Document of
The World Bank

Report No: ICR00004004

IMPLEMENTATION COMPLETION AND RESULTS REPORT
(IBRD-77310)

ON A

LOAN

IN THE AMOUNT OF USD 100 MILLION

TO THE

GOVERNMENT OF INDONESIA

FOR THE

INDONESIA INFRASTRUCTURE FINANCING FACILITY

November 10, 2016

Finance & Markets
East Asia & the Pacific Region

CURRENCY EQUIVALENTS
(Exchange Rate Effective 10 February 2016)
Currency Unit = Rupiah (Rp)
Rp13,409 = USD1
FISCAL YEAR
January 1 – December 31
ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AF	Additional Financing
CPS	Country Partnership Strategy
DEG	Deutsche Investitions und Entwicklungsgesellschaft
ESSF	Environmental and Social Safeguards Framework
E&S	Environmental and Social (Safeguards)
FIL	Financial Intermediary Loan
FM	Financial Management
GDP	Gross Domestic Product
GoI	Government of Indonesia
IAD	Internal Audit Department
ICR	Implementation Completion Report
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFI	International Financial Institution
IIGF	Indonesia Infrastructure Guarantee Fund
IIF	Indonesia Infrastructure Finance (the company)
IIFF	Indonesia Infrastructure Finance Facility (this project)
ISR	Implementation Status and Results (reports)
LPG	Liquefied Petroleum Gas
M&E	Monitoring and Evaluation
MoHA	Ministry of Home Affairs
MEMR	Ministry of Energy and Mineral Resources
MTR	Mid-term Review
NBFI	Non-Bank Financial Institution
NPLs	Non-Performing Loans
PAD	Project Appraisal Document
PDO	Project Development Objective
PLN	Perusahaan Listrik Negara
PPP	Public Private Partnership
RoE	Return on Equity
RPJMN	Rencana Pembangunan Jangka Menengah Nasional (National Medium Term Development Plan)
SMBC	Sumitomo Mitsui Banking Corporation
SEMS	Social and Environment Management System (IIF terminology)
SMI	Sarana Multi Infrastructure
SoE	State Owned Enterprise
USD	United States Dollar
WBG	World Bank Group

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Project Team Leader: Kalpana Seethepalli
ICR Team Leader: Kalpana Seethepalli

Contents

A. Basic Information			
Country:	Indonesia	Project Name:	Indonesia Infrastructure Finance Facility
Project ID:	P092218	L/C/TF Number(s):	IBRD-77310
ICR Date:	11/10/2016	ICR Type:	Core ICR
Lending Instrument:	FIL	Borrower:	REPUBLIC OF INDONESIA
Original Total Commitment:	USD 100.00M	Disbursed Amount:	USD 99.88M
Revised Amount:	USD 100.00M		
Environmental Category:			
Implementing Agencies: PT Indonesia Infrastructure Finance			
Cofinanciers and Other External Partners: Asian Development Bank (ADB) International Finance Corporation			

B. Key Dates				
Process	**Date**	**Process**	**Original Date**	**Revised / Actual Date(s)**
Concept Review:	06/23/2005	Effectiveness:		04/25/2011
Appraisal:	05/22/2009	Restructuring(s):		10/21/2013 11/30/2015
Approval:	06/24/2009	Mid-term Review:	06/17/2012	07/18/2012
		Closing:	12/31/2013	11/30/2016

C. Ratings Summary	
C.1 Performance Rating by ICR	
Outcomes:	Moderately Satisfactory
Risk to Development Outcome:	Substantial
Bank Performance:	Moderately Satisfactory
Borrower Performance:	Satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)			
Bank	**Ratings**	**Borrower**	**Ratings**
Quality at Entry:	Moderately Unsatisfactory	Government:	Satisfactory
Quality of Supervision:	Satisfactory	Implementing Agency/Agencies:	Satisfactory
Overall Bank Performance:	Moderately Satisfactory	**Overall Borrower Performance:**	Satisfactory

C.3 Quality at Entry and Implementation Performance Indicators			
Implementation Performance	Indicators	QAG Assessments (if any)	Rating
Potential Problem Project at any time (Yes/No):	No	Quality at Entry (QEA):	None
Problem Project at any time (Yes/No):	Yes	Quality of Supervision (QSA):	None
DO rating before Closing/Inactive status:	Satisfactory		

D. Sector and Theme Codes

	Original	Actual
Sector Code (as % of total Bank financing)		
Energy Transmission and Distribution	48	48
Oil and Gas	3	3
Ports/Waterways	4	4
Railways	11	11
Rural and Inter-Urban Roads	34	34
Theme Code (as % of total Bank financing)		
Infrastructure services for private sector development	50	50
Other Private Sector Development	50	50

E. Bank Staff

Positions	At ICR	At Approval
Vice President:	Victoria Kwakwa	James M. Adams
Country Director:	Rodrigo A. Chaves	Joachim von Amsberg
Practice Manager/Manager:	James Seward	Tunc Tahsin Uyanik
Project Team Leader:	Kalpana Seethepalli	Subrahmanya Pulle Srinivas
ICR Team Leader:	Kalpana Seethepalli	
ICR Primary Author:	Lloyd kenward	

F. Results Framework Analysis

Project Development Objectives (from Project Appraisal Document)
To strengthen and further develop the institutional framework of the financial sector to facilitate financing of commercially viable infrastructure sub-projects and thereby increase provision of private infrastructure in Indonesia.

Revised Project Development Objectives (as approved by original approving authority)

(a) PDO Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Increase in the amount of financing from Bank funds provided by IIF to commercially viable infrastructure projects through long term debt financing and other financial products over the lifetime of the project (p. 74 of the PAD).			
Value quantitative or Qualitative)	0	USD 100 millions		USD 99.9 millions
Date achieved	06/24/2009	11/25/2015		11/25/2015
Comments (incl. % achievement)	Achieved. Trivial shortfall due to the Rupiah's depreciation after approval of IIF's annual budget.			
Indicator 2 :	Increase in the amount of private capital (including long-term debt and equity) leveraged by the IIF over the life of the project (p. 74 of the PAD).			
Value quantitative or Qualitative)	0	IIF will have leveraged an increase in private capital for infrastructure projects over the life of the project. Total loans provided by the IIF to be in line with projections in annexes 6 and 11 of the PAD. Targets are USD106m (year3) and USD417m (year5		USD312.9m Committed USD210.8m Outstanding
Date achieved	06/24/2009	11/25/2015		11/25/2015
Comments (incl. % achievement)	Achieved. IIF's investment portfolio as of late 2015 consisted of 15 sub-projects with total commitments of USD313 million equivalent, and outstanding investments of USD211. These sub-projects combined represented total loans of USD1.8 billion			
Indicator 3 :	Increase in the number of privately financed infrastructure projects made bankable through the IIF's advisory services (p. 74-75 of the PAD)			
Value quantitative or Qualitative)	0	The IIF is expected to be obtaining revenues from advisory services in line with projections of annexes 6 and 11of the PAD. These targets are: USD1.14m for 2014 (year 3); and USD3.52m for 2016 (year 5).		USD0.1m
Date achieved	06/24/2009	11/25/2015		11/25/2015
Comments (incl. % achievement)	Non attribution. 5 advisory mandates are on-going, none having reached financial closure. Elsewhere in the PAD the emphasis is on policy advice to the government, which is an MoF-mandated obligation that does not generate revenues directly for IIF			

(b) Intermediate Outcome Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Number of Infrastructure sub-projects financed			
Value (quantitative or Qualitative)	0	Not specified		15
Date achieved	06/24/2009	11/25/2015		11/25/2015
Comments (incl. % achievement)	Achieved. Strong pipeline; at drafting, 2 more sub-projects expected to close in late 2015 and 9 more in Q1 2016. Originally a KPI (p.2 of covering pages to the PAD)			

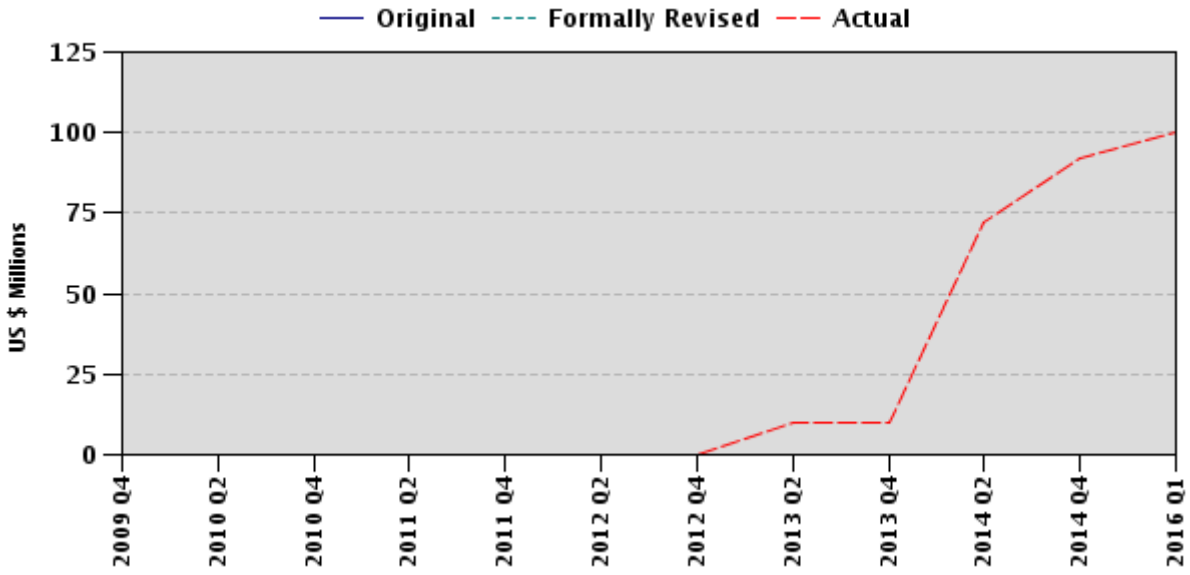
G. Ratings of Project Performance in ISRs

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	06/26/2010	Moderately Satisfactory	Moderately Satisfactory	0.00
2	06/30/2011	Moderately Unsatisfactory	Moderately Unsatisfactory	0.00
3	10/23/2011	Moderately Unsatisfactory	Moderately Unsatisfactory	0.00
4	01/04/2012	Moderately Unsatisfactory	Moderately Unsatisfactory	0.00
5	12/24/2012	Unsatisfactory	Moderately Unsatisfactory	10.00
6	06/01/2013	Moderately Satisfactory	Moderately Satisfactory	10.00
7	02/23/2014	Satisfactory	Satisfactory	72.00
8	11/28/2014	Satisfactory	Satisfactory	97.18
9	06/25/2015	Satisfactory	Satisfactory	97.18
10	02/04/2016	Satisfactory	Satisfactory	99.88
11	10/12/2016	Satisfactory	Satisfactory	99.88

H. Restructuring (if any)

Restructuring Date(s)	Board Approved PDO Change	ISR Ratings at Restructuring		Amount Disbursed at Restructuring in USD millions	Reason for Restructuring & Key Changes Made
		DO	IP		
10/21/2013	N	MS	MS	50.00	Level 2 approval of extension of closing date to Nov 30 2015 to complete the project's activities and to achieve the PDO.
11/30/2015		S	S	99.88	Level 2 approval of extension date to provide time to prepare an Additional Financing operation.

I. Disbursement Profile



1. Project Context, Development Objectives and Design

1.1. Context at Appraisal

Country background. Indonesia is the world's fourth most populous country and home to the world's largest Muslim population. Following a deep economic and political crisis in 1997/98, Indonesia made the difficult transition from a highly authoritarian regime to a vibrant and stable democracy. It has emerged as a self-assured, middle-income economy with a fast-growing private sector, and with global and regional influence.

The local economic context at appraisal (June 2009). The Indonesia economy averaged growth of about 5 3/4% per annum during the 5 years ended 2008, spurred by sound domestic policies and a favorable external environment. Consequently, the country entered the 2008/09 global financial crisis in a relatively strong position. Despite being hard hit early on in that crisis, the Project Appraisal Document (PAD) was cautiously optimistic that Indonesia was going to weather the global slowdown relatively well.

Notwithstanding a strong track record of economic growth and poverty alleviation, Indonesia faced many challenges at the time of appraisal. Some 15½% of the population lived below the official poverty line; many public services fell well short of the growing demands of the newly-assertive Indonesians; and infrastructure was fast becoming a constraint on growth and poverty reduction. Infrastructure needs were seen as particularly acute in areas like power, transportation and water supply and sewerage.

The Government's infrastructure program addressed several challenges facing infrastructure investment, including more spending by the national government and state-owned enterprises. However, the estimated needs were enormous (some USD170 billion during the years 2010-14) and the government's available fiscal space was limited. To help address these issues, the Government sought to mobilize an under-utilized resource, namely the private sector. Its spending on infrastructure had yet to return to its pre-1997 levels (measured in relation to GDP).

Indonesia's financial sector was not supportive of infrastructure development. That sector was dominated by banks whose loans had tenors up to 5, possibly 7 years. Among the banks, state-owned banks still dominated and there was a marked tendency for them to get the best public sector projects. The corporate bond market was tiny with similarly short maturities. Consequently, there were no domestic sources providing financing with the longer-term maturities that companies needed in order to undertake infrastructure sub-projects, which typically have long gestation periods; high up-front capital costs; long construction times; and long asset lives and income streams.

In going ahead with this project, the Design was conscious that past attempts to reengage the private sector had consistently fallen far short of expectations. It recognized that significant progress was needed on several fronts, including the creation of good infrastructure sector policies; well-designed sub-projects and concession contracts; a transparent investor selection process; and a local financial sector that could provide more long-term local currency financing. The proposed project was intended to push ahead on only some of these fronts.

Rationale for World Bank involvement. The World Bank Group (WBG) had been working closely with the Government and key development partners to expand infrastructure provision in Indonesia. The Bank's focus had been on: improving sectoral policies; establishing appropriate public institutional mechanisms to support private infrastructure; and improving the overall investment climate. For its part, the International Finance Corporation's (IFC's) work in the infrastructure sector in Indonesia was focused on advisory work (notably in the power sector) to create good-quality contractual structures and an appropriate format for awarding concessions. The creation of a financial institution like Indonesia Infrastructure Finance (IIF) was seen as the logical extension of engagements up to that point, and fully consistent with the Bank Group's Country Partnership Strategy (CPS) for FY2009-12. This is particularly the case as regards the CPS strategy of "...strengthening the institutions involved, both state and non-state".[1]

At USD100 million, the size of this project was known at Design to be modest in relation to Indonesia's overall financing needs for infrastructure. To have more impact, the Bank Group was expected to leverage its own financial support for the IIF to encourage infrastructure investment in the following ways:

1. The involvement of the Bank Group was expected to bring credibility to the new financial institution and to improve private investor confidence.
2. The Bank Group's involvement would provide a platform to encourage key reforms in the financial infrastructure and capital markets that can ease private financing of infrastructure.
3. Through its structuring of the project and ongoing involvement, the Bank Group would help to build infrastructure- and project-finance skills, areas in which the financial sector is weak. And,
4. The catalytic presence of the Bank Group had already helped mobilize other IFIs and development partners in this effort, and would be key to mobilizing resources from private sources.

1.2. Project Development Objectives (PDO) and Key Indicators

This Project's Development Objectives and Key Performance Indicators are presented in box 1. The Higher Level Development Objective is very high-level and somewhat verbose, but clear. The weaknesses of the Project Development Objective (PDO)[2] and the Performance Indicators are discussed in section 2.1; performance against these measures is discussed in section 3.2.

[1] Indonesia: Country Partnership Strategy FY09-12 (Report No. 44845-IND), 2008. In addition to its cross-cutting engagements to strengthen central and sub-national government institutions and systems, this CPS identified five thematic areas that are expected to form the core of the WBG's engagement: (i) Private Sector Development; (ii) Infrastructure; (iii) Community Development and Social Protection; (iv) Education; and (v) Environmental Sustainability and Disaster Mitigation.

[2] The PDO is exactly the same in the PAD and the Loan Agreement.

Box 1: IIFF's Development Objectives and Targets for Performance Indicators

Higher Level Development Objective:

Helping Indonesia sustain economic growth and poverty reduction in line with the Government's 2004 - 09 medium-term development strategy (RPJMN) as well as its commitments under the Millennium Development Goals

Project Development Objective:

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.

Key Performance Indicators (tracked by World Bank):

i) Increase in the number of commercially viable infrastructure projects achieving financial closure (through long-term debt financing, other financial products and advisory services from the IIFF);
ii) Increase in the amount of private capital (including long-term debt and equity) available for infrastructure projects;
iii) Increased support to government's policy making in private provision of infrastructure through advisory services from IIFF; and
iv) Increase in privately financed infrastructure in Indonesia.

Development Impact Indicators *(tracked by IFC)*:

i) *RoE* of 15.4% (to exceed the cost of equity by *6.9%)* within 6 years of IFC's commitment.
ii) *Economic RoE* of 22.5% (to exceed the cost of equity by *13.9%)* within 6 years of IFC's commitment.

Other Development Impact Indicators *(tracked by IFC)*:

i) *Infrastructure Loan Growth:* to USD300 million by 2014 and $1.5 billion by 2019.
ii) *Loan Portfolio Quality*: NPLs of less than 6% and down to 3% by 2014.
iii) *Improve Regulatory Framework for Private Infrastructure Provision*: Engage with GoI to reform the regulatory framework and work on at least three initiatives per annum.
iv) *E&S Management System:* Introduction and application of a common ESSF acceptable to the Bank Group.

Sources: Development Objectives from Project Appraisal Document (PDA) p.16 and 17; Performance Indicators from PAD
p. 11 and 16 and p. 7 of the Loan Agreement.

1.3. Main Beneficiaries

The primary target for this project was the new institution, PT Indonesia Infrastructure Finance, PT IIF,[3] which was created and its institutional capacity built from scratch, specifically for this project (see section 3.2 for successes in this regard). Beyond this, the PAD did not specifically identify the main, intended beneficiaries of this project, largely because IIF's sub-projects were still to be determined. Nonetheless, the intention was clear; the secondary

[3] After it was created, PT IIF was, for all practical purposes, the implementation agency for this loan. The PAD identifies the Director General of State Assets in the Ministry of Finance as the Responsible Agency.

beneficiaries were to be sub-project developers (including construction companies) and the downstream users of general infrastructure development in Indonesia. The former covers a sizable portion of the Indonesian private sector and generates employment whereas the latter covers a wide spectrum of Indonesian society, including lower income persons. Outcomes in this regard are presented in section 3.2.

1.4. Project Components

This project is unusual. At the broadest level, it had two components in support of the new institution IIF, one each from the World Bank and the IFC (an equity investment in the amount of up to USD40 million). The World Bank's contribution—which is the subject of this ICR—was an investment loan in the form of a Financial Intermediary Loan (FIL); it would be made available to the IIF as subordinated debt to be used for eligible infrastructure sub-projects.

The Bank's loan had only one component, namely *long-term debt financing and provision of other financial products to commercially viable infrastructure projects*, and 3 sub-components were envisaged, reflecting the new institution's financial product line (see annex 2 for more details by product at drafting of the ICR). The range and flexibility of this structure was one of the project's strong features. In particular, the scope was not limited exclusively to Public Private Partnerships (PPPs), which held great promise for Indonesia at project design, but proved a disappointment as discussed below.

Sub-Component #1: Funded Projects (e.g., senior debt, subordinated debt, mezzanine finance, equity, investment, refinancing and securitization)[4]

- These have been IIF's strongest performer, with commitments totaling USD333 million through late 2015, across 13 sub-projects (annex 3) with a robust pipeline of up-coming sub-projects.[5]
- IIF's emphasis is debt-financing space, followed by equity.

Sub-Component #2: Non-funded Products (e.g. credit guarantees and stand-by finance)

- IIF has not been active in these areas.

Sub-Component #3: Fee-Based Products (e.g., advisory services)

- This product has a mixed record. IIF's services have been in high demand from GoI (see annex 2), but these do not produce revenues directly, owing to IIF's mandate from MoF to serve as 'an agent of development'. By contrast, private sector advisory services have struggled, essentially owing to the very thin PPP market in Indonesia.

1.5. Other significant changes

[4] The first 5 products involve financing for new infrastructure. Refinance and securitization entail raising finance based upon existing infrastructure.

[5] It's notable that IIF's pipeline filled relatively quickly once other issues (section 2) were resolved. IIF management says that their larger problem is the unpredictability of the pipeline, especially as concerns Greenfield projects, which often have a gestation period of 3 years or more.

There were two extensions to this project. The first, dated 20 October 2013, was occasioned by project delays, largely due to the time required to establish IIF's institutional and legal frameworks as well as development of its organizational capacity (section 2.2). It extended the project's closing date from 30 December 2013 to 30 November 2015, to allow more time for the project to complete its activities and achieve its PDO. This extension was well-envisioned as borne out by the project's subsequent, rapid pace of progress.

The second extension, dated 30 November 2015, was for one more year. Its intention was to allow sufficient time for a possible Additional Financing (AF) operation, which had been discussed with the various project stakeholders, and requested by GOI. GOI and the Bank agreed to process any follow-on operation as an AF, as opposed to a new loan, as this would allow for more efficient processing and implementation within both the GOI and the Bank. It would also help to ensure project continuity.[6]

There was another amendment to the Loan Agreement, this one dated 24 November 2012, to allow IIF to on-lend in USD. This step proved to be important in delivering strong project outcomes, especially in filling the pipeline of sub-projects (sections 2.1 and 3.1). In discussing this topic with IIF management, they noted that, among other factors making for a thin pipeline,[7] their rupiah pricing of loans (after the Government's on-lending arrangements) was barely competitive with local banks. By contrast, IIF was price competitive in USD lending; it could offer long maturities; there was a strong appetite for USD financing in areas such as energy and ports; and USD on-lending resolved IIF's issues of foreign exchange risk vis-à-vis the Ministry of Finance. Also in this context, IIF management were quick to describe their foreign exchange risk management, for example, by lending in USD only when the sub-project's outputs are denominated in USD.

2. Key Factors Affecting Implementation and Outcomes

2.1. Project Preparation, Design and Quality at Entry

General design issues. This project's design was appropriately innovative—indeed the adjective 'groundbreaking' is used in some documentation—and fully consistent with the project's intended objective. By way of examples:

- The project's on-lending arrangements (from GoI to its holding company (SMI) and to IIF) effectively provide an innovative way for the Bank to extend financing through IIF to private companies engaged in the provision of infrastructure.
- SMI and IIF were new institutions, specifically designed for this project.
- The Bank's role was largely institutional development, that is, to develop capacity and processes within IIF. With the Bank's support, IIF has served as catalyst for the mobilization of financing from other sources, mainly from the private sector.

[6] The AF is expected to include an amendment to IIFF's PDO. As discussed elsewhere, the current PDO is too broad and difficult to measure.

[7] As for other factors, at the time IIF was an embryonic institution still trying to establish its credibility, including in areas like E&S standards. Also see section 2.2.

- As key aspects of institution-building, the Bank financed and developed IIF, but was not involved in approving individual sub-projects prior to IIF's investment in them. Nonetheless, and in line with the Bank's financial intermediary loan structure, IIF is required to comply with all project requirements (e.g., environmental and social safeguards, technical and fiduciary).
- An emphasis on Environmental and Social Safeguards was a key design feature that underpinned IIF's investment decisions.
- There was built-in flexibility for the provision for a wide range of IIF's financial products, as indicated by the project's sub-components.
- The Design provided for minority, declining government ownership of PT IIF.
- Four international institutions (the World Bank, IFC, the Asian Development Bank and Deutsche Investitions und Entwicklungsgesellschaft (DEG)) worked in good collaboration throughout most of this project. With this support, IIF was viewed by the market as a strong institution with robust international financial backing and governance standards.

But the project's innovative nature also posed challenges during design and implementation. For example, during design,[8] Bank staff believe that it took time for the Bank and the government to become comfortable with the project, which was highly innovative at the time. Also, resolving cross-institutional issues—like safeguard standards—proved complex owing to the number of diverse international institutions engaged in the project. Moreover, key supportive elements of the Bank's economic and sector work program were still in-process (or barely completed) at Concept Review.[9] On the side of government, many issues needed to be discussed and settled, for instance, the advisability of the institution having significant, but minority, government ownership. In addition, the task of setting up two new institutions (SMI and IIF), including their on-lending arrangements, was time-consuming. During implementation:

- The task of institution-building proved more complex and time-consuming than foreseen in the design documents.
- The sub-project pipeline was slow to fill, despite the Bank's experience that highlighted the importance of this matter.
- There was a shallow pool of talent with deep knowledge of project finance and limited information and data on infrastructure, including in public documents.
- It took time for IIF management to establish itself and its brand in the market. During this period, IIF struggled to identify suitable projects. (Also see 'Mid-term review' in section 2.2).
- A great deal of capacity-building at IIF was needed to implement Environmental and Social safeguards.

[8] It took almost 4 years for the project to advance from Concept Review (in June 2005) to Appraisal (in May 2009). One important factor noted by Bank staff concerns the political context immediately prior to Concept Review. In January 2005, GoI had held an Infrastructure Summit at which the Minister of Finance announced its intention to create a new institution that would eventually become IIF. This put the Bank under great pressure to show progress and the Concept Review was prepared quickly, including before all parties had bought into the concept.

[9] For example, the Bank's infrastructure and non-bank financial sector reviews were only completed in December 2004 and December 2006, respectively; see World Bank 2004 and World Bank 2006. Its public expenditure review (which advocated significant increases in infrastructure spending; World Bank 2007) was only finished in February 2007.

- The design did not anticipate the complications facing PPPs during implementation.[10] And,
- The participation of four international institutions made for complex conditions of effectiveness, and posed an administrative burden for coordination.

Some of these complications were foreseen as Risks at design (see later in this section).[11] But as the project unfolded, the anticipated timeline underestimated appreciably the time needed to get new institutions off the ground—and operating effectively—in Indonesia. Consequently, loan effectiveness was delayed 22 months beyond the PAD's timetable and it took another 18 months before the loan's first disbursement. The reasons are discussed further in section 2.2.

PDO design issues. The formulation of this project's PDO is problematic. It is wide in perspective; vague in some areas (e.g., "to strengthen and further develop the institutional framework for the financial sector"); and difficult to quantify. This is odd insofar as the project actually had something very specific in mind, namely the establishment and development of a Non-bank Financial Institution (NBFI) dedicated to the private provision of public infrastructure, especially in the under-serviced, mid-range segment of the market. Other Bank documentation clarifies this issue, arguing that setting up IIF was sufficient to strengthen the institutional framework, because it added a new NBFI to finance long-term lending for infrastructure.

With this experience in hand, the task team intends to amend the PDO in order to address this issue in the context of the potential Additional Financing (AF) operation. In the interim, the task team has worked with management to redraft the PDO and has agreed on the amendment with GoI.

FIL-specific design issues. Despite taking into account lessons learned from a then-recent study of the Bank's line-of-credit operations,[12] this project faced several design issues that are specific to FIL operations. By way of examples:

- The Bank's role as institution-builder of a Financial Intermediary (FI) limited the Bank's access to proprietary information between the institution and its private sector clients–a defining feature of FI operations.
- Limited access to FI-client information constrained the Bank's ability to manage sub-projects, which stands in marked contrast with the Bank's standard management of investment projects.
- The design did not fully appreciate the local shortage of technical and management skills needed to run FI institutions like IIF. And,

[10] There are several reasons—all well beyond the influence of this project—why PPPs have made little progress in Indonesia during the past decade or so. At one level of consideration, the main problem has been limited resources within GoI for preparing PPP projects for investors' consideration. At a more detailed level, there are various technical impediments, including: issues with land acquisition; fragmented institutional authorities within GOI; complicated licensing and other procedures; and an unpredictable legal system. For their part, foreigners still perceive Indonesia as a risky destination for long-term investments, and they expect high rates of return as compensation. See McCawley (2015), including the extensive bibliography; Organisation for Economic Cooperation and Development (2012) and Lin of McKinsey & Company (undated).

[11] For instance there were 11 conditions of effectiveness (including 2 Subsidiary Loan Agreements) and 2 loan covenants.

[12] See World Bank (2006), cited on p. 18 of the PAD.

- There was a shallow pool of talent with deep knowledge of project finance and project preparation in Indonesia, as well as limited information and data on infrastructure, including from public documents.

Lessons learned specific to this FIL operation are provided in section 6.

Results framework design issues. The project's Results Framework (annex 5 of the PAD) was elementary in nature, in part because it is a FIL operation. At Design, specific outputs (that is, the sub-projects; see annex 3) remained to be identified; nevertheless, their conceptual linkage to the Outcomes and the intended PDO were clear and reasonable.

Turning to the project's Key Indicators (see box 1), some appear quite soft (e.g., "increase in the amount of private capital" and "increased support to government's policy making…."). However, the Key Indicators are cross-referenced to detailed financial projections in the PAD, which do provide specific, indicative targets. When buttressed by the IFC's Indicators (box 1 and explicit in the PAD), the result is an adequate set of quantitative benchmarks for evaluation of this FIL project. Other specific points about the design of Indicators are:

- There is slightly different terminology and wording in different parts of the PAD,[13] which makes for some ambiguity especially for Indicator #2.
- Further on Indicator #2, the general description in the Results Framework is clear (box 1), but the exact targets cover wider ground (namely, an increase in IIF's leverage *and* targets for IIF's loans; annex 4). Bank staff seem to have struggled with this ambiguity during implementation, but it matters little for the purposes of this ICR, because by drafting of this ICR both had performed well (see section F at the front of this report and section 3.2, below).
- Indicator #3 is oddly formulated, in that it clearly reads *number* of sub-projects made bankable, but it is to be measured in terms of nominal *revenues*. Both are reported in section F at the front of this report, and in section 3.2, below.
- There is one Intermediate Outcome Indicator (the number of infrastructure sub-projects financed), but no target is specified,[14] which is also the case for one of the sub-Indicators for Indicator #2.
- The use of IFC's Impact Indicators was a useful synergy of WBG resources. It prevented duplication of functions across institutions and avoided potential issues associated with reconciling different institutional estimates, for example, of economic rates of return.
- The use of IFC Indicators also posed potential complications insofar as IFC's target time horizon is 2018, whereas the Bank's project was due to end in late 2015. In the event, no material complications arose because IFC's latest estimates indicate that IIF is well on its way to hitting its targets for Return on Equity and Economic Rate of Return, with a rapidly expanding portfolio with another 4 years left in its time horizon.

[13] For example, the Results Framework on p. 74 versus paragraph 51 of the main text. For purposes of this ICR, the summary wording in the main text is used for descriptive purposes in box 2, whereas the details in the Results Framework (annex 5 in the PAD) are used here for evaluation and ratings.

[14] In the PAD, this was officially called a Project Outcome Indicator, but it was re-named during implementation to add clarification to IIFF's M&E system.

Bank documentation indicates that some of these PDO and Indicators issues did arise during implementation of this project. In particular, about halfway through the project it became clear that this formulation of the PDO presented difficulties for IIF, which was uncertain as to how it was expected to develop the institutional framework of the financial sector. The issue was set aside for resolution in the context of a possible follow-on operation, as senior Bank management advised going to the Bank's Board of Directors only once, combining the proposed AF operation with a revised PDO. This Review is in full agreement with this prioritization.

One positive, specific Design feature related to Key Indicators merits special mention. The PAD's financial projections for IIF—which provide the targets for this project's Performance Indicators—did not have specific dates attached to them (tables 14 and 15 in annex 12 to the PAD). Instead, they were written as 'Year 1, Year 2, etc.", which was a pragmatic way to accommodate unanticipated delays in implementation.

Assessment of risks and mitigation measures. Program design included three substantial risk analyses: Risks to Project Objectives (p. 27-30 of the PAD); Financial Management Risks (p. 101-103); and Governance Risks (p. 113-115). In general, overall risk ratings were 'High', but reduced to ''Substantial' or 'Moderate' after mitigation measures. Notably, several specific risk factors were rated as 'Substantial' after mitigation measures. But as the project unfolded, the mitigation measures were inadequate to address these issues in a timely way, and each required more time or mid-stream adjustments to Design. By way of examples:

- Regarding 'Project Complexity', this issue was to be addressed by GoI funding for IIF to provide a variety of financial services and products for commercially viable sub-projects, and technical assistance to develop IIF's Operations Manual. Delays turned out to be substantial.
- As for 'Insufficient Pipeline [of projects]', the PAD pointed, among others, to Indonesia's recent progress in regulatory reform and the anticipated, strong advisory capacity in IIF to help with bankable sub-projects. Neither proved effective in filling IIF's sub-project pipeline quickly, as discussed in section 2.2. Still, IIF's pipeline did build up relatively quickly once IIF's institutional issues were resolved and IIF was allowed to on-lend in USD (section 1.5). And,
- Concerning 'Financial Management Capacity', the PAD noted that key staff had already been recruited for SMI; an international recruitment firm would be engaged to identify candidates for IIF; and that appointments of a CEO and CFO at IIF were conditions of effectiveness. The difficulties of finding well-qualified staff were underestimated (section 3.2).

In short, the Risk Analysis adequately warned of 'Substantial' residual risks in key areas. However, it did not foresee how the specific risks would play out, especially the complexities of institution-building in Indonesia. Throughout implementation, the Overall Risk Rating was consistently 'Substantial'.

2.2. Implementation

Early management issues at IIF. The first CEO of IIF resigned in December 2010 just months before loan effectiveness in April 2011, and the management team (selected after loan effectiveness) faced major challenges and was replaced. Interim responsibilities fell in substantial part upon IIF's Board of Commissioners and the then-CFO who served as interim CEO. It took the better part of a year before a new management team was in place, with a clear business plan and the beginnings of a sub-project pipeline.

Changes in the political landscape. Political factors affected implementation at two levels. During preparation of this project, the Minister Finance, the Economic Coordinating Minister and the Vice-President of the Republic were all highly supportive of this project, which partly accounted for the optimistic implementation schedule. However, early in project implementation, the pace of progress slowed when these personalities changed: the Vice-President ran unsuccessfully for a second term in 2009; the Economic Coordinating Minister was elected Vice-President in 2009; and the Finance Minister resigned from government in 2010.

Turnover in Bank staff. This project had three changes in Task Team Leaders (TTLs) during the last 5 years of implementation, which is a moderately high rate of turnover. In discussing this issue, IIF management mentioned that frequent changes in TTLs complicated relationship-building during the difficult early years of the project. For their part, TTLs acknowledged the challenges, but emphasized the cooperation among out-going and in-coming TTLs and pointed to the support and continuity provided by on-site supervision and local staff. Overall, turnover among TTLs seems to have been more of an irritant than a significant issue.

Cross-institutional issues. As mentioned, this project involved three quite different international financial institutions (IFIs; the World Bank, IFC and the ADB), each with somewhat different strengths, weaknesses and internal processes. Interviews during this review indicated that these arrangements entailed appreciable coordination costs, and that institutional tensions emerged from time to time. However, such matters seem to have been resolved in due course, in a professional, constructive manner to the satisfaction of all concerned, including the Indonesian client. As specifically concerns the Indonesian client, IIF management stresses the value that it has gained—especially as a start-up institution—from working with the three IFIs, noting that it did take time for all parties to build trust and to learn to work with each other. Overall, cross-institutional matters do not look like they were a major issue during implementation.

Monitoring and Evaluation (M&E) design, implementation and utilization. As discussed in the previous section, this project's M&E system had certain design weaknesses.[15] For their part, the Key Indicators for project success (box 1) do provide an adequate basis for assessing performance, especially when buttressed by IFC's indicators, which were built into the PAD design. However, all these indicators are financial, which provide a limited basis for gauging broader economic impact, a problem that is common to many FIL operations.

One Key Indicator (Indicator #3, projected revenues from advisory services) was overly optimistic, and needed re-evaluation during implementation. During Design, it had reflected a

[15] Some of these issues were raised in comments on the draft PAD at the Review meeting. The Staff's responses indicate that the Project Description and the Results Monitoring Framework were subsequently re-written to reflect the comments received.

view—common at the time—that PPPs held great promise for Indonesia. But by November 2015, advisory services had generated less than 1/10th of the envisaged revenues, and IIF's emphasis had shifted to public sector advisory services. In the view of this ICR, this was a sensible re-allocation of IIF's scarce resources during implementation, because a shortage of these skills in the public sector has been a sizable bottleneck to greater progress in private provision of public infrastructure in Indonesia. Unfortunately, Public Sector Advisory Services do not generate revenues directly for IIF (because it is an MoF-mandated obligation) and outcomes in this area are not a Performance Indicator for IIF.

It's questionable how useful some of these Indicators were during implementation. To be sure, ISRs usually reference the targets in the PAD, and the data were tracked for loans and equity as sub-projects got moving relatively late in the project. However, the targets don't look as though they were very useful during most of the lifetime of this project, when more basic institutional development matters were the top priority.

Overall, this project's M&E system has served well for purposes of Evaluation, but it looks weak for Monitoring. These issues would be addressed if a follow-on operation were to eventuate, beginning with the formulation of a more operational PDO. By way of other constructive suggestions, IIF's projections for its business plans could provide a stronger analytical basis for future Performance Indicators, possibly with a range of uncertainty that reflects the Bank's assessment of risks. Also, a target—even a qualitative one, such as a strong endorsement by two or more GoI agencies of the value attached to IIF's advice—would be useful for IIF's Public Sector Advisory Services.

Mid-term review. The PAD envisaged a mid-term review in June 2011, but it was delayed until July 2012, due to implementation delays already discussed. At that time, an implementation support mission effectively doubled as an MTR. That mission had a relatively wide terms of reference; it identified a number of critical issues that IIF and Bank management needed to address jointly, in order to achieve the PDO; and it turned out to be a turning point for success of the project. This was an effective use of Bank resources that was approved by Bank management.

Around the time of the MTR, several other factors contributed to this turnaround in the project. Among the most important were: completion of the initial period of institutional development at IIF (see section 1.5 and earlier in this sub-section); the emergence of a significant project pipeline; rising self-confidence at IIF due to the success of its first project (boxes 2 and 3); and the decision to on-lend in US$ (section 1.5).

Safeguards. Project design anticipated that IIF's sub-projects were likely to trigger safeguard policies in seven areas,[16] and their monitoring proved challenging during implementation for several reasons, including:

1. IIF was literally starting from zero, in this difficult area.
2. Early on, different standards were being advocated by different institutions, e.g., the World Bank and IFC.

[16] Namely: Environmental Assessment; Natural Habitats; Physical Cultural Resources; Involuntary Resettlement; Indigenous Peoples; Forestry; and Safety of Dams.

3. Qualified applicants for jobs as E&S specialists were in very short supply, even after a 6-month search and the engagement of an international recruitment firm.
4. Newly hired E&S specialists still needed further training.
5. The Bank's mandate under this project was to develop institutional capacity at IIF. Initially, this entailed working closely with IIF on the details of Safeguards (box 2).
6. Similarly, the Bank was not directly involved in the selection of individual IIF sub-projects; it advised and monitored process. And,
7. Bank staff were accustomed to working with government, not the private sector.

The result was an extended period of intense implementation support by Bank staff, marked by frequent (sometimes twice a week) office contact with IIF; frequent field visits to sub-project sites; and quarterly reporting. In addition, there were two E&S workshops for the purpose of public consultations. One workshop was for the private sector (including SoEs), the other for government officials and NGOs.[17]

Notwithstanding these difficulties, compliance ratings for safeguards were never below 'Moderately Satisfactory' and in February 2014, the rating was upgraded to 'Satisfactory'. This speaks to the commitment of IIF management (box 3) and to the value of having strong, dedicated staff on-site to assist the client in a timely, constructive fashion as appropriate for working with the private sector.

In short, this experience with safeguards was a difficult period for IIF and Bank staff. But there are several important Results to show, for example:

- Currently, IIF's safeguard standards are stricter than the Bank's and IIF's shareholders;
- In the first half of 2016, IIF submitted its application for Green Climate Fund[18] financing under a fast track program and IIF management is confident that IIF will qualify;
- IIF has an internal capacity for safeguards that is at least on a par with its consultants who are professionals in this area;
- IIF has raised awareness of the importance of Safeguards within the broader Indonesian financial system. For example, a few major Indonesian banks have expressed interest in applying the standards elsewhere in their portfolios; and
- IIF has become an agent-for-change for sustainability in Indonesia, by advocating world class E&S standards for infrastructure.

[17] At these Workshops, Bank staff explained international-standard safeguards, especially the principles and procedures; it was awareness-raising with a request for inputs.
[18] See, for instance, http://www.greenclimate.fund/home.

Box 2: IIF's Safeguards and the LMS Toll Road

The LMS (also known as the Cikampek-Palimanan) toll road is a 116.75 kilometer segment of the Trans-Java Toll Road, running along the heavily-populated north coast of West Java. It was developed as a build, operate and transfer contract between the Government of Indonesia's Toll Road Authority and PT Lintas Marga Sedaya (LMS). This was IIF's first project and, at US$48 million, one of its largest to date. Ground-breaking was in December 2011 and the toll road started operations in August 2015, a little ahead of schedule. It is highlighted here as an illustration of this project's success in introducing E&S standards; IIF's commitment to E&S risk management; and LMS's attention to implementing the program.

One of the main objectives of IIF's projects is to increase the social well-being of local communities, and it's important to note the Bank's role in implementation. According to the legal agreement, the World Bank was required to review the environmental and social aspects of subprojects, and their subsequent implementation by sub-borrowers, during at least the first 12 months of project implementation or until institutional capacity satisfactory to the WBG was established. Accordingly, the Bank project team focused on two aspects of IIF's Social and Environmental Management System (SEMS), namely: i) reviewing IIF's progress towards developing a safeguards capacity (including a capacity building program); and ii) support to IIF in implementing SEMS, particularly until IIF had sufficient capacity to conduct its own reviews. For its part, IIF set up a Social & Environment Unit under the Director of Risk Management, in due course staffing it with four E&S specialists.

The LMS project had both environmental and social impacts. Key environmental impacts included: major changes in land use in construction areas; increased noise, erosion, dust, waste and traffic, especially during construction; and degradation of environmental quality. Social impacts included: some 5,617 Project Affected People (PAP), mainly due to land acquisition; and project alignment to accommodate 2 cultural sites (an ancestor tomb and a sacred well).

To minimize the E&S impact, the LMS project agreement included a Corrective Action Plan (CAP), and the project developer (LMS) provided: i) a Supplemental Resettlement Action Plan (SRAP) Unit; ii) a Community Development Unit; iii) a Grievance Redress Unit; iv) a Stakeholder Relations Unit; and v) a budget of up to USD15 million for the livelihood restoration program and the CAP. Implementation was closely monitored through a local consulting firm.

Concerning the SRAP, about 1,527 PAPs in 5 regencies registered for a Livelihood Restoration Program. The program assisted PAPs to improve their standards of living—or at least restore them to pre-displacement levels—through PAPs working on the construction works and skills training for food security, animal husbandry and running a business. In managing and delivering this Program, LMS worked with, among others, Village Heads and three NGOs. Late in the process, a satisfaction survey was conducted to measure the effectiveness of the engagement with PAPs and 87% of the surveyed PAPs found the process acceptable (versus a target of 75%). As specified in the CAP, the Livelihood Restoration Program was to be completed in 1Q 2015. However, LMS extended the program until 2018 to ensure the program's sustainability and strengthen positive impacts on the PAP's livelihoods.

As for the other units set up by the CAP, the Community Development Unit emphasized health and education programs for the affected communities, mainly by engagement and collaboration with local government agencies. The Grievance Redress Unit documented and followed-up on grievances with the contractor and the project manager, including regular meetings with the local facilitators. The Stakeholders Relations Unit emphasized support for the other Units and investigations into urgent cases related to construction of the toll road with, for example, the PAPs, Village Heads, local governments and the contractors.

Source: Project documentation and field interviews.

Box 3: Examples of IIF Leadership in E&S Safeguard Issues

There is striking evidence of IIF's leadership and commitment to E&S Safeguard issues, as described below.

Supporting subprojects and behavioral change. One of IIF's earliest projects was the LMS toll road in West Java (box 2). At the time, IIF did not have a strong Safeguards team, but appreciated the importance of convincing the consortium of 22 banks (led by Indonesia's largest private bank) of the importance of addressing Safeguard issues. Apparently, negotiations were difficult, including with the World Bank, which was still learning to work with the private sector. After multiple meetings and conference calls, the core elements of IIF's social and environmental safeguards framework were incorporated into the syndicated loan agreement and accepted by all participating commercial banks. As a result, IIF significantly influenced this USD1 billion project through its approximately USD50 million investment. According to project documentation, this is the first time these participating commercial banks have adopted such safeguards in an infrastructure project of similar size. Without IIF's commitment, this would not have happened.

Withdrawing from subprojects that conflicted with IIF's standards. In 2013, IIF was in negotiations to help finance a major, coal-fired power generation plant on-Java. Economically and financially, the project was very attractive for IIF. The project was not prohibited under IIF's Operations Manual, and IIF proceeded with its due diligence, aware of the World Bank's opposition to the use of Bank funds for that purpose. The main emerging issue proved to be installation of the technology needed to meet emissions standards, and IIF prepared an action plan in this regard for the developer. However, the developer was reluctant to undertake the (relatively small) additional investment that would have been needed. One major international, commercial bank granted the developer a waiver, but IIF felt they could not and aborted their involvement in the project.

Continued outreach. IIF continues outreach and mainstreaming by its S&E Management Unit to clients, for example, through a one-on-one approach to potential clients, and a workshop held in November 2015 which specifically targeted its clients on the "Benefit and Best Practices of Doing S&E Principles". This seminar, among others, provided feedback on issues of concern to IIF's clients.

Source: Project documentation and field interviews.

Audit. Project documentation and field interviews indicate few Audit issues early in this project. The only notable point concerns delays in developing IIF's Internal Audit capability (see **Financial Management**, below). Relatively late in the project's lifetime, in 2014, the World Bank's Internal Audit Department (IAD) conducted an audit of this project as part of an internal audit of Financial Intermediaries Lending (FIL) operations within the WB portfolio. The objective of the audit was to assess the adequacy of risk management processes in consideration of the unique characteristics of FIL projects, with focus on the effectiveness of the Environmental and Social Safeguards framework to identify, assess, and monitor E&S risk in FIL projects.

IAD's audit of the IIFF project highlighted a common problem among FIL operations. Namely, a certain degree of inconsistency between the legal agreement's provisions on fraud and corruption versus the practicalities of monitoring all phases of IIF's sub-projects, especially as regards proprietary information of the private sector. This matter was resolved by local Bank staff sampling IIF sub-project documents and satisfying the Bank as to IIF's due diligence in this area.

Procurement. No notable procurement issues arose early in this project, basically because IIF was not ready for sub-projects. However, some procurement issues may be highlighted after mid-life of the project, owing to the project's innovative design as a FIL operation. Two aspects are especially notable. First, institution-building at IIF meant that Bank staff were to be building and monitoring *the capacity of staff at IIF for procurement*, not monitoring all aspects of IIF

procurements. Second, most significant sub-project procurements are not done by IIF; they are normally done by one of the sub-borrowers, that is, one of the commercial banks in the financing consortium. As part of the Audit issue, noted above, this issue was resolved by sampling IIF documentation and confirming IIF's due diligence.

Financial Management. The pattern of issues related to Financial Management (FM) was much the same as the rest this project, reflecting the difficulties of institution- and capacity-building in Indonesia. Namely, there was a slow start, followed by a period of struggle, but eventually yielding favorable results. In the case of FM, the slow start mainly originated in two sources:

- IIF Management was on a steep learning curve initially, especially in defining their financial models for different types of sub-projects; and
- IIF Managers, predominantly with a private sector background, needed time to become familiar with GoI and World Bank processes.

As the project gained momentum, Bank documentation indicates that IIF built its FM capacity over time, and only a few routine, relatively minor matters arose. For example, the need for better coordination on monitoring of Interim Financial Report (IFR) submission to the Bank. Also, an implementation support mission recommended against certain of IIF's practices on the use disbursed funds when project delays are encountered.[19]

It's notable that FM was rated as Moderately Unsatisfactory from late 2011 to mid-2013, owing to slow progress in developing IIF's Financial Management System and Internal Audit for procurement and hiring. Otherwise, it was Moderately Satisfactory or Satisfactory including for the last 2 1/2 years of the project's lifetime. In 2013, the Bank's Senior Financial Management Specialist conducted a review of IIF's FM aspects, and provided a Satisfactory rating for the project.

Slow global recovery. As noted at the outset, this project was approved just as the 2008/09 global financial crisis was unfolding. The PAD was cautiously optimistic that Indonesia would be relatively unaffected, and this optimism proved correct. Indonesia's annual economic growth slowed to 4½% in 2008 and has averaged over 6% since then, which is high by international standards of the times. To be sure, international commodity prices have dropped sharply in recent years and probably contributed to noticeably slower economic growth in Indonesia (e.g., 4 3/4% in 2015 versus 6½% in 2011). Nevertheless, this review concludes that the slow global recovery since the 2008/09 crisis has only been a minor factor affecting implementation of this project to date.

Limited progress on PPPs. Another factor affecting this project has been the slow pace of progress on PPPs in Indonesia. At drafting of this ICR, a small number were in various stages of competitive bidding, but not a single PPP bid in the international marketplace had reached financial closure. This has had implications for IIF's private sector advisory services and its fee income (section 3.2), and could have been a major constraint on the project's development impact.

[19] A number of projects were delayed in 2014 due to political transition at the national level. During these delays, IIF had placed its excess funds in automatic 3-month rollover accounts, a practise that the Bank saw as outside the spirit of only drawing-down loan proceeds as they are needed.

But, thanks to the relatively wide scope of IIF's services built into Design, the slow progress on PPPs in Indonesia has turned out to be only a minor constraint.

2.3. Post-completion Operation/Next Phase

As mentioned, an Additional Financing (AF) operation is under consideration for this project. The operation would help finance IIF's future growth strategy, following existing subsidiary loan agreements. The Minister of Finance has authorized the initiation of a loan in the amount of USD300 million from the WB and ADB, with the breakdown in amounts still to be decided by GOI.

At drafting of this ICR, use of the additional financing was still under discussion. However, a combination of new products, in addition to IIF's ongoing set of offerings, looked likely and all could be executed under IIF's foundation resolution. Possible new products include:

- *Take-out financing*, where IIF would make an agreement at deal origination to take out commercial banks at a specified time (e.g., years 5-7 of the loan), or vice versa.
- *Equity bridge loans*, where IIF uses WB loan proceeds to provide loans to sub-projects that do not yet have sufficient equity, providing the sub-projects with needed capital to move forward until it is able to complete its equity fundraising.
- *Staple financing*, where IIF would be the lead lender and offer a pre-arranged financing package to sub-projects.

3. Assessment of Outcomes

3.1. Relevance of Objectives, Design and Implementation

Relevance of the objectives. The Higher Level Development Objective of this project was sufficiently clear and fully in line with Indonesia's development priorities and the World Bank's Country Partnership Strategy (CPS). This continues to be the case at drafting of this ICR. Indeed, Indonesia's infrastructure needs have become more pressing[20] since this project's appraisal whereas the Bank's commitment to assist is unchanged in its most recent CPS.

As for this project's PDO, it had certain weaknesses, as already emphasized (section 2). Still, the intention was clear from other documentation,[21] that is, to set up and operationalise a new Non-Bank Financial Institution that would contribute to the private provision of infrastructure in Indonesia through financing and advisory services.

Another important PDO issue needs to be addressed directly. Namely, a conventional view among infrastructure specialists around Jakarta is that financing is not a major constraint to the private provision of infrastructure in Indonesia. Rather, the main constraint is the capacity of the government for project preparation; *well-prepared sub-projects* would attract adequate amounts of long-term financing, normally from off-shore. IIF management makes a convincing case that this is not the case for the mid-range segment of this market (projects of, say, USD25 to 100 million

[20] The Ministry of National Development Planning's current estimates of infrastructure needs for 2015-19 are double the USD170 billion noted in section 1.1 for the period 2010-14.
[21] For example, in the staff's responses to reviewers' comments at the PAD review meeting.

for IIF). They argue that long-term foreign financing is mainly interested in large sub-projects, whereas small sub-projects—for better or for worse—are able to attract medium-term financing from local banks. That leaves an under-serviced, mid-range segment of this market with a great deal of potential.[22] IIF's success during the past 2-3 years is strong evidence supporting their argument.

In rating Relevance of the Objective, this review finds that the project's Higher Level Development Objective was highly relevant and remains so, as was *the intent* of the PDO, but its formal wording should be re-worked in any follow-on operation. The project team agrees fully, and has worked with IIF to resolve the issue. On balance, *Relevance of Objective merits a rating of 'Substantial'*. (Also see table 1, in section 3.4).

Relevance of the design. This project design was innovative in many respects (section 2.1), and an imaginative approach was vital for an operation like this. Most importantly, the Bank's loan was to the Government of Indonesia with subsidiary loan agreements under which the funds were on-lent twice, first from GoI to Sarana Multi Infrastructure (SMI) and then from SMI to IIF. SMI served as GoI's holding company for GoI's significant, but minority ownership in IIF. For its part, IIF would on-lend to the private sector for infrastructure sub-projects. Critically, the Bank's role was to develop capacity and processes within IIF; the Bank was not involved in approving or implementing individual IIF sub-projects. As for GoI, it was looking to the World Bank to ensure the strongest possible corporate governance for IIF, and to implement strong internal policies and procedures, with the full intention to provide private sector ownership.

In rating Relevance, this Design gets full marks for being innovative, but there were also a number of flaws, already discussed at length in section 2.1. As a rating, *the Design was modestly consistent with the project's stated objectives* (table 1), and required more time than anticipated at design; some in-course adjustments; and intense implementation support to achieve Results.

Relevance of implementation. As discussed previously, the project quickly fell about 2 years behind schedule and required intensive support from staff resident in Jakarta. This was a low-cost, effective response during implementation, as was the continuity provided by local staff during turnover among TTLs (section 2.2). Also during implementation, IIF uncovered a strong demand for USD-denominated lending but was constrained by considerations of foreign exchange risk vis-à-vis the Ministry of Finance, This issue was resolved in November 2012 by an amendment to the Loan Agreement that allowed IIF to on-lend in USD, another appropriate response to emerging issues during implementation.

To summarize implementation issues, the idea at design that the project could be fully implemented in four years was overly optimistic.[23] Several factors accounted for this slow start-

[22] IIF management also notes their institutional strength in another area, namely, Greenfield projects. They point out that private investors tend to shy away from Greenfield projects because of their special problems in Indonesia (e.g., land acquisition and licensing) and the large up-front costs they entail. By contrast, IIF can help from design through operation, including with foreign currency financing, if appropriate.

[23] In discussing this issue, early Bank project managers said that they were confident at the time that the project could be implemented on the envisaged schedule. The main factor was strong, high-level political support, but untimely changes in these personalities reduced the project's momentum (section 2.2). Two other factors supported a relatively short ramp-up period during implementation. First, some early success had already been scored, for

up, including those already mentioned like early management issues at IIF and changes at the political level. Among other factors, IIF had to be built from the ground up, a demanding process that was further complicated by changes in the management team in the early days after IIF's establishment (section 2.2). Also, given the critical role of E&S Safeguards in the development and implementation of infrastructure sub-projects, there was a large gap in capacity at IIF that required additional time,[24] effort and resources for effective project implementation. Finally, as a relatively minor financial player early in its lifetime, IIF faced an uphill battle in applying E&S safeguards into subsidiary loan agreements that sometimes involved a large number of participants that did not necessarily have the same sensitivity to those requirements. It proved demanding and time-consuming to find a balance between mitigating safeguards risks in sub-projects while allowing IIF the room to negotiate its sub-projects on a commercial basis. The November 2013 project extension was an appropriate response to such issues arising during project implementation.

In conclusion, the operation adjusted very well to needs that emerged during implementation. *Relevance of Implementation warrants a 'High' rating* (table 1).

Overall rating for relevance. The three components of Relevance cover a sizable range, namely: Substantial (for Objective); Modest (for Design); and High (for Supervision). On average, the Rating should be 'Substantial' (table 1).

Rating of Overall Relevance: Substantial

3.2. Achievement of Project Development Objectives (Efficacy)

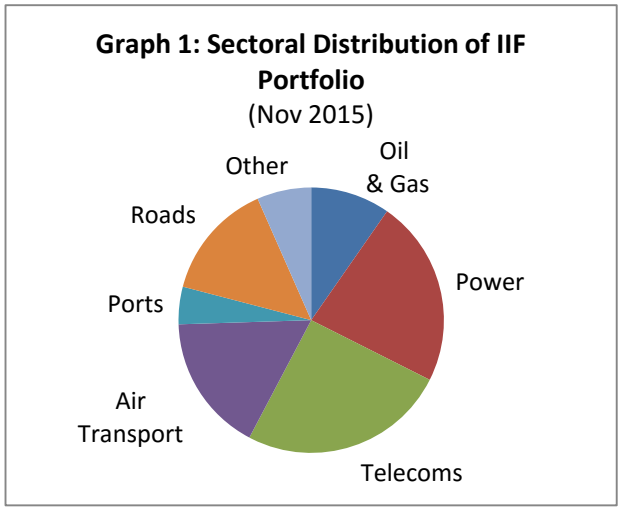
There is much to be said for the extent to which this project has achieved its development objectives, beginning with the success of institution-building at IIF itself. IIF, starting literally from scratch some 6 years ago and climbing a steep learning curve, has established itself as a strong niche player, with a highly credible repository of specialized skills; a robust, profitable portfolio of investments, leveraged by private sector borrowings and ownership; and a strong, committed management and Board of Commissioners.

Broad sectoral spread of sub-projects. IIF's sub-projects, which are described in more detail in the table of annex 3, have developed a good spread across economic sectors (Graph 1) and they have clear economic and social benefits (box 4 in annex 5). The main sub-projects and beneficiaries have been:

- ***Power plants.*** These sell their electricity directly to Perusahaan Listrik Negara (PLN, the national electricity company), which distributes the power to enterprises and households.

example, agreement among stakeholders *before the project went to the Bank's Board*, on one set of E&S standards for IIF. Another factor was the enthusiasm of the times for PPPs, which has proven unfounded to date.

[24] For example, it took six months to hire IIF's first E&S specialist and that person still needed additional training.



- ***Liquefied Petroleum Gas (LPG) plants.*** This product is sold to Pertamina, the national oil company, which distributes the gas in canisters to enterprises and households.
- ***Toll roads.*** These reduce travel time and vehicle operating costs for cars, trucks and buses, thereby lowering the cost of carrying passengers and goods to markets.
- ***Domestic ports.*** Improved port operations reduce transportation costs, by lowering dwelling times.
- ***Telecommunication towers.*** Provide better cell phone service and coverage, including to lower income Indonesians.
- ***Airport operator.*** Expansion of the Jakarta airport, which serves a wide range of users, including some 1 million migrant workers and ¼ million Hajj pilgrims per year.

And a wide geographical spread. IIF's sub-projects cover a wide geographical span across Indonesia including: North Sumatera; Batam; Sulawesi; Jakarta; and most provinces on-Java. Moreover, an up-coming Fiber Optic sub-project will assist with inter-island connectivity across the entire archipelago.

Judging efficacy against indicators. The World Bank and IFC's Outcome Indicators are presented in annex 4, together with assessments of performance. In the case of IFC's Indicators, the assessments are provided by IFC staff, as specified in the PAD. It should be emphasized that they are based upon annual data for 2014 with targets that are generally for 2018.

Three of the World Bank's four targets have been achieved, including the trivial shortfall for Indicator #1, which is entirely due to exchange rate misalignments.[25] Bank Indicator #2 effectively comprises two sub-indicators, owing to a definitional ambiguity discussed in section 2.1. Both have been achieved or exceeded. For the first sub-indicator, a leverage factor of 6 had been achieved, noting that no exact target was specified in the PAD. For the second sub-indicator, the achieved value (in terms of either commitments or disbursements) falls comfortably within the targets for 2014 and 2016 (no target was provided for 2015 in the PAD; see section 2.1).

Indicator #3 fell well short of its target (however measured; see section 2.1), owing to the unexpectedly thin market for PPPs in Indonesia, discussed previously. Notably, this Indicator is less important than others because revenues were expected to be small and because the envisaged *Private* Sector Advisory services have been replaced by higher priority *Public* Sector Advisory services (which do not earn revenues directly, being an MoF-mandated obligation). The impact on project Outcomes of this shortfall has been marginal, at most.

[25] Project disbursements are denominated in USD, but IIF's budgeted amounts are set in Rupiah. When the Rupiah depreciates appreciably, as it did on 2015, the result is a small shortfall in project disbursements.

As for the Intermediate Outcome Indicator, no specific target was set in the PAD, but the achievement of 15 sub-projects was a good result, especially considering the strong pipeline of 11 more sub-projects into 2016.

Regarding IFC's indicators, two have already been achieved or surpassed; two have been partially achieved; and two have not yet been achieved with four years remaining in their time horizon. See annex 4.

Other late-breaking outcomes. Two other notable project Outcomes occurred during drafting of this ICR. First, in mid-December 2015, the Fitch Rating Agency assigned IIF a National Long-Term Rating of AAA (ind). This is the highest rating that Fitch has in its National Rating scale for Indonesia, and it assures IIF's access to low cost, long-term rupiah financing for some time. It is also striking evidence of the strong institution-building that has taken place in IIF. And second, by mid-2016 IIF was well advanced on its plans to issue its first rupiah-denominated bonds, which will represent a step forward in development of the Rupiah corporate bond market, by increasing market capitalization and by strengthening the mid-range and outer-end of the current term structure.

The attribution issue. Considering the FIL nature of these indicators, attribution is not a major issue regarding these Outcomes. IIF is up and operating successfully as intended, with evidence of a strong flow of financing to private sector providers of infrastructure. Nevertheless, two related, secondary issues should be mentioned. First, success must be shared with the three other international institutions involved in this project, and it's difficult to disentangle the three institutions' respective contributions. And second, there is an issue as to whether some of IIF's sub-projects would have gone ahead without IIF's involvement. But even for such sub-projects, IIF has improved those sub-projects' E&S safeguards and financial sustainability, with the Bank contributing significantly to the safeguards component. Sub-projects' financial sustainability is improved because, without IIF's long-term financing, sub-projects would have a mismatch between the tenor of their operations and their financing, which exposes the sub-projects to rollover risk and interest rate uncertainty.

The ICR team judges this *Efficacy as Substantial* and probably towards the upper end of this rating. (See table 1 as well.)

Rating of Efficacy: Substantial

3.3. Efficiency

On traditional financial indicators, this project is on-track for a successful outcome,[26] and IFC's tracking shows that the Economic Rate of Return is almost halfway to its target with 4 years still to run in the target's time horizon. Also, IIF is up and operating as intended, including with strong E&S Safeguards, which minimize the broader costs to society of IIF's sub-projects. All this said, the total net benefits to society of IIF's sub-projects are difficult to estimate with any confidence for this FIL project, owing in part to IIF's many diverse sub-projects, few of which are fully operational.

[26] IIF has been profitable since 2012, and IFC data indicates that the Rate on Return on Equity is on-track to exceed its target 4 years from now.

Other matters concerning the efficiency of this project are discussed in annex 5. To summarize the main points:

- The Bank has achieved considerable 'leverage' with this project. With a loan of USD100 million, the Bank acted as catalyst for more than 8 times that amount of financing from other sources by end-2015, and the total is fully expected to rise further in 2016. This result is well above the leverage factor of 5 foreseen in the PAD.
- Led by this financing, IIF had built-up a strong diversified portfolio of some USD400 million in commitments by end-2015 with another USD300 million or so in the pipeline. A portfolio of USD1 billion looks within reach within an additional year or two.
- As of late 2015, Bank financing per IIF sub-project was down to about 20% of the average cost of a sub-project, and dropping quickly as IIF becomes self-sustaining. Indeed, with existing financing arrangements it looks likely to be below 10% within the next 2 years or so. Furthermore, it would drop off asymptotically to zero as completed sub-projects are replaced by new ones.

As an additional consideration of efficiency, the challenges during project implementation called for intensive implementation support by Bank staff. The bulk of this implementation support was done by Bank staff resident in Jakarta, including by locally-engaged staff who also provided much of the continuity in implementation support. Such close attention to the client could not have been provided by implementation support from Headquarters, even at considerably higher costs of staff and transportation.

The ICR Team considers this to be a robust *demonstration of Efficiency for an FIL operation*; it deserves a rating towards the higher end of 'Substantial'. (See immediately below and table 1.)

Rating of Efficiency: Substantial

3.4. Justification of Overall Outcome Rating

Determining an Overall Outcome Rating is a matter of aggregating the ratings of the previous three sections, and these are summarized in table 1. Justifications for each component are elaborated in sub-sections 3.1 to 3.3. According to standard ICR methodology, the individual ratings for Relevance (S), Efficacy (S) and Efficiency (S) merit an *Overall Outcome Rating of 'Satisfactory'*.

Table 1: Summary of Overall Outcome Rating

Relevance of:			Overall Relevance	Efficacy	Efficiency	Overall Outcome
Objective	Design	Implementation				
Substantial	Modest	High	Substantial	Substantial	Substantial	Satisfactory

3.5. Overarching Themes, Other Outcomes and Impacts

Institutional development. One of the important outcomes of this project, which was intended by —but not explicit in—the PDO,[27] is the creation and operationalizing of a new, specialized Non-Bank Financial Institution dedicated to the provision of financing for the private provision of infrastructure. To be sure, this new institution, IIF, will finance only a small fraction of Indonesia's total infrastructure needs. Nevertheless, this is fully consistent with the 'catalytic' role envisaged in project design, and there is strong evidence of impact (of the order of USD3/4 billion in sub-projects as of early 2016). As intended, this kind of institution adds an important new dimension to Indonesia's financial system, which is still dominated by banks, particularly state-owned banks. Also of note is the quality of IIF management and staff, who are professional and highly committed, including to E&S Safeguards.

Declining, minority government ownership of IIF. A critical design feature of this project was minority government ownership of IIF, with the government's share to decline over time. This has been accomplished with striking success (table 2). Initially, government ownership of IIF was 40.3%, but reduced below 34% after SMBC's subscription in March 2012. Subsequently, DEG purchased another roughly 4% ownership from SMI, further reducing government ownership to 30%.[28]

Table 2: Ownership Structure of IIF

Shareholder	2010	2012	2015
SMI	40.3	33.9	30.0
DEG	19.9	11.2	15.1
ADB	19.9	20.0	20.0
IFC	19.9	20.0	20.0
SMBC		14.9	14.9
Total (in %)	100.0	100.0	100.0
Total (IDR billion)	1,000	1,770	2,000

Source: Project documentation.

Summary of experience with IIF's ownership structure. At design, the project faced a trade-off as between, on the one hand, potential clients who would value the comfort of significant government ownership versus clients who, on the other hand, might be wary of government involvement.[29] The balance struck—namely, declining minority government ownership—looked promising at design. During implementation, the charter shareholders persisted though the difficult early years and welcomed SMBC's subscription as the first 'strictly private' shareholder.[30] On all available indications, the mixed ownership structure has performed well to date, including a consensus on the major issues facing IIF and nurturing an entrepreneurial culture inside IIF that responds to market requirements. It is also noteworthy that the issue of shareholding mix needs to be carefully managed by IIF and any change therein needs to be done in a gradual manner. In particular, the rating agency Fitch specifically mentioned IIF's shareholding mix is an area of

[27] Other project documentation indicate that this Outcome was intended by the PDO wording "…develop the institutional framework of the financial sector….".

[28] As of late 2015, IIF's total equity included another IDR 171 billion in retained earnings.

[29] As further measures to reduce conflict of interest vis-à-vis the main shareholder, IIF tries to avoid projects that rely upon government budgetary support and its public sector advisory services cannot be linked to its projects.

[30] DEG is a subsidiary of KfW, the German government-owned development bank. For its part, SMBC was particularly well-positioned to join ownership because of its global activity and expertise in infrastructure projects as well as its special interest in the region, particularly Indonesia.

strength and indeed opines that a reduction of combined shareholding of GoI and multilateral agencies to below 50 percent may result in a downgrade event. Looking ahead, IIF anticipates a further increase in private ownership through either an Initial Public Offering (IPO) or more direct private ownership.[31] However, IIF management points out that this is a complicated corporate decision[32] and a secondary priority at the moment.[33] In short, this ownership structure has worked well to date and there are good prospects for greater private ownership, although this does look likely to require more time.

Poverty impact and social development. The PAD emphasized the strong linkages between infrastructure development and poverty alleviation, and the importance of E&S Safeguards. However, the extent of the project's success in this regard needs to be emphasized. IIF has emerged as an industry leader in advocating and implementing Safeguards in Indonesia, including at standards that are stricter than the Bank's and IFC's. IIF's implementation of these Safeguards goes a long way towards ensuring that the net benefits of infrastructure development reach Indonesia's poor while minimizing adverse impact on the environment.

Policy advice to government. As documented in annexes 2 and 3, IIF has provided considerable policy advice to Government. Policy advice to government was, indeed, foreseen in the PAD as one of IIF's financial products, but they do not earn revenue directly for IIF and they were not included as a PDO Outcome Indicator. The provision of this service to six or more GoI agencies deserves explicit recognition.

Benefits to the World Bank. Two unexpected benefits from this project accrued to the Bank. First, the experience with IIF provided highly relevant input into the Bank's current review of safeguard policies, especially for FIL operations. And second, Bank staff have learned to work better with the private sector.

3.6. Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops

Not applicable.

4. Assessment of Risk to Development Outcome

As of late 2015, IIF had established itself as a small,[34] credible financial institution with a profitable, rapidly growing investment portfolio; a strong, committed management and Board of Commissioners; and declining, minority government ownership. These factors give IIF a solid basis in the market for private development of infrastructure in Indonesia, especially as IIF's credibility widens and other constraints to private infrastructure development are overcome.

[31] IIF's shareholder agreement makes provision for up to two direct private shareholders before going public. The addition of SMBC was seen as a decisive, first step in this regard, including as an opportunity for IIF to learn from the experience..

[32] By way of examples of complications posed by the decision to add shareholders, more shareholders would increase IIF's capital, which as detailed in section 2 of annex 9, is a factor currently limiting the extent of IIF's participation in individual projects, and therefore constraining the size of its portfolio. However, additional shareholders would further complicate IIF's already-diverse shareholder interests. Also, the choice of a new shareholder has to be strategic and fully in line with IIF's mandate; the new partner cannot be simply interested in the competitive terms of ADB and World Bank loans.

[33] At drafting of this ICR, IIF's top priority was increasing the size of its asset portfolio.

[34] Strictly speaking, IIF is a mid-sized Non-Bank Financial Institution (NBFI), whose project portfolio is in line with expectations of its size at Design. In Indonesia, NBFIs tend to be much smaller than commercial banks.

Nevertheless, there are several risks to the sustainability of IIF's development gains to date, mainly originating within the context of IIF's broader operating environment, as discussed below.

Political/legal risks. Indonesia is still perceived as a risky destination for foreign investors, in part because Indonesia's legal framework is often unpredictable,[35] and greater legal certainty still looks a long way off. Still, it looks unlikely that the degree of legal uncertainty will deteriorate further in any significant way. Consequently, the probability of this risk occurring is rated as low to moderate, although the cost to development outcomes would be high, if the event occurred.

Financial risks. IIF's profitability and strong market niche arise in large part because of its access to long term USD finance, basically from the World Bank and the ADB. To become truly self-sustaining, IIF needs to wean itself off financing from these institutions over the medium- to longer-term, for example by issuing long-term Rupiah bonds.[36] The current generation of IIF management is fully aware of this, and the process has begun with the issuance of a local currency bond in prospect as of mid-2016. However, success still looks some 5 years off, and on-going reliance on World Bank and ADB loans could become a tempting option. The probability of this risk looks low at present, but the cost to IIF could be high, namely its financial independence and sustainability.

Technical risks: continued weakness in PPPs. As mentioned, development of the PPP market in Indonesia has been disappointing to date, undermining IIF's potential sub-project base and its expected revenues from Advisory Services. At drafting, there had been some recent progress in PPPs, but the pace of progress remains slow. It's difficult to imagine significant breakthroughs anytime soon in the introduction of PPPs into Indonesia. Consequently, the probability of this risk occurring looks high, and the cost to IIF would be continuing lost investment opportunities, which could undermine IIF's profitability if the current sub-project pipeline were to tail off.

Institutional risks. The future role of IIF's holding company, SMI, is changing significantly[37] and the implications for IIF were unclear at drafting of this ICR. A transparent policy statement on the respective roles of the two institutions would go a long way towards clarifying how they will collaborate, but there is no guarantee that this will happen. At drafting of

[35] For instance, in February 2015, the Indonesian Constitutional Court invalidated Law No. 7/2004 on Water Resource Management. A decade previously the court had decided that the law was 'conditionally constitutional', which meant that the law could still be invalidated, if implementing regulations were deemed inadequate. Critically, these implementing regulations included issues of particular interest to the private sector, namely commercialization; privatization; and full cost recovery principles. The decision of February 2015 deemed the implementing regulations inadequate in relation to Article 33 of the Constitution, and the Court invalidated the Water Resources Law. Article 33 of the 1945 Constitution says, inter alia, "Sectors of production which are important for the country and affect the life of the people shall be under the powers of the State." Also "The land, the waters and the natural resources within shall be under the powers of the State and shall be used to the greatest benefit of the people."

[36] A significant market with maturities much longer than 7 years still looks distant. More equity is another possibility, from more private investors or an IPO.

[37] As of late 2015, a draft Law (the Indonesian Infrastructure Financing Agency, LPPI bill) had been proposed by the Government to be included on the National Legislation Agenda for 2016. It would provide the legal basis for turning SMI into a large development bank, to channel funds to SoEs and regional administrations with coverage of industrial, agricultural and maritime sectors. If this were to happen SMI's lending mandate would be much wider than infrastructure, and overlap with IIF's, for example for SoE projects.

this ICR, the probability of institutional risk looked moderate, at most. If it occurred, the resulting cost to development outcomes is not necessarily at risk, but has the potential to be high.

Economic risks. Indonesia's private market for the provision of infrastructure depends in substantial part upon the country's overall macro situation. At drafting of this ICR, Indonesia's macro outlook faced challenges from both international and domestic factors. For instance, commodity prices were low and may not have bottomed out; the outlook for the international economy had been notched downwards by several prominent forecasters; and domestic credit remains tight. On the side of domestic fiscal policy, the extent to which fiscal policy can support growth and service delivery depends in large part upon raising the capacity and accountability of local governments, which now spend 52% of the national budget (minus interest payment and subsidies). Nevertheless, GoI has demonstrated clear intent to implement a wide range of reforms and increase public spending on infrastructure, which should go a considerable way towards mitigating the negative factors.

Conclusion on risk. At Design, key risks were rated as 'Substantial' after mitigation measures, and project Risk was consistently rated 'Substantial' during implementation. Given IIF's progress to date, some of the risks at Design have abated, but others remain prominent and new ones have emerged, especially in IIF's operating environment. The ICR's rating of *Risk to Development Outcomes remains 'Substantial'*.

Rating of Risk: Substantial

5. Assessment of Bank and Borrower Performance

5.1. Bank Performance

(a) Bank Performance in Ensuring Quality at Entry

This project deserves full credit for being innovative in design features related to strategic relevance and approach, notably: finding a way for the Bank to extend financing to private companies engaged in the provision of public infrastructure; envisaging a new, specialized NBFI with a sufficiently flexible mandate to manage through a difficult start-up; and working with 3 other international institutions on the project. Also, the Design introduced strong E&S Safeguards into a complex environment.

However, there were also some important weaknesses:

- A PDO that is wide in perspective; vague in key areas; and difficult to quantify.
- A sub-project pipeline that was slow to fill, despite Bank experience that emphasized the importance of a strong pipeline at start-up.
- Indicators that paid limited attention to institutional development at IIF, which was the major challenge during much of the project's lifetime.
- A risk analysis that underestimated key risks and over-estimated the effectiveness of envisaged mitigation measures.

- An envisaged time schedule that was considerably over-optimistic, mainly due to underestimation of the difficulties of start-up in Indonesia, e.g., in recruiting well-qualified management and staff, including as E&S Safeguard specialists. And,
- A misreading of the potential for PPPs in Indonesia, including as a source of IIF revenues from Advisory Services.

There was no quality at entry (QAE) review for this project, although the project did meet the Regional criteria for readiness for implementation, as indicated in the PAD.

To be sure, a few of these weaknesses are simply presentational, because in critical areas *the intention* was clear. Still, they are all design flaws that the Bank should reasonably have anticipated, especially considering its long experience on the ground in Indonesia.

Rating of Bank Performance in Ensuring Quality at Entry: Moderately Unsatisfactory

(b) Quality of Supervision

These design issues posed considerable challenges during implementation, essentially because staffing and operationalizing a new institution was much more time-consuming than anticipated at design, especially in difficult areas like E&S Safeguards. The result was long delays at the outset (e.g., 3½ years between Board Approval and the first disbursement), and it's clear that frustrations set in at several levels. Indeed, about 3½ years into the project, Progress towards the Development Objective was rated 'Unsatisfactory' for some 6 months. Of special note during this difficult period is the quality and candor of staff reporting in Implementation Status and Results reports (ISRs), as well as their determination to press ahead in seeking innovative solutions to the project's complex challenges.

Two factors may have saved this project, which reflect a strong quality of Bank supervision, namely: intensive implementation support; and encouragement and decisive, timely backing from the Country Management Unit. Further, it's important to note the key role of staff on-site in Jakarta. Documentation and interviews indicate in-office contact with IIF as frequent as twice per week at critical times. In order to ensure safeguards mitigation measures in particular, an intensive mentoring program was conducted at the early stage of IIF establishment, which involved weekly visits of a Bank safeguards specialist to IIF, to specifically monitor the implementation of SRAP and CAP (Supplemental Resettlement Action Plan and Corrective Action Plan) of the PT LMS toll-road project back in 2012-13. Overall, this kind of continuing, intensive support can only be provided by a strong, local Bank presence underpinned by a committed working relationship with the client.

The ICR considers the *Quality of Supervision to be Satisfactory*.

Rating of Bank Performance in Supervision: Satisfactory

(c) Justification of Rating for Overall Bank Performance

On the basis of the preceding discussion, there were sizable holes in the Bank's preparation of this operation so as to achieve the intended development outcomes. By contrast, Bank implementation support persisted in difficult circumstances to resolve threats to achievement of the relevant development outcomes, and was ultimately successful. Balancing these two and noting the project's Overall Outcome Rating of 'Satisfactory', a rating of Moderately Satisfactory for Overall Bank Performance is appropriate.

Rating of Overall Bank Performance: Moderately Satisfactory

5.2. Borrower Performance

(a) Government Performance

Government performance showed some variability early in the lifetime of this project, but thereafter was supportive of IIF. As examples of weaker areas of GoI support, were the delays in some conditions of effectiveness, mainly the agreements between SMI-IIF[38] and WB-SMI-IIF. Further, the second CEO was asked by the President of the Republic to take on a higher priority assignment, though a solid management team was put in place immediately thereafter.

As examples of positive factors, GoI's executing agency, SMI, has been highly supportive of IIF to date, despite its own steep learning curve. Also, GoI has assigned SMI with a much broader role in the future (section 4), and this could have favorable spillover effects on IIF's operations. This is particularly the case as concerns possible synergies in project implementation and decision-making; SMI is a fully GoI-owned development financing institution with a wide mandate, whereas IIF is more familiar with specialized, private infrastructure and financial issues.

There were no notable issues of compliance with covenants and agreements or with the availability of counterpart funds.

Overall, this merits a Satisfactory rating.

Rating of Government Performance: Satisfactory

[38] The delay on the fulfillment of conditions of effectiveness mainly concerned the agreements between SMI-IIF (subordinated loan agreement) and WB-SMI-IIF (project agreement). The GOI-SMI subsidiary loan agreement was signed in March 2010, 2 months after the signing of WB-GOI loan agreement. Further, delay on the Subordinated Loan Agreement between SMI and IIF was due to, among other things;(i) workability of the loan structure; and (ii) drafts of the subordinated loan agreements for WB and ADB loans, which had to be acceptable to all IIF shareholders.

(b) Implementing Agency Performance

Clearly, there were long delays in getting the implementing agency, IIF, off the ground. But, with one notable exception, these were not the direct responsibility of IIF; they were mainly rooted in the project design issues discussed earlier. The one exception was the early IIF management team, which faced challenges around the time of loan effectiveness (section 2.2). Still, once the problem was clearly identified, the necessary action was taken expeditiously and decisively.

One other noteworthy factor in this context was IIF management's, fully acknowledged, steep learning curve early in their tenure. This includes adapting their private sector backgrounds to working with the government, the World Bank and three other, quite diverse, international institutions. But once launched, this new generation of IIF management was nothing less than exemplary, being highly professional; committed to the principals of their institution; and adept at balancing the expectations of the World Bank with IIF's responsibilities to its private sector clients, including on credit standards and E&S compliance. Overall, IIF and its management institution look well-prepared for the next stage in the institution's development.

Looking back over the entire history of the project, this ICR rates the implementing agency's performance as Satisfactory.

Rating of Implementing Agency Performance: Satisfactory

(c) Justification of Rating for Overall Borrower Performance

By and large, the early slippages in this project do not reflect adversely on the performance of Government or the Implementing Agency. As discussed, the slippages were largely due to design flaws for which the Bank—not the Borrower—should bear primary responsibility, and this is reflected above in the Bank's ratings for Quality at Entry. Consequently, with the performance of both borrower and implementing agency rated as Satisfactory, Overall Borrower Performance is also rated Satisfactory. In this context special note should also be taken of the borrower and implementing agency's commitment to institution-building at IIF and successful pursuit of the PDO.

Rating of Overall Borrower Performance: Satisfactory

6. Lessons Learned

The great bulk of the Lessons Learned from this project are positive ones. Consequently no distinction is drawn between positive and negative lessons in this section.

Regarding institution-building:

- Institution building is a slow process in Indonesia, even with strong support from committed, forceful Cabinet members.
- When working with a new institution in a difficult technical area, like IIF, a project is likely to need generous amounts of front-loaded, institution-building TA. Even then, a timeframe

of 3 years or more may be needed before significant numbers of sub-projects can be rolled out.

- To assist with monitoring during the early years of a project like IIF, it would be helpful if the Project Indicators were to include metrics of institutional development.
- Setting up an institution properly includes a willingness to take tough decisions. Making such tough decisions demonstrates institutional integrity and goes a long way towards building credibility.
- Specialized staff, like E&S experts, are hard to find in Indonesia and will need additional training to bring them up to speed.
- Good NBFI managers, including with the requisite technical skills, are difficult to find and retain in Indonesia.
- Good managers with private sector backgrounds will require time to become acquainted with GoI and World Bank processes.

When working with the private sector:

- In setting up a private-sector oriented institution, like IIF, the private sector partner should be involved as soon as possible.
- The design of an operational framework of a private-sector oriented institution, like IIF, should have early input from the private sector partner.
- It's important to establish trust quickly among the World Bank, the shareholders and the management of the new institution.
- Once capacity and trust are established, management and shareholders should be given a maximum amount of freedom to pursue commercially viable sub-projects in areas of national priority.
- In working with the private sector, it's important for the Bank to take risks, if it wants to achieve results.

FIL-specific lessons:

- The experience of this project echoes the well-known importance of a strong pipeline of projects at start-up. However, this experience also indicates that, at design, it can be difficult to assess the quality of the sub-project pipeline because sub-project assessments often lack details in important areas like institutional capacity and safeguards.
- At design, the value of risk mitigation measures is easily over-estimated in this type of operation. Heavy investments in technical assistance and Bank staff time, as well as a flexible design, are important elements in overcoming such challenges as they arise during implementation.
- In design and early implementation, the Bank's implementation support viewed this FIL operation as a series of Specific Investment Loans, and attempted to reach beyond institutional capacity building of the Financial Intermediary. Effectively, it tried to pro-actively manage the details of sub-projects, but found that the Financial Intermediary did not have the authority to impose the Bank's safeguards on IIF's clients. This approach proved impractical in working with the private sector, which values proprietary information.
- In assessment, ICR ratings criteria for efficiency were difficult to address analytically for this FIL operation, because a formal efficiency assessment is a time-consuming exercise across several diverse sub-projects, many of which are still incomplete.

7. Comments on Issues Raised by Implementing Agency

As the implementing agency of the project, IIF has provided comments on this interim ICR (Annex 9), highlighting the key issues and lessons learned from project implementation, particularly with regards to its institutional capacity building and limited capitalization. The Bank concurs with these comments which are indeed ongoing challenges that are expected to be addressed through a possible Additional Financing operation.

Annex 1. Project Costs and Financing

Project Cost, by Component	Local USD Million	Foreign USD Million	Total USD Million
Long-term finance to IIF	0	100	100
Of which: IBRD	0	100	100
Total Baseline Costs	0	100	100
Physical Contingencies	0	0	0
Price Contingencies	0	0	0
Total Project Costs	0	100	100
Of which: IBRD	0	100	100

Annex 2. Outputs by Type of Financial Product

Component/Financial Product	**Main Outputs** (as of 25 November 2015)
Sole Component:	
Long-term debt financing and provision of other financial products to commercially viable infrastructure projects	
Product #1: *Debt financing to infrastructure projects*	16 debt financing issuances, covering 8 target economic sectors. Outstanding value of loans of USD210.8 m. Commitments totaling USD312.8 m. Strong pipeline of 11 more sub-projects with commitments of USD357.9 m. through Q1 2016.
Product #2: *Equity Financing to infrastructure projects*	2 equity holdings: in Power and Integrated Infrastructure. Commitments totaling USD19.8 million.
Product #3: *Public Sector Advisory on Infrastructure*	Advice to GoI on 11 sub-projects, of which 7 are on-going. Contributed to several GoI Regulations: i) Ministry of Finance Regulation No 143/PMK.011/2013. This Regulation resulted in 3 MoUs with local governments concerning Viability Gap Funding and PPPs. ii) Indonesian Government Regulation No. 27/2014 on state-owned assets. iii) Perpres 38/15 concerning PPPs. iv) Bappenas regulations on standard procedures for PPPs.
Product #4: *Private Sector Advisory*	Engaged in 5 deals; 3 more in pipeline. Transaction advisor in 2 cases; financial advisor in 3. Generated limited revenues for IIF; no deals reached financial closure.
Product #5: *Other (e.g. Credit Guarantee & Stand-by Finance)*	Part of IIF's mandate, but IIF has not developed capacity in these products, which require specialized expertise. IIF's focus was to build its credibility and franchise in debt-financing space, followed by equity.

Annex 3: Details of IIF's Main Outputs

Type of Product	Sector	Commentary
	(in USD or USD equivalent; committed as of Nov 2015)	
Debt Financing to sub-projects		
Toll Road Construction	Roads	USD47.7 m; 15 yr tenor; 116 km in West Java; IIF's first sub-projects
LNG Extraction Plant	Oil & Gas	USD8.7 m; 5 yr tenor; plant in East Java
Gas Pipeline	Oil & Gas	USD23.5 m; 7 yr tenor; 13.5 km off-shore pipeline to Batam
Gas Power Plant	Power	USD24 m; 9 yr tenor; 2X35 MW capacity in Batam
Asahan Aluminum	Power	USD16.3 m; 15 yr tenor; 2X90 MW hydro plant in N. Sumatra
Power Platform Company	Power	USD25 m; 5 yr tenor; power plant developer & builder
Solar-powered plant	Power	USD2.4 m; 8 yr tenor; northern Sulawesi
Telecom Tower Network	Telecom	USD26.5 m; 5 yr tenor; to major telecom network & service provider
Telecom Tower Network	Telecom	USD38.5 m; 5 yr tenor; to major telecom network & service provider
Telecom Tower Network	Telecom	USD29.3 m; 3 yr tenor; to major telecom com, with SMI
Telecom Tower Network	Telecom	USD18.3 m; 7 yr tenor; to prominent cell service provider
Aircraft Maintenance	Air Transport	USD30 m; 6 yr tenor; for maintenance, repair & overhaul.
Aircraft Maintenance	Air Transport	USD5 m; 1 yr tenor; revolving loan facility; as above
Airport Expansion	Air Transport	USD29.3 m; 10 yr tenor; airport in Jakarta
Seaport Expansion	Ports	USD15.2 m; 8 yr tenor; port in Jakarta
Integrated Infrastructure	Other	USD14.7 m; 2 yr tenor; working capital for clean & renewable energy
Equity Financing to sub-projects		
Power Platform Company	Power	USD 12.5 m; into power plant developer & builder
Integrated Infrastructure	Other	USD 7.3 m; for clean & renewable energy company
Public Sector Advisory		
GFF Regulations	Renewable Energy	On-going support to MoF & MEMR for Geothermal Fund Facility (GFF) implementing regulations
State Asset Regulations	All	Support to MoF on construction costs for brown-field sub-projects; Regulation issued (annex 2)
Direct Lending Schemes	All	On-going support to MoF on regulation of direct lending schemes
Airport PSP Regulations	Transportation	On-going support to MoF & MoTransport; essentially a pre-feasibility study.
Availability payments	PPPs	On-going support to MoF on alternatives to user charge schemes
Oil refinery PPP	Energy	On-going support to MoF, MEMR & Pertamina
Regional regulations for PPPs	All	On-going support to MoHA
Infrastructure Financing	All	Support to MoF & Bappenas (on hold as of late 2015)

Trans-Sumatera Toll Road	Roads	On-going support to MoF on assignment of the sub-projects to an SoE
Viability Gap Funding	PPPs	Support to MoF; regulation issued (annex 2); contributed to 3 PPPs by local governments
Geothermal Fund Facility	PPPs	Support to MoF & MEMR on structuring PPP for geothermal sub-projects (completed)

Annex 4: Details of IIF's Main Outcomes

World Bank	PDO Outcome Indicators	Target Value	Value at ICR	Assessment	Comments
	#1: Increase in the amount of financing from Bank funds provided by IIF to commercially viable infrastructure projects through long term debt financing and other financial products over the lifetime of the project.	USD100 m	USD99.9 m	Fully achieved	Trivial shortfall due to exchange rate misalignments
	#2:a. Increase in the amount of private capital (including long-term debt and equity) leveraged by the IIF over the life of the project.	Leverage factor not specified	Leverage factor of 6	Achieved	
	#2:b. Total loans extended by IIF.	USD106 m. by 2014 (year 3) USD417 m. by 2016 (year 5)	USD210.8 Outstanding USD312.9 Committed	Exceeded	Strong pipeline: another USD73.6 million expected to close in late 2015 and USD284 million in Q1 2016.
	#3: Increase in the number of privately financed infrastructure projects made bankable through the IIF's advisory services (measured by revenues from advisory services).	USD1.14 m. for 2014 (year 3) USD3.52 m. for 2016 (year 5)	USD70,000	Not achieved	Limited retainer fees only; no success fees, as none made bankable through IIF's advisory services.
	Intermediate Outcome Indicator				
	#1. Number of infrastructure sub-projects financed	Not Specified	15	Exceeded	Strong pipeline; 2 more expected to close in late 2015 and 9 more in Q1 2016
IFC	**Development Indicators:**				

#1: Rate of Return on Equity	11% by 2018 1/	4.95% in 2014	Not yet achieved.	
#2: Economic Rate of Return	14.6% by 2018 2/	6.57% in 2014	Not yet achieved.	
Development Impact Indicators				
#1: Infrastructure loan growth	Loans of USD300 million by 2014 and USD1.5 billion by 2019	USD143 million at end-2014	Partially achieved, and on-going	IIF had just started building up its loan portfolio in 2014. Profitability is expected to improve as the loan portfolio grows and IIF books other type of products.
#2: Non-performing Loans	<6% and down to 3% by 2014	Zero as of 2014	Surpassed	
#3: Improved Regulatory Framework	Engage with Go1 to reform the regulatory framework and work on at least three initiatives per annum each year up to 2012		Partially achieved, and on-going.	IIF has been working closely with GoI on public advisory services.Some laws and regulations that impact infrastructure products recently passed, e.g., Land Law and two decrees on Viability Gap Funding (VGF).
#4: E&S Management System	Introduction and application of a common ESSF acceptable to the Bank Group by end-2010	ESMS is in line w/ IFC requirements	Achieved	

1/ Revised by IFC from 15.4% within 6 years, in PAD.

2/ Revised by IFC from 22.5% within 6 years, in PAD

Annex 5. Economic and Financial Analysis

As foreseen in the PAD (p. 33), the World Bank would monitor the analysis by IIF of its sub-projects. IIF's analysis would include attempts to quantify sub-projects' costs and benefits, and measure the net contribution of these sub-projects to society at large. However, as this project developed, this proved unworkable on an on-going basis. Instead, the Bank focused on support to IIF in implementing its Social and Environmental Management System until IIF had sufficient capacity to conduct its own reviews. As an important consideration in this regard, access to the details of sub-projects was more difficult than anticipated at design, because it entails access to proprietary information of the sub-project developers and other borrowers. As noted elsewhere in this ICR, this looks like an issue that is common across the Bank's Financial Intermediation Lending. To address this situation for purposes of this ICR, the reviewer was granted access to—but not allowed to copy—samples of IIF's feasibility studies. The generalities of IIF's analysis are reported below.

Overview of IIF's sub-project analysis. The reviewed sample of IIF's feasibility studies were substantial pieces of financial analysis, and IIF staff were keen to discuss their internal processes and the substance of their studies. The exact template for their feasibility studies varies somewhat depending upon the type of sub-project and when the feasibility study was conducted. However, in general it includes: industry and sub-project analyses; a financial analysis of the borrower, with financial projections and a sensitivity analysis; a detailed management review; a risk and mitigation analysis; and clear recommendations on amounts of financing, type of financing and pricing.

For the purposes of this annex, important aspects of IIF's Economic Analysis are incorporated in the Environmental and Social (E&S) Safeguards section of the Risk Analysis. Effectively, this addresses the Costs side of any Cost-Benefit Analysis that would underlay any formal calculations of an Economic Rate of Return. The main instrument in this regard is a Corrective Action Plan (CAP), which includes clear target dates and priorities for the sub-project developer. A typical CAP covers E&S principals like: environmental degradation; land acquisition; re-settlement; community relations; and continuing local employment opportunities.

Effectively, IIF's Economic and Financial Analysis of the sub-project examines carefully the *financial benefits* to IIF while minimizing the broader *economic cost* to society. It's difficult to imagine private sector arrangements that go much beyond this.

Examples of the broader economic impact of IIF's sub-projects are provided in box 4. These illustrate how better infrastructure contributes to Indonesia's improved economic and social well-being. If the Bank were to desire a deeper investigation into the wider costs and benefits of IFF's sub-projects, it might consider undertaking a separate, detailed study possibly in conjunction with other shareholders. Such a study would only be useful after a significant number of sub-projects had been completed,[39] and it would need to be negotiated with and endorsed by IIF's management and Board of Commissioners.

[39] At drafting of this ICR, only a handful of IIF's projects had been completed.

Box 4: Illustrating Broader Economic Benefits of IIF's Sub-projects

Roads:

- The LMS toll road helps connect all provinces across Java, and traffic volume is estimated at 20,000 vehicles per day.
- Reduces travelling time by 2 hours vis-à-vis the national road, which cuts logistical costs and consumer prices.
- Reduces congestion on the national road, including during heavy traffic of the Lebaran religious festival.

Power Sector:

- A power platform company has established more than 150MW of power in remote areas of the country, using clean, gas-fired plants.
- The equity portion improves the company's debt capacity and the shareholder profile to attract new investors.
- A solar power plant in northern Sulawesi provides electricity to a province with a large gap between electrical supply and demand.
- The Solar power is coupled to an existing diesel generator. This reduces diesel consumption; lowers maintenance costs; extends the generator's lifetime; and supports the government's objective of increased renewable energy.

Telecommunications:

- Supports the acquisition of 3,500 towers from a major, telecom services provider. Ownership of the towers by a third party encourages competition in the industry because telecommunication providers are more comfortable with leasing the tower for their network equipment.

Air Transport

- Purchase of equipment to establish of new aircraft hangar.
- Improves maintenance, repair and safety of aircraft in the rapidly growing local airline industry

Additional financial analysis. To supplement this assessment of IIF's impact, two additional pieces of analysis were undertaken, as presented below.

Table 3: Financial Analysis of IIF

	Number of Projects	Loan cost per Sub-project (millions of USD)
Actual		
Sep-12	1	100.0
Apr-13	3	33.3
Dec-13	9	11.1
Late 2014	9	11.1
Nov-15	15	6.7
Projected		
Mid-2016	26	3.8
At IIF's Full Financing Capacity	36	2.8

Source: Project documentation (ISRs) and author's analysis.

The Bank's cost per sub-project. The cost per IIF sub-project, and how it evolves over time, are presented in table 2. Clearly, the cost per sub-project is very high initially, but drops off as IIF's portfolio of sub-projects expands. The point of this analysis is that the average cost was dropping sharply during the last year or so of this project. At ICR drafting, it was down to less than USD7 million per sub-project (or about 20% of the average cost of a sub-project). Taking into account IIF's pipeline of sub-projects, the cost is expected to halve again during 2016.

Looking even further ahead, IIF still has financing room for more sub-projects within its existing sources of finance. Considering this remaining financing room and the average size of a sub-project to date, the cost per sub-project drops again before this financing room is exhausted (see the bottom line in table 3). At this time, which could be within the next two years or so, the Bank's average cost per sub-project is down to less than USD3 million per sub-project (or less than 9% of value of the average sub-project).

Eventually, when IIF becomes self-sustaining, completed sub-projects are replaced by new sub-projects in IIF's portfolio, and the average cost will drop-off further, indeed asymptotically to zero. This looks likely require another 5 years or so, based upon current levels of financing from the World Bank and the ADB.

Table 4: World Bank Leverage

	WB Loan $ (USD millions)	Total IIF Equity plus Borrowings	WB 'Leverage'
	USD m.	USD m.	
Actual			
late 2015	99.9	746.6	7.5
Projected			
end-2015	99.9	820.0	8.2
2016	100.0	856.6	8.6

Source: World Bank documentation (ISRs) and author's analysis.

The Bank's project 'leverage'. The World Bank's cost per sub-project, as just described, is low because the Bank has served as a catalyst for IIF to mobilize significant amounts of private sector financing. In 2014, USD250 million in 5-7 year financing was raised from a consortium of 22 foreign and domestic banks,[40] and another USD150 million was in store as of late 2015 as well as Rp 1 trillion (roughly USD73 million) from a major local bank. Furthermore, in March 2012 the Sumitomo Mitsui Banking Corporation took a 14.9% equity stake in IIF. (Also see table 2 in the main text.)

[40] IFC was actively involved in IIF's syndicated bank loans.

The ratio between these other sources of IIF financing and the Bank's financing is referred to 'Bank leverage' and some simple analytical results are presented in table 4. At drafting of this ICR, Bank leverage was a factor of 7.5, which is substantially above the value of 5, envisaged in the PAD (p. 15). Furthermore, on current financing arrangements it is projected to rise well above 8, which looks like a solid outcome.

Annex 6. Implementation Support and Implementation Support Processes

(a) Task Team members

Names	Title	Unit
Lending Preparation		
World Bank	`	
P. S. Srinivas	TTL#1	EASFP
Jeffrey John Delmon	Senior Infrastructure Specialist	FEU
The Fei Ming	Private Sector Development	EASFP
Djauhari Sitorus	Senior Financial Sector Specialist	EASFP
Neni Lestari	Financial Sector Specialist	EASFP
Tim Bulman	Country Economist	EASFP
Shubham Chaudhuri	Lead Economist	EASFP
Unggul Suprayitno	Senior Financial Management Specialist	EAPCO
Rajat Narula	Lead Financial Management Specialist	EAPCO
Yogana Prasta	Senior Disbursement Officer	EACIF
Imad Saleh	Lead Procurement Specialist	EAPCO
Amien Sunaryadi	Senior Operations Officer	EACIF
Indira Dharmapatni	Senior Operations Officer	EASIS
Andrew Daniel Sembel	Environmental Specialist	EASIS
Melinda Good	Senior Legal Counsel	LEGES
Jose Zevallos		EAPCO
Andri Wibisono		EASIS
Shienny Lie		EACIF
IFC		
Denis Clarke	Co-team Leader	CINUT
Arun Sharma	Co-Team Leader	CGFTG
Mathias Hedinger		CGFP6
Marina Feldman		CLEFM
Robin Sandenburgh		CESI2
Yoshiko Saito		GCMSM
Implementation support/ICR		
Subrahmanya Pulle Srinivas	TTL and Lead Financial Economist	EASFP
Imad Saleh	Lead Procurement Specialist	EAPPR
Indira Dharmapatni	Senior Operations Officer	EASIS
Unggul Suprayitno	Senior Financial Management Specialist	EAPFM
Jeffrey John Delmon	Senior Infrastructure Specialist	FEUF
Melinda Good	Senior Legal Counsel	LEGES
The Fei Ming	Private Sector Development	EASFP
Andrew Daniel Sembel	Environment Specialist	EASIS
Erly Carina Tatontos	Program Assistant	EACIF

Alexandra L. Drees-Gross	TTL #2 and Senior Financial Specialist	
Imad Saleh	Lead procurement Specialist	OPCIL
Indira Dharmapatni	Senior Operations Officer	EASIS
Novira Kusdarti Asra	Senior Financial Management	EAPFM
Amien Sunaryadi	Senior Operations Officer	EACIF
Achmad Affandi Nasution	Consultant	EACIF
Carlos Pinerua	TTL #3 and Country Senior Coodinator	EASFP
Ahsan Ali	Lead Procurement Specialist	EASR1
Ninin K. Dewi	Consultant	EASIS
Dara Lengkong	Consultant	EASFP
Enggar Prasetyaningsih	Procurement Analyst	EASR1
Krisnan Pitradjaja Isomartana	Environment Specialist	EASIS
Juliana Estrada Carbonell	Consultant	EASFP
Ahsan Ali Lead Procurement Specialist	Lead Procurement Specialist	GGODR
Enggar Prasetyaningsih	Procurement Analyst	GGODG
Andoria Indah Purwaningtyas	Team Assistant	EACIF
Kalpana Seethepalli	TTL #4 and Senior Economist	GCPDR

(b) Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
	A:: *TO BE PRODUCED BY 'THE SYSTEM'	
Total:		
Implementation support/ICR		

Annex 7. Beneficiary Survey Results

Not applicable

Annex 8. Stakeholder Workshop Report and Results

Not applicable.

Annex 9. Summary of Borrower's Comments on Draft ICR

A. IIF Comments on the World Bank Draft ICR Report

IIF thanks the World Bank for sharing the Draft Implementation Completion Results (ICR) Report for the Indonesia Infrastructure Finance Facility (IIFF) project, and for providing continuous support throughout the project preparation and implementation period. IIF is pleased to note that the World Bank has rated the overall project outcome as satisfactory and found that the draft ICR report largely reflects and confirms our own assessment of the project's achievements. We would also like to take the opportunity to highlight the following key issues and lessons learned from the project's implementation to date.

1. Institutional Capacity Building

IIF was initially set up in January 2010, along with an Operations Manual, project risk rating, founder shareholders' agreement and a business plan for the institution to implement. The project took some time to become effective and take off initially, due to issues surrounding its legal, institutional and regulatory frameworks, which are largely beyond IIF's control. Nevertheless, following resolution of the initial outstanding issues, the then recently appointed IIF shareholders and management demonstrated strong commitment to accelerate the company's operation and make up for the initial delays, particularly as they began to fully understand the operating environment and obtain a buy in from key stakeholders.

It is important to note that as a new institution, one of IIF's main challenges is to build its capacity building and knowledge, as well as to set its credit risk appetite. IIF's management had to start from scratch to build its institutional capacity and knowledge, while at the same time undertaking all business development activities to gradually build its rapport in the marketplace, as well as build its portfolio. At the same time, the market lacks experienced talent pools in terms of infrastructure projects and project finance, as well as expertise in Social and Environmental safeguards. Fortunately, during the first IIF project financing (i.e. PT Lintas Marga Sedaya, an operator of 116.75km linear toll road between Cikampek and Palimanan in West Java), IIF's safeguard team was assisted by IFC and the World Bank to ensure rapid capacity building in terms of safeguard requirements.

Given the challenges described above, IIF initially focused more on building institutional credibility through financing relatively traditional debt-oriented instruments, rather than mezzanine and equity. Indeed, building an institution with a lot of complexities, requirements and various expectations from different shareholders has proven to be exceptionally complex and challenging. This requires a resilient management team, which was effectively formed in IIF starting at end of 2011, as well as continuous support and commitment from the Board of Commissioners and shareholders. Further, collective views and support from all stakeholders to focus on pragmatic and practical solutions (instead of only focusing on compliance alone) are critical. Fortunately, IIF's management, with the support from all stakeholders (i.e. Board of Commissioners, shareholders, lenders, etc.), have managed to expedite and overcome the various issues relating to institutional capacity building. Nevertheless, continuing support from all stakeholders would remain key for IIF to succeed going forward, given the particularly challenging operating environment under which IIF is operating.

2. Limited Capitalization for supporting a large ticket size project

A key challenge that IIF continues to face as it establishes itself as a key emerging market player in Indonesia's infrastructure finance is its limited ticket size for financing a single project. This requires IIF to collaborate with other lenders most of the time to ensure its pricing is at market level and competitive. Although IIF was set up as a non-bank financial institution under the Ministry of Finance Decree No.100/PMK/2009, IIF's Operations Manual was developed more towards compliance with Basel II, which is mainly focused on banks. As a result, IIF's project financing ability is limited by its capitalization structure, which consists of Tier I and Tier II Capital, with the Tier II Capital limited at a maximum of 50% of Tier I Capital. Because of this restriction, funding from IIF's Subordinated Loan Agreements from ADB and the World Bank is capped at 50% of Tier I Capital of IIF for the calculation of IIF's Capitalization; thereby limiting IIF's ability to provide higher ticket size to support a single project. Increasing its ticket size is very important for IIF to play its catalytic role effectively, particularly with its additional requirements in Social and Environmental safeguards, procurement guidelines, sanctionable practice and right to inspect. IIF is currently developing its syndication expertise to partly mitigate this key ongoing challenge.

Annex 10. Comments of Cofinanciers and Other Partners/Stakeholders

Not applicable.

Annex 11: List of Supporting Documents

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