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FUND**

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# Consideration of accreditation proposals – Addendum V

## Re-accreditation assessment of RAPL045

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### **Summary**

This document contains the re-accreditation assessment conducted by the Secretariat and the Accreditation Panel in accordance with decision B.24/13, and the recommendation by the Accreditation Panel for re-accreditation of re-accreditation applicant 045 (RAPL045), the PT Sarana Multi Infrastruktur (PT SMI), based in Indonesia, for the second accreditation term.

## I. Introduction

1. PT Sarana Multi Infrastruktur (PT SMI) is a national entity with a mandate to serve as the catalyst for accelerating national infrastructure development in Indonesia. It has an established network of local governments, which has allowed the accredited entity (AE) to become one of the distributors of the Government of Indonesia's COVID-19 pandemic economic recovery programme. The track record of PT SMI includes financing climate change activities in renewable energy, water and sanitation, infrastructure, and urban transportation. Leveraging its experience and network, PT SMI plans to focus on the energy sector, one of the main emission contributors in Indonesia, by converting diesel power plants to solar PV, introducing wave energy, and fostering sustainable low-emission transportation.

2. PT SMI was accredited by the Board on 15 December 2016 in decision B.15/09, paragraph (d), for the following parameters, as recommended by the Accreditation Panel (AP), under the fit-for-purpose approach of GCF:

- (a) **Access modality:** direct access, national. The national designated authority (NDA) or focal point nomination from Indonesia remains in effect for the re-accreditation application;
- (b) **Track:** normal track;
- (c) **Maximum size of an individual project or activity within a programme:** small;<sup>1</sup>
- (d) **Fiduciary functions:**<sup>2</sup>
  - (i) Basic fiduciary standards;
  - (ii) Specialized fiduciary standard for project management;
  - (iii) Specialized fiduciary standard for grant award and/or funding allocation mechanism; and
  - (iv) Specialized fiduciary standard for on-lending and/or blending (for loans);
- (e) **Maximum environmental and social (E&S) risk category:** medium risk (category B/intermediation 2 (I-2));<sup>3</sup> and
- (f) **Indicative results areas for intended projects/programmes with GCF:**
  - (i) Energy generation and access;
  - (ii) Transport;
  - (iii) Health, food, and water security;
  - (iv) Livelihoods of people and communities;
  - (v) Infrastructure and built environment; and
  - (vi) Public, private, and cross-cutting types of projects/programmes.

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<sup>1</sup> As per annex I to decision B.08/02 (annex I to document GCF/B.08/45), "small" is defined as "maximum total projected costs at the time of application, irrespective of the portion that is funded by the Fund, of above US\$ 10 million and up to and including US\$ 50 million for an individual project or an activity within a programme".

<sup>2</sup> Decision B.07/02.

<sup>3</sup> As per annex I to decision B.07/02 (annex I to document GCF/B.07/11), category B is defined as "Activities with potential mild adverse environmental and/or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures" and intermediation 2 is defined as "When an intermediary's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally-site specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented".

3. PT SMI signed its accreditation master agreement (AMA) with GCF on 28 April 2017, and it became effective on 14 July 2017. With the AMA coming into effect, the AE's first accreditation term was from 14 July 2017 to 13 July 2022. The AE submitted its application for re-accreditation, as well as an application to upgrade its accreditation scope, to GCF via the digital accreditation platform on 29 October 2021. Accreditation fees were not applicable since the AE had already paid for the maximum accreditation scope during its initial accreditation. This includes the scope the AE is seeking to be upgraded at the same time as its re-accreditation application; thus, the Stage I institutional assessment and completeness check commenced upon submission of the re-accreditation application. Stage I was completed on 10 February 2022 and the applicant was progressed to the Stage II (step 1) accreditation review by the AP, which was concluded with the publication of this assessment.

4. The AE has applied for an upgrade in its accreditation scope at the same time as its re-accreditation application for the following parameters under the fit-for-purpose approach of GCF while, in parallel, updating the indicative results areas for projects/programmes it intends to submit to GCF:

- (a) **Maximum size of an individual project or activity within a programme:** medium;<sup>4</sup>
- (b) **Fiduciary functions:**
  - (i) Specialized fiduciary standard for on-lending and/or blending (for equity and guarantees);
- (c) **Environmental and social safeguards (ESS) category:** high risk (category A/intermediation 1 (I-1));<sup>5</sup> and
- (d) **Indicative results areas for intended projects/programmes with GCF:**
  - (i) Energy generation and access;
  - (ii) Low-emission transport;
  - (iii) Health, well-being, food and water security;
  - (iv) Infrastructure and built environment; and
  - (v) Public, private, and cross-cutting types of projects/programmes.

## II. Stage I institutional assessment and completeness check

5. The AE applied under the normal track re-accreditation process and was assessed by the Secretariat during stage I in accordance with the GCF policies and standards below to the extent applicable to accreditation:

- (a) "Updated Strategic Plan for the Green Climate Fund: 2020–2023" (decision B.27/06);
- (b) "Matters related to the accreditation framework" regarding the re-accreditation process (decisions B.24/13 and B.26/01);

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<sup>4</sup> As per annex I to decision B.08/02 (annex I to document GCF/B.08/45), "medium" is defined as "maximum total projected costs at the time of application, irrespective of the portion that is funded by the Fund, of above US\$ 50 million and up to and including US\$ 250 million for an individual project or an activity within a programme".

<sup>5</sup> As per annex I to decision B.07/02 (annex I to document GCF/B.07/11), category A is defined as "Activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented" and intermediation 1 is defined as "When an intermediary's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented".

- (c) “Guiding Framework and Procedures for Accrediting National, Regional and International Implementing Entities and Intermediaries, Including the Fund’s Fiduciary Principles and Standards and Environmental and Social Safeguards” (decision B.07/02);
- (d) “Guidelines for the Operationalization of the Fit-for-purpose Accreditation Approach” (decision B.08/02);
- (e) “Policy on Prohibited Practices” (decision B.22/19);
- (f) “Anti-Money Laundering and Countering the Financing of Terrorism Policy” (AML/CFT Policy) (decision B.18/10);
- (g) “Policy on the Protection of Whistleblowers and Witnesses” (decision B.BM-2018/21);
- (h) “Environmental and Social Management System: Environmental and Social Policy” (decision B.19/10);
- (i) “Revised Environmental and Social Policy” (decision B.BM-2021/18);
- (j) “Comprehensive Information Disclosure Policy of the Fund” (decision B.12/35) regarding the disclosure of environmental and social (E&S) information;
- (k) “Updated Gender Policy and Gender Action Plan 2020–2023” (decision B.24/12); and
- (l) “Evaluation Policy”<sup>6</sup> (decision B.BM 2021/07)

## 2.1 Legal status, registration, permits and licences

6. The AE provided documents on its establishment and licences to operate, where relevant, as a part of the application. The AE confirmed that there had been no change in its legal status or licences to operate since the original accreditation application.

7. As indicated in paragraph 5 above, the AE and GCF entered into the AMA for the AE’s first accreditation term from 14 July 2017 (date of AMA effectiveness) to 13 July 2022. Although the AE’s first accreditation term lapsed on 14 July 2022, the AE submitted its re-accreditation application within the deadline prior to the end of the accreditation term. As the AE had sought re-accreditation prior to the end of its accreditation term, it shall remain designated as an AE during the period between its first and—if re-accredited and with a signed and effective amended and restated AMA—second accreditation terms.

8. If the Board approves the AE’s re-accreditation, GCF and the AE will amend and restate the AMA. The amended and restated AMA will set out the terms and conditions of the re-accreditation, including but not limited to (i) the scope of the AE’s re-accreditation; (ii) any conditions of re-accreditation based on the AP assessment of the AE against the GCF standards and policies listed in paragraph 39 below; and (iii) reflect the GCF policies and standards adopted by the Board in effect as of the date of the amended and restated AMA. If the Board approves the AE’s re-accreditation, the AE’s second accreditation term will commence on the date of the effectiveness of the amended and restated AMA.

9. The AE confirmed at the time of publication of this recommendation that it is willing to engage with GCF on negotiating the amended and restated AMA and that it will put in the necessary resources to review the draft amended and restated AMA.

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<sup>6</sup> Due to the timing of the closure of the Stage I review and the Evaluation Policy having come into effect in May 2022, further review of the applicant against the evaluation systems required in so far as they relate to (re)accreditation is undertaken by the AP during Stage II (Step 1).

## 2.2 Accredited entity performance in contributing to GCF programming results

### 2.2.1 Approved GCF projects under implementation and national designated authority participatory monitoring

10. PT SMI does not have a portfolio of approved funded activity projects with GCF but is a delivery partner for the GCF Readiness and Preparatory Support Programme (Readiness Programme) and has one Project Preparation Facility (PPF) grant (IDN-PPF-015), which was closed in December 2020 and was managed by the United Nations Office for Project Services (UNOPS).

11. Implementation of the RPSP PPF grant titled “Bus Rapid Transit Development in Semarang” was satisfactory. The objective of the project was to develop a feasibility study; assess environmental and social impact and bus technology to further reduce greenhouse gas (GHG) emission; develop policies and measures to encourage passengers to shift to public transport; conduct legal and regulation review; prepare land acquisition and resettlement action plan; and conduct gender, risk and stakeholder management analysis for the implementation of a full bus rapid transit (BRT) system in Semarang. The approved grant was valued at USD 0.78 million, of which USD 709,000 had been disbursed and a balance of USD 142,901 returned to UNOPS. The rate of expenditure is 76 per cent with a 90 per cent disbursement rate. The project duration was 18 months but received a no-cost extension of 2 months due to the COVID-19 pandemic.

12. **Overall performance:** The PPF grant is already completed apart from the final deliverable (funding proposal). All the deliverables as per the Grant Support Agreement had been submitted and verified to be in good order. Furthermore, PT SMI finished the feasibility as well as environmental and social studies as planned. In addition to the feasibility study for BRT, a Low Emission Integrated Mass Transit Plan (Urban Mobility Plan) for Semarang City was also developed. The legal, risk, stakeholder and gender consultant prepared the final report in close coordination with PT SMI and the fiduciary standard and environmental and social consultant to ensure an integrated output for the project preparation phase of BRT Semarang.

13. The grant was unable to utilize approximately 25 per cent of the approved funds due to the COVID-19 pandemic, which restricted the project team’s travel and forced all planned physical meetings with the Semarang city government to be shifted online. On 9 December 2021, PT SMI confirmed that the funding proposal (PPF deliverable) had not been developed yet due to several issues the Semarang municipal government was experiencing. Nevertheless, the AE acknowledged the final result of the assessment. The request of UNOPS for a refund of the unspent funds was immediately processed and the funds were transferred.

14. **Reporting:** Insofar as quality and timeliness of reporting, PT SMI submitted two interim progress reports and one completion report. The reports were submitted before the due dates and the completed interim progress reports had received excellent ratings by UNOPS. The quality of reporting under the Readiness portfolio was very satisfactory. Supporting documentation was always provided in a clear and efficient manner, while the turnaround time for additional clarifications requested by UNOPS was short.

### 2.2.2 Inclusion in the country programme of concept notes, funding proposals and Project Preparation Facility requests

15. **Country programme/entity work programme:** As PT SMI is a national direct access entity, it is not required to develop and submit an entity work programme to GCF as long as its priorities are included in the country programme to GCF. PT SMI’s concept notes under development for GCF have been focused on energy generation and access and transport, which

are reflected and well-aligned with Indonesia's priorities as indicated in its updated country programme (published on the Government of Indonesia website). PT SMI's project titled "Green Hybrid Microgrids for Small Islands in Indonesia", in particular, has been highlighted as a priority by the NDA on behalf of the Government of Indonesia.

16. **Concept notes/funding proposals:** As of 14 January 2022, PT SMI has officially submitted five concept notes. Two of these concept notes were for PPF requests under the public sector window, namely: "Developing Climate Resilient and Eco-friendly Tourism at Lake Toba" project (PPF 1805-15251) and "Bus Rapid Transit (BRT) Development in Semarang" project (PPF 1805-15249). The AE informed GCF that the project is ready for submission, awaiting inputs from the Government of Indonesia to confirm co-financing amount.

17. The concept note titled "Green Hybrid Microgrids for Small Islands in Indonesia" plans to develop renewable energy power plants in small island developing States. The concept note required further clarification on the general description of the project, including the financing structure. The project has been receiving technical assistance support from GCF since January 2022, with the aim of restructuring the project to meet GCF requirements, and is pending submission of the revised concept note from the AE.

18. The AE recently submitted a concept note titled "Climate Finance Facility for Renewable Energy Development in Remote Area in Indonesia", which is under review. The AE proposed to establish a lending facility that aims to address market constraints to increase climate-related investments in rural and remote areas in Indonesia by blending GCF's concessional resources with other commercial funding. The Secretariat will work with the AE to further strengthen the paradigm shift potential and the sustainability of the project.

19. The concept note titled "Sustainable Wave Energy in Nusa Penida Island, Indonesia" requested PPF funding (PPF 1910-16001) to conduct a feasibility study on wave energy and targets the energy access and power generation result area. The concept note lacked a procurement strategy and E&S screening information. The project has been inactive since December 2019.

20. The concept note titled "Catalyzing energy efficiency investments in Indonesia" intends to stimulate private investments in energy efficiency projects (cooling and heating technologies in industrial and commercial building sectors) and targets the buildings, cities, industries and appliances result area. The concept note required further improvement in climate impact potential and is on hold until PT SMI receives capacity-building support to help them develop the project in line with GCF investment criteria.

### 2.2.3. **Risk flags incurred by the projects, accredited entity or country during the current accreditation term**

21. With regard to concentration risk, there are no risk flags.

22. Regarding first-level due diligence in PT SMI funding proposals, this has not been reviewed to date for ESS and gender matters by the Secretariat. No annual performance report reviews on ESS and gender matters have been undertaken since the AE has no funded activity under implementation.

23. Specifically with regard to integrity risk related to the GCF AML/CFT Policy<sup>7</sup> and the Policy on Prohibited Practices, the Secretariat is not aware of any risk flags pertaining to the AE during the current accreditation term. Furthermore, the Secretariat consulted with the Independent Integrity Unit (IIU) regarding any reports of prohibited practices within its knowledge; the IIU confirmed that it had not received any reports of integrity violations and

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<sup>7</sup> Decision B.18/10 and annex XIV thereto.

therefore did not have any reservations with this re-accreditation proposal being presented to the Board for consideration.

### 2.3 Accredited entity level reporting on continuing to meet GCF accreditation standards

24. In line with the AMA clauses 5.03(b)(iv) and 15.02(c)(i), PT SMI has submitted the required AE-level reports throughout its five-year accreditation term within the deadlines stipulated in the AMA, except for the annual self-assessment for calendar year 2017 for which an extension was provided by the Secretariat. These reports include annual self-assessments for calendar years 2017 and 2018, followed by a midterm accreditation review that included the self-assessment for calendar year 2019, and another self-assessment for calendar year 2020. The re-accreditation application of PT SMI includes the self-assessment for calendar year 2021.

25. In the annual self-assessments, PT SMI reported changes in the areas related to its organizational structure, basic and specialized fiduciary standards, ESS and gender requirements. The AE was assessed against these areas for its original accreditation and all had been reported as having led to no or positive outcomes contributing to closing accreditation conditions.

26. As detailed in document GCF/B.27/03/Add.02, the AP and the Secretariat reviewed the midterm review report covering calendar year 2019 and found that the AE continued to meet the relevant GCF accreditation standards and obligations as an AE per its AMA with GCF in the context of its accreditation scope.

### 2.4 Overall portfolio of activities of the accredited entity beyond those funded by GCF

27. As per the USP for GCF: 2020–2023,<sup>8</sup> the re-accreditation process, and the monitoring and accountability framework, the Secretariat and the AP are requested to provide an assessment of the extent to which the overall portfolio of activities of the AE beyond those funded by GCF has evolved during the accreditation period, in order to advance the goal of GCF to promote the paradigm shift towards low-emission and climate-resilient development pathways in the context of sustainable development. While such assessment is to be conducted primarily by the AP during Stage II (Step 1) if Stage I is completed, information on the AE's commitments and strategies related to climate change is provided below.

28. The AE's project portfolio in climate change has demonstrated significant growth in the past five years, during its first accreditation term, with total climate financing having increased four times and reaching a total of USD 976 million. The AE has also diversified its portfolio to include climate adaptation projects.

29. The AE undertook internal restructuring to establish the Sustainable Financing Division to facilitate financing in infrastructure development projects, and adopted its new Environmental and Social Safeguard Guidelines.

30. The AE has been financing diverse, technologically advanced green power generation projects such as biomass and geothermal powerplants; encouraging knowledge generation and capacity-building within the organization in terms of financing more sustainable projects; and using diverse and flexible financing instruments, such as guarantee and equity.

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<sup>8</sup> Decision B.27/06 and annex VI thereto.

31. The AP reviewed the following information provided by the AE with regard to guiding questions established in the GCF “Methodology for establishing a baseline of greenhouse gas emissions and climate resilience for the portfolio of accredited entities”:<sup>9</sup>

- (a) **Guiding question 1.** Has the entity established policies or commitments in the short, medium or long term regarding investment in climate change projects?
- (i) Since 2019, PT SMI has committed to decrease its investments in fossil fuel-related projects and increasing investments in renewables. Specifically, the AE has indicated that it limits the investments in fossil fuel-related projects, such as coal-fired power plants. This commitment is enacted climate policy targets, in the PT SMI’s 2021 Sustainable Finance Action Plan to phase out financing fossil fuel projects;
- (ii) PT SMI adopted relevant targets and key performance indicators (KPIs) to measure progress in the implementation of such commitment, which is tracked in PT SMI’s 2021 Sustainability Report.<sup>10</sup> The report informs that PT SMI has achieved its 2021 target of reducing the portion of fossil fuel project finance to less than 8 per cent in outstanding value and continues to make progress (see table 1 below for the latest status of KPIs and targets set for 2022). The overall participation of fossil fuels financing (power plants and oil and gas infrastructure) has dropped in the entity’s portfolio in 2017-2021 from 14.3 to 6.6 per cent total commitment. The remaining investments relate to seven fossil fuel power plant projects carried over from the pre-2019 portfolio of PT SMI:
- (1) Fossil fuel portfolio in 2017: USD 350 million or 14.3 per cent of total commitment; and
- (2) Fossil fuel portfolio in 2021: USD 333 million or 6.6 per cent of total commitment;
- (iii) Regarding future investment, the entity received an assignment from Indonesia’s Ministry of Finance in July 2022 to create policies, make assessments, and manage the decommissioning of coal-fired power plants in the context of the Energy Transition Mechanism Country Platform (ETM)<sup>11</sup> underpinning the achievement of the country’s national determined contributions (NDC) and net-zero emissions targets. With that, PT SMI will assume a prominent role in promoting the energy transition from coal to renewable energy;
- (iv) The ETM itself consists of two schemes: (i) The Carbon Reduction Facility scheme is used for early retirement coal-fired power plants in Indonesia; and (ii) Meanwhile, the Clean Energy Facility scheme aims to develop or reinvest in green energy facilities. This mechanism is expected to be a win-win solution for communities, investors, regional economies, and the environment. PT SMI is working on developing methodologies to calculate GHG emission reductions that will stem from its contribution to these schemes; and
- (v) PT SMI also set targets related to investment in climate mitigation and reduction of emissions and emission intensity. It achieved the target to increase the portion of finance related to climate change mitigation in 2021 and is on track to achieving the targets set for 2022. The latest status of finance in fossil fuels,

<sup>9</sup> Document GCF/B.28/11/Add.02.

<sup>10</sup> Available at <https://ptsmi.co.id/cfind/source/files/sustainability-reports/sustainability-report-pt-smi-2021.pdf>.

<sup>11</sup> The ETM was launched by the Government of Indonesia at the G20 meeting in July 2022. The statement is available at <https://g20.org/indonesia-launched-energy-transition-mechanism-country-platform/#:~:text=The%20ETM%20itself%20is%20an,a%20just%20and%20affordable%20manner.>



climate mitigation and emissions reduction in scopes 1 and 2 is also shown in table 1 below;

**Table 1. PT SMI performance related to investment in climate mitigation and reduction of emissions**

Target	Indicator	Figure as of Q2 2022
Reduce the portion of financing for fossil fuel power plant projects (in outstanding value)	Maximum of 7.5% by the end of 2022	4.55%
Increase the portion of financing related to climate change mitigation (i.e. renewable energy, clean transportation, energy efficiency) (in outstanding value)	Minimum of 7.5% by the end of 2022	9.36%
Reduce emissions and/or emission intensity of scopes 1 and 2 compared to the 2020 baseline	Minimum of 5% by the end of 2022	Reduction of 10.20% of scopes 1 and 2 emissions (prediction for Q4 2022) Reduction by 18.69% of scopes 1 and 2 emissions intensity (prediction for Q4 2022)

- (vi) By investing in climate mitigation and adaptation projects, PT SMI aims to contribute to Indonesia's adaptation efforts and net zero transition goal by 2060. Indonesia aims to reduce GHG by 29 per cent through the country's own capacity and 41 per cent through international support by 2030. According to the 2019 NDC roadmap, Indonesia needs approximately USD 44.5 billion of financing per year to achieve its NDC target in the energy sector by 2030. The energy sector contributes up to 38 per cent of the emission reduction target, which provides a great opportunity for PT SMI to contribute as the sector aligns with the company's mandate and experience;
- (vii) In this regard, the AE's project portfolio in climate change has demonstrated significant growth in the first accreditation term, with total climate financing increasing fivefold and the number of projects tagged as climate-related growing by 85 per cent:
- (1) Climate mitigation and adaptation portfolio in 2017: USD 177 million or 5.3 per cent of total commitment;
  - (2) Climate mitigation and adaptation portfolio in 2021: USD 976 million or 11 per cent of total commitment;<sup>12</sup>
  - (3) Number of climate-related projects in 2017: 21; and
  - (4) Number of climate-related projects in 2021: 39;
- (viii) The PT SMI pipeline aimed at GCF will further support the achievement of Indonesia's climate targets, especially in the energy and transportation sectors. In the past five years, the entity has sought to build capacity in managing large-scale climate projects, such as by directly financing the USD 150 million wind power plant project in Sidrap, South Sulawesi Province. This project contributed

<sup>12</sup> The total outstanding value in 2021 is USD 563,930,503, as shown in Table 3.

to the national renewable energy mix with a capacity of 70 MW. In addition, PT SMI also financed Umbulan WTP in East Java, a category A ESS risk project that amounts to USD 160 million;

- (ix) PT SMI's experience in mobilizing private sector investment for climate projects also expanded from Public Private Partnership and PPF to blended finance as well as the development of de-risking tools. In that regard, the entity established the Sustainable Development Goals Indonesia One platform, which aims to further accelerate infrastructure development that bolsters sustainable development goals by being a platform to provide support from the public and private sectors to projects using a blended finance scheme. PT SMI has also issued the first corporate green bond in the Indonesian capital market in 2018 and continues to expand its portfolio of climate-related projects;
  - (x) At the corporate level, PT SMI is investing in a green office by implementing programmes related to energy and water efficiency, reducing paper usage, maintaining quality air and light, waste management and others. Monitoring reports are carried out periodically in that regard; and
  - (xi) The AP concludes that the AE's commitments in the short, medium, and long term regarding investment in climate projects and divestment in fossil fuels have been expressed and to be adopted imminently by its Board but expected to be done in the near future;
- (b) **Guiding question 2.** Does the entity receive resources from third parties for the financing of climate projects?
- (i) The entity has received support from different partners, ranging from multilateral organizations to philanthropic ones. As mentioned above, these partnerships have grown significantly in the past five years (see table 2 below with a summary of the main partners (in terms of support offered to PT SMI in USD), sectors they've contributed to, and type of support);

**Table 2. Total amount received from partners/donors in the first accreditation period, in USD**

Partner/Donor	Sector	Type of Support	Amount
The World Bank/Clean Technology Fund	Geothermal (GREM)	Grant + loan	326,250,000
Agence Française de Développement	Climate change mitigation and adaptation	Grant + loan	155,600,000
Asian Development Bank	Green projects	Grant/technical assistance + loan	151,350,000
Government of New Zealand	Geothermal	Technical assistance	5,800,000
KfW Development Bank	Renewable energy and urban infrastructure	Grant and technical assistance	15,750,000



Bloomberg Philanthropies	Climate change mitigation and adaptation, including solar PV	Grant	464,000
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\* *Abbreviation:* GREM = Geothermal Resource Risk Mitigation Project

- (ii) The AP finds that PT SMI has actively engaged with international partners to mobilize support for climate change projects in the past five years;
- (c) **Guiding question 3.** Does the AE calculate and reduce its institutional-level GHG emissions?
  - (i) The AE is building its capacity to calculate emissions at the institutional level. As mentioned under guiding question 1 above, PT SMI adopted a target to reduce emissions and emission intensity in scopes 1 and 2, which are monitored annually;
  - (ii) PT SMI has also been calculating the potential and/or actual GHG emissions avoided in green bond projects. These calculations are presented as part of PT SMI's Green Bond Report,<sup>13</sup> which has been published annually since 2021. At the end of 2020, PT SMI's contribution to the reduction of emissions was estimated at 245,582 tons of CO<sub>2</sub>, 122,639 MWh of new renewable energy electricity production, and 3.075 TJ in energy savings; and
  - (iii) The AP encourages the AE to enhance its capacity in calculating and reporting GHG emissions, in line with its existing goal to reduce scopes 1 and 2 emissions and as a means to manage scope 3 emissions in the future;
- (d) **Guiding question 4.** Does the entity evaluate the climate risks of its portfolio?
  - (i) PT SMI informed the AP that it is planning to develop a climate change risk assessment tool and implement it on a number of projects, prior to and during project implementation;
  - (ii) Since PT SMI's mandate is to serve as the catalyst for accelerating national infrastructure development in Indonesia and its mandate and mission is to accelerate the development of infrastructure projects, the AP finds that the development and implementation of a climate risk screening and a climate resilience performance standard to the entity's projects as well as climate risk disclosure at the portfolio level are critical to securing the resilience of the AE's investment; and
  - (iii) The AP encourages PT SMI to develop the capacity to evaluate the climate risks of its portfolio during the second accreditation period;
- (e) **Guiding question 5.** What are the main sectors of activity of the entity?
  - (i) As presented in the response to guiding question 1 above, the fossil fuel component of the portfolio has been reduced particularly after PT SMI has committed to no longer support this type of finance in 2019. As shown in the table below, the entity has decreased its participation in oil and gas from 7.62 to 0.85 per cent from 2017 to 2021. It is also making efforts to reduce investments in fossil fuel power plants while increasing investments in climate-related projects; and

<sup>13</sup> Available at <https://ptsmi.co.id/green-bond-reports/>.

- (ii) The total commitment of finance to climate-related projects at end of December 2021 was USD 976,261,026 (11.05 per cent of total commitment) and USD 563,930,503 were the outstanding investments (10.26 per cent of total outstanding), as shown in Table 3 below.

**Table 3. Distribution of outstanding investments by sector and per year, 2017-2021, in USD**

Sector	Indicator	2021	2020	2019	2018	2017
Climate-related projects	USD	563,930,503	407,086,789	363,846,554	210,748,663	165,708,421
	% of total	10.26	8.42	8.67	6.32	6.80
Fossil fuel power plants	USD	286,202,150	338,882,279	274,909,715	258,300,251	164,778,000
	% of total	5.21	7.01	6.55	7.74	6.77
Oil and gas infrastructure	USD	46,940,414	35,230,418	167,326,879	175,863,245	185,519,198
	% of total	0.85	0.73	3.99	5.27	7.62
Non-climate-related projects and operations	USD	4,601,393,500	4,051,188,450	3,392,430,165	2,691,197,414	1,919,123,132
	% of total	83.69	83.83	80.80	80.67	78.81

- (iii) The AP finds that the AE commitment to no longer support fossil fuels is being advanced and concludes that, as the AE's climate-related portfolio is growing in size and share of the overall portfolio, the AE can contribute to furthering GCF objectives in a second accreditation period;
- (f) **Guiding question 6.** Is the entity investing in mitigation projects/operations?
- (i) Before being accredited by GCF, PT SMI had financed 10 renewable energy projects in total. During its first accreditation period, the entity managed 41 additional projects in the renewable energy and electricity sector, totalling 51 projects in the energy sector to date. PT SMI is actively building programmes that will accelerate the development of geothermal energy in Indonesia as the baseline energy resource most suitable to replace electricity power plants using fossil fuel energy; and
- (ii) The AP finds that investments in mitigation projects are solid and may contribute to the implementation of Indonesia's mitigation goals;
- (g) **Guiding question 7.** Is the entity investing in adaptation projects/operations?
- (i) The AE diversified its portfolio to include climate adaptation projects. In the past five years, 25 adaptation projects were financed. The evolution of the entity's climate adaptation portfolio is presented in table 4 below:

**Table 4. Total outstanding value of climate adaptation investment, 2017-2021, in USD**

Sector	Outstanding				
	2021	2020	2019	2018	2017
Adaptation	166,799,736	126,265,569	113,719,843	86,452,989	85,856,613

- (ii) As an example, PT SMI has invested in drinking water supply system projects, such as PT Krakatau Tirta Industri and PT Meta Adhya Tirta Umbulan, which support the National Development Planning Agency (Bappenas) adaptation priority of attaining water security. The AP finds that the AE's investments in adaptation projects are solid and may contribute to Indonesia's climate resilience goal; and
- (iii) PT SMI has significantly expanded its capacity, knowledge, and experience to address climate change efforts, particularly through energy generation and access projects. The AE was involved in fossil fuel financing in the past and, since its accreditation by GCF, it has committed to a shift to climate change projects.

32. The AP concludes that the evidence provided by the AE demonstrates the continuous positive trend of developing climate change mitigation and adaptation actions in line with Indonesia's transition to net zero and GCF's mandate and objectives. The AP also notes that the AE is in the process of transitioning its investments in fossil fuels in line with the 2020–2023 USP and in line with the Paris Agreement, as attested in the AE's ongoing effort to develop Climate Policy committing it to phase down financing fossil fuel projects.

### III. Stage II re-accreditation review assessment

33. The AE applied under the normal track accreditation process. Its application has been assessed by the AP during stage II (step 1) against the standards of GCF in accordance with the re-accreditation requirements to the extent applicable to accreditation identified in paragraph 5 above.

34. As part of this assessment, the AP consulted the AE's website and third-party websites to complement the information provided in the application.

#### 3.1 Fiduciary standards

##### 3.1.1 Basic fiduciary standards: key administrative and financial capacities

35. PT SMI has fulfilled and closed conditions with regard to the basic fiduciary standards recommended by the AP and approved by the Board in its decision to accredit the AE for the first accreditation term.<sup>14</sup>

36. PT SMI's annual reports are comprehensive documents covering governance, management, strategy, risk and key administrative capacities. Since the first accreditation term, staff numbers have grown and the organization's structure has evolved to accommodate portfolio growth and to provide strategic alignment. Financial statements, including supporting schedules, are prepared according to Indonesian Accounting Standards. Whilst Indonesia has not yet fully adopted the International Financial Reporting Standards (IFRS) for reporting by

<sup>14</sup> Refer to document GCF/B.22/02.

domestic companies, there has been convergence between the national standards and IFRS, and the majority of Indonesian Accounting Standards are now aligned to IFRS. PT SMI continues to engage independent external auditors to prepare its audited financial statements. The audits include statements of financial position, profit and loss, changes in equity, cash flow and notes to the financial statements, indicating alignment with IFRS.

37. PT SMI's 2018 Internal Audit Charter describes the purpose, authorities, and responsibilities of the Internal Audit Division (DAI). The 2021 internal audit procedure describes in more detail DAI activities mandated in the charter. The internal audit function is aligned with the International Standard for the Professional Practice of Internal Auditing and also other guidance from the Institute of Internal Auditors (IIA). All internal audit staff are members of the IIA. The management of DAI (consisting of the Chief Audit Executive and the team leaders) hold internal audit certifications issued by the global IIA and a local professional institution (certified internal auditor), a Certification in Risk Management Assurance, and are qualified internal auditors. The track record of the internal audit function has been demonstrated with recent examples of audits on procurement, information technology, governance and processes in finance and investment decisions as well as reports on the follow-up and status of historical recommendations.

38. The DAI carries out quality assurance and improvement programmes (QAIP) internally and externally to ensure that the internal audit function operates in accordance with the internal audit charter, internal audit procedures, and the International Professional Practices Framework of the IIA. Internal QAIP is carried out annually by self-assessment, while external QAIP is carried out at least once every five years by an independent party with the next assessment due in 2022. The Head of DAI submits internal and external QAIP reports to the Audit Committee and the President Director.

39. PT SMI Internal Control System Guidelines are based on provisions applicable to the Indonesian banking and finance sector and are consistent with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework for internal controls. The guidelines outline the internal control system, its objectives, components and principles and lines of defence and include provisions for internal assessments and independent evaluations. The 2020 annual report of PT SMI details how it implements the components and principles of the COSO framework in respect of the following areas: control environment, risk assessment, control activity, communication and monitoring activity.

40. The Risk Management Policy outlines PT SMI's risk strategy, appetite and tolerance, and the process for risk identification, measurement, monitoring and control. The 2021 Risk Register demonstrates track record in comprehensively implementing the AE's risk management policies. Risks were assessed under the following categories: credit, equity participation, operational, market, liquidity, legal, strategic, compliance, and reputational. The risk management and internal control frameworks also provide for effective oversight of procurement.

41. PT SMI has confirmed that the procurement procedures for multilateral financing have been included in its procurement guidelines. A follow-up monitoring report demonstrates implementation of the 2018 internal audit recommendations related to procurement. The Guidelines for Procurement of Goods and Services are available on the PT SMI website together with procedures for dispute settlement, which are also included in the procurement contracts and agreements. There have been no complaints in the last three years.

42. The AP finds that the AE's policies, procedures and capacity, supported by evidence of its track record, fully meet the GCF basic fiduciary standards on key administrative and financial capacities.

### 3.1.2. **Basic fiduciary standards: transparency and accountability**

43. PT SMI has fulfilled and closed conditions with regard to the basic fiduciary standards on transparency and accountability recommended by the AP and approved by the Board in its decision to accredit the AE for the first accreditation term.<sup>15</sup>

44. In 2018, PT SMI introduced a comprehensive Code of Business Ethics and Code of Conduct that incorporates a high-level management commitment to ethics. All staff and those with contractual relationships with the entity, including senior officers, are required to make commitments with regard to upholding the ethics of the entity. According to the AE's website,<sup>16</sup> "whistle-blowers can use the Whistle-Blowing System (WBS) to report violations of the Company's Code of Ethics, Code of Conduct Guidelines, and Code of Good Corporate Governance", all of which are accessible under "Good Corporate Governance" on the website. The WBS allows whistle-blowers to report allegations anonymously and whistle-blowers are protected against retaliation. PT SMI has confirmed that there have been no reported allegations of suspected or actual violations of the Code of Business Ethics and Code of Conduct to date.

45. In addition to the Code of Business Ethics and Code of Conduct, PT SMI has an anti-fraud strategy implementation guideline that includes principles, oversight and procedures consistent with GCF fiduciary standards regarding prohibited practices. PT SMI publishes guidelines for its investigation function and processes. There have been no allegations of fraud and corruption to date. Procedures to process cases of fraud and mismanagement, undertake necessary investigative activities, and generate periodic reports for information and follow-up by the ethics or an equivalent governance function are outlined in the above mentioned anti-fraud guideline. As stated in these guidelines and in the Internal Audit Charter, PT SMI's internal audit function is responsible for conducting the investigation process. This role is stated in the Internal Audit Charter, which also contains the whole purpose, authority, and responsibility of the internal audit function. For example, in 2021, there was a fraud attempt (altered payee scheme) conducted by an external party. The internal audit investigation concluded that the fraud attempt had failed. There was no financial loss and no internal party was involved. The document "Initial Verification on Alleged Fraudulent Altered Payment Order" has been provided by the AE to demonstrate the process, and reviewed by the AP.

46. During the accreditation period, PT SMI strengthened its know-your-customer (KYC) procedures to ensure control and carry out adequate due diligence on fund recipients, third parties and other funding partners. The policies and procedures regarding AML/CFT have also been enhanced in terms of oversight, improved management information systems and training of key staff. PT SMI's policies and procedures regarding KYC and AML/CFT meet GCF standards.

47. The AP finds that the AE's policies, procedures and capacity, supported by evidence of its track record, fully meet the basic fiduciary standards on transparency and accountability, the GCF Policy on Prohibited Practices, the GCF Policy on the Protection of Whistle-blowers and Witnesses, and the GCF AML/CFT Policy.

### 3.1.3. **Specialized fiduciary standard for project management**

48. PT SMI has fulfilled and closed conditions with regard to the specialized fiduciary standard for project management recommended by the AP and approved by the Board in its decision to accredit the AE for the first accreditation term.<sup>17</sup>

49. PT SMI has two modalities. The first is financing to the public sector (municipal government) and the second is financing to the private sector. The public sector financing consists of two financing divisions, while the private sector financing consists of two financing

<sup>15</sup> Refer to document GCF B.21/17.

<sup>16</sup> Available at <https://ptsmi.co.id/whistleblowing-system>.

<sup>17</sup> Refer to document GCF/B.24/07/Rev.01.

divisions and one sustainable financing division. Projects are usually handled by the division that already has an existing relationship with the debtor. However, sustainability-related projects are usually handled by the sustainable financing division. For the Financing Team, a Relationship Manager and an Analyst are assigned to a project. They have experience in financing sectors, both in corporate finance and project finance. The Relationship Manager and the Analyst report to a Team Leader who reviews the proposal and reports to the Head of Division. The Financing Evaluation Team, Legal Team and ESS Team usually also each consist of a staff member and a Team Leader assigned to the project. All are equipped with the experience and capability to deal with the project. After the financing memo is developed, which also includes the review from the Financing Evaluation, Legal, Technical and ESS Teams, the project is proposed to the Financing Committee, which consists of PT SMI's Directors, to get the approval. A third-party expert is sometimes contracted for technical review in new sectors in which PT SMI might need support to enhance its assessment of complex projects.

50. While PT SMI does not have specific project appraisal guidelines and procedures, it is in the process of developing a framework for geothermal project proposals for the Indonesia Geothermal Resource Risk Mitigation Project (GREM). These guidelines are still being developed with a draft under internal review. They should be completed by Q4 2022 and will be shared once approved by PT SMI's management. In the meantime, the entity's Financing Guideline contains the policy, guidelines and procedures for the preparation of project implementation plans. Overall capacity for planning and overseeing project implementation has been demonstrated with examples of implementation plans, technical reviews and project budgets.

51. The Financing Guideline includes details of how each project should be monitored according to the respective financing instruments and structure. These financing characteristics determine the monitoring approach to be undertaken, including the re-rating methodology, monitoring period, monitoring treatment and documentation for the project. The guideline also explains the matrix to match the financing of the projects with the monitoring policy. PT SMI shared the details of its processes to identify projects-at-risk through its early warning system procedure and corrective action plan (CAP).

52. PT SMI does not have a separate guideline regarding project closure. For projects funded by international organizations, such as the World Bank and GCF, the requirement for evaluation and project completion is included in the project agreements. Examples of project documents have been provided to demonstrate this. In addition, projects with multilaterals include an obligation to disclose the implementation of the project, including the evaluation. For future GCF funded projects, PT SMI will comply with GCF's requirement concerning disclosure of project monitoring and evaluation. Examples of project agreements have been provided to demonstrate these requirements.

53. PT SMI has expanded operations during the first accreditation period. From 2016 to 2020 a number of projects in excess of USD 50 million have been undertaken. These include projects in the areas of housing, education, health, social and urban infrastructure, renewable energy and clean technology. Examples include the Geothermal Upstream Development Project (GEUDP), a USD 55 million programme; the Indonesia Sustainable Urbanization Multi-Donor Trust Fund (IDSUN), a USD 200 million programme; and the Geothermal Resource Risk Mitigation (GREM) project involving USD 197.5 million in loans from the World Bank, the Clean Technology Fund and GCF, where PT SMI is an executing entity. PT SMI also has medium sized programmes and projects with other agencies including JICA, ADB, KfW, AFD, UNDP, USAID, AIIB and others.

54. The AP finds that the AE's policies, procedures and capacity, supported by evidence of its track record, fully meet the specialized fiduciary standard for project management, including medium sized projects/programmes.



#### 3.1.4. **Specialized fiduciary standard for grant award and funding allocation mechanisms**

55. PT SMI has fulfilled and closed the condition with regard to the specialized fiduciary standard for grant award and/or funding allocation mechanisms recommended by the AP and approved by the Board in its decision to accredit the AE for the first accreditation term.<sup>18</sup>

56. The AE applied for an upgrade to its accreditation scope to include medium-sized projects/programmes for grant award and funding allocation mechanisms as a part of its re-accreditation application.

57. PT SMI has a technical instruction to guide its overall approach to awarding grants. Potential beneficiaries submit their application, which the grant team reviews, including conducting a screening of the beneficiary. A proposal is sent to a PT SMI Director for approval. If the application is approved, PT SMI signs an agreement with the beneficiary. Track record has been demonstrated with an example of the technical instruction for a recent project development facility. For future GCF funded projects, PT SMI will use this technical instruction as the implementation guideline, unless there are additional requirements from GCF regarding the process and implementation.

58. PT SMI has various procedures and guidelines for evaluating proposals and awarding grants with clearly defined eligibility criteria and defined roles and responsibilities in the evaluation and approval processes. The terms of reference of the Grant Committee and two sets of documents for projects involving grants have been provided to demonstrate effective track record.

59. Information regarding PT SMI's donor-funded programme is disseminated through municipal financing workshops or other capacity development activities and as such there is no specific call for proposals. Regarding public access to information on beneficiaries and results based on the grant agreement with the donor(s), there is no requirement for PT SMI to publish the grant award decisions. However, the grant beneficiary (usually local government) may publish it especially to its local stakeholders. PT SMI is willing to publish the grant award results for GCF funded projects and programmes.

60. PT SMI has effective due diligence procedures and systems to monitor the implementation of individual grant projects. These include the responsibility to carry out the procurement and screening with site visits to support the beneficiary, gather and disseminate best practices, and establish and maintain good relations between the grant-awarding entity and the beneficiary. All grant agreements include procedures for suspension, reduction or termination of the grant in the event of the beneficiary failing to comply with its obligations.

61. PT SMI has demonstrated its good standing with international organizations and donors through the Indonesia Sustainable Urbanization Multi-Donor Trust Fund 2020 Annual Report and communications from the World Bank and other agencies on periodic reviews conducted by multilateral agencies.

62. The AP finds that the AE's policies, procedures and capacity, supported by evidence of its track record, fully meet the specialized fiduciary standard for grant award and funding allocation mechanisms, including for medium-sized projects/programmes as indicated in paragraph 54 above in section 3.1.3 on the specialized fiduciary standard for project management.

#### 3.1.5. **Specialized fiduciary standard for on-lending and blending for loans, equity and guarantees**

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<sup>18</sup> Refer to document GCF/B.34/09/Add.01.

63. PT SMI has fulfilled and closed conditions with regard to the specialized fiduciary standard for on-lending and blending of loans recommended by the AP and approved by the Board in its decision to accredit the AE for the first accreditation term.<sup>19</sup>
64. As a part of its re-accreditation application, the AE applied for an upgrade to its accreditation scope to include equity and guarantees under the specialized fiduciary standard for on-lending and/or blending.
65. PT SMI has provided a description of its overall approach to on-lending and blending with details of the GREM programme, which has been under implementation since 2020. GREM is a financing facility intended for geothermal exploration with the main feature being a de-risking scheme to help mitigate resource risk at the exploration stage. It includes a loan funding package from a multilateral syndicate that includes GCF and is managed by the World Bank. The funding for the de-risking component comes from various sources including reimbursable grants. In addition, there are grants aimed at technical assistance, capacity-building, and assistance related to the operation of GREM.
66. In addition to GREM, in 2020, the Agence Française de Développement extended credit lines to PT SMI for financing low carbon projects including a grant to provide technical assistance to PT SMI in the appraisal and decision-making process of such projects. In addition, the project includes a European Union grant to focus on financing investment premiums and additional technical assistance components to further advance PT SMI capacity-building.
67. PT SMI's financing guidelines explain the mechanisms for loan and equity investments. A strict policy is maintained to systematically organize and conduct its review and appraisal process. The Equity Investment Policy for infrastructure companies applies the following approach: establishing provisions to manage equity investment activity as well as create uniformity and consistency in the process; applying prudential principles to the equity investment process, so that all the inherent risk exposures can be assessed, adequately measured, monitored, managed, and mitigated; and managing the quality of the equity investment portfolio.
68. Regarding financial resource management, PT SMI's guidelines and procedures include evaluating the portfolio of the borrowing entity and monthly monitoring reports confirm an effective track record in this regard. Annual reports and sustainability reports address the operation and management of information disclosure, with procedures for information disclosure published on the PT SMI website. Information and relevant reports demonstrate that PT SMI has the systems to ensure funds are channelled transparently and effectively for the advantage of final beneficiaries.
69. Financial risk is effectively managed through policies, procedures and coordination between the treasury function and operations, with regular reporting to an Asset Liability Committee. Minutes of recent Asset Liability Committee meetings demonstrate the capacity of PT SMI to manage financial risk. These sound policies and practices enable PT SMI to maintain an international investment grade credit rating of BBB from Fitch Ratings. This is equivalent to the country rating of Indonesia.
70. The AP finds that the AE's policies, procedures and capacity, supported by evidence of its track record, fully meet the specialized fiduciary standard for on-lending and blending for loans, equity and guarantees, including for medium-sized projects/programmes as indicated in paragraph 54 above in section 3.1.3 on the specialized fiduciary standard for project management.

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<sup>19</sup> Refer to GCF/B.24/07/Rev.01.

## 3.2 Environmental and social safeguards

71. PT SMI had two conditions with regard to ESS recommended by the AP and approved by the Board in its decision to accredit the AE for the first accreditation term with the accreditation scope of medium risk (category B/1-2). PT SMI has fulfilled and closed the first ESS condition.<sup>20</sup> PT SMI is in the process of addressing the second ESS condition, which are conditions precedent to the first disbursement by GCF for an approved project/programme.<sup>21</sup>

### 3.2.1. Environmental and social policy

72. The AE's ESS were adopted in October 2020 and are consistent with the International Finance Corporation's (IFC) performance standards (PS) 1-8. The 2020 ESS framework (ESSF) of PT SMI is a revision of its 2016 guidelines and procedures and has been communicated widely within the organization. PT SMI's ESS consist of 10 standards, as follows:

- (a) Assessment and management of environmental and social risks and impacts;
- (b) Labor and working conditions;
- (c) Pollution prevention and abatement;
- (d) Safety, health, and security;
- (e) Land acquisition and involuntary resettlement;
- (f) Biodiversity conservation and natural resources management;
- (g) Indigenous people;
- (h) Cultural heritage;
- (i) Energy conservation and environmentally-friendly energy; and
- (j) Consultation and grievance redress mechanism.

73. PT SMI is subject to Indonesia's Law of Environmental Protection and Management<sup>22</sup> as well as to the Financial Services Authority's (*Otoritas Jasa Keuangan*) regulation regarding the implementation of sustainable finance for financial services institutions, issuers and public companies.<sup>23</sup> The latter establishes the principles of responsible investment, sustainable business strategies and practices, and environmental and social risk management, among others, that shape PT SMI's ESSF. As reflected in the company's Risk Appetite Statement, it is committed to managing its business activities in an environmentally and socially friendly manner, avoiding or minimizing negative environmental and social impacts, and increasing positive environmental and social impacts of the business/activity in which the company is involved. The AE's E&S management indicates that it has the capacity to meet the GCF Policy on Evaluation in so far as it relates to accreditation.

74. In terms of conformance and execution of the E&S policy, the Environmental, Social and Technical Evaluation Division, part of the Risk Management Directorate, performs the environmental and social risk management function. The Board of Commissioners has a supervisory role over risk management policies and strategies, particularly the environmental and social risks set and implemented by the Board of Directors. In turn, the Board of Directors is responsible for ensuring the implementation of ESS guidelines in financing and investment activities, as well as the adequacy of resources related to the implementation of ESS.

<sup>20</sup> Refer to document GCF/B.34/09/Add.01.

<sup>21</sup> Refer to document GCF/B.34/09/Add.01.

<sup>22</sup> Republic of Indonesia Law Number 32 of 2009.

<sup>23</sup> *Otoritas Jasa Keuangan* (OJK) regulation number 51/POJK.03/2017.

75. PT SMI's ESSF is consistent with the principles of the GCF interim ESS PS7 on indigenous Peoples, requiring its clients to give due consideration for projects with potentially significant adverse impacts on affected communities and projects affecting indigenous people. Although Indonesia is not a signatory of the International Labour Organization (ILO) Convention No. 169, PT SMI has adopted provisions relating to free, prior and informed consent in its Indigenous Peoples Standard. The implementation of PS7 is ensured by the ESS division, whose personnel has built capacity through 175 hours of training on the matter over the past years.

76. The vision of PT SMI is to become a "champion in mainstreaming the implementation of sustainable finance in Indonesia". In light of that, PT SMI has enacted climate policy targets in the PT SMI's 2021 Sustainable Finance Action Plan to phase down financing fossil fuel projects. PT SMI's Board is in the process of adopting a climate policy commitment in light of recent development which includes the decision of the Indonesia's Ministry of Finance in July 2022, for PT SMI to become the country platform manager for the Energy Transition Mechanism (ETM). The ETM may refinance some coal-fired power plants, aiming to retire them early. While this means that the AE might expand its fossil fuel portfolio temporarily, but with a firm commitment to phase out its investments earlier than expected. The AE has demonstrated its process to transition its investments in fossil fuels beyond what has already been achieved to further reduce GHG emissions in its projects/programmes.

77. PT SMI's policies on the "Prevention of Sexual Exploitation and Abuse, the Harassment-Free Work Environment, Non-Discrimination, Trafficking in Persons, and the Human Rights, that relate to Sexual Exploitation, Abuse and Harassment (SEAH)" fall under the suite of its Code of Conduct policy. The AP finds that the AE has the capacity to meet the requirements of the GCF Revised Environmental and Social Policy, particularly regarding the provisions on SEAH.

78. The AP finds that the AE's E&S system, comprising the E&S policy and the Risk Appetite Statement, supported by evidence of its track record, fully meets the GCF Revised Environmental and Social Policy to the extent applicable to accreditation and GCF interim ESS standards for maximum E&S risk category A/I-1 projects/programmes with respect to PS 1-8.

### 3.2.2. Identification of environmental and social risks and impacts

79. PT SMI has been categorizing E&S risks of projects since 2017. The AE provided evidence of having a process and a procedure to identify E&S risks. In line with domestic regulations, category A or high-risk projects are subject to a full environmental and social impact assessment (ESIA) and an environmental and social management plan (ESMP), while category B projects require an environmental analysis and an ESMP.

80. PT SMI's E&S risk and impact identification process covers the entire project cycle and the projects are screened against the requirements of the 10 ESS procedures of PT SMI during the project categorization process. A due diligence process is conducted during appraisal for high- and medium-risk projects. The screening category is divided into three aspects, namely environmental risks, land acquisition and involuntary resettlement risks, and indigenous peoples risks. For each risk, certain thresholds are set to differentiate between high, medium, and low risk (using A, B and C categories, respectively). If a project is found to have high risk in the environmental aspect while scoring low in the other two aspects, the project would still be considered a high-risk project. Regarding risk management, categories A and B projects are required to develop and maintain an Environmental Management Plan and Environmental Monitoring Plan; obtain an Environmental Feasibility Decision; and develop an Indigenous Peoples Plan. Category C projects do not require further action but due diligence reports on environment, indigenous peoples and land resettlement may be required.

81. CAPs, when needed, are integrated into the investment agreement. ESS risks are integrated into the applicant's risk assessment and management procedure. The Head of the Risk Management Division approves the project category based on the ESS Officer's evaluation.

82. The AE provided a list of 26 projects categorized by risk and informed the AP that more than 150 projects or facilities have been categorized to date (73 per cent of them being category A, high-risk projects). The entity provided project reports showing its experience with project categorization and ESS due diligence in the energy and transport sectors, including a road construction project that considered GHG and corresponding corrective measures.

83. The AP finds that the AE's system of identification of E&S risks and impacts, supported by evidence of its track record, fully meets the GCF Revised Environmental and Social Policy to the extent applicable to accreditation and the GCF interim ESS standards for maximum E&S risk category A/I-1 projects/programmes with respect to PS 1–8.

### 3.2.3. Environmental and social management programme

84. The AE has provided a documented institutional process for managing mitigation measures and actions stemming from the E&S risk identification process, distinguishing between different categories of risk.

85. The entity demonstrated its track record in managing the ESMF by providing a sample of five projects where ESIA, stakeholder engagement plans and ESMPs were implemented, with one including a Supplemental Resettlement Action Plan (SRAP). This serves as evidence that the AE is actually implementing the process and procedures for managing E&S risks and impacts.

86. PT SMI developed several ESMFs for specific programmes on geothermal energy with the World Bank. These include documented processes describing how the AE assesses the commitment and capacity of executing entities. Evidence provided demonstrates that the AE ensures that E&S mitigation measures are appropriately managed under each of the financing modalities for which it is seeking accreditation.

87. The Division of Environmental Social Evaluation & Consulting Services is in charge of ensuring the effectiveness of PT SMI's Environmental and Social Management System (ESMS) at the institutional level, whereas the Risk Management Division ensures that projects meet the ESS requirements and comply with ESS regulations.

88. PT SMI has not yet conducted an external E&S audit report on the effectiveness of the institutional E&S management programme.

89. The AP finds that the AE's E&S management programme partially meets the GCF Revised Environmental and Social Policy to the extent applicable to accreditation and the GCF interim ESS standards for maximum E&S risk category A/I-1 projects/programmes with respect to PS 1–8. The relevant gap is identified in paragraph 88 above and is reflected by the corresponding condition for re-accreditation in section 4.2.

### 3.2.4. Monitoring and review

90. PT SMI has a procedure to monitor and evaluate activities from the perspective of E&S and a procedure to follow up on any E&S recommendation in place. An ESS annual report reviews the implementation of relevant guidelines periodically. Specific E&S indicators have been developed in order to monitor E&S performance annually: CAP compliance (CAPs are mitigation E&S measures included in the financing agreement that must be implemented by the borrower); timeliness of CAP completion; quality of the CAP document; and negative E&S news. Through the monitoring of such indicators, it has been possible to learn, for instance, that the transportation and social sectors have the highest number of CAPs, followed by the electricity

sector. Additionally, PT SMI has developed a database to help track borrowers' compliance with regard to CAPs and submit monthly CAP compliance reports.

91. PT SMI provided descriptions and supporting documents for how it monitors and supervises its intermediated projects/programmes and its financial intermediaries and/or executing entities. As PT SMI holds an equity portion in PT Indonesia Infrastructure Fund (PT IIF), PT SMI takes part in routine monitoring missions together with other shareholders. These missions involve discussions on PT IIF's Social and Environmental Management System (SEMS) as well as how the SEMS is implemented in projects. A sample Mid-Term Review Mission 2020 concerning the PT IIF has been provided, demonstrating track record. On top of missions, PT SMI also conducted oversight on PT IIF's E&S performance, focusing on how SEMS is implemented at the project-level and how PT IIF reports their E&S performance through their annual report.

92. Suitable evidence related to monitoring and review has been provided by the AE: two project-level E&S monitoring reports for category A projects, showing how the various PS 2-8 issues triggered in the project are monitored and followed up by the AE.

93. The AP finds that the AE's system of E&S related monitoring and review, supported by evidence of its track record, fully meets the GCF Revised Environmental and Social Policy to the extent applicable to accreditation and the GCF interim ESS standards for maximum E&S risk category A/I-1 projects/programmes with respect to PS 1-8.

### 3.2.5. **External communications, consultations, information disclosure and grievance redress mechanism at the institutional level**

94. The AE's ESS 10 on consultation, information disclosure and grievance mechanism provides general guidance for internal and external communications and information dissemination, including principles for transparent, effective and accountable communications. Based on the applicant's ESS 10 process flowchart, project owners must conduct public consultation and provide ESS information in a transparent manner. The AE indicated that disclosure requirements are embedded into financing agreements, including for GCF-funded projects/programmes. The AE also confirmed that, for category A/I-1 projects, the ESIA and ESMP documents in both English and the local language are disclosed at least 120 days in advance of the AE's or GCF's Board decision, whichever is earlier.

95. PT SMI demonstrated its experience with stakeholder consultations in relation to three projects co-developed in partnership with the World Bank. In the case of FP083, a category A project where PT SMI is an executing entity, the ESIA and ESMP were made available at least 120 days in advance of the Board decision. The AE indicated that the same policy/procedure will be applied to future GCF-funded projects submitted by PT SMI.

96. The "Grievance" section<sup>24</sup> in the PT SMI website is the entity's channel and a corresponding management procedure to receive, register and process ESS complaints and grievances at the institutional and project levels. The Guidelines and Procedures for Management of Complaints from Affected Communities and Observer Groups, adopted in 2017, guides the company in managing E&S complaints, including registering, developing and implementing an action plan and recording. PT SMI has an internal registry to record grievances received in the past three years; however, the registry is not publicly available. Given that the AE is applying for an upgrade in its E&S risk level from category B/I-2 to category A/I-1, it is paramount that it records, monitors and discloses its assessments in relation to E&S complaints.

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<sup>24</sup> See <https://ptsmi.co.id/grievance>.

97. The applicant's ESS 10 on grievance requires all projects financed by PT SMI to establish a mechanism to receive and resolve grievances and to inform local residents about the mechanism. ESS 10 also requires that the grievance and information-sharing mechanisms be operated in accordance with the customs and culture of the local community. They should be easy to understand, timely, open, have a gender perspective, and be directly accessible to the community, as well as carried out in an atmosphere free from intimidation and coercion. When, upon review, the project is found to not have such a mechanism, a clause is put into the financing agreement requiring its development within an agreed target date.

98. At the institutional level, the ESS division is responsible for monitoring the grievances, action plan, and progress. External parties and/or experts are included in a grievance panel as appropriate. Action plans (and the approval of a grievance panel) are proposed by the Head of the ESS division together with other relevant division heads and approved by the Credit Risk Officer and/or President Director. In terms of capacity, PT SMI has assigned one staff member to manage the grievance redress mechanism (GRM) process. The curriculum vitae of the ESS unit staff responsible for the "Grievance" section of the PT SMI website show the skills and experience needed to manage the GRM function. However, the AP notes that the GRM should be managed independent from the project management unit/staff to secure its legitimacy and effectiveness. Also, the AE did not provide a link showing where the GRM procedure is published.

99. The AP finds that the AE's system of external communications, consultations, information disclosure and GRM, supported by evidence of its track record, partially meets the GCF Revised Environmental and Social Policy to the extent applicable to accreditation, the GCF interim ESS standards and the GCF Information Disclosure Policy regarding E&S information disclosure requirements for maximum E&S risk category A/I-1 projects/programmes with respect to PS 1-8. The relevant gap is identified in paragraphs 96 and 98 above and is reflected by the corresponding condition for re-accreditation in section 4.2.

#### 3.2.6. **Organizational capacity and competency**

100. The organizational chart highlights the position of the risk division and ESS unit. The AE's E&S Policy defines the key ESS roles and reporting lines: the head of the division is responsible for the ESS implementation and approves the Environmental Due Diligence reports, which are then submitted to the financing committee. The head of the division reports to the Risk Management Director.

101. The AE provided information about how E&S-related information are communicated to their investors, including a documented procedure guiding collaboration or exchange of information on E&S requirements between the E&S unit and the division of financing business functions.

102. The curriculum vitae of the ten ESS unit staff members show the knowledge about PS 1-8 and the experience needed to manage the ESMF throughout the project cycle. A list of ESS training events conducted in the past three years was also provided as supporting evidence.

103. The AP finds that the AE's organizational capacity and competency to implement the environmental and social management system, supported by evidence of its track record, fully meet the GCF Revised Environmental and Social Policy to the extent applicable to accreditation and the GCF interim ESS standards for maximum E&S risk category A/I-1 projects/programmes with respect to PS 1-8.

### 3.3 Gender

104. PT SMI has fulfilled and closed the condition with regard to gender recommended by the AP and approved by the Board in its decision to accredit the AE for the first accreditation term.<sup>25</sup>

105. PT SMI's Gender Equality and Social Inclusion (GESI) Mainstreaming Guideline was adopted by senior management on 1 October 2020. It encompasses policies for the company regarding GESI mainstreaming including its implementation mechanism to carry out its business pillars, both for the internal and external company. The Guideline also includes a gender action plan that describes PT SMI's approach to gender mainstreaming at the entity level.

106. The AE provided evidence of the inclusion of gender considerations in a sample of five projects, including the ESIA study conducted in the context of a geothermal project and the gender assessment/gender action plan conducted for a project in the public transport sector (BRT Semarang). Regarding this gender assessment, the AP found that it is consistent with the GCF Updated Gender Policy requirements and, therefore, the condition recommended by the AP at the time of accreditation can be closed. Furthermore, the AE informed the AP that requirements for borrowers with regard to gender policies and action plans are planned to be introduced in loan agreements for PT SMI's geothermal programmes with the World Bank.

107. A GESI Working Group (WG) was established by a decree signed by the Board of Directors in December 2021. This WG consists of 3 coordinators as well as 10 staff from different divisions, who were appointed by the Board to further develop and implement the GESI mainstreaming framework/work programme/roadmap and its budget. The curriculum vitae of the head of the GESI WG shows the competencies and experience needed to advance gender mainstreaming. In terms of further advancing gender competencies and learning from peers, a GESI WG coordinator also serves as the focal point from PT SMI for the International Development Finance Club Gender Working Group.

108. In terms of track record at the institutional level, PT SMI is only starting with gender mainstreaming in its operation and business activities. The AP finds that the entity has the capacity to build a solid track record at this institutional level, based on the recent developments in terms of governance and resources. Regarding climate and gender, the entity explained to the AP that it is still developing and beginning to implement these at the project level.

109. The AP finds that the AE's gender policy, procedures, capacities and competencies, supported by evidence of its track record, fully meet the GCF Updated Gender Policy to the extent applicable to accreditation.

## IV. Conclusions and recommendation

### 4.1 Conclusions

110. Following its assessment, the Secretariat concludes the following in relation to the application with respect to the potential to continue in the role of an AE and to support the mandate and objectives of GCF: the AE can continue to contribute to GCF in implementing its 2020–2023 Strategic Plan with respect to:

- (a) Alignment of the AE's GCF portfolio with the climate-related national priorities of the countries where the AE operates;

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<sup>25</sup> Refer to document GCF/B.34/09/Add.01.



- (b) Contribution to the adaptation and mitigation balance in the GCF portfolio since the AE has the ability to include adaptation components in its activities;
- (c) Supporting diversity in GCF results areas such as health and food and water security;
- (d) Diversification of the use of financial instruments, particularly with equity and guarantees, as well as loans; and
- (e) Mobilizing climate finance at scale since the AE is seeking to undertake medium size projects/programme activities.

111. Following its assessment, the AP concludes the following in relation to the application with respect to the AE's ability to meet the GCF accreditation standards and GCF policies relevant for accreditation for which it is seeking re-accreditation and an upgrade in accreditation scope for the medium size category, specialized fiduciary standard for on-lending and/or blending (for equity and guarantees), and E&S risk category A/I-1:

- (a) The AE meets the requirements of the GCF basic fiduciary standards and, to the extent applicable to accreditation, the GCF Policy on the Protection of Whistle-blowers and Witnesses; the GCF Policy on Prohibited Practices; the GCF AML/CFT Policy; and the specialized fiduciary standard for project management, specialized fiduciary standard for grant award and funding allocation mechanisms, and specialized fiduciary standard for on-lending and blending for loans, equity and guarantees;
- (b) The AE partially meets the GCF Revised Environmental and Social Policy to the extent applicable to accreditation, the GCF interim ESS standards and the GCF Information Disclosure Policy on disclosure of E&S information in relation to the high E&S risk category A/I-1. The gaps relate to (i) providing an external E&S audit on the effectiveness of the institutional E&S management programme, and (ii) evidence of a fully independent GRM at the institutional level, and public disclosure of its registry of complaints. These gaps are identified in paragraphs 88, 96 and 98 and are addressed by corresponding conditions in section 4.2 below;
- (c) The AE has demonstrated that it has a policy, procedures and competencies to implement its gender policy, which is found to be consistent with the GCF Updated Gender Policy to the extent applicable to accreditation, and has demonstrated that it has experience in gender consideration in the context of climate change; and
- (d) The AE has demonstrated that it has institutional-level systems, capacities and competencies regarding evaluation as required by the aforementioned GCF basic and specialized fiduciary standards and interim ESS standards that would enable it to meet the requirements of the GCF Evaluation Policy for its GCF-funded activities.

## 4.2 Recommendation on re-accreditation

112. The AP recommends, for consideration by the Board, PT SMI for re-accreditation for its second term as follows:

- (a) **Accreditation type:**
  - (i) **Maximum size of an individual project or activity within a programme:** medium (including micro and small);
  - (ii) **Fiduciary functions:**
    - (1) Basic fiduciary standards;
    - (2) Specialized fiduciary standard for project management;

- (3) Specialized fiduciary standard for grant award and funding allocation mechanisms; and
- (4) Specialized fiduciary standard for on-lending and blending (for loans, equity and guarantees); and
- (iii) **Maximum E&S risk category:** high risk (category A/I-1) (including lower risk (category B/I-2 and category C/intermediation 3 (I-3)<sup>26</sup>); and
- (b) **Conditions:** The AE will be required to submit to the AP, through the Secretariat, information on how it has complied with the conditions. The AP will thereafter assess whether the conditions have been met. This assessment will be communicated by the Secretariat, on behalf of the AP, to the Board for information purposes:
  - (i) Conditions to be met prior to submission of the first funding proposal to GCF during the second accreditation term:
    - (1) Delivery to GCF by the AE of evidence, in a form and substance satisfactory to the AP, that it has adopted the policies and procedures of its institutional grievance redress mechanism (GRM), that these policies and procedures satisfy the requirements of paragraph 79 of the GCF Revised Environmental and Social Policy and that the AE has published such policies and procedures on its public website;
    - (2) Delivery to GCF by the AE of evidence, in a form and substance satisfactory to the AP, that it has established and operationalized a fully independent GRM and that the AE senior management has appointed either an independent observer or an external panel to oversee the AE's independent GRM; and
    - (3) Delivery to GCF by the AE of evidence, in a form and substance satisfactory to the AP, that the AE's registry of complaints is publicly accessible (i.e. available on-line); and
  - (ii) Conditions to be met within three years of the first disbursement by GCF for the first approved project/programme to be undertaken by the AE during the re-accreditation term:
    - (1) Delivery to GCF of an audit report conducted by an external auditor on the effectiveness of the AE's institutional E&S management programme. The report should assess the institutional programme addressing environmental and social safeguards.

113. The AE has been informed of the recommendation for accreditation, including the accreditation type and conditions (as identified in paragraph 112 above), and agrees to the recommendation.

### 4.3 Remarks

114. The AE is encouraged to publish its Board-adopted Climate Policy committing the AE to phase down its investments in fossil fuel related projects/programmes.

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<sup>26</sup> As per the revised Environmental and Social Policy adopted in decision B.BM-2021/18, category C is defined as "Activities with minimal or no adverse environmental and/or social risks and/or impacts", and intermediation 3 is defined as "When an intermediary's existing or proposed portfolio includes financial exposure to activities that predominantly have minimal or negligible adverse environmental and/or social impacts."

115. The AE is encouraged to advance commitments relating to climate resilience and to build its internal capacity to make its infrastructure projects and portfolio resilient to climate change impacts, including by adopting targets and KPIs in relation to that.

116. The AE is encouraged to enhance its capacity in calculating and reporting GHG emissions, in line with its existing goal to reduce scopes 1 and 2 emissions and as a means to manage scope 3 emissions in the future.

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