

Indonesia Pioneers World Bank's Inaugural Step-Up Loans for Energy Projects: \$1.1 Billion Commitment

Highlights

- **Indonesia's Step-up Loans:** *The World Bank approved its first-ever IBRD Step-up Loans (SuLs) to fund two energy projects in Indonesia totaling \$1.1 billion.*
- **The Loans Have a Discounted Price and Built-in Refinancing Incentives:** *This innovative financial product offers clients a lower interest rate during the project implementation phase, so that the client is in a stronger financial position to refinance the loan through private capital.*

Background

Energy Infrastructure Investment Needs

PT Perusahaan Listrik Negara (PLN), the state-owned utility, oversees Indonesia's electricity systems across more than 600 islands, including generation, transmission, distribution, and sales. As electricity demand is projected to grow fivefold by 2050, Indonesia is looking to develop more reliable, sustainable, and resilient power systems.

World Bank-supported Electrification Projects

Indonesia's PLN and the World Bank are collaborating on multiple projects to support the implementation of Indonesia's transition to a bigger, more resilient, and smarter electricity system. These include the \$600 million Sustainable Least-Cost Electrification-2 (ISLE-2) operation across Kalimantan and Sumatra regions (approved on June 12, 2025); and the Indonesia Electricity Network Transformation (I-ENET) Program, a \$500 million operation in the Java, Madura, and Bali regions (approved on September 24, 2025).

Both operations use World Bank's new Step-up Loan under development.

Financial Objectives

- **Incentivize the refinancing of IBRD loans with external financing** by offering discounted pricing during the high-risk implementation phase and helping secure refinancing from the private sector to reduce reliance on public funding.



Aerial view of Jakarta's Central Business District at dusk, Photo Credit: Adobe Stock by HanJSantosa

- **Mitigate refinancing risk for clients**, and allow them to maintain the IBRD loan, if refinancing is not a viable option based on market conditions.
- **Free-up lending headroom for clients** by accelerating IBRD's capital recycling to enable more development projects and impact.

Financial Solution

What is a Step-up Loan?

The Step-up Loan is a financial product that pioneers a new model of development finance. The Step-up Loan helps bridge the infrastructure gap by leveraging public resources for projects that may not attract private capital during construction, then promoting external financing during the lower-risk operational phase. This approach also improves development finance efficiency, accelerates IBRD's capital recycling, and boosts IBRD lending capacity over the long term.

How does the Step-up Mechanism Work?

The pricing structure operates in two phases. During the initial project implementation period, clients pay only the IBRD base interest rate from the lower average maturity pricing bucket. After the discount period expires, the interest rate returns to regular IBRD pricing plus an additional spread designed to recover the earlier discount. This step-up is calibrated so that clients who hold the loan to full maturity pay the same net present value (NPV) cost as a standard IBRD loan. Cost neutrality was essential for Indonesia, as the Step-up Loan financing offered only advantageous outcomes. Should market conditions prove favorable, refinancing during or following the discount period would enable them to secure savings; otherwise, they could retain the NPV-neutral IBRD loan until maturity.

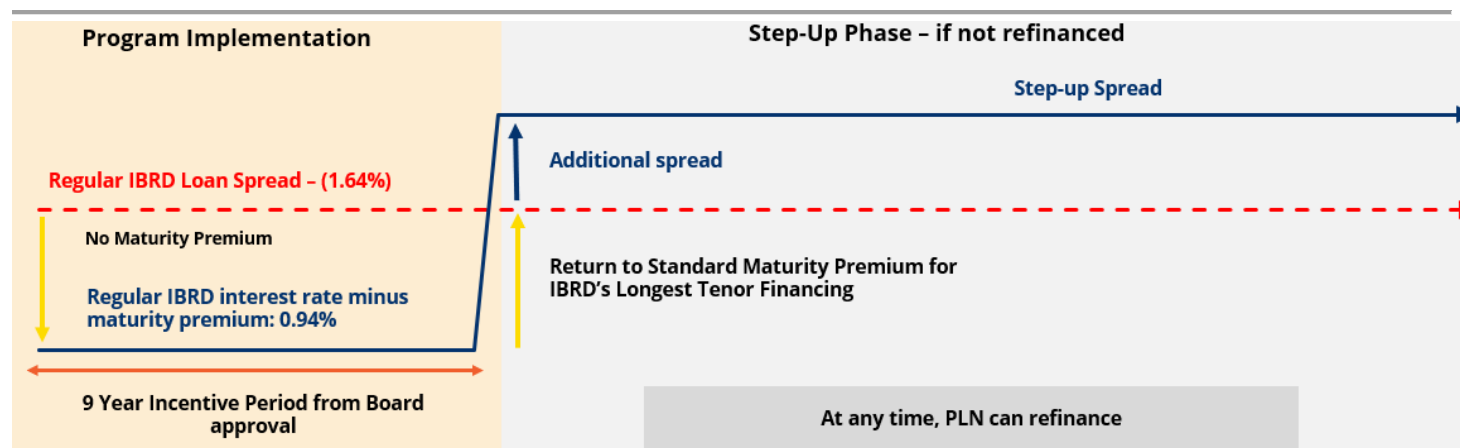
Which Projects Are Eligible?

The Step-up Loan targets infrastructure projects over \$100 million for Investment Project Financing (IPF) and Program-for-Results (P4R) instruments, with clear refinancing potential. On an exceptional basis, World Bank management may offer the Step-up Loan for Non-infrastructure projects provided they demonstrate strong potential to generate revenues and meet the other Step-up Loan eligibility criteria.

Indonesia's Step-up Loan

Indonesia's PLN meets these criteria as an investment-grade state utility with proven access to syndicated loans and bond markets, making it an ideal candidate for this financing. PLN's discount period, as part of these inaugural applications, will be 9-years. By the end of the nine years with no maturity premium, these renewable energy assets will be fully operational and revenue-generating, putting PLN in a stronger financial position to refinance the loan through private capital markets.

Financial Structure



World Bank Group and Client's Role

Indonesia's Ministry of Finance and PLN were key contributors to the development of the inaugural Step-up Loans, working closely with the World Bank Group project team to bring the new initiative to life.

Within the Bank, the project team, comprising Treasury, Energy Practice and Country Management Unit, in consultation with Finance Partners and Legal, designed and implemented PLN's two Step-up Loans for the ISLE-2 and I-ENET projects. More specifically:

- **Designed and explained the Step-up Loan product.** Worked extensively with PLN and with the Ministry of Finance to walk through underlying models and to clearly explain the benefits of using the Step-up Loan for this program.
- **Conducted comprehensive pricing analysis,** including net present value (NPV) calculations on step-up spreads to ensure NPV neutrality with regular IBRD loans, plus comparative analysis of

refinancing cost scenarios to help PLN select the optimal option.

- **Assessed viable exit options** for PLN and discussed strategies for mobilizing private capital.

Going forward, **the step-up loan will be mainstreamed with an 8-years discount period** (instead of the 9-years for the Indonesia application).

Summary of Financial Terms for PLN applications

Approval Date/Amount	June 12, 2025/\$600 M September 24, 2025 / \$500 M
Borrower/ Guarantor	PLN/ Republic of Indonesia
Maturity/ Grace period	31/9 years
Discount Period	Years 1-9 from Board approval
Step-up Period	Years 10-31 (if not refinanced)
Discount rate	Regular IBRD rate minus 70bp maturity premium
Step-up Rate	Regular IBRD rate + additional spread