

## Project Summary Information (PSI)

Project No: 000012

Project Name	Regional Infrastructure Development Fund Project
Country	Republic of Indonesia
Sector	Multi-sector
Project No.	000012
Borrower	Republic of Indonesia
Implementation Agency	PT. Sarana Multi Infrastruktur
Environmental Category	FI
Date of PSI prepared or updated	March 27, 2017
Date of Concept Approval	November 14, 2016
Date of Appraisal Approval	December 12, 2016
Date of Board Approval	March 22, 2017

### I. Introduction

With a population of over 250 million, and a GDP per capita of US\$3,510, Indonesia has emerged over the last decade as a vibrant middle-income economy. Poverty in Indonesia was more than halved from 24 percent in 1999 to 11 percent in 2014, when viewed against the national poverty line.

Indonesia is undergoing a major and rapid structural transformation from a predominantly rural and agriculture-based economy to an urban service-based and manufacturing economy. The country's transformation, however, is constrained by a large local infrastructure deficit, which threatens to stifle future growth and prosperity in Indonesia. Inadequate infrastructure is consistently identified by investors as a constraint on their operations and investment in Indonesia. It also imposes a significant opportunity cost on Indonesia's economic growth and poverty reduction potential. Decreased spending on the part of government, state-owned enterprises (SOEs) and the private sector caused the decline in infrastructure investment as a proportion of GDP that has not caught up with pre-Asian financial crisis levels, and lags well behind regional competitors today.

In particular, there are limited financing instruments for urban and local municipal infrastructure investment. At present, no financial institution in Indonesia provides access to medium- to long-term financing for local public infrastructure investment, in particular in small- to medium-sized cities. As such, providing medium- to long-term infrastructure finance has become a critical priority for the Government of Indonesia to meet the local infrastructure gap.

Subnational governments currently are responsible for about 60 percent of public infrastructure spending, but this is barely sufficient to keep up with the depreciation of local public assets, let alone the even larger demand for new infrastructure. In addition to inadequate finance, subnational governments have also lacked the technical, institutional or financial capacity to carry out strategic infrastructure investments and keep pace with rapidly expanding demand for local services. Addressing the effectiveness and efficiency of local government spending across all sectors is

critical, in parallel to expanding access to finance.

The World Bank (WB) will be the lead co-financier of the Project and will administer AIIB's loan on behalf of AIIB including procurement, disbursements, environmental and social compliance, and project monitoring and reporting. For further Project details, please see the following World Bank's website:

<http://documents.worldbank.org/curated/en/docsearch/projects/P154947>

## **II. Project Objectives and Expected Results**

The project objective is to increase access to infrastructure finance at the subnational level through creation of a sustainable financial intermediary, a Regional Infrastructure Development Fund (RIDF), that channels funds from AIIB, the World Bank, and the government to the sub-national governments. The main project beneficiaries are residents in urban areas that will be served by the infrastructure subprojects funded under the project.

The Project will support the structuring and operationalization of the RIDF as a financial intermediary to finance investment and technical assistance in the following thematic areas: (i) urban transport; (ii) urban water supply and sanitation; (iii) drainage, flood and hazard risk management; (iv) solid waste management; and (v) slum upgrading and affordable housing.

## **III. Project Description**

The project will be structured with two components as described below.

**Component 1:** Capital Support for RIDF. This component will provide up to US\$ 400 million for PT. SMI to operate RIDF as a financial intermediary, providing loans to subnational governments for economically viable infrastructure projects. It is anticipated that RIDF's initial focus will be on district-level (kota and kabupaten) governments, before eventually scaling up to more complex regional and inter-regional projects at the provincial level as its appraisal and financial capacity deepens.

**Component 2:** RIDF Project Development Facility. A Project Development Facility (PDF) will be established as part of this project, with the objective of building a subproject pipeline for RIDF by supporting subnational governments in subproject identification, planning and preparation. PDF support will help ensure that subprojects are consistent with the technical, financial, economic, social and environmental appraisal standards of RIDF. Training for subnational governments will also be provided.

## **IV. Environmental and Social Category**

The Bank has decided to use the World Bank's (WB) Environmental and Social Safeguard Policies (Safeguard Policies) since (i) they are consistent with AIIB's Articles of Agreement and materially consistent with the provisions of AIIB's Environmental and Social Policy and relevant Environmental and Social Standards; and (ii) the monitoring procedures that the WB has in place to ascertain compliance with its Safeguard Policies are appropriate for the project. Under the WB's

Safeguard Policies, the project has been assigned Category FI, as it involves channeling project funds through a financial intermediary, PT. SMI. PT. SMI will assess and categorize the subprojects according to the WB’s Safeguard Policies.

The Environmental and Social Management Framework and supporting safeguards documents prepared for the Project have been disclosed and posted on the following WB website:

<http://documents.worldbank.org/curated/en/453751478186707627/Environmental-and-social-management-framework>

## V. Estimated Project Cost and Financial Sources (in US\$ million)

Project Components	Cost	GoI	WB	AIIB
1. Capital Support for RIDF	400	200	100	100
2. RIDF Project Development Facility	6*	3	3*	-
<b>Total</b>	<b>406</b>	<b>203</b>	<b>103</b>	<b>100</b>

(\*) Includes US\$ 3million in grant from Swiss Secretariat for Economic Affairs (SECO) channeled via World Bank.

## VI. Implementation

Project Implementation Period: April 2017 – December 2020

### Contact Points

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