



## Indonesia Infrastructure Finance Facility (P092218)

EAST ASIA AND PACIFIC | Indonesia | Finance, Competitiveness and Innovation Global Practice |  
IBRD/IDA | Investment Project Financing | FY 2009 | Seq No: 15 | ARCHIVED on 11-Jun-2018 | ISR32957 |

Implementing Agencies: Republic of Indonesia, PT Indonesia Infrastructure Finance, Asian Development Bank (ADB), International Finance Corporation

## Key Dates

## Key Project Dates

Bank Approval Date:24-Jun-2009

Effectiveness Date:25-Apr-2011

Planned Mid Term Review Date:17-Jun-2012

Actual Mid-Term Review Date:18-Jul-2012

Original Closing Date:31-Dec-2013

Revised Closing Date:28-Feb-2022

## Project Development Objectives

Project Development Objective (from Project Appraisal Document)

The objective of the Project is to strengthen and further develop the institutional framework of the financial sector to facilitate financing of commercially viable infrastructure projects and thereby increase provision of private infrastructure in Indonesia.

Has the Project Development Objective been changed since Board Approval of the Project Objective?

Yes

Board Approved Revised Project Development Objective (If project is formally restructured)

To strengthen the financial capacity of IIF to increase the access to private sector financing for infrastructure in Indonesia

## Components

Name

On-lending of Bank loan to eligible infrastructure projects:(Cost \$100.00 M)

## Overall Ratings

Name	Previous Rating	Current Rating
Progress towards achievement of PDO	● Satisfactory	● Moderately Satisfactory
Overall Implementation Progress (IP)	● Satisfactory	● Moderately Satisfactory
Overall Risk Rating	● Moderate	● Moderate

## Implementation Status and Key Decisions



### Implementation Status

The IIF Project became effective on September 26, 2017. There is absence of disbursement as of June 7, 2018, due to reasons noted in the earlier section, with no progress on any of the PDO indicators or the intermediate indicators except the IIF advisory mandate where the achievement is recognized as substantial (see Section 5)

### Project portfolio and pipeline

The 2018 project pipeline identified by IIF is broadly in line with that anticipated at the time of Appraisal; however, due to a change in power purchasing policy[1] electricity generation may play a smaller role in the future project pipeline. IIF has increased the sector limit for water from 15% to 25% and 25% to 40% for roads. While global experience points to water as being one of the most challenging sectors for PPP, IIF and SMI see the risks associated with the water sector being mitigated by Government's strong commitment to the sector, reflected in the provision of Viability Gap Financing and endorsement of the local water companies (PDAM). Key statistics on IIF project portfolio and pipeline as of December 2017 are provided in the table below:

IIF Project Portfolio		
	December 2017	August 2016 (At Appraisal)
<b>Total Projects</b>	35	23
<b>Outstanding Balance</b>	US\$502 m	US\$262
<b>Electricity</b>	23%	34%
<b>Oil and Gas</b>	11%	9%
<b>Air and Sea Ports</b>	17%	14%
<b>Water</b>	5.2%	
<b>Outstanding commitment</b>	IDR9,298 b/US\$686.29m	IDR6,291b/US\$472m
<b>Disbursed</b>	IDR6504b/US\$480.04m	IDR5,721b/US\$430m
IIF Project Pipeline as of December 2017		
	Number	Commitment
<b>Total</b>	13	US\$ 310 m
<b>Electricity</b>	4	20%
<b>Air and Sea Ports</b>	3	32.8%
<b>Oil and Gas</b>	2	12%
<b>Roads</b>	1	6%
<b>Telecom</b>	1	6%
<b>Transport</b>	1	6%
<b>Water</b>	1	6%
Advisory Mandates		
<b>Total</b>	8	7 private and 1 public

### Summary Financial Position

IIF's high CAR and its low debt to equity ratio indicate its capacity to undertake additional business. However, IIF needs to be mindful of its high interest expense ratio resulting primarily from a differential in borrowing and lending rates relative to each other and the changes as compared to the last reporting period. The recent write-off of an equity investment has further added to the issue resulting in a provisional net loss of about US \$5.4 million. Also noteworthy is that the actual revenue realization for FY 17 falls well short of the projected revenue of IDR 1004b at the time of IIF AF Appraisal. The table below summarizes some of the key numbers.

	FY 2017	FY 2016
<b>Total revenues</b>	IDR 760 b	IDR 570 b
<b>Interest expenses</b>	IDR499b	IDR251b
<b>Interest expenses as % of revenues</b>	80%	49%
<b>Borrowing: interest rate (IDR)</b>	8.11%	8.3%
<b>Borrowing: interest rate (US\$)</b>	2.99%	2.66%



<b>Lending: interest rate (IDR)</b>	9.42%	10.85%
<b>Lending: interest rate (US\$)</b>	5.4%	5.83%

#### Increase in Capital

IIF is in the process of appointing an investment bank to evaluate a potential rights issue of US\$200-300 million to address its capital needs. IIF informs that the current shareholders other than DEG have informally agreed to maintain their share. In addition, an Initial Public Offering is targeted for 2020. It is understood that at least one international institutional investor has indicated an interest in subscribing. The subordinate debt arrangement agreement within the IIFF AF limits the usefulness of the World Bank funding in terms of the regulatory capital position of IIF (Tier 2 subordinate debt may only be counted as regulatory capital up to a limit of 50% of Tier 1 capital).

#### Risk Management

IIF faces a net loss due to the write-off of a US\$12 million IIF equity investment related to Maxpower and the application of a 30% provision to a US\$17 million loan to the same borrower. IIF may review its risk management processes in the context of this write-off. IIF has conducted a review of its risk rating tools, and plans to update the existing risk rating model for project finance from S&P with the new version and to replace that for corporate finance with risk rating from Moody's Analytic in 2018.

IIF attaches a risk rating between IIF1 (the best) to IIF10 (the worst) to each project. The average rating for the outstanding portfolio has deteriorated from IIF2.8 in 2016 to IIF3.1 (due to changes in a few projects).

IIF's Risk Management Directorate monitors the level of risks inherent to IIF's business operation through risk parameters. While the risk assessment of the various risk types in FY 2017 remains mostly unchanged as compared to the last reporting period, the outlook on most measurable risk types except one is negative. IIF does not see the same deterioration in non-measurable risks[2]. IIF needs to tighten its risk monitoring and have risk mitigation measures in hand, in view of its heightened risk perception.

#### Liquidity Management

IIF is in the unusual position of having a loan book with significantly lower maturity than its liabilities with significant space in its portfolio to increase its lending volumes, to lengthen the tenors of its lending substantially and work on raising more IDR denominated borrowing. See Table below for more detail on the asset and liability maturity and currency.

		2017	2015
<b>Cash and securities as % of total assets</b>		53%	35%
<b>Debt to equity</b>		481%	147%
<b>Assets: maturity</b>	<b>1-2 year</b>	24%	0%
	<b>2-5 year</b>	37%	38%
	<b>5-10 year</b>	35%	37%
	<b>&gt;10 year</b>	4%	25%
<b>Liabilities: maturity</b>	<b>1-&lt;5 years</b>	33%	15%
	<b>5-&lt;20 years</b>	37%	47%
	<b>20 years</b>	30%	38%
<b>Assets: Currency</b>	<b>IDR</b>	69%	44%
	<b>US \$</b>	31%	56%
<b>Liabilities: Currency</b>	<b>IDR</b>	43%	15%
	<b>US\$</b>	57%	85%

Source: PT IIF Financial Statement

#### Social and Environmental Safeguards

##### Implementation of ESAP

IIF has made good progress in implementing the Environmental and Social Action Plan (ESAP) agreed during the IIFF AF negotiation. Audits have been completed, and consultants appointed to assist clients deliver projects in accordance with IIF's requirements, although the timing of the deliverables has not always enabled input into lending and project decisions. Therefore, continuing with reviews (by IIF and WBG) of S&E documents for Category A projects would help share knowledge and experience with aligning projects with lender requirements. IIF have procured international consultancy support to further assist their team resolve challenges during preparation and implementation.

##### GRM



IIF has strengthened the GRM, and achieved progress with disclosing project information on its website. It has appointed a responsible person for GRM and developed a Standard Operating Procedure for managing complaints, although it is not clear if all complaints are subject to the process or only selected ones.

### SEMS

It will be important for IIF to update the SEMS by the time of the Mid-term Review. The World Bank can assist in identifying the areas for update: it is not proposed to revisit the S&E Principles, as no new requirements are needed.

### E&S in Future Business Development

IIF now includes E&S themes in its advisory services and takes a proactive approach in promoting its international standards for E&S principles and practices to clients. IIF plans to showcase their E&S initiatives and outputs in the company brochures/booklet, and to emphasize the commercial benefits to be derived from E&S initiatives in IIF subprojects.

### Scope for improvement

Bank and IFC teams have visited worksites of the Umbulan water project, and Semarang and Yogyakarta airport projects. Many good practices have been observed during field visits, including the health and safety briefings, environment protection measures, public information sources, compensation level, and quality of resettlements. However, IIF needs to make further progress in the areas highlighted below:

- i. *Identification and assessment of social and environment impacts and the IIF SEMS to ensure these are built into project designs prior to financing and implementation:* The timing of the CAP studies shows that the risks and impacts are still not completely understood. It is recommended that future TORs and processes for SEDD are strengthened to ensure adequate information is obtained, including timings. Land acquisition planning, consultation processes and cumulative impacts are areas for focus. The CAP actions should be consistent with the timing of IIF's investment processes and with addressing risks at the project level.
- ii. *Strengthened supervision against E&S principles and CAPs implementation:* It is recommended that checklists and monitoring protocols (including appropriate consultant TORs) for supervision against the E&S Principles and implementation of CAPs are reviewed and put into effect by IIF specialists per the requirement of SEMS.
- iii. *Improving consultation processes:* IIF E&S Principles require organized and iterative consultation leading to clients incorporating into their decision-making process the views of the affected communities on matters that affect them directly such as proposed mitigation measures. Despite the implementation of national consultation processes, disputes and public concerns have been noted. IIF needs to require its clients to strengthen consultation processes beyond national requirements as a means to help manage expectations during implementation.
- iv. *Strengthening land acquisition and compensation:* IIF Principles require clients to offer full replacement cost and other assistance to help improve or at least restore standards of living; possession of land only after compensation has been paid. It is recommended that a RAP or a Tracer Study or a Land Audit (as applicable for a particular project) is prepared for each project to clarify eligibility criteria and the process for agreeing compensation.

### Financial Management

The submission of IFRs and receipt of audit reports have been timely, and the FY2018 DIPA allocation is in place. Interest rate and disbursement related issues have been noted earlier on in this note.

### Procurement

The Loan proceeds from the AF have so far not been used for financing any of the ongoing or new sub-projects. Accordingly, IIF has not yet had the opportunity to apply in practice the agreed provisions specified in the Additional Financing Loan Agreement and IIF's Operations Manual regarding the requirements for procurement by the sub-project beneficiaries and verification by IIF of the beneficiaries' procurement systems and processes (including identifying and excluding any suppliers that are under sanctions by the Bank and ensuring compliance with the Bank's Anti-Corruption Guidelines). IIF confirmed that the agreed provisions will continue to be followed for all sub-projects to be financed in the future from the loan. Under normal circumstances the Bank will rely on IIF's due diligence and monitoring of these requirements, and such relevant reports should be shared with the Bank during the next supervision mission.

### Key decisions/ recommendations to improve project performance

Item	Next Steps	Timelines (2018)
On-lending of funds from PT SMI to IIF	IIF to seek clarity from MoF on whether the "reimbursement" approach would apply to the IIF loan	May (pending)
	IIF to explore with MoF modalities for meeting the undertaking in the Loan Agreement that the MoF should on-lend the funds to SMI at the 20-year SUN interest rate.	May (pending)
<b>Environmental and Social Safeguards (IIF)</b>		
Provision of information	IIF to provide information requested (but not yet provided) to environmental and	June



	social safeguards teams of the World Bank and IFC	
<i>Implementation of ESAP item 1</i>	Extend duration of consultancy support to AP-I, including to improve the quality of the activities and documents being prepared and required by the CAP, and to carry out social mapping etc.	May
	Review AP-I ESIA's for next airports (including Surabaya Airport) for adequacy of assessments of cumulative impacts, natural and critical habitats, hydrological modelling assessments, cultural heritage, energy and water consumption. Identify and agree gap filling measures. Provide training as necessary regarding preparation of AMDAL Documents that meet IIF requirements.	Ongoing
	Consult with relevant bodies to deliver effective mitigation for the deterioration of water quality predicted because of Umbulan project. Review PT META Concessionaire agreement to confirm if PT META is legally precluded from contributing to the resolution of impacts.	September
	Request PT META to extend land acquisition/compensation and tracer study to rest of pipeline, and to prepare a Land Acquisition/Compensation Plan for the project (to include government actions regarding the relation of swimming pool and food stalls)	May
	Ensure TORs for consultancy support to AP-I and Umbulan include supervision against IIFs E&S Principles, and develop reporting mechanisms to record supervision activities	May
<i>Implementation of ESAP item 3</i>	Provide WBG with S&E documents for review for Category A projects, in accessible and suitable formats	Ongoing
<i>Implementation of ESAP item 5</i>	Establish mechanism for recording all grievances	June
	Require projects to record not only grievances but also measures taken to follow up/solutions implemented	June
<i>E&amp;S in future Business Development</i>	Promote E&S initiatives and standards	Ongoing
	WBG to assist with calculating climate change co-benefit, upon request and or other benefits of high E&S standards	Ongoing
<i>SEMS</i>	Revise and update SEMS	June
<i>E&amp;S Principles</i>	Allow adequate time for SEDD in investment cycle (including early investigations at Surabaya Airport)	Ongoing
	Further develop IIF's guidance on the contents of an adequate ESIA to meet IIF's E&S requirements	September
	Develop TOR for SEDD; develop TOR for supervision	September
	Critically review SEDD reports	Ongoing
	Ensure CAP actions are structured appropriately and timescales for delivery are linked to key project milestones	Ongoing
	Review and update checklists and monitoring protocols for efficient supervision against E&S Principles	September
	Develop pragmatic protocols for iterative consultation with affected people during design development	September
	Develop tools and templates for RAPs to streamline early preparation of land acquisition and compensation processes	September
<i>Other E&amp;S Recommendations</i>	Standardize timings and information disclosed on IIF's website, as part of consultation and disclosure requirements	Ongoing
	Establish clear roles, responsibilities and program for the tsunami planting and relocation of the public road across the runway at Kulon Progo.	September
	Request AP-I to keep copies of AMDAL and other E&S documents at the visitor center.	May



	Commission an independent land audit at Kulon Progo and other airport sites against the IIF E&S requirements	July
	Develop IIFs GRM to record all comments received by IIF	June
	Regularly request copies of projects GRM logs and datasheets and review for potential issues	Ongoing
	Update IIF's Board of Directors and Board of Commissioners on E&S risks of pending transactions and on overall portfolio performance	On-going
<i>Future Missions</i>	Ensure representative sample of current projects in addition to Category A projects are included in next supervision missions, to confirm compliance with E&S Principles. WBG to assist IIF with a review of individual project compliance with IIF E&S requirements.	June

[1] Regulation 10/2017 issued on January 10, 2017 applicable to all power projects to be developed by IPPs except for some types of renewable energy projects.

[2] This includes macro-economic conditions, political risk etc.

## Risks

### Systematic Operations Risk-rating Tool

Risk Category	Rating at Approval	Previous Rating	Current Rating
Political and Governance	--	● Substantial	● Substantial
Macroeconomic	--	● Moderate	● Moderate
Sector Strategies and Policies	--	● Substantial	● Moderate
Technical Design of Project or Program	--	● Moderate	● Moderate
Institutional Capacity for Implementation and Sustainability	--	● Moderate	● Low
Fiduciary	--	● Low	● Low
Environment and Social	--	● Substantial	● Substantial
Stakeholders	--	● Moderate	● Substantial
Other	--	--	--
Overall	--	● Moderate	● Moderate

## Results

### Project Development Objective Indicators

► The amount of financing from Bank funds provided by IIF to commercially viable infrastructure projects. (Amount(USD), Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target



Value	0.00	0.00	0.00	200.00
Date	28-Feb-2017	28-Feb-2017	28-Feb-2017	28-Feb-2022

► The amount of private capital supported by IIF relative to its own investment. (Number, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	0.00	0.00	4.00
Date	28-Feb-2017	28-Feb-2017	28-Feb-2017	28-Feb-2022

► Number of infrastructure financing supported by IIF using innovative financing, such as: (i) rupiah financing; (ii) take out financing; (iii) maturity greater than 10 years. (Number, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	0.00	0.00	3.00
Date	28-Feb-2017	28-Feb-2017	28-Feb-2017	28-Feb-2022

Overall Comments

**Intermediate Results Indicators**

► Infrastructure sub-projects financed (Number, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	0.00	0.00	7.00
Date	28-Feb-2017	28-Feb-2017	28-Feb-2017	28-Feb-2022



► Number of IIF advisory engagements (Number, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	0.00	0.00	7.00
Date	28-Feb-2017	28-Feb-2017	28-Feb-2017	28-Feb-2022

Overall Comments

### Data on Financial Performance

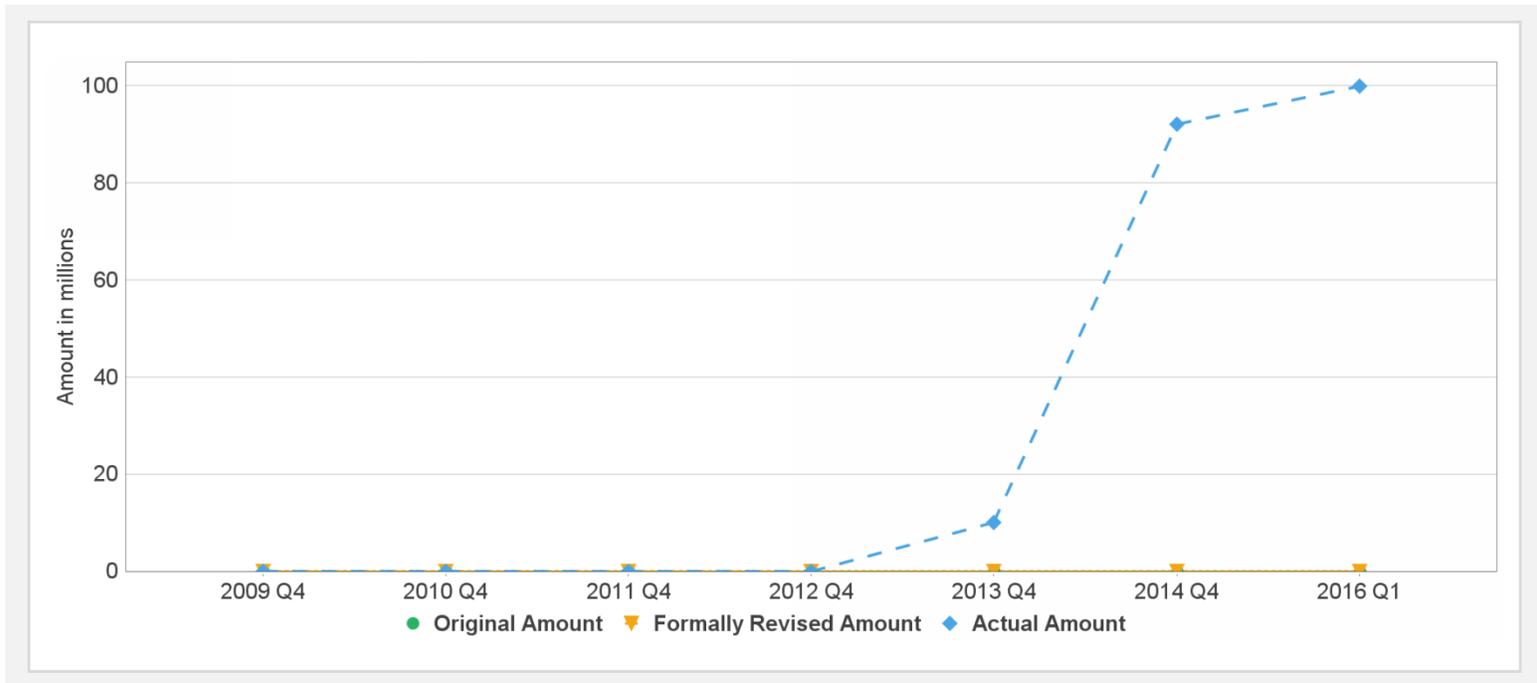
#### Disbursements (by loan)

Project	Loan/Credit/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	Disbursed
P092218	IBRD-77310	Closed	USD	100.00	99.88	0.12	99.88	0.00	100%
P092218	IBRD-87150	Effective	USD	200.00	200.00	0.00	0.00	200.00	0%

#### Key Dates (by loan)

Project	Loan/Credit/TF	Status	Approval Date	Signing Date	Effectiveness Date	Orig. Closing Date	Rev. Closing Date
P092218	IBRD-77310	Closed	24-Jun-2009	15-Jan-2010	25-Apr-2011	31-Dec-2013	31-Mar-2017
P092218	IBRD-87150	Effective	24-Mar-2017	29-May-2017	26-Sep-2017	28-Feb-2022	28-Feb-2022

#### Cumulative Disbursements



## Restructuring History

Level Approved on 22-Oct-2013 ,Level 2 Approved on 30-Nov-2015 ,Level 2 Approved on 23-Nov-2016

## Related Project(s)

P154779-Indonesia Infrastructure Finance Facility - Additional Financing