

Powering Indonesia's Rural Development Business Plan for Impact Investing in Mini Hydropower



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1. EXECUTIVE SUMMARY

Executive Summary (1)

- Indonesia is the world's 4th most populous nation and is comprised of over 17,000 islands – providing electricity to its 250 million people is a significant challenge.
- In 2011 the government committed to increasing the share of renewable energy from 4.3% of primary energy supply in 2005 to 25% in 2025. As of 2010 renewable energy, including hydropower, still made up only 6.9% of the nation's energy mix.
- Independent Power Providers (IPP) in Indonesia are 100% privately owned, rely primarily on coal, and neglect to invest in serving rural communities because of a high perceived risk requiring high returns.
- The national grid is expanding and the state power company, PLN, is obliged by law to purchase all small-scale and medium-voltage power produced by IPPs providing a Power Purchase Agreement (PPA) is in place. PLN has an increasing interest in offering preferential tariff rates to IPPs producing renewable energy and actively engaging the community in the project.
- **This context presents an opportunity for a new business model which promotes renewable energy, empowers communities through ownership and factors in the true cost of valuable natural resources by paying for their eco-system services.**

Executive Summary (2)

- This business plan seeks to attract Impact Investment to establish a new company – **NusaTerang** – which will generate renewable energy that is environmentally sustainable and financially viable in partnership with local communities.
- NusaTerang will leverage IBEKA's experience, expertise and national network of rural communities developed over 20 years and 66 community led small-scale hydropower projects.
- NusaTerang will engage local communities during the project period, offering them a stake from day one, with the eventual goal of 100% ownership by the community.
- Through community ownership and by paying for eco-system services, NusaTerang will seek to capture premium tariff rates from PLN from sale of power to the grid.
- **Initial investment of US\$30 million will fund five projects totaling 15MW, have a rate of return around 5.5 – 6.5% (base case, no preferential tariff rate), and provide approximately US\$500,000 per year to local communities which may be deployed for social and infrastructure projects as desired by the community.**