

Departmental Minute to The House of Commons

15 November 2022

The Minister of State for Development, Foreign, Commonwealth and Development Office

Just Energy Transition Guarantee – Indonesia

It is normal practice, when a Government Department proposes to undertake a contingent liability in excess of £300,000 for which there is no specific statutory authority, for the Minister concerned to present a departmental minute to the House of Commons giving particulars of the liability created and explaining the circumstances; and to refrain from incurring the liability until 14 parliamentary sitting days after the issue of the statement, except in cases of special urgency.

This departmental minute sets out details of a new liability being undertaken by the Foreign, Commonwealth and Development Office to support Indonesia's Just Energy Transition Partnership (JETP). The new \$1bn guarantee facility will be provided to the World Bank (WB) to increase WB lending to Indonesia beyond its lending limits. The guarantee is expected to have a maximum exposure of £1,138m once interest payments are accounted for, with a maximum single year pay-out of approximately £59m. A UK pay-out on the guarantee would be triggered if Indonesia missed a repayment on a loan to the WB by 180 days.

The guarantee will form a key part of the UK contribution to an international financing package as part of the Indonesia Just Energy Transition Partnership (IJETP), which has recently been agreed with the Government of Indonesia. The intention of the IJETP is to provide additional financing and technical support from the G7 and other donors, in exchange for a negotiated package of reforms and increased low carbon energy and coal phase out/emissions reductions targets from Indonesia. The World Bank funding unlocked by the guarantee JETP will be significantly cheaper than market rates.

A call on this guarantee is unlikely. Indonesia currently has an investment grade credit rating. Furthermore, the World Bank's Preferred Creditor Status means that it is prioritised for repayments ahead of other creditors. The exact length of the liability incurred by this guarantee will depend on the financing terms agreed between World Bank and the Government of Indonesia; however, we expect this lending to follow standard World Bank terms, with a grace period of 5-7 years and a final maturity of 18-30 years. The final maturity will not extend beyond 2052. The guarantee will cover World Bank loans approved between 2023 and 2029, subject to each being agreed by FCDO.

The new \$1bn guarantee facility will be conditional on Indonesia implementing the ambitious commitments to energy transition made as part of the JETP, and on the World Bank reaching its lending limits in Indonesia, which would require the Bank to scale up its financial support for Indonesia's energy transition significantly over several

years. If implemented, the UK guarantee would enable the Bank to lend an additional up to \$1 billion to Indonesia at affordable rates.

This guarantee will be recorded as a contingent liability by way of disclosure in FCDO's Annual Report & Accounts (ARA) and Annual Estimates in accordance with the applicable accounting standards. The value of the contingent liability has been calculated in line with FCDO's model developed by the Government Actuary's Department. The increase in average in-year risk-adjusted exposure that this guarantee will lead to is within FCDO's risk appetite. If the guarantee is called, FCDO will have sufficient time to make the necessary budgetary adjustments. Authority for any expenditure required will be sought through the normal supply procedure.

An announcement on the Indonesia Just Energy Transition Partnership is being made at the G20 summit in Bali, which is between 15-16 November 2022. The announcement will note that the guarantee is subject to this parliamentary notification process being completed. The Public Accounts Committee, the Foreign Affairs Committee, and the International Development Committee, have been notified of this.

FCDO Ministers and HM Treasury have approved this guarantee proposal. If, during the next 14 parliamentary sitting days, a Member signifies an objection by giving notice of a parliamentary question or by otherwise raising the matter in parliament, final approval to proceed with incurring the liability will be withheld pending an examination of the objection.

A copy of this Departmental Minute has been placed in the library.