Second-Party Opinion
Indonesia Infrastructure Finance Sustainable Financing Framework

Evaluation Summary

Sustainalytics is of the opinion that the Indonesia Infrastructure Finance Sustainable Financing Framework is credible and impactful and aligns with the Green Bond Principles 2018, Social Bond Principles 2020, and Sustainability Bond Guidelines 2018. This assessment is based on the following:

**USE OF PROCEEDS** The eligible categories for the use of proceeds – Renewable 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 – are aligned with those recognized by both the Green Bond Principles and Social Bond Principles. Sustainalytics considers that the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDG 2, 3, 4, 6, 7, 11, 12.

**PROJECT EVALUATION / SELECTION** IIF has established a Sustainable Finance Working Group ("SFWG") for the project selection. Projects will be first evaluated by IIF’s Environmental and Social Unit, Finance Units, Investment, Risk Units, and Legal Units. A shortlist of projects will be provided to the SFWG for final approval. The SFWG, which comprises of senior managers from Environmental and Social, Finance, Investment, Risk, and Legal units, will meet quarterly to review the project eligibility. Sustainalytics considers the project selection process in line with market practice.

**MANAGEMENT OF PROCEEDS** IIF’s Treasury and Finance units will be responsible for the management of proceeds raised under the Framework, using IIF’s internal management systems. IIF plans to allocate proceeds within 2 years of the issuance fully and intends to follow a look back period of 2 years. Unallocated proceeds will be held in cash, cash equivalents and/or marketable securities, in accordance with IIF’s cash management policies and the exclusion criteria. This is in line with market practice.

**REPORTING** IIF commits to report on allocation and impact of proceeds annually until full allocation. An allocation and impact report will be made publicly available on IIF’s website. The report will include information on the list and description of eligible projects, the share of financing vs refinancing, amount of unallocated proceeds, and relevant impact metrics. Sustainalytics views IIF’s allocation and impact reporting as aligned with market practice.

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**Evaluation date** December 9, 2020

**Issuer Location** Jakarta, Indonesia

**Report Sections**

- Introduction .................................................. 2
- Sustainalytics’ Opinion ................................. 3
- Appendices .................................................. 12

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Introduction

PT Indonesia Infrastructure Finance ("IIF", or the "Company") is a financial institution which provides infrastructure financing and advisory services. Established in 2010 by the Government of the Republic of Indonesia, along with World Bank, Asian Development Bank (ADB) and other multilateral institutions, IIF’s core purpose is to accelerate and to improve private sector participation in Indonesia’s infrastructure sector. IIF provides fund-based products, including long-term loans and non-fund-based products such as guarantees, and other services relating to infrastructure projects. Headquartered in Jakarta Indonesia, IIF as of 2019 directly employed 98 people.

IIF has developed the Indonesia Infrastructure Finance Sustainable Financing Framework (the "Framework") under which it intends to issue one or multiple sustainability debt instruments and use the proceeds to finance and refinance, in whole or in part, existing and future projects that bring out positive environmental and social outcomes. The Framework defines eligibility criteria in eleven areas:

1. Renewable Energy
2. Energy Efficiency
3. Pollution Prevention and Control
4. Clean Transportation
5. Sustainable Water and Wastewater Management
6. Climate Change Adaptation
7. Green Buildings

Social Use of Proceeds Category
1. Affordable Basic Infrastructure
2. Access to Essential Services
3. Affordable Housing
4. Food Security and Sustainable Food Systems

IIF engaged Sustainalytics to review the Indonesia Infrastructure Finance Sustainable Financing Framework, dated October 2020, and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2018 (SBG). This Framework has been published in a separate document.²

Scope of work and limitations of Sustainalytics Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent³ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Green Bond Principles 2018, Social Bond Principles 2020, and Sustainability Bond Guidelines 2018, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.6, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of IIF’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as

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¹ The Sustainability Bond Guidelines are administered by the International Capital Market Association and are available at https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/
² The Indonesia Infrastructure Finance Sustainable Financing Framework is available on PT Indonesia Infrastructure Finance ‘s website at: https://iif.co.id/en/
³ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.
well as management of proceeds and reporting aspects of the Framework. IIF representatives have confirmed (1) they understand it is the sole responsibility of IIF to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and IIF.

Sustainalytics’ Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics’ Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with debt instrument proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the intended allocation of proceeds but does not guarantee the realized allocation of the debt instrument proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that IIF has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics’ Opinion

Section 1: Sustainalytics’ Opinion on the Indonesia Infrastructure Finance Sustainable Financing Framework

Sustainalytics is of the opinion that the Indonesia Infrastructure Finance Sustainable Financing Framework is credible, impactful and aligns with the four core components of the Green Bond Principles 2018 (GBP) and Social Bond Principles 2020 (SBP). Sustainalytics highlights the following elements of IIF’s Sustainability Bond Framework:

- Use of Proceeds:
  - The eligible categories – Renewable 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 – are aligned with those recognized by the GBP and SBP.
  - Under the Renewable Energy Category, IIF will invest in offshore and onshore wind, solar, tidal, hydro (<25 MW), biofuel/biomass (emissions below 100g CO₂/kWh) and geothermal power (emissions below 100g CO₂/kWh) projects. IIF will also finance the research and development of renewable energy products and technology.
    - IIF has communicated to Sustainalytics that all new hydropower projects will be subject to its Social and Environmental (S&E) Management System, S&E Policy, and S&E Safeguard Framework. Based on these systems, projects will obtain environmental and social impact assessments by a credible third-party per project in order to ensure there is no significant risk or expected negative impact associated with projects. (Please see Section 2 for additional information.)
    - Regarding biofuel/biomass, IIF confirmed that the feedstock may include wood waste or residual empty fruit bunch from palm operations certified by the Roundtable on

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5 Empty fruit bunch is an agro-industrial residue discarded in the environment when the fresh palm fruits are removed for oil extraction.
Sustainable Palm Oil ("RSPO"). (See Appendix 2 for Sustainalytics’ assessment on RSPO) Sustainalytics highlights that IIF commits to identify the source of wood and ensure the adequate implementation of a forest management plan. In case of using non-waste biomass as feedstock in future, IIF commits to ensuring that biomass will be derived from sources that do not compete with food production or deplete carbon pools and that the biomass not be grown in areas with high biodiversity.

- Regarding the development of renewable energy products and technology, IIF confirmed that the intended facilities would be wholly dedicated to components for renewables. Project examples include the development of wind turbines and solar panels.

Under the Energy Efficiency category, IIF will invest in assets, technology and products such as public lighting and signals, and smart grids, that results in reduced energy consumption of commercial and residential buildings of at least 10% below the average national energy consumption of equivalent infrastructure. IIF will also finance the research and development of energy-efficient products, technology and equipment that are not primarily powered by fossil fuel. Intended project examples include efficient lighting and refrigeration technology, use of smart grids, and use of waste heat recovery systems in commercial and residential buildings, and electric powered district heating networks. Regarding district heating and cooling systems involving distribution, IIF confirmed that the intended distribution networks will be primarily powered by renewables (>50%) and/or waste heat. In the event on financing district heating and cooling systems involving generation, such systems will be wholly powered by renewables and/or industrial waste heat, and waste heat sourced from the burning of coal or natural gas will be excluded, which Sustainalytics considers being in line with market practice.

- Under the Pollution Prevention and Control category, IIF plans to finance projects that aim to reduce landfill gas and waste generation. Projects include expenditures in waste treatment facilities, waste to energy projects, soil remediation, waste collection and management projects, product recycling, methane gas capture, and greenhouse gas control.
  - In the case of financing waste collection vehicles, the Company commits to following an emissions threshold of <75gCO2/p-km.
  - For methane gas capture for energy generation projects, IIF confirmed that the Company will only invest in closed/decommissioned landfills with a high gas capture efficiency of at least 75%.
  - Regarding waste-to-energy, IIF clarified that facilities will include incineration activities and promote the removal of recyclables prior to incineration, which Sustainalytics considers to be in line with the objective of moving toward a circular economy.
  - In the event of financing e-waste recycling activities, the Company has communicated to Sustainalytics that prior to undertaking such projects, the Company will conduct environmental and social impact assessment for each e-waste recycling project to manage and mitigate social and environmental risks.

- Under the Clean Transport category, IIF intends to invest in low carbon transport assets and related infrastructure. These include electric vehicles and electric rail systems, hybrid vehicles that have direct emission threshold of <75gCO2/p-km (passenger vehicles), light rail transits and mass rapid transit that meet direct emissions threshold of <75gCO2/p-km (passenger trains) or <25gCO2/t-km (freight trains), and infrastructure that promote cycling and walkability.

- Under the Sustainable Water and Wastewater Management category, IIF will invest in projects that reduce water consumption, improve efficiency, and reduce water pollution. The Company will also invest in water management infrastructure, urban drainage and water storage infrastructure and activities.

- Investment under the Climate Change Adaptation category will include expenditures in projects and assets that reduce risk exposure and adverse impact of physical climate hazard. Intended projects include flood early warning system, drought management projects, infrastructure for disaster resilience, and transportation network upgrade to higher climate-resilient design standards. Sustainalytics encourages IIF to conduct an assessment to demonstrate expected benefits of intended projects prior to the issuance and provide further disclosure on the impact achieved in its annual reporting.
- Regarding transportation network upgrade, IIF confirmed that intended project examples include the installation of levee banks and dikes for flooding prevention and protection against storm surge and improved drainage to prevent flooding. The category excludes business as usual road retrofit investments.

- Under the Green Buildings category, IIF will finance new construction or renovation of existing public, commercial, residential and recreational buildings that have obtained third-party green building certification, namely IFC’s EDGE certified standard or above, or any other equivalent standard. Sustainalytics considers the selected green building standard and the level to be credible and impactful in the local context. (See Appendix 1 for Sustainalytics’ assessment)

Under the same category, IIF may invest in buildings that are -or are expected to be- within the top 15% best-performing buildings regionally based on absolute GHG emissions or primary energy demand. In the case of following this criterion, Sustainalytics encourages IIF to provide further disclosure on the methodology to be used in determining the top 15% best-performing buildings.

- Sustainalytics notes IIF’s eligibility criteria under the following social categories:
  - Affordable Basic Infrastructure: Infrastructure that improves access to clean drinking water, sanitation, transportation, and electricity. Project examples include water intake facilities, drinking water refinery, sanitation facilities, transmission and distribution network for communities who lack access to electricity, and inter-province roads (mainly toll roads) providing access to mobility in areas that lack connectivity. IIF confirmed that the Company excludes financing of transmission grid that is connected to a dedicated fossil fuel power generation. Also, Sustainalytics welcomes IIF’s clarification that investments in roads are limited to those that are designed to improve connectivity for underserved communities, and considers the projects as impactful in the local context. (Please see Section 3: Impact of Use of Proceeds)
  - Access to Essential Services: Education and healthcare services and infrastructure that are accessible to the general public, such as public hospitals and schools.
  - Access to Essential Services: Telecommunication services or infrastructure for rural communities. IIF is encouraged to report on the rural communities that are served and the benefits achieved through such financing.
  - Affordable Housing: Investments in affordable/social housing for low-income persons as defined by Indonesia’s Government Regulation No. 78 of 2015 regarding Wages.\(^6\)
  - Food Security and Sustainable Food Systems: Investments in food warehousing facilities to improve access to safe and sufficient food, and prevent food waste in Indonesia. IIF confirmed that the Company would favor food warehouses to be located in rural areas. Sustainalytics acknowledges the food security challenges associated with inadequate infrastructure in the local context, thus considers the objectives of the category as impactful. (Please see Section 3: Impact of Use of Proceeds)

- Project Evaluation and Selection:
  - IIF has established a Sustainable Finance Working Group (“SFWG”), which comprises of senior managers from Environmental and Social, Finance, Investment, Risk, and Legal units, for the selection of project eligibility. The SFWG will meet quarterly to review the eligibility of projects. If a project no longer meets the eligibility criteria, the project will be removed and substituted.
  - Environmental and social risks of projects will be evaluated \(^7\) by IIF’s Environmental and Social Unit, Finance Units, Investment, Risk Units, and Legal Units. These teams will be responsible for reviewing projects, conducting financial, environmental, and social due diligence, and monitoring and supervising mitigation activities throughout the project life cycle. A shortlist of projects will be provided to the SFWG for final approval.
  - Based on the above process for project evaluation and selection, Sustainalytics considers this process to be in line with market practice.

- Management of Proceeds:
  - IIF’s Treasury and Finance units will be responsible for the management of proceeds raised under the Framework. These units will use IIF’s internal management system to track allocation of proceeds.

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\(^7\) All projects to be financed under the Framework will be screened according to IIF’s SEMS and S&E Principles. Read more at: [http://iif.co.id/en/social-environmental/principles/](http://iif.co.id/en/social-environmental/principles/)
Proceeds will be used for both financing and refinancing. In case of investing in refinancing activities, IIF follows a look back period of 2 years. Additionally, IIF plans to allocate the proceeds within 2 years of issuance fully.

- Unallocated proceeds will be held in cash, cash equivalents and/or marketable securities, in accordance with IIF’s cash management policies and the exclusion criteria.
- Based on the above, Sustainalytics considers this process to be in line with market practice.

**Reporting:**
- IIF commits to report on allocation and impact of proceeds annually until full allocation. The report will be made available publicly on IIF’s website.
- Allocation information will include - list of eligible projects, description of projects, total signed amount, project allocation amounts, the share of financing vs refinancing, amount of unallocated proceeds, among others.
- IIF’s impact metrics include – annual GHG reduced/ avoided, renewable energy generated, air pollution reduced, amount of freshwater conserved, number of new households with power connection, number of dwellings provided, patients reached, among others.
- Based on the above, Sustainalytics considers this process to be in line with market practice.

### Alignment with Sustainability Bond Guidelines 2018

Sustainalytics has determined that the Indonesia Infrastructure Finance Sustainable Financing Framework aligns to the four core components of the Green Bond Principles (2018) and Social Bond Principles (2020). For detailed information please refer to Appendix 3: Sustainability Bond/ Sustainability Bond Programme External Review Form.

### Section 2: Sustainability Strategy of IIF

#### Contribution of Framework to IIF’s sustainability strategy

IIF has established a five year (2017-2021) business plan, which outlines the Company’s objectives in the area of sustainable financing. Following the plan, IIF aims to integrate social and environmental aspects to all projects financed through the Company’s company-wide sustainability strategy which focuses on four key areas: (i) The implementation of S&E standard in financed projects, (ii) Good corporate governance, (iii) Risk and human resources management as well as organizational capacity, (iv) Investments in portfolio improvement in infrastructure projects with social and environmental principles.\(^8\)

As part of the Company’s sustainability strategy, IIF has established eight social and environmental principles (S&E Principles)\(^9\). Under the principles, IIF aims to advance Indonesia’s sustainable development, promote more sustainable use of resources, ensure conformance with global environmental and social practices and standards, protect biodiversity and living natural resources and help its business partners in implementing sustainability considerations into their infrastructure projects.

In its 2019 Sustainability Report, IIF estimates that the Company’s clean water projects have helped approximately 2.9 million Indonesians (about 9% of the population) in gaining access to clean water. Moreover, IIF’s renewable energy projects account for 4% of Indonesia’s total capacity for renewable energy (about 19% of Indonesia’s solar PV capacity and about 53% of its wind capacity).

Sustainalytics is of the opinion that the Indonesia Infrastructure Finance Sustainable Financing Framework will help the Company in advancing its sustainability strategy. Sustainalytics recognizes the importance of the commitments mentioned above by IIF and encourages the Company to develop quantitative time-bound targets to strengthen its environmental and social practices further.

#### Well-positioned to address common environmental and social risks associated with the projects

While Sustainalytics recognizes that the use of proceeds from the Framework will be directed towards eligible projects that are recognized by the GBP 2018 and SBP 2020 to have a positive environmental and social impact, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes such as occupational health and safety, loss of biodiversity, pollution, and public opposition.

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\(^8\) IIF, Sustainability Report, (2019), at: https://iif.co.id/en/investor/financial-informations/annual-reports/

Sustainalytics is of the opinion that IIF is able to manage and/or mitigate potential risks through the implementation of the following:

IIF has established a Social and Environmental Division which specializes in assessing the social and environmental aspects of each project funded by IIF.\textsuperscript{10} As part of the assessment, IIF performs initial screening for all projects and identifies potential environmental and social risks. Following its risk management systems, the Company has established a Social and Environmental Assessment and Management System (SEMS).\textsuperscript{11} Under SEMS, projects are evaluated from pre-screening to post-investment process in conjunction with IIF’s S&E Principles in order to ensure the adequate mitigation of risks at each stage. Areas covered under IIF S&E Principles are: (i) Social and Environmental Assessment and Management System, (ii) Labor and Working Conditions, (iii) Pollution Prevention and Abatement and Climate Change, (iv) Community Health, Safety and Security, (v) Land Acquisition and Involuntary Resettlement, (vi) Biodiversity Conservation and Natural Resource Management, (vii) Indigenous People and (viii) Cultural Property and Heritage. The system follows the IFC Performance Standards, ADB Safeguard Policies Standard and the World Bank Safeguard Operation Policies as well as national laws and regulations.

IIF’s SEMS Operational Manual\textsuperscript{12} lists out the Company’s safeguard policies, principles, procedures, institutional arrangements, and workflows in relation to several environmental and social areas. Under Pollution Prevention and Abatement and Climate Change, the Manual highlights general requirements pertaining to resource efficiency and pollution prevention during the design, construction, operation and decommissioning of the projects. Under Land Acquisition and Involuntary Resettlement, the Manual describes compensation and benefits for displaced persons by IIF’s projects, consultation process, grievance mechanism, resettlement and livelihood restoration planning and implementation mechanisms. The Manual also lists out relevant environmental laws and regulations and describes the Company’s environmental management and monitoring plan\textsuperscript{13}. Furthermore, IIF provides further disclosure on the impact assessment of its projects on its website.\textsuperscript{14}

In 2017, IIF established a Grievance Redress Mechanism as a medium to accommodate and address public opposition, specifically from members of communities impacted by IIF’s projects.\textsuperscript{15} The mechanism is designed in accordance with the World Bank and IFC Standards.

Based on these policies, standards and assessments, Sustainalytics is of the opinion that IIF has implemented adequate measures and is well-positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

All eleven use of proceeds categories are aligned with those recognized by GBP or SBP. Sustainalytics has focused on five below where the impact is specifically relevant in the local context.

Importance of projects that improve climate resilience in Indonesia

Indonesia is susceptible to climate change impacts due to its geography. The country has a long coastline with numerous islands, making the country vulnerable to sea-level rise\textsuperscript{16} and is highly vulnerable to disasters caused by hydrometeorological phenomena such as tornadoes, floods and landslides. According to Indonesia’s National Disaster Mitigation Agency, in 2019, the country experienced 3,622 natural disasters mostly caused by tornadoes (over 1,280 cases), floods (734) and landslides (685).\textsuperscript{17} In addition, one of the most significant environmental challenges that Indonesia faces is peatland and forest fires, which can be

\textsuperscript{10} IIF Sustainability Report 2019, at: https://iif.co.id/en/investor/financial-informations/annual-reports/
\textsuperscript{11} Indonesia Infrastructure Finance, S&E Management System, Accessed in October 2020, at: https://iif.co.id/en/social-environmental/management-system/
\textsuperscript{14} IIF Project Assessments, at: https://iif.co.id/en/social-environmental/project-summary/
\textsuperscript{15} Indonesia Infrastructure Finance, Sustainability report 2019, at: https://iif.co.id/en/investor/financial-informations/annual-reports/
\textsuperscript{16} "Rising Sea Levels Forcing Relocation of Indonesian Capital", https://www.globalcitizen.org/en/content/indonesia-jakarta-climate-change/
exacerbated with the increase in global temperatures. Recognizing the importance of promoting climate change mitigation and adaptation, the government of Indonesia has made national commitments to reduce GHG emission by 29% unconditionally by 2020 compared to the “business-as-usual” (BAU) scenario and 41% compared to the BAU scenario by 2030 with international support.

Given this context, Sustainalytics considers that IIF’s financing of climate change adaptation and mitigation projects such as climate-resilient infrastructure as well as disaster management and early warning systems to be impactful.

Importance of Increasing Connectivity in Indonesia

In Indonesia, the infrastructure investment -as a share of national GDP- has dropped significantly since the Asian financial crisis of 1997/1998, and while the economy has rebounded, infrastructure spending has not. For example, before 1997, 8% of GDP (on average) was spent on urban infrastructure, while this share declined to 3% in the years after the crisis up to 2016.

Lack of investment in infrastructure has hampered economic growth, and caused large regional price differences, particularly outside of Java and Sumatra. For instance, it was cheaper to import oranges from China than buy from Indonesian farmers until recently, owing to the elevated shipping costs for domestic produce. Logistics cost accounts for 26% of GDP, which is the highest in South-East Asia, mainly due to the country’s unique geography with numerous islands and underinvestment. Islands in the eastern part of the country are typically less developed and more sparsely populated, which result in significant infrastructure gaps, with intra-island transportation costs significantly higher in these areas than in the rest of the country. In the entire country, sea transport is more expensive than land transport, and this affects more isolated communities disproportionately.

Inefficient transportation systems hinder domestic investment and growth of internationally competitive businesses, which has impaired Indonesia’s capacity to fully take advantage of global value chains, which in turn would help to improve the trade balance and create high-quality jobs. The National Development Planning agency has made connectivity one of the most important aspects of their development plan. Under the plan, the government demonstrated the importance of connecting existing infrastructure with new industrial areas, and expanding toll roads and railway tracks, which is expected to reduce the cost of logistics by 20%.

Sustainalytics is of the opinion that IIF’s financing of Affordable Basic Infrastructure can improve connectivity and be impactful in terms of economic growth, but also in improving access to basic services.

Importance of increasing food security in Indonesia

Indonesia ranked 70 out of 117 countries in the 2019 Global Hunger Index, and 58 out of 398 rural districts are highly vulnerable to food insecurity and malnutrition. Although between 2005 and 2015, as a result of strong economic growth and government investments in social development, Indonesia halved the number of undernourished people, however, the problem of food insecurity and malnutrition persists. The World Food Program estimates that currently, 19.4 million people are unable to meet their dietary requirements in Indonesia. With malnutrition prevalent across the country, more than 37% of children under 5 suffer from stunted growth and one-quarter of women of reproductive age are anaemic. While on the one hand, people in Indonesia suffer from food insecurity and malnutrition, on the other, it is estimated that Indonesia wastes...
about 300 kilograms of food per person every year. The high rate of food waste in Indonesia can be attributed to inadequate infrastructure between food-producing regions and major population centers, which causes delays in food transportation, thereby wasting perishable food products. For example, it is estimated that Indonesia has a cold storage capacity of 200,000 tons of food, while in 2017, the country required at least 1.7 million tons of cold storage capacity.

Food security is, therefore, the top priority in Indonesia’s mid-term development plan (RPJMN) 2020-2024. The government has also established the National Food Security Agency (BKP) whose focus is to strengthen food security in Indonesia by implementing several programs including the improvement of the institutional capability of food distribution. Sustainalytics is of the opinion that IIF’s investment in projects that aim to improve access to food and reduce food loss and waste by increasing food warehousing capability will help Indonesia achieve its food security goals.

Importance of Promoting Renewable Energy in Indonesia

Indonesia’s energy consumption has been increasing by an average of 4.2% per year for the last 20 years, driven by a growing economy, rising middle class, and urbanization. The country has a high dependency on fossil fuel, with approximately 88% of its electricity being sourced from coal (55%), petroleum (38%), gas (26%) and oil (7%).

While the share of renewable in Indonesia’s electricity mix stood at 12% in 2018, the country has set a target of achieving 23% of its total energy consumption from renewable sources by 2025, and at least 31% in 2050. With Indonesia’s electricity need forecasted to grow by 7% by 2027 (from 2018), the country needs to strengthen investment in the renewable sector to transition into a low carbon economy. It is estimated that to achieve the 23% target of renewable energy by 2025, Indonesia needs an investment of IDR 2,000 trillion (USD 154 billion).

Sustainalytics is of the opinion that IIF’s financing of renewable energy will contribute directly towards shifting investments towards the renewable sector and thereby contribute to achieving Indonesia’s national renewable energy targets.

Importance of Healthcare in Indonesia

Although the healthcare system of Indonesia has improved over the last few decades with life expectancy going from 68 to 71 between 2000 and 2016, the country faces particular challenges by being an island nation with many communities that are relatively isolated. The country also faces significant challenges in relation to communicable diseases such as tuberculosis (TB) and malaria. Risk factors for non-communicable disease such as high blood pressure, high cholesterol, obesity and smoking-related diseases have also been on the rise in recent years. Between 2010 and 2017, the government increased spending on health care by approximately 222%. Despite the increase, government spending on healthcare as a proportion of gross domestic product remains below average among the low-middle-income countries. In addition, the government’s share of total health expenditure also remains low, at approximately 40%, compared to private, primarily out-of-pocket (OOP) spending at 60%. It is therefore essential that private sector investment supplements the government’s effort in improving the healthcare system of Indonesia.

36 U.S. Energy Information Administration, Indonesia, October 2015, at: https://www.eia.gov/international/analysis/country/IDN
37 The Interpreter, Indonesia should put more energy into renewable power, August 2019, at: https://www.lowyinstitute.org/the-interpreter/indonesia-s-should-put-more-energy-renewable-power
38 U.S. Energy Information Administration, Indonesia, October 2015, at: https://www.eia.gov/international/analysis/country/IDN
39 WHO Data, https://apps.who.int/gho/data/view.main.WOMENLEXy
Sustainalytics notes that IIF’s financing of projects in the category “Access to Essential Services” includes healthcare. Investments in healthcare facilities and infrastructure can contribute by improving access to new and existing healthcare and thereby create positive social impact.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This sustainability debt instrument advances the following SDGs and targets:

<table>
<thead>
<tr>
<th>Use of Proceeds Category</th>
<th>SDG</th>
<th>SDG target</th>
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<tbody>
<tr>
<td>Renewable Energy</td>
<td>7.</td>
<td>7.2 By 2030, increase substantially the share of renewable energy in the global energy mix</td>
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<tr>
<td>Energy Efficiency</td>
<td>7.</td>
<td>7.3 By 2030, double the global rate of improvement in energy efficiency</td>
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<tr>
<td>Polluton Prevention and Control</td>
<td>11. Sustainable Cities and Communities</td>
<td>11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management.</td>
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<td></td>
<td>12. Responsible Production and consumption</td>
<td>12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.</td>
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<tr>
<td>Clean Transportation</td>
<td>11. Sustainable Cities and Communities</td>
<td>11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons</td>
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<tr>
<td>Sustainable Water and Wastewater Management</td>
<td>6. Clean Water and Sanitation</td>
<td>6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally.</td>
</tr>
<tr>
<td>Climate Change Adaptation</td>
<td>11. Sustainable Cities and Communities</td>
<td>11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons</td>
</tr>
<tr>
<td>Green Buildings</td>
<td>11. Sustainable Cities and Communities</td>
<td>11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management.</td>
</tr>
<tr>
<td></td>
<td>12. Responsible Production and consumption</td>
<td>12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.</td>
</tr>
<tr>
<td>Affordable Basic Infrastructure</td>
<td>11. Sustainable Cities and Communities</td>
<td>11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums</td>
</tr>
<tr>
<td>Access to Essential Services</td>
<td>3. Good Health and Wellbeing</td>
<td>3.8 Achieve universal health coverage, including financial risk protection, access to quality essential healthcare services and</td>
</tr>
</tbody>
</table>
Conclusion

IIF has developed the Indonesia Infrastructure Finance Sustainable Financing Framework under which it intends to issue green, social and sustainability debt instruments and use the proceeds to finance environmental and social projects in the areas of Renewable 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. Sustainalytics expects that the projects funded by the debt instrument proceeds will support advance Indonesia’s sustainable growth plans and result in positive environmental and social impact.

The Indonesia Infrastructure Finance Sustainable Financing Framework outlines a process by which proceeds will be tracked, allocated, and managed. Commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that Indonesia Infrastructure Finance Sustainable Financing Framework is aligned with the overall sustainability strategy of the Company and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 2, 3, 4, 6, 7, 11, 12. Additionally, Sustainalytics is of the opinion that IIF has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Based on the above, Sustainalytics is confident that PT Indonesia Infrastructure Finance is well-positioned to issue sustainability debt instruments and that Indonesia Infrastructure Finance Sustainable Financing Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles (2018) and Social Bond Principles (2020).
## Appendices

### Appendix 1: Overview and Assessment of Real Estate Certification Schemes

<table>
<thead>
<tr>
<th>Excellence in Design for Greater Efficiencies (EDGE)⁴⁴</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Background</strong></td>
</tr>
<tr>
<td><strong>Certification Levels</strong></td>
</tr>
</tbody>
</table>
| **Areas of Assessment:** Environmental Performance of the Building | 1. Climatic Conditions of the Location  
Monthly average wet and dry bulb temperature; Monthly average outdoor wind velocity; Monthly average outdoor humidity, Solar radiation intensity; Annual average rainfall; Carbon dioxide intensity of the electricity grid; Average cost of energy (by fuel type) and water.  
2. Building Type and Occupant Use  
Homes: for both apartments and houses (assumptions for area and occupancy are based on income categories); Hotels: for both hotels and resorts (assumptions for area, occupancy and the type of support services are based on the star rating of the property); Offices: assumptions are based on occupancy density and hours of use; Hospitals: assumptions are based on the type of hospital (e.g., nursing home, private or public hospital, clinic or diagnostic center); Retail: assumptions are based on the type of retail building (e.g., department store, mall, supermarket, light industry or warehouse); Education: assumptions are based on the type of educational facility (e.g., preschool, university or sports facility), as well as occupancy density and hours of use.  
3. Design and Specifications  
Thermal properties of the building envelope; Window to Wall Ratio; Building Orientation  
4. Calculation of the End Use Demand  
Overall energy demand in buildings; heating ventilation and air conditioning demand; virtual energy for comfort, energy demand for hot water requirements; lighting energy demand; water demand in buildings; estimations on rainwater harvesting or recycled water onsite; embodied energy in building materials. |
| **Requirements** | To achieve the EDGE standard, a building must demonstrate a minimum 20% reduction in operational energy consumption, water use and embodied energy in materials as compared to typical local practices. |
| **Performance Display** | ![Edge Logo](https://www.edgebuildings.com/marketing/edge/) |
| **Qualitative considerations** | Strong assurance of overall quality due to the EDGE’s development under the IFC umbrella. |

⁴⁴ Website available at: [https://www.edgebuildings.com/marketing/edge/](https://www.edgebuildings.com/marketing/edge/)
# Appendix 2: Overview and Assessment of RSPO

<table>
<thead>
<tr>
<th><strong>Roundtable on Sustainable Palm Oil (RSPO)</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Background</strong></td>
</tr>
<tr>
<td><strong>Clear positive impact</strong></td>
</tr>
<tr>
<td><strong>Minimum standards</strong></td>
</tr>
<tr>
<td><strong>Scope of certification or programme</strong></td>
</tr>
<tr>
<td><strong>Verification of standards and risk mitigation</strong></td>
</tr>
<tr>
<td><strong>Performance display</strong></td>
</tr>
<tr>
<td><strong>Qualitative considerations</strong></td>
</tr>
<tr>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
Appendix 3: Sustainability Bond / Sustainability Bond Programme - External Review Form

Section 1. Basic Information

<table>
<thead>
<tr>
<th>Issuer name:</th>
<th>PT Indonesia Infrastructure Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:</td>
<td>Indonesia Infrastructure Finance Sustainable Financing Framework</td>
</tr>
<tr>
<td>Review provider’s name:</td>
<td>Sustainalytics</td>
</tr>
<tr>
<td>Completion date of this form:</td>
<td>December 3, 2020</td>
</tr>
<tr>
<td>Publication date of review publication:</td>
<td></td>
</tr>
</tbody>
</table>

Section 2. Review overview

SCOPE OF REVIEW
The following may be used or adapted, where appropriate, to summarise the scope of the review.
The review assessed the following elements and confirmed their alignment with the GBP and SBP:

☒ Use of Proceeds  ☒ Process for Project Evaluation and Selection
☒ Management of Proceeds  ☒ Reporting

ROLE(S) OF REVIEW PROVIDER

☒ Consultancy (incl. 2nd opinion)  ☐ Certification
☐ Verification  ☐ Rating
☐ Other (please specify):

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.
1. USE OF PROCEEDS

Overall comment on section (if applicable):

<table>
<thead>
<tr>
<th>Use of proceeds categories as per GBP:</th>
<th>Use of proceeds categories as per SBP:</th>
</tr>
</thead>
<tbody>
<tr>
<td>☒ Renewable energy</td>
<td>☒ Access to essential services</td>
</tr>
<tr>
<td>☒ Energy efficiency</td>
<td>☒ Employment generation (through SME financing and microfinance)</td>
</tr>
<tr>
<td>☒ Pollution prevention and control</td>
<td>☒ Socioeconomic advancement and empowerment</td>
</tr>
<tr>
<td>☐ Terrestrial and aquatic biodiversity conservation</td>
<td>☐ Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP</td>
</tr>
<tr>
<td>☒ Sustainable water and wastewater management</td>
<td>☐ Other (please specify):</td>
</tr>
<tr>
<td>☐ Eco-efficient and/or circular economy adapted products, production technologies and processes</td>
<td>☐ Affordable basic infrastructure</td>
</tr>
<tr>
<td>☐ Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs</td>
<td>☐ Affordable housing</td>
</tr>
<tr>
<td>☐ Other (please specify):</td>
<td>☐ Food security</td>
</tr>
</tbody>
</table>

If applicable please specify the environmental taxonomy, if other than GBPs:

If applicable please specify the social taxonomy, if other than SBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):
IIF has established a Sustainable Finance Working Group (“SFWG”) for the project selection. Projects will be first evaluated by IIF’s Environmental and Social Unit, Finance Units, Investment, Risk Units, and Legal Units. A short list of projects will be provided to the SFWG for final approval. The SFWG, which comprises of senior managers from Environmental and Social, Finance, Investment, Risk, and Legal units, will meet quarterly to review the project eligibility. Sustainalytics considers the project selection process in line with market practice.

**Evaluation and selection**

- ☒ Credentials on the issuer’s social and green objectives
- ☒ Defined and transparent criteria for projects eligible for Sustainability Bond proceeds
- ☒ Summary criteria for project evaluation and selection publicly available
- ☐ Other (please specify):

**Information on Responsibilities and Accountability**

- ☐ Evaluation / Selection criteria subject to external advice or verification
- ☐ In-house assessment
- ☐ Other (please specify):

### 3. MANAGEMENT OF PROCEEDS

**Overall comment on section (if applicable):**

IIF’s Treasury and Finance units will be responsible for the management of proceeds raised under the Framework, using IIF’s internal management systems. IIF plans to fully allocate proceeds within 2 years of the issuance and intends to follow a look back period of 2 years. Unallocated proceeds will be held in in cash, cash equivalents and/or marketable securities, in accordance with IIF’s cash management policies and the exclusion criteria. This is in line with market practice.

**Tracking of proceeds:**

- ☒ Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner
- ☒ Disclosure of intended types of temporary investment instruments for unallocated proceeds
- ☐ Other (please specify):

**Additional disclosure:**

- ☐ Allocations to future investments only
- ☒ Allocations to both existing and future investments
4. REPORTING

Overall comment on section (if applicable):

IIF commits to report on allocation and impact of proceeds annually until full allocation. An allocation and impact report will be made available publicly on IIF’s website. The report will include information on the list and description of eligible projects, share of financing vs refinancing, amount of unallocated proceeds, and relevant impact metrics. Sustainalytics views IIF’s allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

☐ Project-by-project  ☒ On a project portfolio basis

☐ Linkage to individual bond(s)  ☐ Other (please specify):

Information reported:

☒ Allocated amounts  ☐ Sustainability Bond financed share of total investment

☒ Other (please specify): financing vs refinancing, amount of unallocated proceeds

Frequency:

☒ Annual  ☐ Semi-annual

☐ Other (please specify):

Impact reporting:

☐ Project-by-project  ☒ On a project portfolio basis

☐ Linkage to individual bond(s)  ☐ Other (please specify):

Information reported (expected or ex-post):

☒ GHG Emissions / Savings  ☒ Energy Savings

☐ Decrease in water use  ☒ Number of beneficiaries

☒ Target populations  ☒ Other ESG indicators (please specify): Annual amount of fresh water conserved, students and patients reached, share of population with adequate food supply etc.
Frequency:
- ☒ Annual
- ☐ Semi-annual
- ☐ Other (please specify):

Means of Disclosure
- ☐ Information published in financial report
- ☒ Information published in sustainability report
- ☐ Information published in ad hoc documents
- ☐ Other (please specify):
- ☐ Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer’s documentation, etc.)

http://iif.co.id/en

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:
- ☐ Consultancy (incl. 2nd opinion)
- ☐ Certification
- ☐ Verification / Audit
- ☐ Rating
- ☐ Other (please specify):

Review provider(s):

Date of publication:

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP

i. Second-Party Opinion: An institution with sustainability expertise that is independent from the issuer may provide a Second-Party Opinion. The institution should be independent from the issuer’s adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer’s overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.

ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference internal criteria. Assurance or attestation regarding an issuer’s internal tracking method for use of proceeds, allocation of funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.

iii. Certification: An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognized external sustainability standard or label. A standard or label defines...
specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.

iv. Green, Social and Sustainability Bond Scoring/Rating: An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialized research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.
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The issuer is fully responsible for certifying and ensuring the compliance with its commitments, for their implementation and monitoring.
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