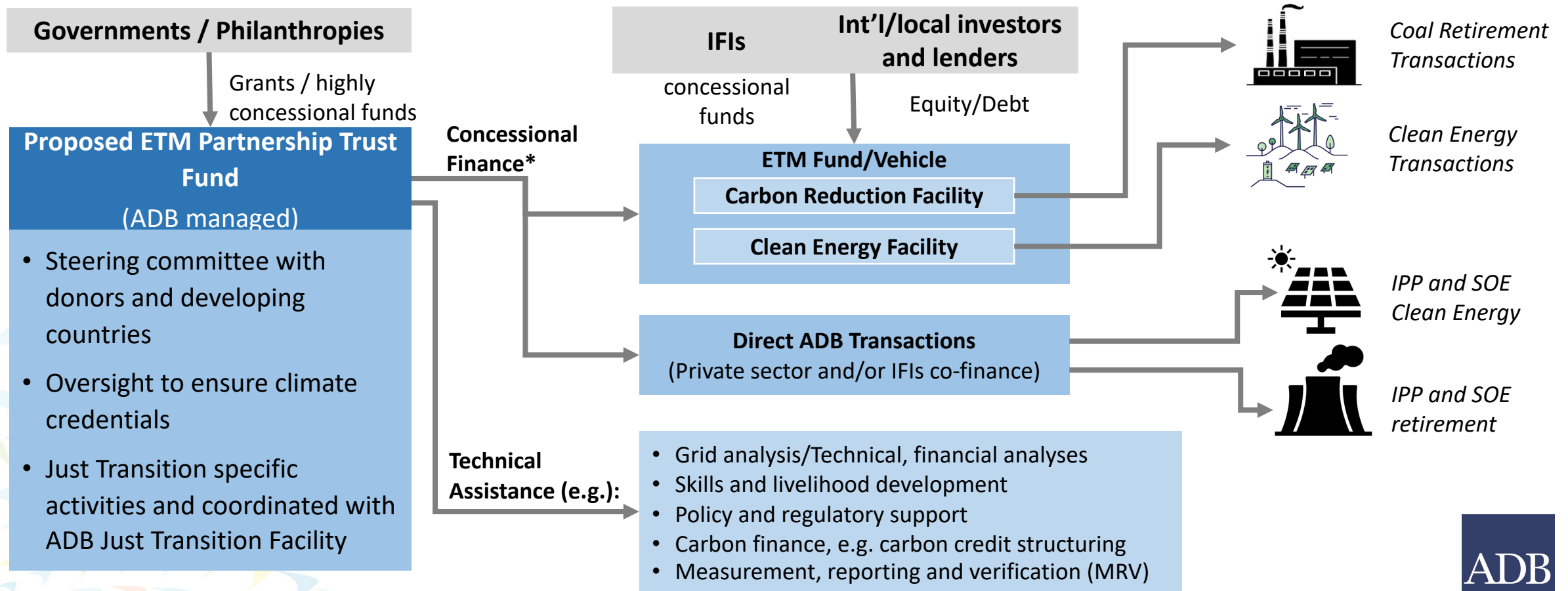
Acquisition Model (SPV Level)	Synthetic/Incentive Model (SPV Level)	Portfolio/Corporate Model (Corporate Level)
ETM acquires share capital in CFPP	ETM invests senior/junior debt and/or other mezzanine capital to the CFPP	ETM provides funding to corporate sponsor with CFPPs and greenfield clean energy projects
ETM acts as owner and operator	Ownership and operational responsibility remain with current sponsors	Sponsor guarantees greenfield clean energy projects will be built and coal plants retired ahead of schedule
Early termination date agreed with utility and then closes it or repurposes	Investment conditional on early termination being contractually agreed with owner and utility	Incentives (such a penalty interest) can be used to ensure that the transition occurs
Most suitable for IPP plants with international bankable PPA	Most suitable for IPP plants with international bankable PPA	Most suitable for Utilities with a portfolio of plants
<i>Acquisition and Synthetic models could be appropriate for Indonesian IPPs</i>		<i>Portfolio model considered less appropriate for Indonesia IPPs</i>

1. The Acquisition Model will be utilized only in exception scenarios.

03 Fund/Vehicle Structuring

1. accelerates the retirement of coal-fired plants using public and private finance through re-financing, acquisition or sustainability linked corporate loans; and
2. scales up investment in clean energy and energy storage.

Grants and concessional funding (low-cost equity and debt) are critical to catalyze private capital and make ETM a success



* Concessional products could include concessional loan, evergreen debt, junior equity, and guarantees.

04 Environmental, Social, and Governance

ADB's commitment to Safeguards and Just Transition are critical parts of ETM work

Regional Feasibility Study (SE Asia)

- Legal and regulatory assessments
- Technical and financial assessments
- ETM Fund/Transaction Structures

Country Feasibility Study

- Identification of pilot assets
- Techno-financial analysis
- Country-level transaction vehicles

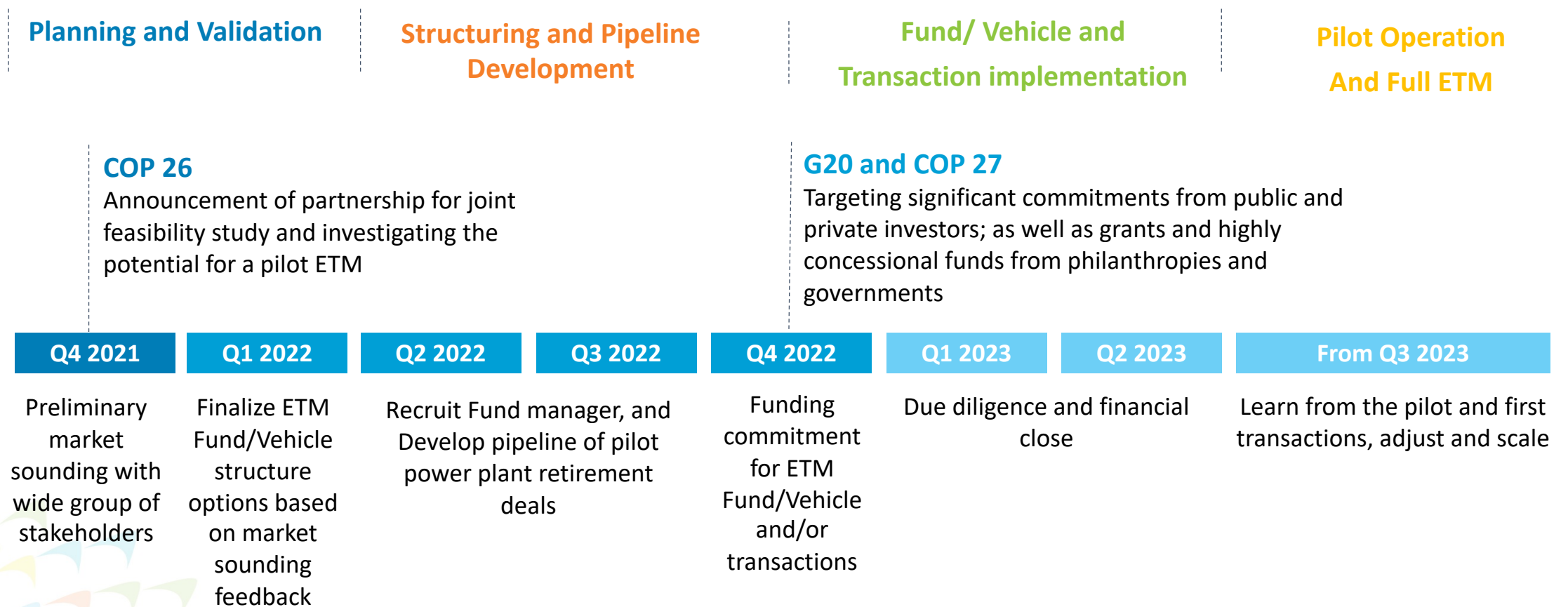
Safeguards

- Scoping of environmental, socio-economic issues (regional)
- Environmental, social assessment of ETM (country level)
- Coal retirement plans, impact assessment for renewables

Just Transition

- Quantitative socio-economic impacts assessments (regional, country and local/province levels)
- Plan mitigation measures and financing of direct impacts
- Technical assistance and coordination of concessional finance through the ADB Just Transition Facility

Indicative timeline to operationalize ETM





CIF ACT Investment Plans

- The Clean Investment Fund (CIF) Accelerating Coal Transition Investment Program (ACT-IP) launched in December 2021 to develop investment plan(IP).
- Countries may be funded from **USD 200 to 500 million per country**, based on the assessments made at the time of the IP preparation.
- IPs are due by May 31, 2023 **(ADB target: Q4 2022, in time for G20 meeting)**
- ADB will serve as the lead MDB for the CIF ACT IP preparation and will work closely with the World Bank Group.
- CIF-ACT contributors namely, Canada, Denmark, Germany, UK, and the USA would like to see any project/ program funded with ACT resources to **demonstrably showcase or focus on Just Transition and Transformational Change aspects of CIFs investment criteria.**

**Indonesia submitted Expression of Interest in August 2021
and proceeded to the next phase of preparing an Investment
plan (IP).**



Key Work streams identified under CIF ACT

1. Asset Selection and Project pipeline development

2. Short term regulatory changes for near-term transactions

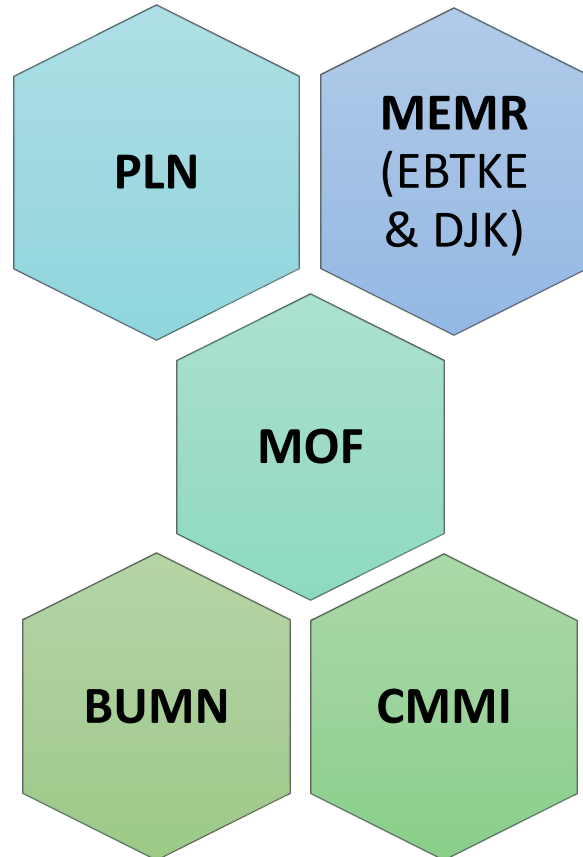
3. Long term energy transition/decarbonisation strategy & Just transition Framework

4. Safeguards

5. Drafting the IP



Taskforce to determine CIF ACT project pipeline



Joint MDB team

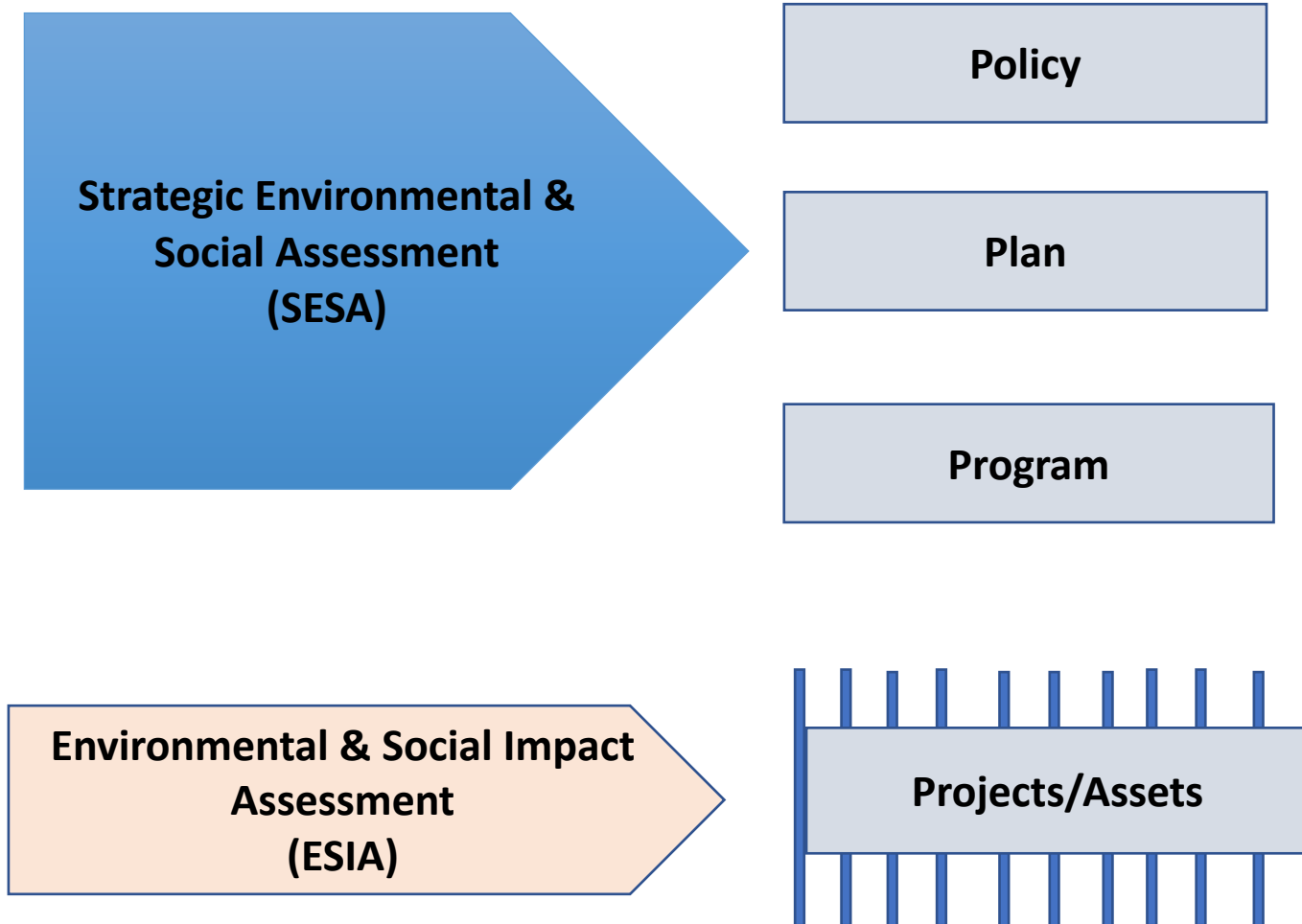
A joint task force (with members from BKF/MOF, BUMN, PLN, CMMI, MEMR (EBTKE & DJK), ADB, IFC and World Bank) was set up for the following activities:

- Screen and identify projects pipeline
 - Early retirement & repurposing
 - RE investment support
- Transaction models
- Identifying risks and mitigation measures



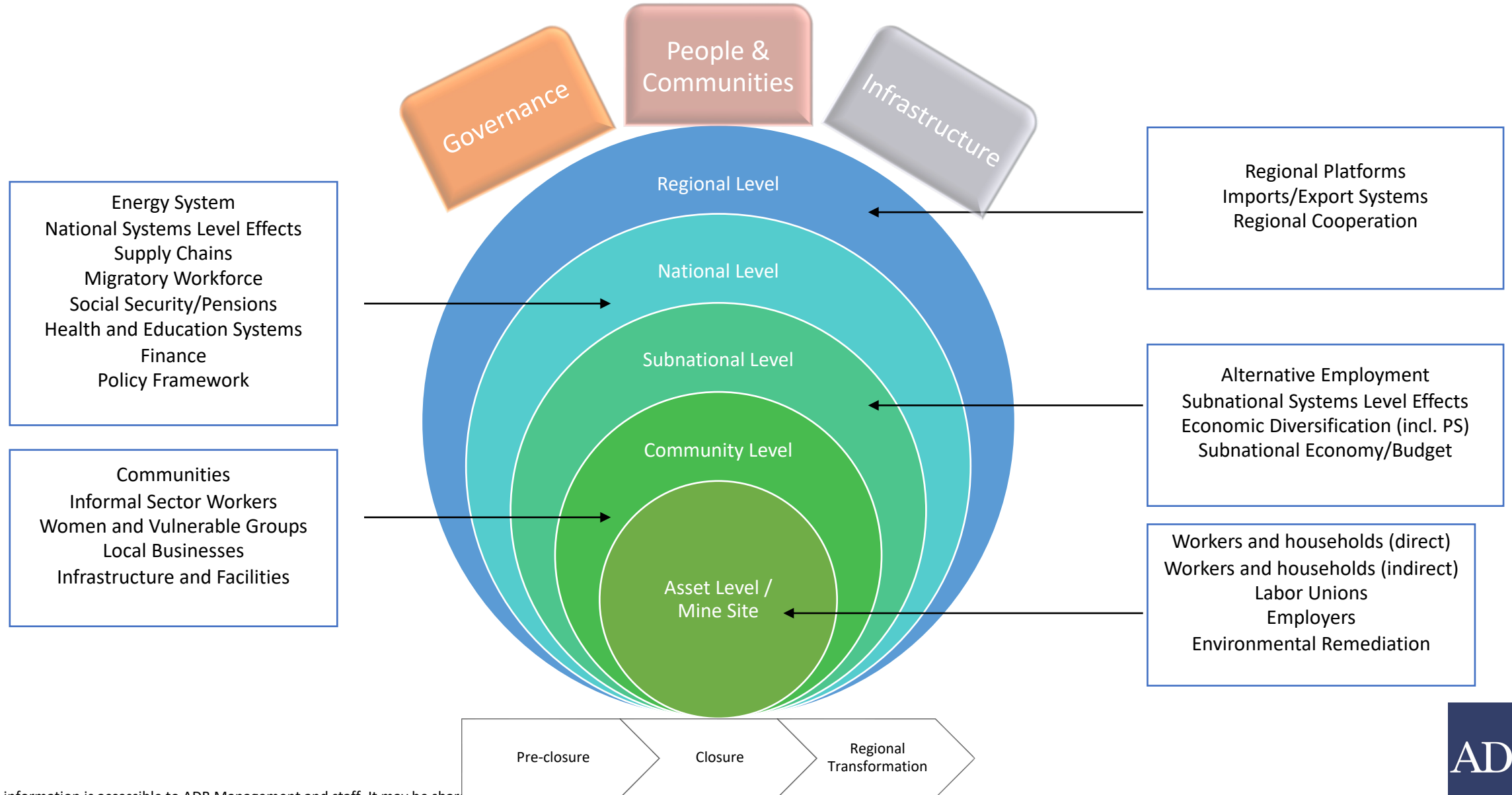
Safeguards/ Investment Plan Preparation Grant (IPPG)

- \$1 Million USD received for National SESA and Just transition assessments.





A comprehensive approach to Just Transition is being developed to support workers, communities, and regions impacted by the coal phase-out



Thank you!

