

March 29, 2012

**Response of ADB to Germany on the Approval by Mail: Project Preparation Grant -  
Global Climate Partnership Fund - Indonesia EE/RE Investment Program**

Thank you for the no objection and we appreciate Germany's constructive response to the subject PPG proposal. We would like to confirm that we have not reached a conclusion on the structuring and will remain open to sensible design options consistent with the CTF mandate. We would also like to confirm that we make every effort to contain establishment and management costs and fees to the minimum. Since the GCPF is to our knowledge the only market based fund we believe there is complementarity of this initiative to other existing initiatives.

We would like to share some of our thoughts on the remarks raised for information:

- Regarding the anticipated CTF Indonesia investment we have, as indicated in the PPG grant request, considered a number of options over the past 12 months which unfortunately have not led to successful solutions in the Indonesia context. Except for bilateral and multilateral loans to the Indonesian Government provided through local public banks at highly concessional rates and non market priced conversion to local currency we have not seen systematic financing programs supporting the objective of reducing greenhouse gas emissions through the banking sector.
- We have considered alternatives for achieving scalable investments using existing financial intermediary structures including funds. GCPF in our view is an effective well established vehicle with a fund manager, who has proven in house energy efficiency and renewable energy investment management capabilities and strong local presence through its branches in Jakarta and Singapore. In addition GCPF has earmarked Indonesia as one of its priority countries.
- Sourcing and managing private investment transactions in Indonesia requires a strong local market presence. During a recent visit we have despite the challenging unfavorable overall tariff and regulatory environment identified potential investment fields in Energy Efficiency of buildings, waste heat recovery in heavy industry, and Renewable Energy investments in biomass, and small hydro power generation. We would like to emphasize that the identified investment opportunities will initially constitute niche solutions which involve significant first mover costs and risks to the investors. Bringing the transactions to closure is a challenging task that requires intimate familiarity with on the ground realities and creativity in structuring financing solutions to mitigate the longer gestation periods caused by the low electricity tariffs to acceptable time horizons in the market.
- We have approached competent private engineering and property management companies with a sound track record that have expressed interest to act as aggregators for investments in the above mentioned fields. While the fund manager will customize each investment with a market based solution, we understand that additional concessionary risk capital is generally required to facilitate closure of such transactions.
- The general bank market sentiment in Indonesia prioritizes economic growth oriented investments and appears to be largely agnostic about the benefits of energy efficiency and renewable energy. In this market environment incentives are required to

demonstrate the large potential of cost abatement through energy efficiency and renewable energy investments and thus reduce the risk perception in the market. This is where CTF funds can help make a difference.

- In our view risk subordination should not be confused with a high risk approach and the term "first loss" appears to be misleading. We believe that the GCPF's risk subordination structure can be effective in leveraging scarce public funds through funds mobilized and priced in the market. While the suggested pari passu approach of funding is possible the attractive leverage impact of a risk subordination structure would be compromised. We have also looked at existing similar vehicles to GCPF and have not found evidence that the subordinated junior tranche has so far suffered from losses.

We would like to thank Germany for the overall support for the PPG request and for valuable remarks. We are open to discuss any further issues you may have with this approach.