OPENING REMARKS FROM IFC INDONESIA

Dialogue to Drive Japanese Investments in Indonesia

Indonesia Country Manager
Azam Khan

April 23rd, 2021
INDONESIA AT-A-GLANCE

- 270 million population
- 4th most populated country globally

- Young population
- Median age of 30

- Rich in renewable resources...
  - (fishing, forestry, and agriculture)

- ... and non-renewable resources
  - (tin, gold, copper, nickel, bauxite, oil, & gas)

- 7th largest economy
- US$1 trillion GDP, average of ~5% GDP growth since 1990

- Investment grade
- S&P-BBB negative, Moody’s-Baa2 stable, Fitch-BBB stable
## Prevalent Development Gaps Faced by the Country

### Poverty and Human Development Indicators

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<tr>
<th>Indicator</th>
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<td>#64</td>
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### Climate Vulnerability & Environmental Degradation

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<tr>
<td>Global Climate Risk Index 2020</td>
<td>0.45/105</td>
<td>#64</td>
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<tr>
<td>Environmental Performance Index (EPI) 2020</td>
<td>0.39/103</td>
<td>#116/180</td>
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<td>ND-GAIN Readiness Score/Rank out of 191 Countries</td>
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### Business Environment and Investment

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<td>Ease of Doing Business</td>
<td>#73/190</td>
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<td>Overall Ranking in Doing Business 2020</td>
<td></td>
<td></td>
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<tr>
<td>Foreign Direct Investment (Net Inflows)</td>
<td>~2.1% of GDP</td>
<td>#103</td>
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<td>Gross Capital Formation</td>
<td>~34% of GDP</td>
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<td>Female Bank Account Access</td>
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### Jobs & Gender

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<td>Global Gender Gap Index 2020</td>
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<td>#85/153</td>
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## The Competition Gap
- Country with some of the strictest restrictions on FDI - FDI inflows representing 2.1% of GDP (Vietnam (6.2%) and Malaysia (2.5%))
- Increased barriers to goods imports, raising the cost and reducing the availability of inputs
- Regulatory uncertainty, weak competition policy and enforcement - ranked #140/190 on starting a business in Doing Business 2020 with overall Doing Business ranking of #73/190
- In response to the above factors, the government and Parliament passed the Omnibus Law on Job Creation in 2020 with Implementing Regulations issued (Perpres/ PP) in February 2021

## The Human Capital Gap
- Gaps in both education and health diminishing labor productivity and slowing down economic growth
- Low levels of health spending (~1.4% of GDP) and high prices of nutritious food, contributing to the prevalence of stunting and non-communicable diseases (NCDs)
- Limited access to financial services - ~20 million people still pay their bills and other expenses in cash and ~95 million adults don't have an account at a financial institution
- Inadequate skills cited as a top constraint when hiring managers and professionals, addressed by the Omnibus Law on Job Creation with Implementing Regulations (Perpres/ PP) issued in February 2021

## The Financial Gap
- Underdeveloped financial markets - credit to private sector of 33% of GDP, deposits of 36% of GDP, and capital markets capitalization of 47% of GDP
- Corporate bonds instruments mainly are plain vanilla bonds, due to nascent stage of bond-market development, limited investor literacy, and tax and regulatory impediments
- Highly concentrated banking sector dominates the financial system (78% of total financial assets), with four state-owned banks holding 44% of banking assets
- Underdeveloped sub-national financing markets, making it difficult for sub-national governments to borrow

## The Infrastructure Gap
- The government’s limited fiscal capacity for infrastructure projects, particularly due to the COVID-19 pandemic
- Long period of underinvestment particularly in the energy, transportation, and digital sectors
- The government’s SOE-driven model limits participation and competition for the private-sector in infrastructure sectors
- Low bankability of concessions and tariffs in most infrastructure sectors
- Domestic lending practices are unconducive to infrastructure financing - short tenure loans and short-term outlook of local investors

Source: The World Bank Country Private Sector Diagnostic 2019
ECONOMIC GROWTH CONTRACTED DUE TO COVID-19, BUT RECOVERY CONTINUES

Source: Bank Indonesia, BPS, CEIC
The Omnibus Law was promulgated in November 2020 and the first wave of Implementing Regulations was issued in February 2021. The Law amends 76 different laws across 11 clusters and focuses on removal of sectoral discrimination towards foreign investment and simplification of business licensing. The Law will facilitate reforms in the following key areas:

### INVESTMENT AND LABOUR

- The Law substantially reduces the number of business activities subject to restrictions from 813 to 260.
  - The Law permits foreign investment in hospital businesses (health sector) from a cap of 67%.
  - It also removes the government’s obligation of reserving sectors for SMEs.
- The Law eases the issuance of work permits for foreign skilled workers and reduces barriers to import of key commodities and industrial inputs.
- However, the Law excludes the revisions on the Education and Higher Education laws, which would have allowed for-profit education legal entities to establish schools and higher education institutions and bring more flexibility for foreign education to operate in Indonesia.

### SOVEREIGN WEALTH FUND

- The Law stipulates the establishment of an Indonesian Sovereign Wealth Fund (SWF), known as the Indonesia Investment Authority (or INA) to attract global investors into Indonesian based assets.
- Circumstances surrounding the SWF are still uncertain at this stage, but IFC has already established a dialogue with the entity, including on potential pilot transactions.

### ENVIRONMENT

- The Law introduces a risk-based approach to business licensing that incorporates environmental permits.
- The implementation of a risk-based system requires significant institutional strengthening across all levels of government and relevant agencies, as well as the enactment of new standards. However, some of these arrangements are not yet fully detailed.
IFC IN INDONESIA
STARTED OPERATING IN 1968, INDONESIA GRADUATED FROM IDA IN 2008

Over the last 10+ years, IFC committed 77 Long-Term Financing (LTF) projects worth US$5.5 billion
(US$3.1 billion on Own Account (56%), US$2.4 billion Mobilization (44%))

<table>
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<tr>
<th>NEW INVESTMENT (US$ million)</th>
<th>PORTFOLIO AMOUNT BY SECTORS</th>
<th>NUMBER OF OUTSTANDING PROJECTS BY SECTORS</th>
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<td>TOTAL COMMITTED PORTFOLIO</td>
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- **Private Equity Funds**: 6%
- **Banking and Microfinance**: 40%
- **Infrastructure**: 4%
- **Housing & Real Estate**: 9%
- **Retail**: 10%
- **Tourism**: 1%
- **Disruptive Technologies**: 1%
- **Life Sciences and Medtech**: 6%
- **Agribusiness**: 4%
- **Manufacturing**: 7%
- **Infrastructure Finance**: 12%

- **Infrastructure Finance, 6**
- **Housing & Real Estate, 6**
- **Manufacturing, 4**
- **Banking and Microfinance, 14**
- **Agribusiness, 3**
- **Life Sciences and Medtech, 3**
- **Private Equity Funds, 4**
- **Education, 1**
- **Tourism, 1**
- **Insurance and Pensions, 1**
- **Disruptive Technologies, 2**
- **Retail, 2**
- **Infrastructure, 2**

Graphs showing investment trends and portfolio amount by sectors.
IFC INDONESIA IN INFRASTRUCTURE
SELECTED PROJECTS

**Asahan 1**
Hydroelectric Power Plant
North Sumatra, 2020

- **$230m** loan facility
- One of the Country’s lowest cost producers of power
- **180 megawatt** hydroelectric plant

Asahan 1 is a run-of-river hydro plant in North Sumatra, constructed in 2010 and selling electricity to Indonesia’s national electricity utility company (PLN) under a 30-year long-term Power Purchase Agreement. It is owned by a subsidiary of PLN and Singaporean Fareast Green Energy. In March 2020, IFC led refinancing of the debt with total refinancing package of $230m. IFC was able to extend the tenor to 17 years and improve pricing, hence improve the shareholders’ return.

**Sunter WTE**
Waste-to-Energy Plant
Jakarta, 2021

- **$224m** financing package incl. up to $94m IFC loan
- **2,200 tons/day** capacity
- **35 megawatt** electricity output

The Sunter WTE is the first Waste-to-Energy plant in Indonesia, which is developed to manage waste for Jakarta and sell power to PLN. The project is developed jointly by Fortum Oyj and Jakarta Propertindo (“JakPro”). The total project cost is expected to be around $250-300m. The proposed IFC financing package is up to $224m, consisting of up to $94m from IFC’s own account and up to $130m of mobilization.

**Legok Nangka WTE**
Waste-to-Energy Plant
West Java, 2020-2023

- A/S
- IFC provides transaction advisory
- **1,820 tons/day** capacity
- **$265m** estimated project cost

In August 2019, JICA signed a Cooperation Agreement with the Ministry of Finance (MoF), then in September 2019, JICA concluded a Project Services Agreement with IFC. Under these contracts, JICA, in cooperation with IFC, will provide Transaction Advisory Services in support of procurement procedures by the Indonesian Government agencies for selecting private project operator for Legok Nangka WTE. Legok Nangka WTE is the first PPP Waste-to-Energy project in Indonesia.
BTPN SME GREEN LOAN
Commercial Bank, 2018

$150m revolving loan from IFC own account
$600m expected green loan outstanding by 2022
$70m expected SCF loan outstanding by 2022

BTPN SME Green Loan comprises of $150m revolving loan to BTPN, the 9th largest bank in Indonesia, to expand green financing and to increase lending to MSMEs focusing on the following two areas: (i) supply chain finance (SCF); and (ii) women owned MSMEs. The Project is the first ever SCF engagement of IFC in the country.

SUSTAINABLE BOND PROGRAM
Commercial Bank, 2020

$200m loan facility from IFC own account
$350m expected climate loan outstanding by 2024
$210m expected loan to WSME outstanding by 2024

OCBC NISP Sustainable Bond Program comprises of a Green Bond and a Gender Bond of $100m each. The Gender Bond was the first ever gender bond in the country. The Program leveraged blended finance resource from UK-IFC MAGC program to promote green building financing under Green Bond as well as We-Fi to support the first ever gender bond in Indonesia and second issuance in the Asia Pacific Region.

FMF KBC MSME LOAN
Multi-finance Company, 2020

$50m loan facility from IFC own account
$327m expected micro loan outstanding by 2023
$34m expected SMEs loan outstanding by 2023

FMF KBC MSME Loan consists of a 3-years IFC’s loan of up to $50m to FMF, a mid-size multi-finance company. The Project is guaranteed by KB Kookmin Card (KBC), the parent company of FMF and the second-largest credit card-issuing company in South Korea. The project will help FMF to continue lending to MSMEs and expand its newly launched SCF business.
IFC INDONESIA IN MANUFACTURING AND SERVICES
SELECTED PROJECTS

**TRANSCORPORA LOAN**
Retail Industry Player, 2018

- $275m financing package incl. $60m IFC loan
- The first retail chain in Indonesia to adopt IFC’s Excellence in EDGE
- 53,000 expected direct and indirect jobs created from the expansion

The financing package consists of an A-loan of up to US$60 million and mobilization of up to US$215 million to PT Trans Corpora, a leading player in the retail industry in Indonesia. IFC’s investment is primarily used to expand TC’s retail, property, and tourism operations, including for housing and hotels. The investment marks IFC’s first formal engagement with the Group.

**NABATI INDONESIA**
Food Manufacturer, 2018

- $44m IFC A-loan
- $63m IFC B-loan and MCPP facility
- 8,600 expected direct jobs created from the expansion

The financing package is used to expand Nabati’s wafer and biscuit manufacturing plant in Majalengka, West Java. As the existing facilities are operating at full capacity, the Project is necessary to maintain Nabati’s continued growth. Nabati was started as a small-scale business, which was then transformed into a professionally run company and becomes the market leader for wafers in East Asia.

**LOGOS INDONESIA**
Logistics Property Specialist, 2020

- $120m consisting of $73m IFC loan and $47m mobilization
- The project facilities meet the IFC’s green building standards
- IFC’s countercyclical role in supporting a large investment program

The IFC investment is used to finance the development of Grade A warehouse facilities in West Java. The client, Logos, is an experienced logistics property specialist that develops and manages property assets for domestic and international companies, which lease warehousing space for their business activities. The investment marks IFC’s first formal engagement with Logos.
# IFC STRATEGY FOR FY21-24

## Pillar 1: Supporting Sustainability
- Fill the infrastructure gap
- Make urban lives livable & sustainable
- Reduce waste and carbon footprint of economic activities
- Built resilience against natural disasters

## Pillar 2: Enhancing Inclusion
- Increase access to finance/ higher financial inclusiveness for MSMEs, gender, and Supply Chain Financing (SCF)
- Develop and deepen the capital markets and Financial Institutions (FIs)

## Pillar 3: Improving Competitiveness
- Address skills gap and gender disparities
- Access, affordability, and quality of healthcare and education
- Increase value-added production beyond low-wage competitiveness

### Focus Areas

#### Objectives
- COVID-19 facility (RSE)/ Capital injections/ Other support for clients (e.g., extension of loan’s disbursement period, cushions for CODs)
- Select corporate restructuring for infra players
- Renewable Energy
- Transport and logistics/ E-logistics
- SOE’s Asset Recycle
- Urban services, Municipal financing
- Electric Vehicles (EV) supply chain*

#### Focus Areas
- Development of capital markets
- Increase access to finance for MSMEs (through Supply Chain Financing (SCF) & Gender Financing)
- Improve digital infrastructure and connectivity

#### Focus Areas
- COVID-19 facility (RSE)/ Liquidity support/ Working capital finance
- Select corporate restructuring for real sector players
- Health & Education (HealthTech/ EdTech)
- Electric Vehicles (EV) supply chain*

### Digitalization of Economy:
Harnessing digital technologies not only to power economic recovery in the short term, but to also bring greater inclusion and resilience in the medium term

* Cross-cutting sectors between INFRA and MAS
ありがとうございます
terima kasih