THE WORLD BANK
Treasury

CASE STUDY

Boosting Investor Confidence in Indonesia

OVERVIEW

The Development Policy Loan (DPL) with a Deferred Drawdown Option (DDO) is a committed credit line that allows the borrower to rapidly meet its financing requirements following a shortfall in resources due to adverse economic events. On March 3, 2009, the World Bank approved a unique US$2 billion DPL DDO for Indonesia. The loan was the largest component in a US$5.5 billion contingent financing facility that helped Indonesia mobilize funding from the capital markets by sending a strong positive signal to international and domestic markets about its available economic strength.

Background

Indonesia was in a relatively strong position when the global financial crisis struck in September 2008. Real GDP growth was at a ten-year high of 6.3% in 2007, but the global turmoil soon began affecting its financial markets. The month of October saw a 32% decline in the stock market, a nearly 450 basis point increase in yields on medium-term domestic bonds, a 700 basis point increase in Indonesia's international bond spreads, and a 17% depreciation of the rupiah against the US dollar. Indonesia's international reserves, which had reached a high of US$60 billion, fell by nearly US$10 billion to US$50 billion by the end of the month.

Financing Objectives

In the light of their experience during the Asian financial crisis of 1997-98 when credit became scarce, choking the real economy, the government of Indonesia established a crisis monitoring and response system in anticipation of a possible slowdown in growth or crisis. They felt it was important to take precautionary measures that would allow them to continue raising funds from domestic and international markets to meet their 2009 financing needs.

An important element of the measures adopted was back-up financing that could be drawn down as needed and would be used to send a strong positive signal to the markets to boost investor confidence.

Financial Solution

On March 3, 2009, the World Bank approved a unique US$2 billion development policy loan (DPL) with a Deferred Drawdown Option (DDO) for Indonesia. The government could draw down the loan if market conditions deteriorated and its access to international or domestic financial markets became restricted. Indonesia itself imposed conditions for withdrawal related to market access, in terms of pre-specified parameters.

The DPL DDO is a contingent credit line that allows the borrower to rapidly meet its financing requirements following a shortfall in resources due to adverse economic events such as a downturn in economic growth or unfavorable changes in commodity prices or terms of trade. The borrower may defer disbursement of the DPL for up to three years (renewable for an additional three years).

An important pre-approval criterion for this particular instrument is that the country must have an appropriate macroeconomic policy framework in place, which the Bank monitors periodically.

Outcome

The DPL DDO was the largest component in a US$5.5 billion contingent financing facility in which the Governments of Australia and Japan, as well as the Asian Development Bank, also participated. The facility contributed towards improving market sentiment: Indonesia was one of the first countries to issue a bond in the international capital markets during the crisis and got better terms than it would have achieved without the facility. Between September 2008 and March 2009, Indonesia raised more than US$6.3 billion through five bond issuances in the capital markets.

The DPL DDO also acted as a backup financing facility, helping to ensure that the Indonesian government had access to resources if, and when, markets failed to provide the required financing at a reasonable cost.

Terms & Conditions

Approval Date	March 3, 2009
Amount and Currency	US$2 billion
Repayment Schedule	24.5 years of final maturity (including a 10 year grace period) with leveled amortization of principal
Interest Rate	6-month LIBOR plus a fixed spread
Disbursement Period	2 years
Fees	0.25% Front-End Fee[1]

For information:

Miguel Navarro-Martin, Head of Banking Products, mnavarromartin@worldbank.org, +1 (202) 458 4722

[1] On August 5, 2009, IBRD increased the front-end fee of the DPL DDO from 0.25 percent to 0.75 percent and introduced a 0.5 percent renewal fee for new DDOs.

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