

Letter No. CD-098/WB/IV/2016

April 26, 2016

Dear Concerned NGOs,

Subject: Response to your letter regarding World Bank Group support for the infrastructure sector in Indonesia

We are writing in response to your letter of April 12, 2016 addressed to President Kim and IFC Executive Vice President Le Houerou.

Eliminating extreme poverty and increasing shared prosperity are shared objectives of the Government of Indonesia (GoI) and the World Bank Group (WBG). Achieving these objectives requires productivity-based growth, more and better jobs for Indonesians, and improved access to services such as health, education and social safety nets. Within this context, the WBG's Country Partnership Framework with Indonesia assists the GoI in closing the infrastructure gap (estimated at US\$600 billion deficit in investment and growing by some \$60 billion annually) in a sustainable way and supports the private sector as an engine of growth and job creation.

You raised a number of questions associated with specific infrastructure financing funds and a guarantee facility. We hope the following clarifications are helpful:

- **The Indonesia Infrastructure Guarantee Fund (IIGF)** – The IIGF, which is supported by a US\$29.6 million IBRD loan approved September 11, 2012, is part of the GoI's strategy to boost infrastructure investment by providing a well-governed, one-stop shop for guarantees for infrastructure projects. Under the terms of the World Bank loan to IIGF, all guarantees provided by IIGF must comply with its Operations Manual, which is fully compliant with the World Bank's social and environmental safeguards. Any guarantees directly backed by the World Bank-funded guarantee are required to receive a "no objection" from the World Bank, and would need to be fully compliant with all World Bank policies. World Bank financing has not been used for any investment in coal.
- **IIGF Guarantee to Central Java Power Project.** IIGF has indicated that it would consider providing a guarantee to the Central Java Power project when it reaches financial closure from its own resources. This guarantee has not taken place yet. If

concluded, the guarantee or the project will not receive any support from the WBG. The IIGF has not received any technical assistance support from the WBG in relation to the project. IIGF's commitment to support this guarantee was given in March 2011 and predates both the negotiations for the World Bank's loan to IIGF and the WBG's Energy Sector Directions paper. Starting in 2008, IFC provided transaction advisory services to PLN, the Indonesian state-owned power utility, to help structure and supervise a fair, open, and competitive bidding process for the Central Java Power Plant. This advisory engagement was publicly disclosed in May 2009, before the WBG adopted the Criteria for Screening Coal Projects under the Strategic Framework for Development and Climate Change in 2010 and the Energy Sector Directions Paper in 2013. Since October 2011, IFC's support has been limited to providing ad-hoc advice to PLN towards fulfilling documentation conditions required for the financial closing of the project. IFC is not lending to, nor arranging financing for, the project.

- **Indonesia Infrastructure Finance Facility** – The IIF project, which was financed by an IBRD loan of US\$100 million and IFC equity financing and approved in 2009, helped GoI create IIF as a non-bank financial institution to facilitate the financing of commercially viable infrastructure projects, and ultimately increase privately financed infrastructure to help fill the country's infrastructure gap. The World Bank loan supported IIF to develop its Operations Manual (OM) in line with World Bank environmental and social safeguards and fiduciary requirements. Under the loan, IIF is required to comply with all WB project requirements, including those related to environmental and social safeguards, technical and fiduciary aspects. Subsequently, IFC provided loan financings to IIF, which were approved in 2014 and 2015, respectively, and as part of such financing, IFC assisted the Company in ensuring that its environmental and social management system has incorporated IFC's Performance Standards updated in 2012. Environmental and Social Impact Assessments (ESIAs) are disclosed in Bahasa Indonesia to local communities according to local requirements. IIF's environmental and social management system complies with IFC requirements and the company must verify that its investee companies follow applicable Performance Standards, including public consultation. IIF's categorization process is largely consistent with IFC's approach. IFC's sub-project disclosure requirements do not apply to IIF, as it is a non-bank financial institution (established by the government) and this requirement applies to sub-projects in IFC-invested private equity funds. We note that IIF has disclosed some sub-project information: http://iif.co.id/en_US/social-environment-principal/ including ESIA reports.
- **Indonesia Regional Infrastructure Development Fund (RIDF)** – This proposed fund would help cities and municipalities finance and implement critical infrastructure investments including for clean water, sanitation and public transportation. As with all financial intermediary projects supported by the World Bank, the fund would need to be fully compliant with all World Bank policies, including safeguards and procurement

policies. This project is at initial preparation stage and expected to be presented to the WBG's Board for consideration in FY17-FY18.

- **Indonesia Infrastructure Finance Development Trust Fund (IIFDTF)** – This is a recipient-executed small grant supported by a multi-donor trust fund, and not a World Bank investment project. As such, it is not submitted to the World Bank's Board for consideration. Two public consultations in Bahasa Indonesian were held, organized and documented by the Ministry of Finance (MOF). Representatives of two of the signatories of your letter attended the consultations. Details of the consultations are provided by MOF on their website. The Environmental and Social Management Framework (ESMF) prepared by the MOF has also been publicly disclosed by the MOF on their website. The ESMF, which the recipient (MOF) has prepared, incorporates relevant World Bank and country system safeguards and includes the World Bank's project exclusions list.
- **Sustainable Energy:** Some 40 million Indonesians do not have access to reliable electricity. This is one of the key challenges caused by the broader infrastructure deficit. The WBG's engagements in this area are designed to support policy improvements and financing that will encourage investments by the public and private sectors in clean and renewable energy. The objective is to create opportunities for the country to increase the use of sustainable energy sources and pursue a lower carbon energy trajectory. In line with our policy, the WBG is not investing in coal-fired power generation projects in Indonesia.


The WBG is committed to follow all policies and procedures for preparation and supervision of projects in Indonesia, including those with respect to environmental and social safeguards, fiduciary arrangements, public consultations and public disclosure of information.

The WBG is dedicated to helping the people of Indonesia realize their aspirations for an equitable, sustainable and prosperous future.

Yours sincerely,



Rodrigo A. Chaves
Country Director
World Bank Indonesia



Vivek Pathak
Director
IFC, East Asia Pacific Region

List of NGOs :

- Ecological Justice Indonesia
- Indonesian Legal Resource Center (ILRC)
- TUK Indonesia
- WALHI – Friends of the Earth Indonesia
- WALHI West Java
- Indonesia Corruption Watch (ICW)
- ELSAM Institute for Policy Research and Advocacy (Indonesia)
- Ulu Foundation (USA)
- Urgewald (Germany)
- Gender Action (USA)
- debtWATCH Indonesia
- Center for Indonesia Taxation Analysis (CITA)
- BiotaniBahari Indonesia
- CAPP Ecological Justice Foundation (Indonesia)
- SolidaritasPerempuan – Women’s Solidarity for Human Rights (Indonesia)
- YayasanPusaka (Indonesia)
- Indonesia for Global Justice
- KonsorsiumPembaruanAgraria (Indonesia)
- SajogyoInsititute (Indonesia)
- PeTA – Perkumpulan Tanah Air (Indonesia)
- PILNet – Public Interest Lawyer Network (Indonesia)
- JaringanAdvokasi Tambang -JATAM (Indonesia)
- LembagaBantuanHukum (LBH) Semarang (Indonesia)
- Lembaga Gemawan, West Kalimantan, Indonesia
- Swandiri Institute (Indonesia)
- BothENDS (Netherlands)
- Japan Center for a Sustainable Environment and Society
- Friends of the Earth-Japan
- Friends of the Earth – USA
- Forest People's Programme (UK)
- Center for International Environmental Law – CIEL (USA)
- Labour, Health and Human Rights Development Centre (Nigeria)
- Social Justice Connection, Canada
- Carbon Market Watch (Belgium)
- Coalition of the Flemish North-South Movement (Belgium)