

Project title (Acronym)	Strengthening Local Financing for Renewable Energy and Green Investment through Sustainable Finance Instruments in Indonesia
LA / CSO (type)	Local Authorities: Province
Implementing Partner(s)	Global Green Growth Institute (GGGI)
Country/countries, region	Indonesia, West Nusa Tenggara (NTB)
Budget (specify EU funding amount, if applicable)	NA
Is it a Global Gateway project?	No
Funding modality	Technical Assistance (TA)
Funding sources	New Zealand, Ministry of Foreign Affairs and Trade (MFAT)
Implementation period	2023-2026
Thematic development area (5 words)	Renewable energy and sustainable finance
Short description, including target beneficiaries and their engagement/reactions thus far (300 words)	<p>Through Renewable Energy Accelerated Transition (RE-ACT), Global Green Growth Institute (GGGI) is providing Technical Assistance to West Nusa Tenggara (NTB) Province to strengthen local financing for renewable energy and green investment. This is considering that NTB's Regional Energy Plan (RUED) targets net zero emissions by 2050, even earlier than national targets in 2060. This requires significant funding for energy transition.</p> <p>The primary target beneficiaries of the sustainable sukuk issuance through Bank NTB Syariah are local renewable energy developers, the provincial government of Nusa Tenggara Barat (NTB), and the surrounding communities. By mobilizing green investments, the initiative directly supports local infrastructure, specifically solar (PLTS) and micro-hydro (PLTMH) power projects, creating green jobs and expanding clean energy access. Thus far, the engagement from local stakeholders has been mixed but largely optimistic. Project developers have reacted with strong enthusiasm, viewing this local financial instrument as a critical lifeline to bridge the climate financing gap. Meanwhile, local government officials acknowledge the strategic value of the province's net-zero emission roadmap but exhibit cautious engagement as they navigate the complexities of new financial structuring and risk allocation.</p> <p>Significant strides have been made toward the realization of this thematic sukuk. The initial progress is marked by the formulation of a comprehensive sustainable financing roadmap tailored to NTB's specific energy potential. Furthermore, intensive capacity-building programs are actively underway. Bank NTB Syariah is working to equip its management and staff with the necessary technical expertise to handle Environmental, Social, and Governance (ESG) criteria. This training focuses on establishing frameworks for sustainable sukuk, ensuring that the bank can effectively identify, structure, monitor, and report on sustainable projects in alignment with national standards.</p>

	<p>Despite the positive momentum, the initiative faces some structural challenges. A critical challenge is policy misalignment among the local government shareholders, who hold high expectations for immediate, substantial dividend payouts from the local development bank. This demand for short-term annual returns conflicts directly with the patient, long-term capital required to seed and sustain green infrastructure investments. Additionally, there is also an internal governance challenge for Bank NTB Syariah. Transitioning to thematic sukuk issuance demands a rigorous overhaul of the bank's internal risk management, dedicated ESG compliance mechanisms, and transparent sustainability reporting structures, which are currently still nascent. Realigning shareholder expectations and upgrading these internal operational frameworks are imperative to successfully launching the sustainable sukuk.</p>
<p>Lessons learnt, key messages and results relevant for future EU programming (300 words)</p>	<p>Results:</p> <ul style="list-style-type: none"> • Establishment of a Localized Sustainable Finance Blueprint: The development of a tailored sustainable financing roadmap for NTB proves that national net-zero targets can be successfully translated into sub-national financial action plans. This serves as a replicable template for other Local Development Banks (BPDs). • Baseline Institutional ESG Capacity: The intensive capacity-building phase at Bank NTB Syariah has successfully introduced Environmental, Social, and Governance (ESG) criteria into a local development banking environment. This shifts the institution from zero baseline knowledge to having a foundational framework for identifying and structuring green projects. • Identification of Structural Bottlenecks: Uncovering the specific policy misalignments (dividend expectations) and governance gaps early in the pilot phase is a critical result. It provides future programs with a clear diagnostic of the hurdles facing local sustainable bond/sukuk issuance. <p>Lessons Learnt</p> <p>1. Patient Capital Clashes with Short-Term Political Cycles The tension between the local government's expectation for immediate, high dividend payouts and the long-term, patient capital required for renewable energy is the most significant hurdle. Lesson: Future programs must engage local government shareholders before technical structuring begins to secure political buy-in for adjusted, longer-term return horizons.</p> <p>2. Internal Governance is a Prerequisite Thematic financial instruments require rigorous tracking, reporting, and specialized risk management. Bank NTB Syariah's internal bottlenecks demonstrate that basic capacity</p>

	<p>building is insufficient. Lesson: Future interventions must pair green finance training with deep structural reforms in the bank's core operational and risk management departments to prevent implementation paralysis.</p> <p>3. Local Development Banks (BPDs) are Missing Out on a Massive Local Renewable Energy Pipeline</p> <p>Local Development Banks (BPDs) are geographically and relationally closest to local developers, yet they routinely miss out on funding the very infrastructure their provinces need. Because BPDs traditionally rely on conventional, collateral-heavy lending and lack the technical expertise to underwrite green technologies (like offgrid solar or micro-hydro), they incorrectly label these projects as "unbankable" or excessively high-risk.</p> <p>Lesson: A sustainable sukuk alone is not a silver bullet if the bank is too risk-averse to deploy the capital. Future programming can consider bundling thematic issuance with targeted de-risking mechanisms (such as credit guarantees) and specialized/focused underwriting training. This empowers BPDs to confidently assess green cash flows rather than just hard collateral, transforming them from passive observers into lead financiers of their local energy transition.</p>
<p>Replicability (100 words)</p>	<p>The Bank NTB Syariah intervention offers high replicability for other Local Development Banks (BPDs) across Indonesia. By pioneering a sub-national sustainable financing roadmap, the pilot establishes a transferable blueprint for localizing green/sustainable sukuk issuance. The core components such as ESG capacity-building modules, sustainability reporting frameworks, and strategies for navigating local government dividend expectations address systemic challenges common to most BPDs nationwide. While the specific renewable energy assets can be customized to fit different provincial resources, the underlying institutional transformation model remains standard. Consequently, this intervention provides a scalable, standardized pathway for mobilizing decentralized climate finance throughout the country.</p>