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**Insights**

# INDONESIA IN FOCUS NEWSLETTER- SEPTEMBER EDITION

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### Construction begins on Southeast Asia's largest floating solar power plant in Indonesia

In early August 2021, plant developer PT PJB Masdar Solar Energi (PMSE) announced that it had reached financial closing for the 145 MW Cirata floating photovoltaic solar power plant in West Java. PMSE is a joint venture formed between Masdar, an Abu Dhabi-based renewable energy group and PT PJB, a subsidiary of Indonesian state-owned electricity company Perusahaan Listrik Negara.

Construction on the plant has now begun and is expected to be operational in November 2022. Upon completion, the plant will become the first in Indonesia and the largest of its kind in Southeast Asia.

The Indonesia government has set a short-term clean energy target aiming to have 23% of energy generated from renewable sources by 2025, and 31% by 2030. In order to achieve this target, solar power is anticipated to be the energy source with the most potential and relatively the fastest to develop. With the prices of solar panels dropping 60% in the past 6 years, solar power has also become relatively more affordable and the Indonesia government is prioritising its development and utilisation in the country.

Senior energy ministry official Dadan Kusdiana commented that although around half of the country’s estimated 417 GW renewable energy potential could come from solar power, less than 0.1% of that potential has been utilised. In this connection, Indonesia could look to its 375 lakes or reservoirs to deploy floating photovoltaic systems and generate an additional 28 GW of power to meet the country’s energy demand.

### Indonesian regulator SKK Migas approves plans for Tangguh liquefied natural gas carbon capture project

SKK Migas, Indonesia's upstream oil and gas regulator, has approved the next stage of development for the Ubadari natural gas field and the Vorwata carbon capture utilisation and storage (CCUS) at the Tangguh liquefied natural gas (LNG) plant in West Papua Barat, which is operated by British Petroleum and its partners.

The operators plan to inject 25 million tonnes of carbon dioxide ($CO_2$) back into the Vorwata reservoir to remove up to 90% of reservoir-associated $CO_2$ that is currently vented, and to provide incremental gas production via enhanced gas recovery. This would make the Tangguh project one of the lowest greenhouse gas emission intensity LNG plants in the world.

The Tangguh project is also expected to generate a further recovery of 1.3 trillion $ft^3$ of gas from both the Ubadari and Vorwata fields. Subject to any further approvals by SKK Migas, the front-end engineering and design for both fields will be conducted in mid-2022, and the project is expected to start in 2026 after a final investment decision.

These new developments are in line with the growing pressure on global entities to reduce $CO_2$ emissions, as well as Indonesia government's effort to meet its gas production aspirations and commitments to combat climate change.

## Trade Deal Talks between Indonesia and UAE

Indonesia and the United Arab Emirates (UAE) have begun trade deal talks on a free trade and investment agreement between the two countries. The comprehensive economic partnership agreement (CEPA) is the first of such a deal with a Middle Eastern country and it is also UAE's first with a Southeast Asian country.

The digital economy, energy transition, space development and biotechnology are some of the key sectors to be discussed as part of the CEPA, with the two countries seeking to facilitate reciprocal access to market products such as agriculture and food products, stainless steel, precious metals and automotive products.

The proposal aims to boost the two-way trade by up to 10 times from the USD 2.93 billion already recorded in 2020 and the two countries are hopeful that a deal can be reached within a year.

The negotiation talks between the two countries comes on the back of UAE's announcement earlier this year to invest USD 10 billion in Indonesia's newly-created sovereign wealth fund, with key projects being in sectors such as infrastructure, tourism and agriculture – please refer to the March edition of our newsletter which discussed this. In addition, the UAE also presents as a gateway to other Gulf countries and Africa, thereby extending Indonesia's access to other economies in the longer term.

## New project to convert fuel-powered motorbikes to electric in Indonesia

In August, Indonesia launched a pilot programme to convert fuel-powered motorcycles to electric-powered vehicles. The project started with the conversion of 10 such motorbikes, and is aiming to convert about 90 more by November this year. Indonesia's Minister of Energy and Mineral Resources, Arifin Tasrif said that all motorcycles sold from 2040 will be electric-powered while all new cars sold from 2050 will be electric vehicles.

Data from Indonesia's automotive industries association shows that the country had more than 112 million motorcycles and 15 million cars as of 2019 – and the government has set a target of having 13 million electric motorbikes and 2.2 million electric cars by 2030.

Ride-hailing app Gojek also previously announced that it targets to make every car and motorcycle on its platform an electric vehicle by 2030.

The country's plans for the change to electric vehicle runs in tandem with its plans to take advantage of its rich supplies of nickel laterite ore that is used in lithium batteries, thus fuelling the ambitions of becoming a global hub for the production of batteries and electric vehicles, with the potential for cheaper and greener vehicles in the long run.

### Indonesia Central Bank's new rules on minimum lending for micro, small and medium enterprises

Bank Indonesia has issued a new regulation aimed at strengthening the role of the micro, small and medium enterprises (MSME), increasing economic inclusion and unlocking financial access in the national economic recovery during the COVID-19 pandemic. The new regulation, Bank Indonesia Regulation (PBI) Number 23/13/PBI 2021 on Macroprudential Inclusive Financing Rationale (RPIM) for Conventional Commercial Banks, Sharia Banks and Sharia Business Units, is effective from 31 August 2021, and will repeal in its entirety a previous 2015 regulation.

Per the new rules, banks are required to fulfil the RPIM in stages, with this ratio starting at 20% in 2022, 25% in 2023 and 30% in 2024. This can be achieved through inclusive financing in various forms, such as providing credit or direct financing, granting credit or financing through other financial institutions, public service agencies and/or business entities, as well as purchase of securities, which contribute to the provision of funds and financing to MSMEs, MSME supply chains and low-income earners.

With the demand for bank credit in the MSME sector, this is a step in the right direction for banks to act as a balanced intermediary in the financial system and for businesses to get the help they need in order to operate and grow.

## MEET THE TEAM


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