Report Number : ICRR0020543

1. Project Data

Project ID P092218	Project Name ID- Indo Infrastructure Finance Facility	
Country Indonesia	Practice Area(Lead) Finance & Markets	Additional Financing P154779

L/C/TF Number(s) IBRD-77310	Closing Date (Original) 31-Dec-2013	Total Project Cost (USD) 350,000,000.00
Bank Approval Date 24-Jun-2009	Closing Date (Actual) 30-Nov-2016	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	100,000,000.00	0.00
Revised Commitment	100,000,000.00	0.00
Actual	99,880,000.00	0.00

Sector(s)
Energy Transmission and Distribution(48%):Rural and Inter-Urban Roads(34%):Railways(11%):Ports/Waterways(4%):Oil and Gas(3%)

Theme(s)
Other Private Sector Development(50%):Infrastructure services for private sector development(50%)

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2. Project Objectives and Components

a. Objectives

According to the Loan Agreement (page 7), the project development objective of the Indonesia Infrastructure Finance Facility Project of the Republic of Indonesia is: to strengthen and further develop the institutional framework of the financial sector to facilitate financing of commercially viable infrastructure projects and thereby increase the provision of private infrastructure in Indonesia.

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Components

The project comprised two components, the first, supported by the Bank, and the second, supported by the IFC. Only the first component is the subject of the ICR and this ICR Review. Data for the second component is included in this section for information, and not for evaluation, purposes

Deployment of Investment Capital (US$100.0 million estimate, US$99.88 million actual) aimed to provide long-term debt financing, equity investment, and other financial products, as well as advisory services, to commercially viable infrastructure projects through the newly-formed company, Indonesia Infrastructure Finance (PT IIF). This component had three sub-components: (a) Funded Projects to provide senior debt, subordinated debt, mezzanine finance, equity, and investment for new infrastructure projects, and refinancing and securitization for existing infrastructure; (b) Non-Funded Projects to provide credit guarantees and stand-by finance for infrastructure projects; and, (c) Fee-Based Products to provide advisory services to the Government and to the private sector for infrastructure public-private partnerships (PPPs) and other infrastructure projects.

Equity Investment in Indonesia Infrastructure Finance (PT IIF) (US$25.0 million estimate, IDR20.0 billion actual in 2015) involves the equity investment by the IFC in PT IIF of up to US$25.0 million for a 12.5 percent ownership share in the projected total capital stock of the entity of US$200.0 million at ramp-up (i.e., between years five (2014) and seven (2016)). Other equity investment would come from: the Government, through P.T. Sarana Multi Infrastructure (SMI), a new vehicle established by the Government to channel its equity investment and loans to PT IIF, (US$60.0 million estimate at ramp-up for a 30 percent stake, IDR30.0 billion actual in 2015); the ADB (US$25.0 million estimate at ramp-up for a 12.5 percent share, IDR20.0 billion actual in 2015); Germany's Deutsche Investitions und Entwicklungsgesellschaft (DEG) (US$20.0 million estimates at ramp-up for a 10 percent stake, IDR15.1 billion in 2015); and, private investors (US$70.0 million estmate at ramp-up for a 35 percent stake, IDR14.9 billion actual in 2015).

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost: The project cost was estimated at appraisal at US$100.0 million. The actual project at closing was US$99.88 million.

Financing: The Bank financed the project with a financial intermediary loan (FIL) of US$100.0 million to the Republic of Indonesia. The Government re-lent the entire proceeds of the loan to SMI (under a subsidiary loan agreement executed between the Government and SMI), and the SMI, in turn, re-lent the entire proceeds of the loan to PT IIF (under a subordinated loan agreement executed between SMI and PT IIF). The PT IIF was the sole participating financial intermediary of the project. Separately, the ADB extended a co-financing loan to the Republic of Indonesia for PT IIF in the amount of US$100.0 million.

Borrower Contribution: The Republic of Indonesia, through SMI, provided equity investment in PT IIF.

Dates: The project was approved in June 24, 2009 and became effective in April 25, 2011. The Loan Agreement was amended once, in November 24, 2012, to allow PT IIF to lend in U.S. dollars, a response to the strong demand for U.S. dollar financing in energy and port projects. The project was restructured twice, in October 21, 2013, to complete the project activities, which extended the project closing date from December 31, 2013 to November 30, 2015, and in November 30, 2015, to prepare an Additional Financing operation, which extended the project closing date to November 30, 2016.

3. Relevance of Objectives & Design

a. Relevance of Objectives

The project was relevant to development priorities in Indonesia at project appraisal. Although the economy had grown commendably at an average 5.75 percent annual rate in the five-year period from 2004 to 2008 and had entered the 2008-09 global financial crisis in a strong position, infrastructure had fast become a constraint to more vigorous growth and more extensive poverty reduction. Infrastructure needs were particularly acute in power, transportation, and water supply and sewerage while the available finance was not supportive of infrastructure development --- fiscal space was limited, the corporate bond market was small, and banks were constrained by five-year loan tenors. The project continues to be relevant to development priorities in Indonesia at project closing. The country's infrastructure needs have risen since the project's appraisal. According to the Ministry of National Development Planning, infrastructure needs for 2015-19 are double the US$170.0 billion estimated for 2010-14. In the PT IIF's view, the middle-market for infrastructure finance --- covering projects costing US$25-100 million --- is particularly large and remains underserved, considering that, even with a robust financing capacity (currently at US$856.6 million), the PT IIF may exhaust its own financing room for middle-market projects (an estimated 36 projects) in about two years without more capital resources. In contrast, long-term foreign finance is normally directed at large projects, while medium-term finance from local banks is available for small projects.

The project continues to be well aligned, at project closing, with the strategic objectives of the World Bank Group's Country Partnership Framework (CPF) for Indonesia for FY2016-20. Guided by the twin goals of eliminating poverty and enhancing shared prosperity, the CPF places a "heavy emphasis on the enabling environment for the private sector and on infrastructure investment". The CPF focuses on infrastructure that is necessary to provide connectivity, develop sustainable energy, reap the benefits of rapid urbanization, and improve the equality of opportunity through better access to water and sanitation services. Less restrictive investment and trade regulations would help unlock private capital and fill the enormous infrastructure financing needs which cannot be addressed by public resources alone. And, deepening the capital markets is essential to provide the finance to close the infrastructure gap. In this regard, the Government decision in 2015 to support direct lending by multilateral organizations to state-owned enterprises with sovereign guarantees has opened the opportunity for increasing financing for infrastructure.

A minor shortcoming is the lack of a better defined relationship between this project --- the creation of a non-bank financial institution to finance the private provision of infrastructure --- and the other major effort to marshal private resources for infrastructure in Indonesia --- the infrastructure public-private partnerships (PPP) program. While the PAD (page 4) discusses the PPP program at length, it concludes with only a general statement that this project "aims to draw many of these initiatives together".

Rating
Substantial

b. Relevance of Design

The project components and activities were consistent with the project objective. The creation of a new non-bank financial intermediary, the PT IIF, and the provision by the Bank (in the first component) and by other international financial institutions including the IFC (in the second component) of capital resources to the PT IIF would enable the new institution to finance new infrastructure projects together with other investors and lenders, increasing the provision of private infrastructure in Indonesia. With fiscal resources limited, the corporate bond market thin, and bank lending constrained, long-term lending and equity investment by the PT IIF would fill a gap in finance for private infrastructure projects which needed long gestation periods, required high upfront capital costs, involved long construction times, and had long asset lives and income streams. In addition, the extension by the PT IIF of advisory services to private and public project sponsors would strengthen the preparation of infrastructure projects.

The causal chain in the project Results Framework was convincing. The provision by the Bank, other international organizations, and the Government of funding for the new PT IIF would create a financially capable institution for long-term infrastructure finance. A financially and technically capable PT IIF would strengthen the institutional capacity of the financial sector to fund viable infrastructure projects because long-term financing and advisory services by the PT IIF would enable other investors and lenders to participate in syndicates to support infrastructure projects. The financing of new infrastructure projects would add to the provision of private infrastructure in Indonesia.

The choice of the financial intermediary loan (FIL) as the financing instrument was appropriate for the purposes of the project. The Bank would lend the project funds to the Government which in turn on-lend the funds to the PT IIF through a public investment holding company. The PT IIF would then use the funds and other resources (capital contributed by other investors in and lenders to the PT IIF) to extend long-term loans or to invest equity in private infrastructure projects, with the participation of other financiers. A minor criticism is that, since the PT IIF was a new institution and the project was as much an institution-building as a financing operation, a small technical assistance component funded by a Technical Assistance Loan (TAL) might have been suitable to help build capacity in the PT IIF.

Rating
Substantial

4. Achievement of Objectives (Efficacy)

Objective 1

Objective

To strengthen and further develop the institutional framework of the financial sector to facilitate financing of commercially viable infrastructure projects.

Rationale

Outputs

The project produced the following outputs:

- PT IIF was organized in January 2010, with an initial equity investment from the Government's SMI of IDR403.0 billion (US$44.8 million at the end-2010 exchange rate of IDR8,991 per U.S. dollar), and from the IFC, ADB, and DEG of IDR199.0 billion (US$22.1 million) each, as a specialized non-bank financial institution dedicated to provide financing for the private provision of infrastructure.

Outcomes

The degree of achievement of the objective is assessed as Substantial.

- Since its creation in 2010, PPT IIF has grown to rank as a mid-sized non-bank financial institution in Indonesia.
- PT IIF's capital has increased from IDR1,000.0 billion in 2010 to IDR2,171.0 billion in end-2015, including IDR171.0 billion of retained earnings. Japan's Sumitomo Mitsui Banking Corporation (SMBC) subscribed to PT IIF's capital in March 2012, becoming the institution's first "strictly private" shareholder (two are needed before PT IIF can go public). With an equity investment valued at IDR298.0 billion in end-2015 (US$21.6 million, at the end-2015 exchange rate of IDR13,795 per U.S. dollar), SMBC owns 14.9 percent of PT IIF. The Government's SMI's own stake has been reduced from 40.3 percent in 2010 to 30.0 percent in 2015, in line with the project design, following DEG's purchase of four percent of SMI's ownership. IFC and ADB maintain 20 percent ownership each, with equity each of IDR400.0 million (US$29.0 million) in end-2015.
- Since financing its first infrastructure project (a 116.75 kilometer linear toll road between Cikampek and Palimanan in East Java, operated by P.T. Lindas Marga Sedaya) in September 2012, PT IIF has grown its portfolio to 18 funded projects in end-November 2016, with another 11 projects in the pipeline.
- PT IIF achieved, in December 2015, a national long-term rating of AAA from the Fitch Rating Agency, the highest in Fitch's national rating scale for Indonesia. The rating assures PT IIF of access to low cost, long-term Rupiah financing going forward. In addition, PT IIF had, by mid-2016, made significant progress with its plans to issue its first corporate bond.

A shortcoming is that PT IIF's faces constraints with regard to the scale and influence of its investments on Indonesia's infrastructure sector. PT IIF's limited capitalization constrains its ability to finance a single project, requiring it, most of the time, to collaborate with other lenders. Although PT IIF was created as a non-bank financial institution, its operations were designed to comply with Basel II, which is focused on banks. As a result, PT IIF's project financing ability is limited by its capitalization structure, which consists of Tier I and Tier II capital, with Tier II capital limited to a maximum 50 percent of Tier I capital. (Tier I capital is a bank's core capital and consists of common stock and retained earnings. Tier II capital is a bank's supplementary capital and consists of subordinated term debt, hybrid instruments, revaluation reserves and undisclosed reserves). Because of this restriction, PT IIF's debt funding from the Bank and from the ADB is capped at 50 percent of its Tier I capital. This limits PT IIF's ability to provide a higher ticket size to support a single project, a capacity that is crucial if it were to play a catalytic role in the country's infrastructure finance.

Rating
Substantial

Objective 2

Objective

To increase the provision of private infrastructure in Indonesia.

Rationale

Outputs

The project produced the following outputs:

- Eighteen infrastructure projects were financed by PT IIF by the project completion date in end-November 2016. The financing for another two infrastructure projects were to close by end-2016. In addition, nine other infrastructure projects were in the pipeline for financing by end-March 2017.
- Of the 18 infrastructure projects funded by the project completion date, 16 were provided debt financing in the amount of US$354.5 million with tenors ranging from one to 15 years, and two were provided equity financing in the amount of US$19.8 million, for a total funding commitment of US$374.3 million.
- The 18 infrastructure projects funded by PT IIF were spread across a range of sectors: two in oil and gas, five in power, two in renewable energy, one in roads, one in ports, three in air transport, and four in telecommunications. They were also spread across a wide span of locations: North Sumatera, Batam, Sulawesi, Jakarta, and provinces in Java.
- There were no explicit targets for the number of infrastructure projects to be financed by PT IIF, only that the amount of US$100.0 million was provided by the Bank for this purpose. The total funding commitment by PT IIF by end-November 2016 well exceeded the Bank funding for the project.

Outcomes

The degree of achievement of the objective is assessed as Substantial.

In general, there was an increased provision of private infrastructure in Indonesia over the life of the project, 2010-2016.

- The amount of financing, using Bank funds, provided by PT IIF to commercially viable infrastructure projects through long-term debt financing and other financial products increased by US$99.9 million, meeting the target for this outcome indicator of US$100.0 million, or the amount of the Bank support for the project. The trivial difference is due to exchange rate changes: PT IIF provides most financing in Rupiah, but disbursements of the project funds are in U.S. dollars.
- There was an increase in the amount of private capital, both long-term debt and equity, leveraged by PT IIF for infrastructure projects. PT IIF committed US$374.3 million for 18 infrastructure projects, exceeding the target set in the PAD. The leverage factor achieved was six --- the amount of financing mobilized for the 18 infrastructure projects was six times that committed by PT IIF in long-term loans and equity investments on its own account. The PAD did not include a numerical target for the leverage factor. The baseline value for the leverage factor was zero.
- Because the advisory mandates are still on-going and none of the beneficiary projects have reached financial closure, it cannot as yet be determined that there has been an increase in the number of privately-financed infrastructure projects made bankable through PT IIF's advisory services. PT IIF has been engaged as an advisor in five private sector deals --- as a transaction advisor in two, and as a financial advisor in three. Another three advisory engagements are in the pipeline. The services have generated some limited revenue for PT IIF (a tenth of the projections at appraisal), but none of the deals have reached financial closure. It should be noted that there was no numerical target, at appraisal, for the number of infrastructure projects to be made bankable through advisory services provided under the project.
- PT IIF has extended its advisory services to the Government, providing advice on 11 infrastructure projects, of which seven are on-going. Moreover, PT IIF has contributed to several new regulations issued by the Government on infrastructure: on viability gap funding (Ministry of Finance Regulation No. 143, of 2013); on state-owned assets (Indonesian Government Regulation No. 27, of 2014); on public private partnerships (Presidential Regulation (PERPRES) No. 38/15); and, on standard procedures for public-private partnerships (a Ministry of National Development Planning (BAPPENAS) regulation).

However, while PT IIF's financing operations have increased the provision of private infrastructure in Indonesia, its private advisory services have yet to result in an actual private infrastructure project and thus it is difficult to tell if the project will have traction in this space.

Rating
Substantial

5. Efficiency

An economic rate of return (ERR) for the project was not calculated at appraisal. The PAD (page 33) stated that an economic analysis of the project could not be reasonably conducted without knowing, in advance, the portfolio of private infrastructure projects that would be financed with the project funds.

The PAD, instead (pages 33-38), prepared a ten-year projection of the balance sheet and the income statement of PT IIF. The underlying assumption was that PT IIF would be able to grow its loan book from US$16.0 million in its first year of operation to US$2.4 billion by its tenth year. Using these pro-forma financial statements, the PAD computed financial ratios --- notably, the return on assets (ROA) and the return on equity (ROE) --- of the institution, which are then used as outcome indicators for the IFC equity investment in PT IIF. Note, however, that the financial ratios do not reflect the IFC equity investment alone, but are attributable to all the funding sources mustered by PT IIF in building its infrastructure loan portfolio, including loans provided by the Bank and ADB, and equity contributed by the Government's SMI, ADB, DEG and private investors.

The PAD (page 125) forecast an ROA of 4.9 percent for PT IIF by year five (2014, considering that the institution was organized in 2010) and 3.5 percent by year ten (2019), and an ROE of 14.6 percent by year five and 16.1 percent by year ten. The target, or at least IFC's target for the ROE, was revised downward during implementation to 11 percent by year ten. The ICR (page 45) reports an ROE for PT IIF of 4.95 percent in 2014, which falls under the target at appraisal of 14.6 percent by year five.

Other than reporting the above financial ratios for PT IIF as a corporation, the ICR does not estimate an ERR for the project at completion. The ICR (page 46) states that the Bank is unable to undertake an economic analysis of the project as it does have access to the details of the underlying private infrastructure projects financed by PT IIF, with the information being private and proprietary. The ICR notes that the issue is common across the Bank's financial intermediary loan operations. Moreover, while all of the project funds have been disbursed, many of the infrastructure projects remain ongoing and only a few have been completed.

In the absence of sufficient data to judge the economic efficiency of the project, IEG rates efficiency as Modest.

Efficiency Rating
Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐Not Applicable
ICR Estimate		0	0 ☐Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The outcome for the project is rated as Moderately Satisfactory.

The relevance of objectives is rated Substantial.

The relevance of design is rated Substantial.

The efficacy of the project is assessed as Substantial, with the degree of achievement of the first objective rated Substantial and that of the second objective also rated Substantial.

The efficiency of the project is assessed as Modest.

a. Outcome Rating
Moderately Satisfactory

7. Rationale for Risk to Development Outcome Rating

Overall, the risk to the sustainability of the development outcome of the project is Substantial.

Political and legal risks are significant, as Indonesia is still perceived as a risky destination for foreign investors. The country’s legal framework is often unpredictable, as evidenced by the recent decision, in February 2015, by the Indonesian Constitutional Court to invalidate the Water Resources Law (Law No. 7/2004), which is of particular interest to the private sector. The Court deemed the implementing regulations to the Law as inadequate relative to Article 33 of the Constitution. The implementing regulations covered provisions for commercialization, privatization, and cost recovery. The probability of political and legal risks materializing is low to moderate, but the costs to the development outcome would be high if the risks materialized.

Financial risks have a low probability of occurring, in large part because the PT IIF enjoys access to long term U.S. dollar funds provided by the Bank and the ADB. To develop into a truly sustainable institution in the medium- to long-term, however, PT IIF needs to wean itself away from concessional resources. To this end, PT IIF has started, beginning in mid-2016, the process of issuing a local currency bond. The prospect of a long-term bond issue, one with a maturity of more than seven years, remains distant, given the current state of the capital markets in the country. In which case, PT IIF may continue to rely on Bank and ADB funds. But this could exact its own costs and they could be high --- the financial independence and sustainability of the institution.

Technical risks arise from the continued weakness of public-private partnerships (PPPs) in Indonesia. The poor development of the PPP market robs PT IIF of a pool of infrastructure projects for its loan book and detracts from its ability to generate revenues from advisory services. Although there has been some progress of late, the pace of development of PPPs remains slow and it is difficult to expect significant breakthroughs anytime soon. Consequently, the probability of this risk occurring is high, and the cost, in terms of lost investment and revenue opportunities, is also high.

Institutional risks are related to the changing role of the Government’s SMI, which functions as PT IIF’s holding company. In late 2015, a draft law was proposed to be included in the Government’s legislative agenda for 2016 which would turn the SMI into a development bank, channeling Government funds into state-owned enterprises and regional administrations for agriculture, industry, and maritime transportation projects. Should the plan materialize, SMI’s mandate would overlap with that of PT IIF. For now, the probability of this institutional risk occurring appears moderate, but the cost to the development outcome would be high if the risk materialized.

The market for the provision of private infrastructure depends largely on the overall macroeconomic situation. Indonesia faces several serious macroeconomic challenges. The prospects for the global economy has notched downward. Commodity prices remain low, and may not have bottomed out. Fiscal policy is constrained, and depends in large part on raising the capacity and accountability of local governments which spend over half the national budget. Domestic credit remains tight. On the other hand, the Government has demonstrated a commitment to a range of structural reforms, which should mitigate against these macroeconomic risks.

a. Risk to Development Outcome Rating
Substantial

8. Assessment of Bank Performance

a. Quality-at-Entry

The project had an innovative institutional approach to the provision of private infrastructure in Indonesia --- the creation of a new non-bank financial institution, PT IIF, dedicated to financing private infrastructure projects; the initial equity funding of PT IIF by the Government whose shareholding would decline to a minority status as private investors subscribed to the new institution's capital; and, the initial debt financing of PT IIF by concessional lenders whose role would diminish in time as the institution turned to the domestic capital market.

The Bank engaged three other international financial institutions in the project, with vital stakes in infrastructure development in Indonesia. The IFC, ADB and DEG were to contribute equity funding to PT IIF, and the ADB was to provide long-term debt financing as well. The four international institutions worked collaboratively in the development of the project. According to the ICR (page 15), the participation of the four international institutions in the project was viewed as providing robust international financial backing to the new institution and as a signal of competent governance standards.

Cognizant of its role in developing the institutional capacity of PT IIF, the Bank placed particular emphasis at the design stage in ensuring that PT IIF would comply with environmental and social safeguards and fiduciary standards required in Bank operations.

Nonetheless, the project had several shortcomings.

The Bank did not correctly anticipate the time it would take for the Government to more thoroughly familiarize itself with the innovations introduced by the project. In the Government's view, the matter of it taking a substantial but eventually minority ownership in PT IIF needed more thorough discussion and vetting. According to the ICR (page 15), the pressure on the Bank to show progress with the project after a lengthy four-year preparation period, and the quick announcement by the Minister of Finance in January 2005 to create a new financial institution, left little opportunity for all stakeholders in the Government to commonly and decisively buy into all aspects of the project design.

The Bank also failed to anticipate the effort it would take to create two new institutions --- the Government's SMI and PT IIF --- from the ground up. The task of institution building would prove to be more complex and time consuming than foreseen in the planning documents. It would take time for PT IIF to establish itself and introduces its brand in the market. PT IIF would struggle to fund suitable projects, and the investment pipeline would be slow to fill. PT IIF would find a shallow pool of talent in the country with thorough knowledge of project finance. There was limited information and data on infrastructure, including in the public documents, and environmental and social safeguards for approved projects took time to prepare and implement.

In particular, the Bank did not correctly anticipate the complications facing PPPs in Indonesia. Infrastructure PPPs have made little progress in the country in the past decade for a variety of reasons: the Government has had limited capacity and resources to prepare PPP projects; institutional authorities within the Government are fragmented; there are issues with land acquisition in the country; licensing systems and administrative procedures are complicated and cumbersome; and, the legal system is unpredictable. Overall, foreign investors still perceive Indonesia as a risky destination for long-term investments, and demand higher rates of return in compensation for risk.

In the ICR's view (page 16), it wasn't that the Bank did not anticipate any of the foregoing issues at appraisal, but that it grossly under-estimated the time needed to address them effectively during implementation. Thus, IEG rates quality at entry as Moderately Unsatisfactory.

Quality-at-Entry Rating

Moderately Unsatisfactory

b. Quality of supervision

The project faced considerable operational hurdles at inception. The Loan Agreement mandated eleven conditions for project effectiveness, including the conclusion of the subsidiary loan agreement between the Government and SMI and the subordinated loan agreement between SMI and PT IIF. The Bank was helpful to the Government in advancing the project forward, although loan effectiveness was delayed for 22 months. The Bank was also helpful in supporting PT IIF toward its first loan operation, although it took another 18 months from project effectiveness before the first disbursement was made of the project funds.

Involving three other international institutions in the project exacted some coordination cost on the Bank's supervision of the project, as each institution had its own internal processes to follow. Coordination costs were appreciable according to the involved staff, and institutional tensions arose from time to time. Nonetheless, conflicts were resolved in due course and in a constructive manner that satisfied the Government. In the PT IIF's view, it found significant value in working with four international institutions led by the Bank, notwithstanding the initial frictions.

The ICR (page 19) points to the high turnover of Bank task team leaders (TTLs) for the project --- three TTLs in the last five years --- as being an irritant in the relations between the Bank and the Government during project implementation. The Government complained that the frequent changes complicated relationship building during the difficult years of the project. The Bank countered that there was collaboration between the outgoing and incoming TTLs, and implementation support was provided adequately anyway by the on-site supervision and local staff.

Quality of Supervision Rating
Moderately Satisfactory

Overall Bank Performance Rating
Moderately Satisfactory

9. Assessment of Borrower Performance

a. Government Performance

Political developments affected the pace of implementation of the project in the early years. The Minister of Finance, the Economic Coordinating Minister, and the Vice President were all highly supportive of the project during preparation. Hence, the project has an optimistic implementation schedule at appraisal. As the project was to be implemented, however, there were changes in the political leadership. The Vice President lost in the elections of 2009, the Economic Coordinating Minister was elected Vice President in 2009, and the Finance Minister resigned in 2010.

The weakness in political support for the project showed in the late fulfillment of conditions for the effectiveness of the project. The subsidiary loan agreement between the Government and SMI was signed two months after the signing of the loan agreement between the Bank and the Government. However, the subordinated loan agreement between SMI and PT IIF took much longer to negotiate and conclude, stalled by, among other issues, the workability of the loan structure. The project agreement between the Bank, SMI and IIF also took longer than expected to negotiate and conclude.

Since then, however, Government support for the project has been revitalized. SMI, which acts as PT IIF's holding company, has been highly supportive of PT IIF. SMI functions as a development finance institution with a wide mandate, while PT IIF is a specialized institution focused on private infrastructure. The two organizations have actively cooperated to advance the project's objectives.

There have not been any issue with the availability of Government counterpart funding for the project, either.

Government Performance Rating
Satisfactory

b. Implementing Agency Performance

The newly organized PT IIF acted as implementing agency of the project.

There were early management issues at PT IIF that affected the pace of implementation of the project. The first chief executive officer (CEO) of the institution resigned in December 2010, four months before the project effectiveness in April 2011. The management team, selected after project effectiveness, was replaced soon after its appointment. Responsibilities for the operation of the institution fell, in the interim, on the Board of Commissioners and on the chief financial officer (CFO) who acted as the CEO. It took about a year before a new management team was in place, with a clear business plan and the beginnings of a project pipeline.

PT IIF faced a shortage of local technical and management staff to run the organization and to build the institution's pipeline of private infrastructure projects. Consequently, the institution took time to establish itself as a fully operational entity.

Having said that, PT IIF subsequently solved its early management and staffing problems, and built a robust portfolio of 18 private infrastructure projects at project completion in November 2016 and a promising pipeline of 11 more projects ready for financing by the first quarter of 2017. The institution also has a ready plan for accessing the domestic capital market for debt issues, although an initial public offering (IPO) and more debt financing from international concessional lenders appear more reasonable proximate steps at building its capital base.

Overall, although the PT IIF staff faced a steep learning curve, it has performed reasonably well in completing the project. The staff is highly professional, is committed to the goals of the institutions, and has been adroit at working with private project sponsors, the Government, the Bank, and the three other international institutions. In the ICR's view (page 37), both PT IIF management and staff are well prepared for the next stage in the institution's development.

Implementing Agency Performance Rating
Satisfactory

Overall Borrower Performance Rating
Satisfactory

10. M&E Design, Implementation, & Utilization

a. M&E Design

Although the project had a logical Results Framework and a coherent M&E design overall, elements of the M&E plan could have been more precisely formulated and defined at appraisal.

- The project's sole output indicator --- the increase in the number of financed private infrastructure projects --- did not carry any numerical target at appraisal.
- Of the three outcome indicators, the second --- the increase in the amount of capital available for infrastructure projects --- was interpreted at implementation to mean either the total amount of investment and loans extended by PT IIF or the extent of leverage (aggregate financing from other sources, including from private financiers, often as part of larger syndication deals) achieved by the PT IIF's own financing. The first interpretation appears to have made less sense because it merely reflected the financial value of the output indicator, the number of investment and loans extended by PT IIF. At project completion, because the outcomes were deemed achieved under both measures, the dual interpretation did not matter either way, according to the ICR (page 17).
- The third outcome indicator --- the increased support to the Government's policy making on the provision of infrastructure by the private sector through the use of PT IIF's advisory services --- was also open to dual measures during project implementation: the number of projects made bankable by PT IIF's advisory services, or the revenues earned by PT IIF from its advisory services. The first interpretation appears more sensible than the second. In any case, the ICR reports on the results of both measures.

It is of interest to note that the IFC used its own set of "financial and economic return" indicators and "development impact" indicators. The ICR contends (page 17) that the IFC's measures need not be reconciled with Bank's, since they were defined and formulated differently. The IFC indicators also had a different time-frame, with targets being set and measured by the sixth year from the inception of the IFC's equity investment in PT IIF (the project life of the IFC component was ten years).

b. M&E Implementation

The M&E for the project was implemented competently.

The indicators were measured and reported regularly. The Bank was informed of the results of the outcome indicators in 12 supervision reports, Implementation Status and Results Reports, prepared during the life of the project.

c. M&E Utilization

The indicators were generally useful for tracking the financial status of PT IIF's loans to and investment in infrastructure projects. However, the ICR contends (page 20) that the indicators were less helpful in monitoring the institutional development of PT IIF, particularly in the early years of the project, when PT IIF struggled to establish itself as a financial institution and build up a pipeline of viable private infrastructure projects.

The results of the mid-term review in July 2012 were helpful in turning the project around. A number of critical issues were identified for the Bank and the Government to address. Bank and Government action, including the decision to allow PT IIF to on-lend the project funds in U.S. dollars, helped advance the project forward. The decision was agreed upon in an amendment to the Loan Agreement in November 2012. Around this time, the success of PT IIF's first project helped buoy the confidence of the institution.

M&E Quality Rating

Modest

11. Other Issues

a. Safeguards

Environmental and Social Safeguards: The project was classified as an Environmental Category "FI" at appraisal. The PAD (pages 126-130) recognized that private infrastructure projects financed by PT IIF may trigger safeguards policies OP 4.01 (Environmental Assessment), OP 4.04 (Natural Habitats), OP 4.11 (Physical Cultural Resources), OP 4.12 (Involuntary Resettlement), OP 4.10 (Indigenous Peoples), OP 4.36 (Forestry), and OP 4.37 (Safety of Dams). Adherence to an environmental and social safeguards framework (ESSF) and an environmental and social management system (ESMS) would help comply with Bank policies, as well as with IFC performance standards, for environmental and social sustainability.

Familiarity with safeguards policies and standards proved challenging in part because PT IIF was a new institution. Qualified applicants to environmental and social specialist positions were in short supply even as an international recruitment firm intensified a half-year search effort, and newly hired specialists still needed further training. The Bank mounted an intensive implementation support effort over an extended period, consisting of biweekly meetings, frequent field visits to project sites, two workshops and other public consultations, and quarterly reporting.

The effort bore respectable results. Compliance with safeguards was never rated below Moderately Satisfactory throughout project implementation, and was upgraded to Satisfactory in February 2014. PT IIF's safeguard s standards are reportedly stricter than the Bank's and the institution has developed an internal capacity that is at par with those of its consultants. Moreover, PT IIF has raised an awareness of safeguards within the broader Indonesian financial system, which has sought to emulate the institution's practices. In mid-2016, PT IIF submitted an application for financing with the Green Climate Fund, under a fast track program that is expected to be successful.

b. Fiduciary Compliance

Procurement: Because the project was a financial intermediary lending operation, the Bank did not monitor all aspects of all procurement activities by PT IIF, but concentrated on building and monitoring the capacity of PT IIF for procurement and procurement oversight that complied with fiduciary rules and standards. In fact, most procurement were not done by PT IIF itself but by its borrowers --- commercial banks in the private infrastructure project financing consortium. In which case, procurement issues were resolved by sampling the related documentation by PT IIF of the procurement activities and by confirming PT IIF's due diligence in the process.

Financial Management: Like other fiduciary items, the record of the financial management of the project reflected the same difficulties with institution- and capacity-building in Indonesia --- a slow start, some period of struggle, but eventually favorable results. It took time to build financial management capacity at PT IIF because it took some effort to define financial models for different types of infrastructure projects and because managers, who were mostly from the private sector, needed time to learn Bank and Government processes.

PT IIF built its financial management capacity over time as the project gained momentum. Only a few issues arose. PT IIF needed to better coordinate the preparation of interim financial reports before submitting them to the Bank. PT IIF had to desist from placing excess funds in three-month rollover accounts when projects were delayed, a practice that the Bank considered to have violated the principle of drawing down the loan proceeds only as they were needed.

Financial management, which was rated as Moderately Unsatisfactory from 2011 to mid-2013, was upgraded to Moderately Satisfactory and Satisfactory thereafter.

In 2014, the Bank's Internal Audit Department conducted an audit of the project as part of a portfolio-wide audit of the Bank's financial intermediary lending operations. The audit highlighted a problem common to operations in the portfolio --- a certain degree of inconsistency between the provisions on fraud and corruption in the legal agreements and the practicality of monitoring all activities of all funded projects, particularly as they related to the proprietary information of the private sector. In the case of PT IIF, the finding was resolved with the Bank sampling PT IIF's infrastructure project documents and satisfying the auditors as to the integrity of PT IIF's due diligence.

c. Unintended impacts (Positive or Negative)

The project did not have any unintended impacts.

d. Other

No other issues were raised by the ICR.

12. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	---
Risk to Development Outcome	Substantial	Substantial	---
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	---
Borrower Performance	Satisfactory	Satisfactory	---
Quality of ICR		Substantial	---

Note

When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.

The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons

The five lessons are drawn from the ICR (pages 37-38), with some adaptation.

One, working with a new institution in the technically complicated endeavor of private infrastructure finance requires front-loading an operation with a robust institution-building technical assistance. Institution building itself is a slow process, and even more so in Indonesia, where, in the case of this project, finance professionals with the requisite technical skills in project finance were few, environmental and social experts were even harder to find, and able managers from the private sector experience needed time to get acquainted with government processes. Even with generous rounds of institution building, an even more generous timeframe of three or more years was needed before private infrastructure projects could be initiated. Relatedly, an institution-building operation's Results Framework and M&E design should consider tracking institution building results.

Two, when an operation aims to promote private sector activity, including by establishing a private sector-oriented institution, the private sector should be engaged by governments and donors as early as during project preparation. The design of the operational framework for the IIF needed valuable inputs from the institution's private sector partners. The early participation of the private sector is even more crucial when public-private partnerships (PPPs) are envisioned. Infrastructure PPPs do not have a history in Indonesia. In which case, engaging the private sector in project preparation is even more vital.

Three, as with other financial intermediary loan (FIL) operations, this private infrastructure finance project demonstrates the importance of the financial intermediary having a robust pipeline of ready projects to consider for funding at the time of the operation's start-up. It took the IIF some time and considerable effort to build a pipeline of eligible private infrastructure projects. But even where a pipeline of private projects is available, it may prove difficult to assess the quality of the pipeline, in large part because the financial intermediary often lacks details on the crucial aspects of a project, including the implementation capacity of the project's proponent.

Four, similarly, the financial intermediary in an FIL operation often does not have the authority to impose the Bank's environmental and social safeguards standards and fiduciary rules on a private investee or borrower. With this private infrastructure finance project, the Bank addressed the issue by building the institutional capacity of PT IIF on safeguards and fiduciary norms, and leaning on the PT IIF to educate the private investees and borrowers and other financial institutions on the merits and social benefits of the Bank's and other donors' safeguards standards and fiduciary rules

And five, it is often difficult to assess the economic efficiency of an FIL operation --- during appraisal, because of the lack of information on what the constituent projects may be, and at closing, because the of the lack of access to the data, often proprietary, held by private sector investees or borrowers. A feasible approach at closing might be to contract an independent evaluator to conduct a cost-benefit analysis of constituent projects, with the private investee's or borrower's assent and cooperation, of course. Even then, the evaluation may involve only a sample of projects because covering the whole portfolio will turn out to be both costly and time-consuming.

14. Assessment Recommended?

No

15. Comments on Quality of ICR

The strengths of the ICR are:

First, the document is concise. The ICR summarizes the motivation for the project succinctly. The project components and activities are listed in a straightforward manner. The project results, in terms of the values of the project outputs and outcomes, are tallied completely (as in the case when there are two interpretations of an indicator) and clearly. The discussion of the efficacy of the project is simple and to the point. The analysis of the Bank's and the Government's performance is brief but complete.

Second, the analysis of project design issues is candid. The ICR points out that the project under-estimated the effort and the time it would take for PT IIF to build a pipeline of eligible private infrastructure projects. It took PT IIF eighteen months after project effectiveness (itself, 22 months delayed) to disburse the first of the project funds for the first of the private infrastructure projects. The ICR also points out that project under-estimated the availability of infrastructure PPP projects to consider. PPPs have a short history in Indonesia. The ICR also points out that project did not sufficiently consider that the operation was as much an institutional building project as it was an infrastructure finance project. The Results Framework and the M&E design lacked indicators measuring progress with institution building.

Third, the assessment of the project results is evidence-based. The ICR uses results of the output and outcome indicators to judge the degree of achievement of the project objective. The ICR (pages 41-43) provides technical and financial details of the 16 private infrastructure projects granted debt financing by PT IIF, the two projects granted equity financing, the five private sector advisory deals and the 11 public sector advisory deals entered into by PT IIF.

Overall, the ICR was written following OPCS guidelines. One minor weakness of the ICR is that it fails to provide a robust narrative of how the effectiveness of the project could have been delayed by 22 months. The ICR cites the long list of eleven conditions that the Government had to comply with for effectiveness. But it does not pin down what the binding constraints were on the part of the Government that it failed to meet the conditions within a reasonable time period. There is mention of an issue with the workability of the loan structure, as stalling the execution of the subordinated loan agreement between SMI and PT IIF, but the problem is not elaborated upon. In addition, there is no mention of what delayed the execution of the project agreement among the Bank, SMI and PT IIF.

a. Quality of ICR Rating
Substantial