

November 19, 2013

Approval by mail: CTF Indonesia Private Sector Geothermal program (\$150.0 million)

Dear CTF Trust Fund Committee members,

On October 11, 2013, through a decision by mail, the Trust Fund Committee approved USD150.0 million in CTF funding for the program proposed by the Asian Development Bank (ADB) entitled, *Private Sector Geothermal Program for Indonesia* (including USD 0.75 million for project implementation and supervision services). In the proposal, ADB indicated that the first sub-project was likely to be the *Sarulla Geothermal Power Project* with USD 50.0 million in CTF funding, and total project costs of approximately USD 1.6 billion. Details on this project can be found on ADB's website at: <http://www.adb.org/projects/42916-014/mai>.

ADB would now like to propose a change in CTF funding for this sub-project and requests approval by the Trust Fund Committee of the proposed change. The proposal change and the justifications provided by ADB are presented below.

While the proposal *Private Sector Geothermal Program for Indonesia* was being considered by the Trust Fund Committee, detailed negotiations continued between ADB's investment team, the proposed commercial lenders and private sector sponsors on the results of due diligence, sub-project risks and possible mitigation measures. ADB had initially planned on USD 50 million of CTF funds for this sub-project, but in the course of these negotiations, it became clear that there was a funding gap of approximately USD 80.0 million between senior lenders and the private sector sponsors that could not be bridged through other means. ADB now proposes to deploy CTF resources from the approved program to fill that gap. The proposed CTF amount represents 5% of total sub-project costs and 7% of total debt financing, and hence remains a relatively small amount of overall funding being proposed for the sub-project. This is in addition to a USD 250.0 million loan from ADB's private sector operations, which is the maximum amount allowed per private sector transaction.

Paragraph 7 of the *CTF Private Sector Operations Guidelines* (October 24, 2012) provides the following guidance on the maximum amount for sub-projects: "Private Sector projects and programs will support the initiatives outlined in paragraph 8 of the Investment Criteria for Public Sector Operations and will be based on an investment plan ("Investment Plan"). Private sector proposals will be submitted in the form of either individual large-scale projects ("Projects"), or program envelopes which aggregate several small and medium sized projects each utilizing less than \$50.0 million of CTF funds and all having a shared focus and objective ("Programs"). Proposals will explain how the Projects and Programs are expected to contribute towards the objective of achieving transformational outcomes in a sector, sub-sector, country, sub-national region, sub-region, or region while demonstrating that these outcomes would not be possible without support from the CTF."

ADB did not anticipate this change in required sub-project funding when it submitted the program proposal to the Trust Fund Committee in September 2013. The sub-project remains fully consistent with the program outcomes as outlined in the proposal and compliant with all other terms and conditions as approved by the Trust Fund Committee. While the sub-project has not reached financial closure, ADB is making information available (on a confidential basis) on the sub-project in line with Annex B requirements (see attached). ADB has indicated that the larger funding for this sub-project will not negatively affect their ability to deliver the program results, and will be the only sub-project where such limit would be breached in the program.

The CTF Trust Fund Committee is requested to approve the following decision:

The CTF Trust Fund Committee, having reviewed the proposal by ADB to deploy USD 80.0 million in CTF resources from the approved program entitled, *Private Sector Geothermal Program for Indonesia*, to the *Sarulla Geothermal Power Project*, approves the proposal on an exceptional basis.

If we do not receive an objection to this proposed decision by close of business on **November 26, 2013**, the decision will be approved.

Sincerely,

Patricia Bliss-Guest
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