

IFC in Indonesia

CREATING OPPORTUNITIES AND IMPROVING LIVES





A Unique Value Proposition

IFC aims to reduce poverty in Indonesia by creating opportunities and improving people's lives. To attain this goal, IFC provides two main products to its business and government clients: long-term investment and advice.

The IFC Way

Indonesia has worked hard to recover from the 1998 financial crisis. Despite its large, diverse and growing economy, poverty remains widespread. About half the population of 230 million lives on less than \$2 per day. As the current financial crisis spreads to East Asia, there are risks that many vulnerable Indonesians could once again fall even farther behind.

IFC, a member of the World Bank Group, has been active in Indonesia for nearly 40 years. Through sustainable private sector development, IFC aims to reduce poverty in Indonesia by creating opportunities and improving people's lives.

Private firms and financial institutions comprise IFC's main clients. IFC uses a range of investment instruments such as equity, debt and guarantees, and by providing world class advice. IFC clients demonstrate the business case for sound environmental and socially sustainable practices and good corporate governance. IFC then seeks to replicate these good practices across other companies, so that large numbers of Indonesians can benefit.

In addition to operating at the firm level, IFC also engages at the systemic level to improve the business environment for all companies. This work is done in partnership with government and other stakeholders, such as other parts of the World Bank Group, bilateral donors and civil society.

IFC Advisory Services in Indonesia are supported by the governments of Australia, the Netherlands, New Zealand and Switzerland.



Our Objectives:

IFC in Indonesia has three objectives:

1. To reduce the impact of climate change
2. To increase rural incomes
3. To promote sustainable urbanization

Program Areas:

To achieve these objectives, IFC Indonesia combines investment and advisory service to:

- expand access to financial services for the underserved
- increase access to infrastructure especially in frontier regions
- strengthen commodity-based supply chains such as agribusiness and forestry
- improve investment climate

Expected Results

Given the size and scope of challenge in Indonesia, IFC will focus on achieving impact on a large scale during the next five years.

- IFC investments in Indonesia reach US\$300-400 million annually with investments that focus on products that are in short supply in the local market: longer-term finance, risk sharing and equity.
- Through its Investment and Advisory Services, IFC aims to reach 41 million people, facilitate approximately US\$ 13 billion in commercial investment and reduce carbon emissions by 180 million Mt CO₂e.
- We incorporate gender issues across our programs.

IFC in Indonesia - Our Objectives



IFC in Indonesia aims to:

Reduce the Impact of Climate Change

Indonesia is the world's third largest emitter of greenhouse gasses. The bulk of these emissions come from changes in land use, specifically deforestation and the associated degradation of vast peat bogs. IFC in Indonesia is meeting the challenge of reducing the impact of climate change by working with companies and local governments to promote sustainable forestry and agribusiness. We will also invest in renewable energy such as a geothermal energy and help banks identify and fund sustainable energy projects.

Increase Rural Incomes

IFC in Indonesia will focus on two key sectors to increase rural incomes, agribusiness and forestry. Agriculture provides employment to over 40 percent of the workforce and income to two-thirds of the Indonesia's poor, while forests are central to the livelihoods of 10 million of the poorest Indonesians. We will combine investment and advisory to integrate large numbers of farmers into supply chains, support environmental and social standards, and improve logistics and infrastructure related to commodity supply chains.

Promote Sustainable Urbanization

By 2015, the urban share of population in Indonesia will reach nearly 60 percent. Recent evidence shows that vibrant, sustainable cities serve as powerful engines of growth and poverty reduction. IFC in Indonesia will improve access to infrastructure, power, water, transport and housing, with a primary focus on secondary cities. In addition, we will help local governments promote investment and improve the business climate, and expand access to finance to micro- and small business to improve opportunities for people to escape poverty.



IFC in Indonesia : Program Areas

1. Expanding Access to Finance

Although Indonesia has a large and developed banking sector, market coverage is uneven, with the frontier regions in the east of the country particularly underserved. Only 45 percent of rural households have access to banking services, and less than 20 percent of Indonesia's nearly 8 million MSMEs (micro, small and medium-sized enterprises) have access to formal credit.

IFC is implementing several projects to increase access to finance for farmers, home buyers, small and medium-sized businesses, and those living in rural areas often overlooked by banks and other financial institutions. Through mainstreaming microfinance and introducing SME banking, housing finance, and sustainable energy finance, IFC is helping banks to diversify their products to underserved markets, greatly extending the reach of secure and reliable banking services. IFC also supports systemic change in the financial sector to increase access to finance; an example is work with the central bank on the establishment of private credit bureaus. Another key objective is to deepen financial intermediation via support for financial sector consolidation, diversification and privatization of state-owned commercial banks.

2. Increasing Access to Infrastructure

Lack of access to basic infrastructure is a chronic problem throughout Indonesia, particularly in the country's frontier regions. Access to electricity remains inadequate. Over 100 million people lack access to clean water. Poor infrastructure stifles economic growth by increasing the cost of doing business. Improving the quality of Indonesia's infrastructure is an essential aspect of raising living standards and strengthening the nation's overall competitiveness to attract investment.

IFC's infrastructure program aims to increase access to power, water, and transport for Indonesian businesses and individuals, especially those in frontier regions. Special emphasis will be placed on promoting renewable energy, rural electrification and water distribution. Through promotion of public private partnerships, IFC will work with selected provincial governments, and provide assistance in project structuring to ensure that projects are commercially viable, transparently tendered, and deliver significant developmental impact.

3. Strengthening Commodity-Based Supply Chains

Large numbers of smallholder farmers, micro entrepreneurs, and SMEs depend on national and international supply chains for their survival. Incentives, however, are often not aligned to promote environmental and socially sustainable practices in these chains. Smaller entrepreneurs are likewise ill-equipped to participate in competitive supply chains as they cannot reliably deliver the quality and quantity of product required.

IFC's commodity-based supply chain programs aim to improve commercial supply chain linkages and foster environmental and social (E&S) standards uptake between smallholders and lead firms. Two priority sectors - forestry and agribusiness - have enormous potential to affect change for large numbers of smallholders and improve environmental performance. In both sectors, IFC works with lead firms that can demonstrate the business case for environmental and socially good practices, and at the systemic level to improve the business environment and access to finance for small producers. Examples of systemic projects are negotiable warehouse receipts development and sector-specific business enabling environment projects.

4. Improving the Investment Climate

Indonesia faces a multitude of investment climate challenges: physical infrastructure is poor, labor laws are inflexible, corruption often increases transactions costs, and laws between the national and sub-national governments are confusing and occasionally contradictory.

Improving the investment climate environment is crucial in supporting Indonesia's drive for competitive economic growth and job creation through private sector development.

IFC's Investment Climate Advisory Services (ICAS) programs are designed to support regulatory reform to increase the competitiveness of Indonesian businesses, assist governments to improve investment policy and promotion methods, catalyze agribusiness policy reform and investment.



Global Knowledge Applied Locally

Mainstreaming Microfinance

Micro, small and medium-sized businesses employ 97.3 percent of Indonesia's working population. Their growth is often limited by a lack of finance or even basic banking services. IFC's microfinance and SME Banking programs help banks build new business models to deliver a range of financial services to smaller businesses and other underserved clients in Indonesia.

The 'Bank of Banks' – formally known as Bank Andara – is Indonesia's first microfinance wholesale bank. It specializes in providing financial services and products to microfinance institutions across Indonesia, especially those in rural areas. IFC has funded 20 percent of Bank Andara's equity base and provides advisory services to help with branding, marketing, product development and identifying potential clients among microfinance institutions. Bank Andara's support will allow rural microfinance institutions to expand their client base and offer a much broader range of products and services, including micro insurance and electronic banking. Bank Andara expects to serve and support nearly 2,000 rural banks and other microfinance institutions and bring a range of financial services to 3 million clients in its first three years.

Simplifying Licensing in Jakarta

The red tape and other cumbersome administrative requirements necessary for business registration discourage formal business formation, investment, and job creation in Indonesia.

Jakarta is Indonesia's economic epicenter and a gateway for much business that enters the country. The city, which attracts billions of dollars in foreign investments, is collaborating with IFC on a two-year program to streamline its business registration and licensing procedures.

IFC will bring its global and Indonesian experience to help Jakarta identify problem areas that cause lengthy business registration and licensing processes. IFC will work with Jakarta to develop lasting solutions that create more transparent, faster and more consistent licensing services. This experience will provide a template that can be used as a model for municipalities and provincial governments across the country. The work with Jakarta will also inform and motivate national-level reform efforts.

Promoting Transparency in Infrastructure Transactions

Over 70 million Indonesians currently lack access to electricity. They stand to lose out on the opportunity to contribute to, and benefit from, the economic revival. With power demands increasing at around 8 percent per year, Indonesia is faced with a looming power crisis.

IFC is advising PLN (the government-owned electricity company) on transaction preparation and a competitive selection process for a coal-fired Independent Power Production (IPP) project in Central Java with a capacity of up to 2 X 1000 MW. The Central Java IPP Project is one of the Government's ten model projects to be implemented as model Public-Private Partnerships ("PPPs").

IFC will help to strengthen the project by developing a demonstration transaction that incorporates international best practice and transparency. Mobilizing private participation in Indonesia's electricity sector will improve access for the poor (the goal is an 80 percent electrification ratio by 2012), augment service capacity and support economic development. Furthermore, it will provide fiscal space for the Government of Indonesia to make additional resources available for its programs.



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We acknowledge support from our donor partners:



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Netherlands



New Zealand



Switzerland

August 2009