

Indonesia Infrastructure Finance

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Engagement Team:

Flora Mile, flora.mile@morningstar.com

Sumaiya Waheed, sumaiya.waheed@morningstar.com

Introduction

In January 2021, Indonesia Infrastructure Finance (IIF or the “Issuer”) issued a sustainability bond (the “Sustainability Bond”) aimed at financing or refinancing projects related to 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. In December 2020, Sustainalytics provided a Second-Party Opinion¹ on the Framework. In April 2023, IIF engaged Sustainalytics to review the projects funded through the Sustainability Bond and to provide an assessment as to whether the projects met the Use of Proceeds criteria and the reporting commitments outlined in the IIF Sustainable Financing Framework² (the “Framework”).³

Evaluation Criteria

Sustainalytics evaluated the projects and assets funded as of 31 December 2022, based on whether the projects:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the IIF Sustainable Financing Framework; and
2. Reported on at least one of the Key Performance Indicators (KPIs) for each Use of Proceeds criteria outlined in the Framework.

Table 1: Use of Proceeds, Eligibility Criteria and associated KPIs

Use of Proceeds	Eligibility Criteria	Key Performance Indicators (KPIs)
Renewable Energy	<p>Investments in and expenditures on generation and transmission infrastructure for renewable energy sources, including offshore and onshore wind, solar, tidal, hydropower⁴ (below 25 MW), biomass⁵/biofuels⁶ (below 100 g CO₂/kWh and excluding feedstock competing with food production) and geothermal (below 100 g CO₂/kWh).</p> <p>Research and development of products or technology for renewable energy generation, including wind turbines and solar panels.</p>	<ul style="list-style-type: none"> • Annual GHG emissions reduced/avoided • Annual renewable energy generated

¹ Sustainalytics, “Second-Party Opinion Indonesia Infrastructure Framework”, at: https://iif.co.id/wp-content/uploads/2021/01/IIF-Sustainable-Financing-Framework-Second-Party-Opinion-Final_Updated-1.pdf

² Indonesia Infrastructure Finance, “Indonesia Infrastructure Sustainable Financing Framework”, at: <https://iif.co.id/wp-content/uploads/2021/01/PT-Indonesia-Infrastructure-Finance-Sustainable-Financing-Framework-.pdf>

³ Sustainalytics, “Indonesia Infrastructure Finance Annual Review” (2022), at: [https://www.sustainalytics.com/corporate-solutions/sustainable-finance-and-lending/published-projects/project/indonesia-infrastructure-finance/indonesia-infrastructure-finance-annual-review-\(2022\)/indonesia-infrastructure-finance-annual-review](https://www.sustainalytics.com/corporate-solutions/sustainable-finance-and-lending/published-projects/project/indonesia-infrastructure-finance/indonesia-infrastructure-finance-annual-review-(2022)/indonesia-infrastructure-finance-annual-review)

⁴ All new hydropower projects will be subject to IIF’s Social and Environmental (S&E) Management System, S&E Policy, and S&E Safeguard Framework.

⁵ If empty fruit bunches from palm oil mills are used for biomass generation, the source must be from operations certified by the Roundtable on Sustainable Palm Oil.

⁶ Production of biofuel feedstock should not take place on land with high biodiversity, and land with a high amount of carbon should not be converted for biofuel feedstock production.

Energy Efficiency	<p>Investments in and expenditures on energy efficiency improvements to infrastructure, which result in energy consumption that is at least 10% below the average national energy consumption of equivalent infrastructure.</p> <p>Research and development of products or technology, and their implementation, that reduces the energy consumption of underlying assets, technology, products or systems. This includes improved lighting technology (e.g. LED lights), improved chillers, district cooling and heating⁷, smart grids, and heat recovery.</p>	<ul style="list-style-type: none"> • Annual energy savings • Annual GHG emissions reduced/avoided
Pollution Prevention & Control	<p>Investments in and expenditures on projects dedicated to reducing land pollution and waste generation, including waste prevention, waste collection and management, product recycling and reuse, waste-to-energy activity with materials recovery and recycling prior to incineration, and soil remediation.</p> <p>Investments in and expenditures on projects dedicated to reducing air pollution. This includes reducing emissions through methane gas capture for energy generation⁸ and greenhouse gas (GHG) control.</p>	<ul style="list-style-type: none"> • Annual amount of waste reduced, avoided, reused or recycled • Annual amount of air pollution reduced or captured
Clean Transportation	<p>Investments in and expenditures on clean transportation systems and related infrastructure that reduce GHG emissions, such as developing electricity transportation, hybrid vehicle⁹, light rail transit, mass rapid transit¹⁰, and infrastructure to promote cycling and walkability.</p>	<ul style="list-style-type: none"> • Annual GHG emissions reduced/avoided • Annual air pollution reduced/avoided
Sustainable Water and Wastewater Management	<p>Investments in and expenditures on projects and infrastructure dedicated to reducing water consumption, sustainably managing water resources, and reducing water pollution. This includes developing and improving water supply and management infrastructure, urban drainage, and other flood control activities.</p>	<ul style="list-style-type: none"> • Annual amount of fresh water conserved • Annual amount of water pollution avoided
Climate Change Adaptation	<p>Investments in and expenditures on projects and infrastructure that could reduce risk exposure and/or the severity of potential impacts of physical climate hazards, such as flood early warning systems, drought management projects, infrastructure for disaster resilience, and transportation network upgrades to higher climate-resilient design standards.</p>	<ul style="list-style-type: none"> • Estimated number of lives saved • Estimated savings to assets
Green Buildings	<p>Investments in internationally, regionally and nationally certified green buildings, including new construction or the renovation of existing buildings (including public service, commercial,</p>	<ul style="list-style-type: none"> • Total floor area of buildings that attain green certification

⁷ For distribution, it should be primarily powered by renewables and/or waste heat. For heat/cool generation, it should be from renewables and/or industrial waste heat.

⁸ Applicable for closed/decommissioned landfills with high gas capture efficiency.

⁹ Hybrid vehicles should adhere to the direct emission threshold of <75 gCO₂/p-km (passenger vehicles).

¹⁰ Light rail and mass rapid transit shall adhere to direct emissions threshold of <75 gCO₂/p-km (passenger trains) or <25 gCO₂/t-km (freight trains).

	<p>residential and recreational), such as but not limited to:</p> <ul style="list-style-type: none"> • Indonesia EDGE¹¹ Certified or above • Any other green building certification that is equivalent to the above standard <p>Investments in and expenditures on buildings that are within, or are expected to be within, the top 15% of the best-performing buildings regionally, based on absolute GHG emissions or primary energy demand.</p>	
Affordable Basic Infrastructure	<p>Investments in and expenditures on infrastructure to provide clean drinking water for the general public. This includes raw water intake facilities, transmission networks, distribution networks and drinking water refinery plans.</p> <p>Investments in and expenditures on infrastructure to provide sewer and sanitation facilities for the general public.</p> <p>Investments in and expenditures on inter-province roads that can provide access and greater mobility for the general public in areas that lack connectivity.</p>	<ul style="list-style-type: none"> • Number of new household water/sanitation connections • Number of people with access to connectivity
Access to Essential Services	<p>Investments in and expenditures on the provision of access to affordable education to the general public, including schools and education facilities.</p> <p>Investments in and expenditures on the provision of affordable healthcare access to the general public and underserved populations, including hospitals, healthcare centres and clinics.</p> <p>Investments in and expenditures on the provision of telecommunication services, such as broadband to rural communities. IIF is encouraged to report on the rural communities that are served and the benefits achieved through such financing.</p>	<ul style="list-style-type: none"> • Number of students reached (education) • Number of patients reached (healthcare) • Number of people with access to telecommunications
Affordable Housing	<p>Investments in affordable social housing for low-income persons, as defined by national legislation.</p>	<ul style="list-style-type: none"> • Number of dwellings provided
Food Security and Sustainable Food Systems	<p>Investments in food warehousing to improve local populations' access to safe and sufficient food.</p>	<ul style="list-style-type: none"> • Number of people served • Share of target population with adequate food supply

Issuing Entity's Responsibility

IIF is responsible for providing accurate information on and documentation of the details of the projects that it has funded, including descriptions of the projects, the amounts allocated and the projects' impact.

¹¹ 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.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of IIF's Sustainability Bond Use of Proceeds. The work undertaken as part of this engagement included the collection of documentation from IIF employees and a review of the documentation to confirm conformance with the Indonesia Infrastructure Finance Sustainable Financing Framework.

Sustainalytics has relied on the information and the facts presented by IIF, with respect to the Nominated Projects. Sustainalytics is not responsible, nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by IIF.

Sustainalytics made all efforts to ensure the highest quality and rigour during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

Conclusion

Based on the limited assurance procedures conducted,¹² nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through the proceeds of IIF's Sustainability Bond, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the Framework. IIF has disclosed to Sustainalytics that the proceeds of the Sustainability Bond were fully allocated as of 31 December 2021.

Detailed Findings

Table 2: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded by the Sustainability Bond as of 31 December 2022 to determine if the projects aligned with the Use of Proceeds Criteria outlined in the Framework and above in Table 1.	All projects reviewed complied with the Use of Proceeds criteria.	None
Reporting Criteria	Verification of the projects funded by the Sustainability Bond as of 31 December 2022 to determine if the impact of projects was reported in line with the KPIs outlined in the Framework and above in Table 1. For a list of KPIs reported, please refer to Appendix 1.	All projects reviewed reported on at least one KPI per Use of Proceeds criteria.	None

¹² Sustainalytics' limited assurance process includes reviewing the documentation related to the details of the projects that have been funded, including descriptions of the projects, estimated and realized costs of projects, and the projects' impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

Appendix

Table 1: Net Allocation of Proceeds by Eligibility Criteria¹³

Use of Proceeds Category	Technology	Financing or refinancing	Allocation amount (USD million) ¹⁴
Renewable Energy	Sidrap 70 MW Wind Power Plant Project in South Sulawesi	Refinance	43.82
	Mini Hydro Power Plant in North Sulawesi ¹⁵	Finance	6.61
	Mini Hydro Power Plant in Central Sulawesi ¹⁶	Finance	12.38
Green Buildings	Hyperscale data centre (building and related infrastructure only), which is certified as a commercial green building, in line with the Framework criteria on green building	Finance	40.02 ¹⁷
Sustainable Water and Wastewater Management	Gresik Drinking Water Infrastructure	Refinance	13.34
	East Serang Water Treatment Plant	Refinance	5.66
Access to Essential Services	Pekanbaru Drinking Water Supply System	Finance	11.19
Access to Essential Services	Expansion of Type C General Hospital in Bekasi	Finance	3.49
	Expansion of Type C General Hospital in Tangerang	Finance	2.89
	Development of 4G BTS in West Papua and Central-West Papua ¹⁸	Finance	10.60
Total allocated			150.0
Total funds raised			150.0
Total unallocated			0

¹³ As of 31 December 2022

¹⁴ Exchange rate on 31 December 2022 was IDR 15.731:USD1

¹⁵ Environmental Impact Assessment, including the Environment and Social Due Diligence of the project, were conducted before construction began and no significant risk or negative impact were found due to the project's implementation.

¹⁶ Environmental Impact Assessment, including the Environment and Social Due Diligence of the project, were conducted before construction began and no significant risk or negative impact were found due to the project's implementation.

¹⁷ The allocation is capped only for building and related infrastructure costs, to fit the green building criteria.

¹⁸ In line with the suggestions mentioned in the SPO provided by Sustainalytics (dated 09 December 2020) to the Indonesia Infrastructure Finance Sustainable Financing Framework, IIF has clarified that the financed telecom towers were located in disadvantaged and remote regions of Indonesia. The financing aimed to enhance telecom and education access to children in the regions impacted by COVID-19 restrictions.

Table 2: Impact Reporting by Eligibility Criteria

Use of Proceeds Category	Project name	Project phase	Environmental impact reported by eligibility criteria
Renewable Energy	Sidrap 70 MW Wind Power Plant Project in South Sulawesi	Operational	<ul style="list-style-type: none"> Renewable energy produced from wind power plants is reported as 158.5 GWh annually. Annual GHG emissions reduction in 2022 are reported as 48,705.63 tCO₂e.¹⁹
	2 × 1.75 MW Mini Hydro Power Plant in North Sulawesi	Under Construction	<ul style="list-style-type: none"> The project is in the construction phase and is expected to produce 20.94 GWh of energy annually. Annual GHG emissions avoided is expected to amount to 7,269.91 tCO₂e.²⁰
	2 × 5 MW Mini Hydro Power Plant in Central Sulawesi	Under Construction	<ul style="list-style-type: none"> The project is in the construction phase and is expected to produce 62.51 GWh of energy annually. Annual GHG emissions avoided is expected to amount to 21,705.92 tCO₂e.²¹
Green Buildings	Tier -3 Data Center Phase Project (building and related infrastructure only)	Under Construction	<ul style="list-style-type: none"> The hyperscale data centre is expected to receive LEED²² Gold (Leadership in Energy and Environmental Design) Certification for a 10,000 m² floor area in Q3 2023.²³
Sustainable Water and Wastewater Management	Gresik Drinking Water Infrastructure	Under Construction	<ul style="list-style-type: none"> 100,000 households are expected to have access to drinking water. An expected target for reducing Non-Revenue Water (NRW) loss to 5%.
Affordable Basic Infrastructure	East Serang Water Treatment Plant	Operational	<ul style="list-style-type: none"> 8,000 households attained access to drinking water. NRW water loss reduction increased by 87% in 2022 as compared to 2018. Estimated amount of groundwater conserved per month is 200 litre per second
	Pekanbaru Drinking Water Supply System	Under Construction (Rehabilitation and Expansion with several units operational)	<ul style="list-style-type: none"> 61,000 households are expected to have access to drinking water. NRW water loss reduction increased by 64% in 2022 as compared to 2019.

¹⁹ In 2021, IIF calculated annual GHG emissions reduced/avoided based on the GHG emission factor issued by the Ministry of Energy and Natural Resources. As of 2022, impacts are being calculated using the IPCC Method, where the BAU is assumed using GHG emissions of coal and subtracted by the GHG emissions of the renewable energy itself, using emissions factors for wind and solar projects as 0.68 ton-CO₂/MWh, as per the ADB Guidelines. Asian Development Bank, "Guidelines for Estimating GHG Emissions of ADB Projects: Additional Guidance for Clean Energy Projects" (2017), at: <http://dx.doi.org/10.22617/TIM178659-2>

²⁰ Ibid.

²¹ Ibid.

²² LEED: <https://www.usgbc.org/leed>

²³ IIF Sustainability Bond Impact Report 2022 outlines that the project aims to achieve Power Usage Effectiveness (PUE) of 1.3.

Access to Essential Services	The Expansion of type C Public Hospital in Bekasi	Operational	<ul style="list-style-type: none"> Total bed capacity increased up to 119 beds in 2022. In 2022, 16,251 patients were served.
	The Expansion of type C Public Hospital in Tangerang	Under Construction (Rehabilitation and Expansion)	<ul style="list-style-type: none"> Total bed capacity increased up to 84 beds in 2022. In 2022, 20,045 patients were served.
	The Development of 4G BTS in West Papua and Central-West Papua	Operational	<ul style="list-style-type: none"> Approximately 288,000 people benefitted from increased access to 4G telecommunication services through the 1,654 sites that were operational by the end of 2022.²⁴

²⁴ The project has attained completion and operation status at 1654 sites, benefiting approximately 288,000 people. The number of beneficiaries is expected to increase when construction of all 1,795 site towers are completed.

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