Evaluation Summary

Evaluation of AFD budget support to the "Sustainable and Inclusive Energy Program" (SIEP) Subprogram I and II in Indonesia

Country: **Indonesia** | Sector: **Energy**

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Key data on AFD's support

Projet numbers: Loans CID 1061 and CID 1067, Technical Assistance CID 1049

Amount: EUR 140 million, EUR 100 million, £ 12 million (DFID delegation)

Disbursement rate: 100%

Signature of financing agreement: Loans signed in 11/ 2015, 11/2017

Completion date: 12/2017 (loan), 12/2019 (technical assistance)

Total duration: 48 months

Context

Indonesia is a (decreasing) oil producer and an (increasing) coal producer. It became a net importer of fossil fuel in 2004. It is one of the largest greenhouse gas (GHG) emitters. The successive governments tried to reform the energy sector to reduce the GHG emissions and the growing fiscal burden of subsidies to the energy sector.

The SIEP was designed by the Asian Development Bank (ADB) and the Government of Indonesia (GoI) to strengthen the sustainability of the energy sector and the low carbon orientation taken in commitment to the Paris agreement, including regulatory changes for increased private sector participation, changes to energy tariffs, feed-in tariffs, increased share of renewable energy in the energy mix, better ownership and reduced transaction costs. In 2015, the SIEP was totally aligned on the Indonesia's energy policy (National Energy Policy, KEN 2014) and its General Plan of National Energy (RUEN 2017) as well as the National Plan for National Electricity (RUKN). SIEP objectives were also aligned to AFD's strategies for emerging economies and energy sector.

Actors and operating method

SIEP was designed as a series of programmes. The implementation was led by the Coordinating Ministry of Economic Affairs (coordinating agency) and the Ministry of Finance (financial implementing agency). The Ministry of Energy and Mineral Resources had the lead for the technical implementation and other parastatals as the State electricity company (PLN) were involved.

SIEP I financing partners led by ADB comprised KfW and AFD – with WB parallel financing. SIEP II led by ADB comprised KfW and AFD.

Objectives

The objective of the AFD's Policy Based Loans (PBL) was to support Indonesia's transition to low-cost sustainable energy, allowing to improve access to modern energy for all Indonesians.

Expected outputs

The specific objectives of the loans were to support :

- The improvement of the governance of the energy sector:
  - Adopting energy tariffs that are economically viable and protect the poorest consumers.
  - Approval of a new regulation introducing performance management for PLN
- Enabling private sector participation in the energy sector:
  - Harmonisation and simplification of the administrative processes for electricity projects at regional and national levels
- Improvement in regulatory environment for increased access to clean energy and energy efficiency
  - Introducing attractive buying tariffs (rates) for clean energy (solar, wind, hydro, marine and geothermal energy)
  - Promoting energy efficiency through a new regulatory framework
  - Promoting a new energy planning methodology through pilots in three provinces.

Performance assessment

Relevance

SIEP I enabled AFD to provide Indonesia with a lower than market interest rate financing, making both AFD and Indonesia gain from the deal. It responded to the opportunity to deepen AFD's engagement in the energy sector towards achieving the Paris Agreement's goals. The support to SIEP II is more problematic, as a change in the energy policy in Indonesia was underway in anticipation of the presidential elections of 2019, so the progress of reforms was halted from 2017 to the election. Progress has resumed since 2019.

Coherence

The SIEP I and II were totally aligned to AFD's strategies and to Indonesia energy policy. They enabled AFD to jointly support critical reforms and deepen its partnership with ADB. However, the linkages between the three components of the SIEP (loan, dialogue and technical assistance/TA) were weak, reducing opportunities for supporting policy implementation.

Effectiveness

The SIEP enabled AFD to provide an umbrella to its various interventions in the energy sector. However, the absence of clear and measurable targets and indicators made it mainly a regulatory reform effort as it is usual in ADB's practice. This left AFD somewhat less able to influence policy. PBLs depending on a lead donor and one single disbursement based on already achieved results reduced the potential influence. Nevertheless, access to electricity continued to improve, subsidies decreased to historical low levels in 2015 and are still low (even if they increased after 2017) and tariffs are lower for poor consumers. The main drawback was the environmental aspect, as the energy policy considered by the GoI did not seem to consider the fight against climate change in an ambitious way.

Efficiency

ADB had the lead, which reduced the transaction costs. AFD experienced difficulties in designing its support to SIEP according to its PBL doctrine (dated 2014, to be renewed in 2021) linking funds, performance, technical cooperation and policy dialogue As a result, SIEP did not provide a strong framework to support policy implementation and enable better governance, financing and delivery. The SIEP financial partners did not succeed in avoiding nor mitigating the policy change in 2017.

Impact

Impacts were not assessed as part of this evaluation. Data on preliminary results were collected and showed little progress of reforms towards renewable energies over the period 2015-2019 while a new positive dynamic is noticeable since then (however with an increased reliance on coal, as planned by the GoI).

Sustainability

Sustainability largely depends on the political and policy choices that will be made in the future by the Government of Indonesia. The legal and regulatory framework changes achieved may not suffice to spur the growth of renewable energies' share in the energy mix of Indonesia. It may not sustain Indonesia's commitment to reducing GHG emissions.

Added value of AFD's contribution

The participation of AFD in the policy dialogue (led by ADB in a rather informal way) was marginal. AFD was not able to fully use its pre-existing sector experience and the ongoing TA DFID-funded facility. Still, through SIEP, AFD is able to continue its advocacy with the Indonesian authorities on the need to achieve NDC targets and maintain a sectoral dialogue in the energy sector. The link of the TA operations with the SIEP was not clear and did not contribute to the dialogue directly. SIEP has not dynamised the ecosystem of French know-how in Indonesia.

Conclusions and lessons learnt

In countries with a high degree of political and financial autonomy, a PBL is a good instrument to support a policy, but implementation is not straightforward. If several PBLs are provided, they should be evaluated together to better assess the role of the context and their synergies.

PBLs are difficult to design, especially in emerging countries. They should not be reduced to one-shot disbursement, ex post "triggers": the links between the loan, policy dialogue and TA should be carefully crafted during formulation.

PBLs take time to design. Making use of previous sector engagement for enhanced dialogue with the government on the policy objectives and the measurement of performance before signing the agreement is critical. TA could be mobilised to support the formulation and monitor the implementation of PBLs.

Setting indicators is complicated and needs to be aligned i) to the policy objectives ii) to the perceived risks of slippages and iii) to their usefulness for the policy dialogue and jointly assessing progresses.

A PBL should focus on a small set of indicators to sustain dialogue and to prepare engaging into new phases of the programme; the use of triggers is ineffective in emerging countries.

The design of a PBL should not be only focused on positive achievements, but also take into consideration the potential developments in the "wrong" direction (for instance, focusing on renewable energy, but also on the protracted use of coal).

For a PBL to be effective, much attention should be paid to the political electoral cycle, the stakeholders of the sector and the possible policy changes. For doing this, a political economy analysis is needed.