

October 18, 2013

Heike Mainhardt
Oil Change International

Dear Ms. Mainhardt

World Bank Group support for Energy Sector in Indonesia

Thank you very much for your open letter of 2 October 2013 addressed to President Kim.

The World Bank Group is fully committed to supporting its partner countries to realize their energy aspirations and secure the affordable, reliable, and sustainable energy supply needed to end extreme poverty and promote shared prosperity. These are among the objectives and principles set out in the World Bank Group's Energy Sector Directions Paper released in July 2013 which emphasizes assistance for developing cleaner alternatives to coal and makes it clear that WBG lending for coal will be limited to rare circumstances.

Consistent with the Energy Sector Directions Paper, the World Bank Group's engagement in the energy sector in Indonesia is focused on increasing energy access, improving the overall efficiency of the sector and on supporting longer term clean alternatives to coal. We provide advisory, capacity building and lending support to the geothermal and hydropower sectors, to scale up energy efficiency and to support the further development of renewable energy. We are also providing support for the development of a gas master-plan, for exploring carbon capture and storage options, and for the reduction of fuel and energy subsidies in ways that are consistent with protecting the poor. Together these efforts are aimed at reducing the barriers to cleaner energy alternatives so that over time Indonesia's energy mix moves away from the dominant presence of coal.

In Indonesia, as elsewhere, infrastructure bottlenecks are real impediments to sustained growth. The Indonesia Infrastructure Guarantee Fund, or IIGF, is part of the Government of Indonesia's strategy to tackle these bottlenecks and boost infrastructure investment by providing a well governed, one-stop shop for guarantees towards infrastructure projects.

Under the terms of the World Bank loan to IIGF, all guarantees provided by IIGF must comply with its Operations Manual, which is in turn fully compliant with World Bank social and environmental safeguards. Further, any guarantees directly backed by the World Bank funded guarantee would also have to receive a "no objection" from the World Bank, and would need to be fully compliant with all World Bank policies, and be consistent with the Energy Sector Directions Paper.

Starting in 2008, IFC provided transaction advisory services to Indonesia's PLN, in structuring and implementing a fair, open and competitive bidding process for the Central Java Power Plant project. IFC did not provide any financial assistance to the project. The Central Java Power project will receive a guarantee from IIGF's own resources, when it reaches financial closure. This project will not receive any guarantee support from World Bank resources, nor has this operation received any technical assistance support from the World Bank loan. The commitment of IIGF to support this guarantee, issued in March 2011 predates both the negotiations of World Bank's loan to IIGF and the Energy Directions paper.

IIGF has already decided not to support the Central Kalimantan coal railway that you refer to in your letter. While the South Sumatera Mine Mouth Coal Power Plant is still under consideration for an IIGF guarantee, any such guarantee, should it be approved by IIGF, would not be supported by the World Bank loan, but would be supported by Indonesia's own resources.

The World Bank's Development Policy loans series support reforms that help improve development outcomes and investment climate reforms. None of our Development Policy Loans supported the development of the Fast Track power projects.

I appreciated meeting with you and Ms. Bast yesterday. If you wish, I would be happy to meet again with you at your convenience.

Yours sincerely,



John Roome
Director

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