



PT Indonesia Infrastructure Finance (IIF)

Sustainable Financing Framework

December 2020

## **Contents**

1. Introduction
2. Background
  - a. About IIF
  - b. IIF's Sustainability Commitments & Policies
3. Conformance to Relevant Standards & Regulations
4. Sustainable Financing Framework
  - a. Use of Proceeds
  - b. Process for Project Evaluation & Selection
  - c. Management of Proceeds
  - d. Reporting
5. External Review

## **1. Introduction**

PT Indonesia Infrastructure Finance (“IIF”) imposed Green, Social, and Sustainability financing in channeling investments into eligible projects and thereby contribute to the Republic of Indonesia’s national environmental and social objectives as well as international commitments such as Nationally Determined Contributions (“NDCs”) for the Paris Agreement. In its project selection, currently all of IIF’s eligible projects are projects that adhere to social and sustainable financing based on the IIF Social and Environmental (“S&E”) Principles.

This Sustainable Financing Framework (“Framework”) is created in the interest of transparency, disclosure, integrity, and quality to demonstrate how IIF will issue Green, Social, or Sustainability debt instruments including bonds/sukuk (Islamic bonds, hereafter “bonds”), loans, notes, and any other fixed-income securities instruments. In line with this Framework, IIF continues to finance and/or re-finance eligible projects that would bring environmental and/or social benefits.

## **2. Background**

### **About IIF**

IIF is a private national company providing infrastructure financing and advisory services that are managed professionally and focused on commercially viable infrastructure projects.

IIF is established by the Government of the Republic of Indonesia cq. Ministry of Finance of the Republic of Indonesia along with World Bank Group, Asian Development Bank, Deutsche Investitions und Entwicklungsgesellschaft, in accordance with the Regulation of the Minister of Finance of the Republic of Indonesia (PMK) No.100 of 2009 Concerning Infrastructure Financing Company and Financial Services Authority Regulation No.46/POJK.05/2020 Concerning Infrastructure Financing Company. IIF was established on January 15, 2010 based on the Company’s Deed of Establishment No.34. Business License was issued through the Decree of Minister of Finance (KMK) No 439/KM.10/2010.

IIF is mandated to be a catalyst to accelerate and to improve private participation in infrastructure development in Indonesia. IIF provides fund based products such as long-term loan and non-fund based product such as guarantees, and other services relating to infrastructure projects.

In its operations, IIF applies best practices based on international standards in credit, risk management, and all aspects of corporate governance, and in implementing international social and environmental protection standards to ensure sustainability of infrastructure development in Indonesia.

Supported by the strong capitalization from the shareholders as well as long-term subordinated loans from the World Bank and the Asian Development Bank, IIF has a very sound basis to provide solutions for financing infrastructure development in Indonesia.

For more information about IIF, please visit: <http://iif.co.id/en/about-us/overview/>.

### **IIF's Sustainability Commitments & Policies**

Indonesia is one of the most vulnerable countries to climate-induced disasters. Its extensive tropical landscape and seascape with high biodiversity, high carbon stock values, and energy and mineral resources are all contributing factors for the nation to be at the forefront of climate action and environmental protection. Furthermore, Indonesia's position close to the global ocean conveyor system makes it particularly vulnerable to natural disasters that will likely to be exacerbated by climate change.

The Government of Indonesia is strongly committed to combating climate change and as such has made a number of commitments to step up its climate change adaptation and mitigation priorities. As part of a responsible and committed global community, Indonesia has ratified the Paris Agreement in 2016 and submitted its NDCs. It sets out Indonesia's commitment to low carbon and climate-resilient future. For 2020 and beyond, Indonesia aims to reach archipelagic climate resilience from comprehensive adaptation and mitigation programs, and disaster risk reduction strategies.

In response to the Indonesian government's low carbon and sustainable growth policy and the global agenda of climate change, IIF as the catalyst for better infrastructure in Indonesia is committed to promoting sustainable financing. IIF's sustainability strategy and initiatives are explained in detail here:

<https://iif.co.id/en/investor/financial-informations/annual-reports/>.

Since IIF was established with, among others, International Finance Corporation (IFC) and the Asian Development Bank as the founding shareholders, IIF was provided with a set of S&E Management System ("SEMS") within which IIF S&E Principles are included. The SEMS are aligned with related national laws and international standards of Social & Environmental Safeguard. Thus, IIF is committed to managing its business activities in an environmentally-and-socially-friendly manner.

IIF will ensure that all projects are reviewed and evaluated against the following Social and Environmental Requirements: (i) Exclusion List; (ii) Applicable Indonesian laws on environment, health, safety and social issues; and (iii) IIF's S&E Principles. The Principles are also aligned with the objective and key requirements of IIF's founding shareholders as defined in the Shareholders Agreement dated January 15<sup>th</sup>, 2010, as amended from time to time.

### **3. Conformance to Relevant Standards & Regulations**

IIF complies with the provisions stipulated in the Indonesia Financial Services Authority Regulation Concerning Green Bonds (Number 60/POJK.04/2017) as required.

This Framework conforms to the International Capital Markets Association Green Bond Principles (2018), Social Bond Principles (2020), Sustainability Bond Guidelines (2018), and the ASEAN Capital Markets Forum ASEAN Green, Social and Sustainability Bond Standards (2018). The Framework is aligned with the four core components of the above mentioned Principles and Standards: Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds, and Reporting.


**4. Sustainable Financing Framework**

**a. Use of Proceeds**

IIF’s Green, Social, Sustainability debt instruments will raise funds for a pool of eligible projects, including new and existing projects, which should have clear environmental and/or social benefits, promote the transition to low carbon and climate resilient growth, aim to conserve, preserve, and/or improve the qualities and functions of the environment, and address social needs.








This Framework will enable IIF to issue Green, Social, and Sustainability debt instruments. The proceeds of sustainable financing will be used for eligible green and/or social projects.

**Table 1. Eligible Green Projects**

<b>ICMA Eligible Categories</b>	<b>Eligibility Criteria</b>	<b>UN SDGs</b>
Renewable Energy	Investments and expenditure in generation and transmission infrastructure for renewable energy sources, including offshore and onshore wind, solar, tidal, hydropower (below 25MW), biomass <sup>1</sup> /biofuels <sup>2</sup> (below 100g CO2/kWh and excluding feedstock competing with food production), and geothermal (below 100g CO2/kWh).	

<sup>1</sup> In the case that empty fruit bunch from palm oil mill is used for biomass generation, the source shall have to be from operations certified by the Roundtable on Sustainable Palm Oil.

<sup>2</sup> Production of biofuel feedstock shall not take place on land with high biodiversity, and land with a high amount of carbon shall not be converted for biofuel feedstock production.





	Research and development of products or technology for renewable energy generation, including wind turbines and solar panels.	
Energy Efficiency	<p>Investments and expenditure for energy efficiency improvements of infrastructure that result in an energy consumption of at least 10% below the average national energy consumption of an equivalent infrastructure.</p> <p>Research and development of products or technology and their implementation that reduces the energy consumption of underlying asset, technology, product or system; including LED lights, improved chillers, improved lighting technology, district cooling and heating<sup>3</sup>, smart grids, and heat recovery.</p>	 
Pollution Prevention and Control	<p>Investments and expenditure for projects dedicated to reduce land pollution and waste generation, including waste prevention, waste collection and management, product recycling and re-use, waste to energy activity with materials recovery and recycling prior to incineration, and soil remediation.</p> <p>Investments and expenditure for projects dedicated to reduce air pollution, including reducing emissions through methane gas capture for energy generation<sup>4</sup>, and greenhouse gas (“GHG”) control.</p>	  
Clean Transportation	Investments and expenditures in clean transportation systems and related infrastructure that reduce GHG emissions, such as developing electricity transportation, hybrid vehicle <sup>5</sup> , light rail transit, mass rapid transit <sup>6</sup> , and infrastructure to promote cycling and walkability.	
Sustainable Water and Wastewater Management	Investments and expenditures in projects and infrastructure dedicated to reduce water consumption, sustainably manage water resources, and reduce water pollution, including	

<sup>3</sup> For distribution, it shall be primarily powered by renewables and/or waste heat. For heat/cool generation, it shall be from renewables and/or industrial waste heat.


<sup>4</sup> Applicable for closed/decommissioned landfills with high gas capture efficiency.

<sup>5</sup> Hybrid vehicles shall adhere to direct emission threshold of <75gCO<sub>2</sub>/p-km (passenger vehicles).










<sup>6</sup> Light rail and mass rapid transit shall adhere to direct emissions threshold of <75gCO<sub>2</sub>/p-km (passenger trains) or <25gCO<sub>2</sub>/t-km (freight trains).

	developing and improving water supply and management infrastructure, urban drainage, and other flood control activities.	 
Climate Change Adaptation	Investments and expenditures in projects and infrastructure that would reduce risk exposure and/or severity of impacts of physical climate hazards, such as flood early warning system, drought management projects, infrastructure for disaster resilience, and transportation network upgrade to higher climate resilient design standards.	
Green Buildings	<p>Investments in internationally, regionally, and nationally certified green buildings, including new construction or renovation of existing buildings (including public service, commercial, residential and recreational), such as but not limited to:</p> <ul style="list-style-type: none"> <li>• Indonesia EDGE<sup>7</sup> Certified or above</li> <li>• Any other green building certification that is equivalent of the above standard</li> </ul> <p>Investments and expenditures 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.</p>	

**Table 2. Eligible Social Projects**

ICMA Eligible Categories	Eligibility Criteria	UN SDGs
Affordable Basic Infrastructure	Investments and expenditure in infrastructure to provide clean drinking water for general public. Infrastructure include raw water intake facilities, transmission network, distribution network, and drinking water refinery plan.	

<sup>7</sup> The EDGE (Excellence in Design for Greater Efficiencies) certification is developed by the World Bank Group. The Green Building Council Indonesia is the exclusive provider of EDGE certification in Indonesia.

	<p>Investments and expenditure in infrastructure to provide sewer and sanitation facilities for general public.</p> <p>Investments and expenditure in inter-province roads, providing access to mobility for general public in areas that lack connectivity.</p>	 
Access to Essential Services	<p>Investments and expenditure to provide access to affordable education to general public, including schools and education facilities.</p> <p>Investments and expenditure to provide affordable healthcare access to general public and underserved populations, including hospitals, healthcare centers, and clinics.</p> <p>Investments and expenditure to provide telecommunications such as broadband services for rural communities.</p>	  
Affordable Housing	Investments in affordable social housing for low-income persons as defined by national legislation.	 
Food Security and Sustainable Food Systems	Investments in food warehousing to improve access to safe and sufficient food for local populations.	 

**Exclusion Criteria**

These activities will not be financed by IIF based on criteria set forth by IIF Shareholders<sup>8</sup>:

1. Any activity with the use of radioactive materials<sup>9</sup>.

<sup>8</sup> IIF's shareholders are Ministry of Finance of the Republic of Indonesia, International Finance Corporation, Asian Development Bank, KfW, and Sumitomo Mitsui Banking Corporation.

<sup>9</sup> This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where is considered the radioactive source to be trivial and/or adequately shielded.

2. Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forest or old growth forests.
3. Drift net fishing or fine mesh net fishing in the marine environment.
4. Introduction of genetically engineered organisms.
5. Gambling, casinos and equivalent enterprises.
6. Mining or excavation of live coral.
7. Production of lead paints.
8. Production or trade in tobacco.
9. Production or trade in radioactive materials (including nuclear reactors and components thereof).
10. Production or trade in products containing PCBs or other hazardous chemicals subject to international phase outs or bans.
11. Production or trade in alcoholic beverages.
12. Production or trade in weapons and munitions (including paramilitary materials).
13. Production and/or use of asbestos containing products.
14. Production, dissemination and sale of pesticides subject to international phase outs or bans.
15. Production or trade in or use of un-bonded asbestos fibers.
16. Production or trade in wood or other forestry products from unmanaged forests.
17. Production or trade in ozone depleting substances subject to international phase out.
18. Production or trade in pharmaceuticals subject to international phase outs or bans.
19. Production or trade in pesticides/herbicides subject to international phase outs or bans.
20. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements.
21. Production or activities involving harmful or exploitative forms of forced labor/harmful child labor.
22. Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals.
23. Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.
24. Purchase of logging equipment for use in primary tropical moist forest.
25. Trade in wildlife or wildlife products<sup>10</sup>.

Furthermore, all debt instruments issued under this Sustainable Financing Framework will exclude any asset, technology, activity associated with fossil fuels.

### **b. Process for Project Evaluation & Selection**

IIF has an established project evaluation and selection process in place for all projects it funds. According to this process, projects are evaluated based on commercial viability as well as environmental and social risks. Units responsible for Social & Environmental, Finance, Investment, Risk, and Legal activities are in charge of conducting due diligence, project approval

---

<sup>10</sup> Wildlife products regulated under CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora)



review, and technical monitoring with respect to environment and social risk management and supervising mitigation activities throughout the project life cycle.

In addition to the standing mechanism described above, projects to be funded through sustainable financing proceeds must meet the eligibility criteria described in section 4a, and will go through the following assessment procedures:

- 1) The Investment unit will prepare the list of existing and pipeline projects portfolio. The Risk unit will build the underlying basket of eligible projects from the list of tagged projects using the above eligibility and exclusionary criteria.
- 2) The Environmental and Social unit will check compliance with S&E Requirement.
- 3) The final list will be approved by a Sustainable Finance Working Group (“SFWG”) comprising senior managers from Environmental and Social, Finance, Investment, Risk, and Legal units. The SFWG will consider and assess whether the proposed projects are in compliance with Indonesian Green Bond Regulations and this Framework, and will approve projects if so.
- 4) The Environmental and Social unit will assess and monitor the environment and social risks and impact throughout the project life cycles.

For continued monitoring of the projects’ eligibility, the SFWG will meet quarterly to review the eligibility of those projects. Should a project be considered by SFWG to be no longer meeting the criteria detailed above, projects can be removed and/or substituted.

### **Environmental and Social Risks**

All sustainable financing projects will be screened according to IIF’s SEMS and S&E Principles<sup>11</sup>. Prior to the facility agreement, all project will be assessed against IIF S&E Principles through a S&E Due Diligence process. Any gaps found during the due diligence will be stated in project’s Corrective Action Plans (“CAP”) and covenanted as part of facility agreement. The CAP will be monitored regularly by S&E Team throughout the financing facility period.

### **c. Management of Proceeds**

The proceeds from each Green, Social, Sustainability debt instrument issued will be allocated and managed by IIF’s Treasury unit and Finance unit adhering to SFWG’s approved lists of projects and following specific recommendations from its Investment Unit. Treasury and Finance units will track the allocation of proceeds to such projects within its internal management system, including brief descriptions of the projects, the regions in which the projects are located, and the amount of proceeds allocated to the projects.

The proceeds of each Green, Social, Sustainability debt instrument can be used both for the financing and/or refinancing of eligible projects. If all or a proportion of the proceeds are used for re-financing, IIF will provide an estimate of the share of financing vs. re-financing, and where

---

<sup>11</sup> <http://iif.co.id/en/social-environmental/principles/>

appropriate, also clarify in the annual report which eligible projects may be re-financed. IIF will allow a look-back period of two years for re-financed projects.

IIF’s Finance unit together with other units such as Investment and S&E will be responsible for the issuance process and management of proceeds. IIF aims to fully allocate the net proceeds within two years of issuance of the instrument.

Pending allocation, net proceeds from the sale of the notes may be invested in cash, cash equivalents and/or marketable securities, in accordance with IIF’s cash management policies and the exclusion criteria. Any unallocated proceeds will be disclosed accordingly.

As detailed above, the SFWG will review the pool of assets on a quarterly basis. Assets will be removed or substituted on a best efforts basis if they no longer meet the requirements of the eligibility criteria.

**d. Reporting**

To enable investors to follow the implementation of its sustainable financing, IIF will establish a page on its website which will include, among other things:

- 1) Key information about the Framework, including project selection criteria;
- 2) Independent Second Party Opinion on the Framework and selected projects;
- 3) Summary of portfolio projects, which include brief description of the project, S&E Categorization and project’s main S&E documents.<sup>12</sup>

As long as there are outstanding Green, Social, or Sustainability debt instruments issued under this Framework, IIF will also publish a report on an annual basis (annual report) on its website that includes, at the minimum, the following information:

- 1) A list of the projects to which sustainable financing proceeds have been allocated
- 2) Brief description of the projects
- 3) Total signed amount
- 4) Amount of proceeds allocated (allocated amount) to such projects.
- 5) Share of financing versus refinancing
- 6) The expected environmental and/or social impacts of the projects using relevant indicators as suggested by the ICMA Harmonized Framework for Impact Reporting, subject to data availability and confidentiality, which may include the following impact indicators:

Category	Sample Impact Indicators
Renewable Energy	<ul style="list-style-type: none"> <li>• Annual GHG emissions reduced/avoided</li> <li>• Annual renewable energy generated</li> </ul>
Energy Efficiency	<ul style="list-style-type: none"> <li>• Annual energy savings</li> </ul>

<sup>12</sup> <http://iif.co.id/en/social-environmental/project-summary/>

	<ul style="list-style-type: none"> <li>• Annual GHG emissions reduced/avoided</li> </ul>
Pollution Prevention and Control	<ul style="list-style-type: none"> <li>• Annual amount of waste reduced, avoided, reused, or recycled</li> <li>• Annual amount of air pollution reduced or captured</li> </ul>
Clean Transportation	<ul style="list-style-type: none"> <li>• Annual GHG emissions reduced/avoided</li> <li>• Annual air pollution reduced/avoided</li> </ul>
Sustainable Water and Wastewater Management	<ul style="list-style-type: none"> <li>• Annual amount of fresh water conserved</li> <li>• Annual amount of water pollution avoided</li> </ul>
Climate Change Adaptation	<ul style="list-style-type: none"> <li>• Estimated number of lives saved</li> <li>• Estimated savings to assets</li> </ul>
Green Buildings	<ul style="list-style-type: none"> <li>• Total floor area of buildings achieving green certification</li> </ul>
Affordable Basic Infrastructure	<ul style="list-style-type: none"> <li>• Number of new household water/sanitation connections</li> <li>• Number of people with access to connectivity</li> </ul>
Access to Essential Services	<ul style="list-style-type: none"> <li>• Number of students reached (education)</li> <li>• Number of patients reached (healthcare)</li> <li>• Number of people with access to telecommunications</li> </ul>
Affordable Housing	<ul style="list-style-type: none"> <li>• Number of dwellings provided</li> </ul>
Food Security and Sustainable Food Systems	<ul style="list-style-type: none"> <li>• Number of people served</li> <li>• Share of target population with adequate food supply</li> </ul>

The annual report will be reviewed and approved by the SFWG.

**5. External Review**

IIF has engaged Sustainalytics to provide a Second Party Opinion to assess and confirm that the Framework is in line with relevant ICMA Principles and ASEAN Standards. The Second Party Opinion is published on IIF’s website.

Regarding post-issuance reporting, for each Green, Social, Sustainability debt instrument issuance and as long as the instruments are outstanding, IIF will mandate a qualified external reviewer to provide, on an annual basis or in the case of any material changes, assurance on the environmental and social credentials of the project, allocation of the net proceeds to eligible projects and the alignment with the Sustainable Financing Framework. The assurance report will be attached to the annual report, and will be submitted to the Financial Services Authority and disclosed on IIF’s web page.