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Client Alert

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Indonesia: Government guarantee for renewable power projects: new regulation; better legal framework?

In brief

Among the new laws and regulations being issued by the new administration, the Minister of Finance ("**MOF**") has issued Regulation No. 5 of 2025 on Guidelines for the Granting and Implementation of Government Guarantees and Risk Taking in the Acceleration of Renewable Energy Development in Electricity Generation ("**MOF 5/2025**"). The regulation was issued on 21 January 2025.

MOF 5/2025 demonstrates the Government of Indonesia's readiness to support the development of clean-energy power plants by providing government guarantees for (i) renewable power projects and (ii) the transition from steam power plants to renewable power plants, as well as taking on the risks involved in geothermal power projects.

In this alert, we will focus only on government guarantees for renewable power projects under a power purchase agreement ("**PPA**") with PLN.

In this issue

What risks are covered by the guarantee?

The government guarantee will cover the risk of PLN payment failure (whether partial or full) in respect of what MOF 5/2025 calls 'infrastructure risk'. Infrastructure risk is defined as any event that may occur to a renewable power plant project during the term of the PPA that may negatively impact the IPP's investment (i.e., equity and loan). In this connection, it is unclear whether the equity protection would extend to shareholder loans (even though this is commonly classified as 'equity').

It is worth noting here that 'loan' is limited to conventional or sharia loans from financiers which can be (i) an institution, (ii) a multilateral financial institution, or (iii) a financial institution of a Government holding diplomatic bilateral relations with Indonesia, where any of these institutions directly provides a loan to a state-owned company (BUMN). This limited scope effectively excludes any loan received by IPPs. What this means for typical power projects, where the IPP is funded by the equity of shareholders and third party loans, is that any risk impacting those loans will not be fall within the coverage of the proposed guarantee scheme. At the same time, this raises concerns, as it appears unusual to structure a project as an IPP if the loans are granted to the state-owned company, in this instance, PLN. In an IPP project, the responsibility for securing loans and equity lies with the IPP itself. It is uncertain if this is due to an unintentional drafting error.

There are two forms of infrastructure risk covered under the guarantee. The first one is the classic government action/inaction as well as PLN's action/inaction. The second one is PLN's inability to perform certain obligations under the PPA. However, the granting of a guarantee depends on the following provisos:

1. There is an appropriate distribution of infrastructure risk in the PPA.
2. The infrastructure risk (i) comes from the government or PLN or (ii) does not come from the government or PLN, but PLN is better placed than the IPP to bear the risk.

While the second proviso goes without saying, we wonder how "an appropriate distribution of infrastructure risk" will be assessed.

Obtaining the guarantee: how?

The guarantee can be given by IIGF alone or by IIGF and the MOF together.

PLN should apply for the guarantee to the MOF before a PPA is signed, by submitting various documents including the PPA draft and a list of bid participants that had been selected. The fact that PLN should already have a list of selected bid participants could mean two things. It could mean that either (i) a winning bidder has not been selected and the PPA draft has not been negotiated or (ii) a winning bidder has been selected and the PPA draft has been negotiated (or is in the process of being negotiated).

If the MOF receives a recommendation from the Directorate General of Financing and Risk Management ("**DGFRM**") that the project can be approved in principle, the MOF will issue a decree delegating IIGF to become the guarantor. The decree will set out, among other things, the name of the bid winner and the name of the project. After the MOF decree is issued, the DGFRM will issue an in-principle approval, after which the PPA can be signed together with IIGF. However, the in-principle approval does not legally bind the MOF or IIGF to issue the guarantee. Thereafter, the MOF will review the PPA and a draft of the guarantee agreement. If the MOF approves the PPA and the guarantee agreement, the guarantee agreement can be signed by the IPP and the guarantor.

Claiming against the guarantee: how?

An IPP can make a claim against the guarantee if PLN has either (i) stated that it is unable to fulfil its payment obligation to the IPP before the payment deadline, or (ii) not paid any invoice within the payment period.

The claim will only be paid (i) after IIGF assesses the claim and determines that the amount of the claim is in accordance with the PPA, and more importantly, (ii) PLN does not object to or dispute the claim or the amount, of the claim. This second requirement may be easily achievable if PLN has stated that it is unable to fulfil its payment obligation – but may not be as easy in the other scenario.

Unfortunately, MOF 5/2025 does not set any deadline for IIGF to analyze and pay the claim. This will create uncertainty for IPPs waiting for a claim to be paid.

How is this different from existing guarantees?

The concept of a government guarantee for power projects is not new. Before MOF 5/2025, there were already existing MOF regulations that governed government guarantees, including those relevant to general infrastructure and power project development. MOF 5/2025 does not replace or revoke these earlier MOF regulations.

Unlike the government guarantee provided under MOF Regulation No. 189/PMK.08/2015 on Procedures for the Provision and Implementation of Government Guarantees on Infrastructure Financing Through Direct Lending From International Finance Institutions to State-Owned Enterprises (“**MOF 189/2015**”) – the guarantee under MOF 5/2025 does not require a project to either be (i) determined as a national strategic project by the Committee of Priority Infrastructure Development, a ministry or a non-ministry government institution, or (ii) consistent with the Mid-Term National Development Plan. This means that projects under PLN's RUPTL, which are not necessarily national strategic projects (and therefore are not covered by MOF 189/2015), may still be covered under MOF 5/2025.

Another set of MOF regulations[1] provide a legal framework for government guarantees, but these are focused only on projects covered under President Regulation No. 4 of 2010 on Assignment to PLN to Accelerate the Development of Renewable, Coal and Gas Power Plants – which, as the title suggests, also includes non-renewable energy power plants.

How will this affect future renewable PPAs?

The issuance of MOF 5/2025 is part of the Government’s commitment to accelerate the implementation of renewable energy by mobilizing investors to support the transition to renewable energy. However, whether a renewable power project benefits from a guarantee depends on whether PLN applies for it.

Significantly, sponsors participating in a procurement process will not know if the project will receive a government guarantee until the project has been awarded to them. The lack of visibility may impact tariff proposals submitted by the sponsors to PLN as sponsors will need to consider the costs they will need to incur to mitigate the risks of default by PLN, including those arising from infrastructure risks covered by the government guarantee under MOF 5/2025.

It has been quite some time since an IPP project was packaged with a government guarantee, and PLN has become used to taking the risk of government action-inaction. So we would expect to see PLN still taking this risk, with or without a government guarantee.

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[1] MOF Regulation No. 130/PMK.08/2016 on Procedures for Application of Provision of Government Guarantees for the Acceleration of Electricity Energy Infrastructure Development as amended by MOF Regulation No. 135/PMK.08/2019 and MOF Regulation No. 101/PMK.08/2018 on Procedures for the Provision and Implementation of Government Guarantees Together or Through Infrastructure Guarantee Enterprises Against the Risk of Default by State-Owned Enterprises That Borrow and/or Issue Bonds to Finance Infrastructure Provision

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