

Helping an Indonesian non-bank financial institution mobilize private capital for sustainable infrastructure

The World Bank provided technical assistance to PT Indonesia Infrastructure Finance to issue a USD 150 million, 5-year sustainability bond to fund infrastructure projects that are environmentally and socially sustainable. This is the first sustainability bond issued by a non-banking financial institution in Indonesia.

Background

With its tropical rainforests and long coastline, Indonesia is a key player in the fight against climate change. In its updated Nationally Determined Contributions¹ for the Paris Agreement, Indonesia has committed to a greenhouse gas emissions reduction target of 29 percent unconditionally and 41 percent with international support. Significant investments are needed to close the infrastructure gap in Indonesia, presenting an opportunity to develop infrastructure that generates fewer carbon emissions and supports inclusive development.

PT Indonesia Infrastructure Finance (IIF) was established in 2010 by the Government of the Republic of Indonesia, along with the World Bank Group, Asian Development Bank, and other multilateral institutions, to finance commercially viable infrastructure projects. An essential and critical element of Indonesia's structural transformation is closing its large infrastructure gap. IIF has a vital role to play in this by supporting the flow of private capital into infrastructure development and reallocating resources from carbon-intensive to low-carbon and climate-resilient infrastructure.

As a non-banking financial institution, IIF's primary funding source had so far been shareholder capital, multilateral loans and financing through the domestic market. However, both IIF and the local banking sector had limited funding capacity. Therefore, IIF decided to tap the international capital markets for longer-term financing. Following the successful [green sukuk](#) and green bond transactions by the



Balinese village with port, ferry ship and ocean. Photo Credit Adobe Stock by artfirsov

Government, [PT SMI](#) (another SOE) and two private sector issuers in the infrastructure sector – Tropical Landscapes Finance Facility and Star Energy Geothermal, IIF considered issuing a sustainability bond that would allow it to expand its investor base by drawing on the progress made towards implementing its [Social and Environmental Management System](#) and raising awareness of its interest in supporting sustainable investments. There were several challenges. Firstly, there was a knowledge gap as only [one other domestic institution](#) had issued a sustainability bond before. Secondly, the pandemic-induced market volatility presented considerable challenges in coordinating the resources to execute a transaction.

Financial Solution

A sustainability bond is a fixed income instrument where the proceeds may be used to finance a combination of “green” and “social” projects. Labeled sustainability bonds are expected to conform to the International Capital Market Association Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines and attract investors who are interested in sustainable investments.

Project evaluation and selection

In its [Sustainable Financing Framework \(SFF\)](#), IIF defined 11 categories of projects that would be eligible for financing through the proceeds of the bond and future instruments, including - renewable

¹ Updated Nationally Determined Contribution Republic of Indonesia 2021 (Available at:

<https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Indonesia%20first/Updated%20NDC%20Indonesia%202021%20-%20corrected%20version.pdf>)

energy, energy efficiency, pollution prevention and control, clean transportation, sustainable water, and wastewater management, climate change adaptation, green buildings, affordable basic infrastructure, access to essential services, affordable housing, and food security and sustainable food systems. The SFF also identified 25 activities that would not be eligible for financing. In addition, it specified that debt instruments issued under the SFF would exclude any asset, technology, or activity associated with fossil fuels. IIF established a governance system for the evaluation and selection of eligible projects. Projects are meant to undergo scrutiny by the IIF's Environmental and Social Unit, Finance Units, Investment, Risk Units, and Legal Units. Shortlisted projects are then presented to the Sustainable Finance Working Group comprising senior managers from the company for final selection.

Management of proceeds

Under the Sustainable Financing Framework, IIF's Treasury and Finance units were given the responsibility to manage the proceeds raised under the Framework. IIF specified that they would fully allocate proceeds within two years of the issuance and follow a look-back period of two years.

Reporting

IIF committed to reporting on the allocation and impact of proceeds through annual reports published on its website.

Outcome

[PT Indonesia Infrastructure Finance's USD 150 million sustainability bond](#) was listed on the Singapore Stock Exchange on 28 January 2021 and successfully priced at a yield of 1.75 percent and a coupon of 1.5 percent. The bond was 2.6 times oversubscribed by investors, demonstrating investor confidence in the transaction. It was the first sustainability bond issued by a non-banking financial institution in Indonesia. According to the [IIF's 2021 Sustainability Bond Impact](#)

[Report](#), 100% of the bond proceeds were allocated towards sanitation, green infrastructure, renewable energy, healthcare, and telecommunication projects. The transaction received the [Sustainability Bond of the Year award for 2022 in the category of Financial Institution](#) from the trade publication Environmental Finance.

World Bank Treasury's Role

- The World Bank Treasury's [Sustainable Finance and ESG Advisory Services](#) provided technical assistance to IIF as part of the Infrastructure Financing Support - Capital Market and Risk Products project² managed by the World Bank's Finance, Innovation, and Competitiveness Global Practice in Indonesia.
- The World Bank developed the capacity of IIF's technical team, helped develop the bond framework and identified eligible projects according to international best practices. The engagement continued after the issuance of the bond, with the World Bank helping IIF prepare the post issuance Allocation and Impact Report.

Summary of Financial Terms

Date of issuance	January 27, 2021
Amount	USD 150 million
Tenor	5 years
Use of proceeds	Green and social projects in sanitation, green infrastructure, renewable energy, healthcare, and telecommunication projects
Coupon	1.50%
Yield	1.75% tightening of 37.5 basis points from initial price guidance
Oversubscription	2.6x

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