

**INTEGRATED SAFEGUARDS DATA SHEET  
APPRAISAL STAGE**

**Report No.: ISDSA16938**

**Date ISDS Prepared/Updated:** 14-Sep-2016

**Date ISDS Approved/Disclosed:** 14-Sep-2016

**I. BASIC INFORMATION**

**1. Basic Project Data**

<b>Country:</b>	Indonesia	<b>Project ID:</b>	P154947
<b>Project Name:</b>	Regional Infrastructure Development Fund (P154947)		
<b>Task Team Leader(s):</b>	Marcus John Jin Sarn Lee		
<b>Estimated Appraisal Date:</b>	19-Sep-2016	<b>Estimated Board Date:</b>	30-Nov-2016
<b>Managing Unit:</b>	GSU08	<b>Lending Instrument:</b>	Investment Project Financing
<b>Is this project processed under OP 8.50 (Emergency Recovery) or OP 8.00 (Rapid Response to Crises and Emergencies)?</b>			No
<b>Financing (In USD Million)</b>			
Total Project Cost:	406.00	Total Bank Financing:	200.00
Financing Gap:	0.00		
<b>Financing Source</b>			<b>Amount</b>
Borrower			203.00
International Bank for Reconstruction and Development			200.00
SWITZERLAND, Govt. of (Except for FOFEA)			3.00
Total			406.00
<b>Environmental Category:</b>	F - Financial Intermediary Assessment		
<b>Is this a Repeater project?</b>	No		

**2. Project Development Objective(s)**

The project development objective (PDO) is to increase access to infrastructure finance at the subnational level through a financially sustainable financial intermediary.

**3. Project Description**

1. Project Scope. The Project aims to support the Regional Infrastructure Development Fund (RIDF) as a retail domestic financial intermediary located within PT. SMI to increase access to finance for basic environmental, productive and social infrastructure. The RIDF will focus on

meeting an existing gap at the subnational level in access to finance for economically-viable infrastructure that requires medium- to long-term tenor debt. The RIDF will be accessible to creditworthy local and provincial governments (subnational governments - SNGs) across Indonesia. However, it is expected that the RIDF business strategy will disproportionately target fast growing medium and large municipal governments across all island groups where infrastructure development is unable to keep pace with growing demand. The RIDF will be structured around principles of financial sustainability with the view in the medium-term of being able to increasingly leverage market-based sources of finance. The Project will also include the establishment of a Project Development Facility (PDF) to support the development of a subproject pipeline as well as to channel technical assistance to subnational governments in areas of project identification, design and construction supervision, and related advisory services.

2. Project Cost. The estimated Project cost is USD 406 million with a blend of Bank financing, Borrower equity contribution and bilateral donor grant contributions as outlined below.

#### Project Components

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

Component 1: Capital Support for RIDF (USD 400 million; comprising USD 200 million of IBRD financing and USD 200 million of Borrower equity contribution)

4. This component will provide up to USD 400 million for PT. SMI to operate RIDF as a financial intermediary lending business line, providing senior debt to subnational governments in Indonesia for economically viable infrastructure projects. The RIDF business line will be housed under the Financing and Investment Directorate of PT SMI.

5. Flow of Funds and Capital Structure. The project will provide funding to PT. SMI to capitalize the RIDF business line through a mix of debt and equity. IBRD financing under this component will be channeled through a two-stage loan process: GoI (represented by MoF) will borrow from the IBRD in foreign currency and on-lend the proceeds to PT. SMI in IDR. Under this arrangement, MoF will assume the exchange rate risk. The sub-loan from MoF to PT. SMI will be priced to cover the exchange rate risk as per GoI regulations for lending to SOEs. Matching equity contributions from GoI will be funded from cash that is currently available on PT. SMIs balance sheet. The source of this equity contribution includes asset transfers from the former Pusat Investasi Pemerintah (PIP), whose mandate for lending to subnational governments is now subsumed within PT. SMI. Additional equity contributions would come in the form of new capital injections from GoI, as needed.

6. Eligibility of RIDF Borrowers. RIDF will extend loans directly, at its own credit risk, to creditworthy subnational governments as final borrowers. It is anticipated that RIDFs 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. As its business grows, RIDF could also lend directly to local-level state-owned enterprises (e.g. PDAMs and Perusahaan Daerah (PD)). To be eligible to borrow from RIDF, a subnational government must satisfy eight criteria under existing GoI regulations.

7. Eligibility of Subprojects. RIDF will fund subprojects under an open menu of environmental, social and productive infrastructure that fall within the clear jurisdictional responsibility of

subnational governments under Indonesia's decentralized system. Subprojects must also be economically viable and have clear development and poverty reduction impacts. Eligible key sectors include water supply and sanitation, environmental infrastructure (including energy efficiency subprojects), low-income housing and slum upgrading, transportation and logistics infrastructure, and social infrastructure (details in PAD Annex 2).

8. Detailed operating procedures covering sector eligibility and associated technical, economic, financial, social and environmental appraisal criteria are in RIDF Operations Manual (OM), which has been developed in accordance with RIDF's Environmental and Social Management Framework (ESMF). Important eligibility conditions for subprojects include, amongst others: (i) all necessary statutory clearances have been obtained, and are fully documented in the project evaluation report; (ii) compliance with environmental and social standards as set forth in ESMF; (iii) use of the most appropriate and cost-effective technology and technical norms and specifications.

9. Framework Approach and Subproject Pipeline. This project is being designed and appraised under a framework approach, where the assessment of project readiness requires that corporate systems, regulations and detailed operating procedures have been developed and put in place. At appraisal, the project does not include a definitive list of subproject investments. Nonetheless, the project preparation process has identified and pre-screened a list of potential subprojects that would be subject to full appraisal as per RIDF operating procedures during project implementation. From the market assessment, the list contains 18 subprojects spread across 10 subnational governments throughout Indonesia, with an estimated investment value of more than USD 567.5 million. Subnational governments that are requesting support from PT. SMI have proposed 32 subprojects with an estimated value of around USD 453.8 million. The investment value of individual subprojects ranges between USD 10 and 90 million. This list of potential subprojects has not yet been fully appraised by PT. SMI, and so not all subprojects and subnational governments that have applied for RIDF financing will necessarily pass the complete set of assessments and screening that will be undertaken by RIDF.

10. Lending Policies. RIDF core lending policies will include the following:

- (i) Appraisal of subprojects on the basis of economic rather than financial viability;
- (ii) Use of cost plus pricing (i.e. to cover the cost of capital, operating expenses and anticipated risk);
- (iii) Medium to long-term tenor loans (e.g. minimum tenor of 5 years, up to a maximum of 20 years);
- (iv) Loans will be general obligations of the subnational governments with the status of senior debt;
- (v) Rigorous provisioning norms consistent with OJK regulations; and
- (vi) A clear system of prudential norms.

11. The set of recommended prudential norms for RIDF include:

- (i) Maximum loan value of 90 percent of the total cost of a subproject;
- (ii) Single borrower limit of not more than 15 percent of RIDF total assets;
- (iii) Single subproject limit of not more than 10 percent of RIDF total assets;
- (iv) Single sector limit of not more than 35 percent of RIDF total assets.

12. Security Structure. Under current regulations, subnational governments are not allowed to pledge their future revenues or assets as security. Furthermore, only MoF can exercise an intercept of transfers to subnational governments. Therefore, a security structure has been designed for RIDF that is a post-default guarantee with intercept mechanism that would provide protection to PT. SMI in the case of borrower default. Under this structure, all RIDF lending would be covered by a full guarantee from MoF in the case of default by a subnational government. A contingency fund will be set up at

MoF for this purpose. Upon the triggering of the guarantee, MoF would transfer the necessary amount from the contingency fund to PT. SMI to cover the value of the executed guarantee. MoF would then intercept intergovernmental transfers to the subnational government in question, to replenish the contingency fund.

Component 2: RIDF Project Development Facility (USD 6 million; comprising USD 3 million of bilateral grant financing and USD 3 million of Borrower contribution)

13. 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.

14. The activities eligible for PDF support are:

- (i) project identification and preliminary structuring;
- (ii) project preparation studies, including feasibility studies, detailed engineering designs, and safeguards instruments;
- (iii) design and supervision assistance;
- (iv) advisory services related to financial management, environmental and social assessments, etc.; and
- (v) preparation of procurement and contract documents.

15. These activities are consistent with good practice cases of similar facilities in India, the Philippines and South Africa. These facilities are typically revolving funds financed by the respective government and international agencies. They provide assistance in the areas of undertaking pre-feasibility studies, environmental and social impact assessments, project documentation and preparation of detailed project reports.

16. The PDF will be housed under a separate business unit within PT. SMI, specifically under the Project Development and Advisory Directorate. This division already undertakes activities similar to those proposed for the PDF, which would become an additional activity under the same directorial oversight. The PDF would naturally adopt the same eligibility and compliance standards of RIDF.

17. Half of the initial funding for the PDF, in the amount of USD 3 million, has been committed by SECO through the Indonesia Sustainable Urbanization (IDSUN) MDTF. The Administration Agreement for the IDSUN MDTF was signed between the Government of Switzerland and the Bank in May 2016. The Bank will channel the grant from SECO to PT. SMI through a Recipient-executed Trust Fund (RETF) arrangement, which is being processed in parallel with the preparation of the IBRD loan for RIDF.

#### **4. Project location and salient physical characteristics relevant to the safeguard analysis (if known)**

18. The initial list of potential subprojects identified from the Market Demand Analysis, Workshops and subnational government applications (refer to PAD Annex 5) shows that applications came from subnational governments (districts/kabupatens and cities/kotas) located in 20 provinces (out of 34 provinces in the country). The applications covered various types of subprojects, among others are water supply, solid waste management, sewerage, roads and bridge, drainage, irrigation,

hospitals, and traditional markets, all of which fall within the eligible key sectors of RIDF. In terms of proposed investment values, roads/bridges and hospitals constitute the two largest sectors, i.e., 76% and 21% respectively. Based on the applications, PT. SMI is developing its subproject pipeline using a set of screening criteria that will produce a list of potential subprojects eligible to proceed with their preparation to get RIDF funding.

19. Overall, investment size of the potential proposed subprojects range from USD 3 to 91 million. For roads, the size ranges between USD 7.14 and 90.64 million, and bridges USD 7.0 to 22.6. The investment size for hospitals range between USD 3 and 26.5 million. Looking at the nature and investment size of the proposed subprojects from the subnational government applicants, and learning from similar types of subprojects implemented in the past, environmental and social impacts will likely be medium to high, especially for new subprojects. Field visits to the PIP-supported subprojects suggested that for the onsite redevelopment and expansion of existing infrastructure, environmental and social impacts are low to moderate, site specific and can be managed locally by the subnational governments, as was the case of redevelopment and expansion of public markets in Karangasem, Temanggung and medium-sized hospitals in Karangasem and Bangkalan. Social impacts may arise during the construction such as the temporary relocation of the users of the redeveloped markets and hospitals, as well as temporary physical disturbance and economic disruption. At this stage, RIDFs potential subprojects pipeline is being developed with the dynamics of the number of applicants. Applicants that will be included in the RIDFs pipeline for further process to get the loan funding are not confirmed. At this point, footprints and impacts areas of subprojects cannot be determined. Locations and scope of the environmental and social impacts of subprojects will be identified and assessed during the RIDF operation at the subproject screenings and appraisal stage.

20. The proposed PDF intends to provide technical assistance (TA) and capacity building (CB) for the subnational governments who would seek financing support from PT. SMI for infrastructure development to be financed by RIDF under Component 1. The objectives of PDF are to meet the capacity gap of subnational governments in planning and designing subprojects as well as generate subproject pipeline for RIDF and ensure quality delivery of subprojects. The TA and CB will focus on assisting the subnational governments in preparing subprojects of the same five key eligible sectors of RIDF. As explained in the project description above (Component 2), the scope of the TA includes among others, preparation of feasibility studies, detailed engineering designs (DEDs) and necessary environmental and social safeguards instruments, design and supervision assistance, preparation of procurement and contract documents. The detailed and specific downstream activities resulted from the outputs of the TA (such as FS and DED) will be identified during RIDF implementation when the PDF is established and in operation. As is the case with RIDF, subnational governments who apply and eligible to get assistance from the PDF operations will come from anywhere in the country, and therefore potential environmental and social impacts of the downstream activities of the outputs produced by the TA will also geographically spread out in the country, but yet unknown at this stage. However, the list of typical potential impact from future RIDF activities has been identified in the ESMF that can be used when preparing the ToR for FS or DED. A separate project to manage the grant for this PDF has been created with FI category. As the objectives of PDF are to meet the capacity gap of subnational governments in planning and designing subprojects as well as generate subproject pipeline for RIDF ensuring acceptable standards of quality delivery of subprojects including safeguards, the RIDF and PDF will adopt a single ESMF.

## **5. Environmental and Social Safeguards Specialists**

Indira Dharmapatni (GSUID)

6. Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	<p>RIDF will finance environmental infrastructure investments such as water and sewage treatment plant, sanitary landfill, hazardous waste management facilities, hospital revitalization and urban slums improvement that will bring existent benefits for the surrounding communities. The Project Development Facilities under RIDF will provide benefits as well as it will ensure that safeguards considerations are taken into account during feasibility studies and it will support the SNG in preparing the safeguards instruments (EIA, EMP, LARAP, IPP).</p> <p>The project is proposed to be Category FI because it involves investment of Bank funds through a financial intermediary, in subprojects that may result in adverse environmental impacts. As an FI project, subprojects to be financed could fall as Category A or B. Potential environmental and social impacts from infrastructure construction might be significant, diverse and irreversible such as morphology change, adverse impacts to air, water bodies, natural habitats and potential induced impact such as a new access to forest area. The project shall also have likely social impacts other than land acquisition and resettlement (such as influx management, HIV Aids etc) and also there is possibility of cumulative impacts and other impacts related to linked activities funded by government or other donors and potential impacts of ancillary facilities.</p> <p>However, the scale and location of impacts can only be identified during RIDF operation when it screens and reviews the subproject proposals/document packages submitted by subnational governments seeking infrastructure financing from RIDF. Impact assessment, minimization and mitigation measures through the conduct of an ESIA will have to be prepared by subnational governments and approved and monitored by RIDF based on an Environmental and Social Safeguards Framework (ESMF) that was approved by the Bank prior to appraisal. The ESMF will be an integral part of the Operations Manual to be adopted by RIDF prior to loan effectiveness.</p> <p>The ESMF refers to the Bank's Interim Guidelines on the Application of Bank Safeguard Policies for TA and TFs</p>

		for Component 2 activities (PDF).
Natural Habitats OP/BP 4.04	Yes	<p>Some of the subprojects may affect natural habitats especially for municipalities or districts located in eastern part of Indonesia (e.g. Papua, Kalimantan, Sulawesi, NTB). Potential impacts from road constructions, drainage, water supply system on Natural Habitat will be screened and addressed through the ESMF, which will spell out that the project shall not finance any development on protected areas nor with potential significant conversion or degradation to critical natural habitats or natural habitats.</p> <p>For a subproject that is located adjacent to a protected areas or that may change the purpose and/or designation of a protected area or natural habitats, the subnational government shall be required to prepare a full environmental assessment (an ESIA or to conduct AMDAL study acceptable to the Bank). This includes: forest protection area; river edges; marine/freshwater conservation areas; nature tourism park; peat areas; areas, surrounding lakes and reservoirs, coastal mangrove areas, water catchment areas; national parks; coastal edges, forest parks; cultural reserves; areas surrounding springs; scientific research areas; nature conservation areas; and areas susceptible to natural hazards.</p> <p>Other typical subprojects such as hospitals, traditional markets, urban sewerage system, might have less potential impacts to natural habitats. An assessment of potential subprojects and subnational governments shows that many subprojects are infrastructure located in urban areas (Annex 5).</p> <p>Subprojects with less potential environmental impacts to natural habitats will not automatically be considered to require only UKL UPL or EMP. A careful potential impact assessment shall be conducted guided by the ESMF.</p>
Forests OP/BP 4.36	Yes	<p>Potential subprojects will not involve commercial forest plantation, but some other investments proposal may take place in close proximity to or within forest areas. The project, through its ESMF, shall screen out any subprojects with potential significant conversion or degradation to critical natural forest or natural forest (protection forest, conservation forest). For a subproject that is located in production forest area, the subnational</p>

		government shall prepare an environmental assessment and shall fulfill forestry regulation for land use permit as per Bank related previous investment project (Upper Cisokan Pumped Storage etc.).
Pest Management OP 4.09	Yes	The policy is triggered as there are potential irrigation subprojects proposed by subnational governments. From 38 applicants (bottom up approach) there is one proposal related to irrigation improvement from West Sumatra. The project, including subprojects, shall not finance the purchase of pesticides. A specific mitigation measure shall be elaborated in the ESIA or EMP for the construction of new irrigation systems for a large coverage area (such as more than 3,000 ha ) as this would potentially increase pesticide use significantly. For irrigation projects with medium scale such as the above mentioned, the implementation of IPM (Integrated Pest Management) will become part of the Environmental Management Plan. The preparation of IPM will be guided by the ESMF, which uses the WBG Industry Sector Guidelines for Crop Production in terms of integrated pest management.
Physical Cultural Resources OP/BP 4.11	Yes	Some of the subprojects included under RIDF may affect cultural property and trigger OP 4.11. The environmental screening procedure in the ESMF to be included under the project will ensure it will not adversely affect sites having archeological, paleontological, historical, religious or unique natural values. Any contracts under the project will include a provision covering procedures to be followed in the event of chance finds.
Indigenous Peoples OP/ BP 4.10	Yes	The project anticipates that any LG and subprojects eligible for RIDF financing will come from widely geographically distributed areas in the country and therefore IPs communities which includes Masyarakat Adat (MA) or Masyarakat Hukum Adat (MHA) communities might presence and affected. The presence and impacts (positive and adverse) on IPs including MHA communities can only be identified during the operations of RIDF through the review of subproject proposals submitted by the subnational governments. PT SMI has developed an ESMF which includes an IPPF to screen the IPs presence once the eligible subnational government and potential subprojects seeking RIDF support are defined, to assess the potential positive and adverse impacts, and develop measures to engage the IPs community in the subproject so that they will receive a fair benefits and avoid or mitigate adverse impacts through a free, prior, and informed consultations with



		<p>them. The IPPF was prepared in accordance to the OP 4.10 and relevant GoI laws and regulations. The IPPF is part of the ESMF while also being a stand-alone document.</p> <p>The ESMF is also applicable for the PDF operations, specifically to manage impacts (positive and negative) on IPs communities due to the downstream activities of the outputs of the TA and capacity building activities provided by the PDF operations. IPPF is part of the ESMF. The ESMF also includes requirements specified in the Bank's Interim Guidelines on the Application of Bank Safeguard Policies for TA and TFs for PDF operations (component 2).</p>
Involuntary Resettlement OP/BP 4.12	Yes	<p>The project anticipates that the clients of PT. SMI could be any subnational governments and subprojects eligible for financing with a set of criteria for borrowing. The Market Assessment Study, workshops and applications shows that subnational governments interested in borrowing are located in geographically wide areas in the country. Eligible sectors include: (i) water supply and sanitation; (ii) environmental infrastructure such as solid waste and drainage; (iii) slum upgrading; (iv) transportation and logistics infrastructure; and (v) social infrastructure such as educational and health facilities. Proposed subprojects will very likely involve land acquisition and/or resettlement. Locations, characteristics and scale of subprojects and hence, the nature and intensity as well as social impacts due to involuntary land acquisition and/or resettlement and/or access restriction to protected areas as per OP 4.12 policy are yet to be identified during the operations of the RIDF through the review of subproject proposals submitted by subnational governments. Given the nature of subprojects seeking for RIDF financing as described in the Project Description, subprojects will have medium to high social impacts. PT SMI has developed an ESMF which includes a Land Acquisition and Resettlement Policy Framework (LARPF) and a Process Framework (PF) to screen and assess subprojects on the intensity of the potential land acquisition and resettlement and social impacts due to these activities, to identify mitigation measures and appropriate instrument (such as LARAP, or a Plan of Action), to guide subnational governments in preparing such instruments and consistently implement them. The LARPF includes Grievance Redress Mechanisms and Disclosures requirements. The LARPF and PF were</p>

		<p>developed in compliance with OP 4.12 and relevant GoI laws and regulations. The LARPF and PF are part of the ESMF while also being a stand-alone document.</p> <p>The ESMF has covered specific aspects to manage social impacts (positive and negative) of subprojects due to involuntary land taking and/or resettlement and/or restriction of access to protected areas and designated parks that may take place in the downstream activities of the outputs of the TA and capacity building activities provided by the PDF operations. LARPF and PF are parts of the ESMF. The ESMF also covers requirements specified in the Bank's Interim Guidelines on the Application of Bank Safeguard Policies for TA and TFs for PDF operations (component 2).</p>
Safety of Dams OP/BP 4.37	Yes	<p>The project might finance the construction of a dam as part of water supply system and water resource management infrastructure in the region</p> <p>For small dams (&lt;15 m in height), policy requirement is for the dam to be designed by a qualified engineer. For large dams (15 m and higher), the ESMF shall requires reviews by an independent panel of experts, preparation and implementation of detail plans (construction, instrumentation, operation and maintenance, and emergency preparedness), prequalification of bidders and periodic safety inspections of the dam after completion.</p>
Projects on International Waterways OP/BP 7.50	No	Subprojects to be financed by RIDF shall not be located in any international waterways. Confirmation on this will be done during the screening stage as required by the ESMF.
Projects in Disputed Areas OP/BP 7.60	No	Subprojects to be financed by RIDF shall not be located in any disputed areas. Confirmation on this will be done during the screening stage as required by the ESMF.

## II. Key Safeguard Policy Issues and Their Management

### A. Summary of Key Safeguard Issues

<p><b>1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:</b></p>
<p>Given the nature of eligible sectors of RIDF, potential environmental and social impacts of subprojects will range from medium to high, significant, diverse, and irreversible. Potential significant/large scale impacts from the water supply projects, sewerage system, road and bridges, and hospital constructions are mainly from the construction activities (such as morphology change, impact to air, water bodies, natural habitats, and potential induced impact such as a new access to forest area). Other than that, land acquisition and hazardous waste management could also become the potential significant impacts.</p>

The project shall also have likely social impacts other than land acquisition and resettlement such as influx of workers from outside the subproject site, temporary relocation for the traders of the markets, disturbance on access and livelihoods. Also there is possibility of cumulative impacts and other impacts related to linked activities funded by government or other donors and potential impacts of ancillary facilities such as quarry management.

As subprojects may be located anywhere in the country, IPs might be presence and affected in some sites particularly for large subprojects located in rural or remote areas such as regional roads. For Indigenous Peoples (IPs), the specific legal and regulatory frameworks are not yet in place, however relevant laws and regulations that address IPs exist.

Country system for safeguarding the large-scale, significant and irreversible environmental impacts of major infrastructure subproject are adequate, however implementation and enforcement remain weak. For land acquisition and/or resettlement, the legal and regulatory frameworks are in place, but consistent implementation remains a challenge, particularly for addressing relocation, impacts on livelihoods and squatters. If not well managed, conflicts around land rights, land acquisition and land administration may present a high risk to the future success of municipality/ districts infrastructure subprojects in Indonesia.

**2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:**

Potential indirect impacts from future activities in the subproject area are changes in morphology of the area from the construction activities and also potential changes to natural habitats especially for the proposed subprojects located in eastern parts of Indonesia. Potential long term or indirect social impacts due to new settlement development along the newly developed regional roads and bridges, change in livelihoods and access restrictions might also take place.

**3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.**

No alternatives were assessed during project preparation as potential subprojects will not be identified until project implementation. However, the ESMF shall regulate that the ToR for feasibility studies and ToR ESIA will include option analysis. The task team will ensure that environmental and social considerations are properly taken into account for prefer option analysis.

**4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.**

The project triggers eight safeguards policies including: Environmental Assessment (OP 4.01), Natural Habitats (OP 4.04), Forests (OP 4.36), Pest Management (OP 4.09), Physical Cultural Resources (OP 4.11), Indigenous Peoples (OP 4.10), Involuntary Resettlement (OP 4.12) and Safety of Dams (OP 4.37).

PT. SMI has developed a single ESMF both for RIDF and PDF operations that specify the principles, procedures, requirements and institutional arrangements for screening, identifying impacts, defining the appropriate safeguards instruments, implementing them and monitoring the applications. PT. SMI will use the ESMF for all of its clients both for the RIDF and PDF operations regardless of financing/capital source (RIDF, government budget, and/or other donors, etc.) for a particular subproject receiving support from RIDF and/or PDF.

Recently, PT. SMI has developed ten principles of Environmental and Social Safeguards (ESS)

similar to IFC Performance Standards for projects to be financed by multilateral financial resources. The ESMF has been developed in reference to this PT. SMI ESS along with relevant Indonesian regulations and World Bank safeguards policies. The ESMF also takes into account the Bank Interim Guidelines on the Application of Bank Safeguards Policies for TA and TFs, as well as Guidelines on Advisory Services, as relevant. The ESMF will be elaborated in the Operations Manual as a practical tool for PT. SMI and its LG clients.

In addition for RIDF operation, the ESMF also applies for PDF operation, to ensure that environmental and social safeguards are covered in preparing subproject documents. For instance, the TOR of a Feasibility Study (FS) will include the need for the consultant to prepare terms of reference for safeguards instruments in case that infrastructure investment takes place.

The draft ESMF has been consulted with relevant stakeholders on 21-22 June 2016, and the Bank will conduct the final review of the ESMF prior to the Project appraisal. The ESMF was disclosed in the PT. SMI website ([www.ptsmi.co.id](http://www.ptsmi.co.id)) on 15 June 2016. The draft ESMF has also been disclosed through the InfoShop on 18 July 2016 and will be updated once the final one is reviewed.

The following main aspects are to be covered by the ESMF:

- a. Objectives, project components to be financed by the RIDF and PDF, organizational structure of SMI that shows the position of RIDF and PDF and operational linkage of the two, types of eligible sectors, type of subprojects in terms of level of preparedness, list of ineligible activities;
- b. Safeguards policies triggered; WBG Environmental Health and Safety Guidelines;
- c. GOI Laws and regulations and gap assessment between the GOI laws and regulations and the triggered OPs; actions to address such gaps that are mainstreamed in the ESMF
- d. Generic potential environmental and social impacts for eligible sectors
- e. Process, procedures and requirements:
  - i. Screening of potential environment and social impacts;
  - ii. Subproject category
  - iii. Determination of specific safeguard plans/instruments to be prepared for subproject (ESIA/AMDAL, EMP/UKL-UPL, ECOPs, SOP),
  - iv. Screening and assessment and how to address ancillary facilities and potentially linked activities;
  - v. Screening and assessment of cumulative impacts following established methodology such as the IFC Good Practice Hand Book on Cumulative Impact Assessment;
  - vi. Preparation of safeguards instruments
- f. Identifying whether the proposed subproject already has the required safeguards instruments; identify the necessary safeguards instruments needed versus those that have been available; review the gaps between the available instruments with the requirements specified in the ESMF; defining the scope and activities in the Corrective Action Plan; In the case a proposed subproject does not have any safeguards instruments, require the LGs to prepare the instruments in accordance with requirements specified in the ESMF;
- g. Environmental Management Frameworks including guidance to prepare ESIA/AMDAL and UKL-UPL, Generic ECOPs, Pest Management, PCR Management Plan and Pest Management
- h. LARPF (including PF) and IPPF;
- i. Stakeholders Analysis, Consultations;
- j. Institutional arrangements for environmental and social safeguards management for screening, review/assess, approval, preparation and implementation of safeguards instruments,

monitoring and reporting

k. Grievance Redress Mechanisms

l. Disclosures

m. Capacity Building Assessment Plan, developed based on a safeguards institutional assessment for PT SMI and capacity of LGs. The institutional assessment of PT SMI and LGs will lead to the identification on the scope of capacity building program, resources and budget estimates for the RIDF and PDF operations.

n. Supervision and Monitoring of the implementation of safeguards instruments implemented by the local governments

Assessment of borrower capacity to plan and implement the measures described.

Previously, within the PT. SMI organizational structure, environmental and social management is mainly managed by the Environmental and Social Unit under the Risk Management Division. Since 24 March 2016, PT. SMI has a special division for safeguards called ESSBCM (Environmental and Social Safeguards Business Continuity Management) under the Risk Management Directorate. A senior environmental expert has been hired just recently, joining the junior environmental specialist who had been hired since last year. PT. SMI just hired a social safeguards expert. There is also pool of on-call consultants including environmental and social experts under the Project Advisory Division. With the RIDF lending facility and PDF operations to be established in the future, the current safeguards management of PT SMI is insufficient to manage the growing portfolio and project pipeline. The plan to improve its capacity is specified in the Business Plan of RIDF. The Business Plan of PT. SMI specifies that in the next five years, there will be a manager for social safeguards, and at least one full-timer senior social safeguards expert. In addition, PT. SMI will hire consulting firms, as needed, to help the RIDF and PDF business units in screening, carrying out due diligence assessment or appraising of the LGs and proposed subprojects, and guiding subnational governments in preparing and implementing social safeguards instruments and capacity building. Each environmental and social safeguards staff in ESSBCM will be given in-house training as well as outside PT. SMI at least once a year.

Key safeguards risks related to lack of capacity in preparing and implementing safeguards instruments, among both participating subnational governments and PT. SMI, have been identified. The most effective way to mitigate this risk is by providing intensive support and mentoring on safeguards implementation to PT. SMI. This will include advice on aspects including the subproject screening process, TORs for safeguards documents (ESIA, LARAP), the appraisal methodology, and also gap filling between Indonesia country systems and the Bank safeguards policies. As part of implementation support and capacity building for PT. SMI, similar to PT. IIIF, the Bank could consider to station one of its consultants to work closely with PT. SMI for about 6 months. Alternatively, a reputable firm having specialized safeguards staff could be hired to provide support to PT. SMI. The Bank will help deliver comprehensive safeguards training for PT. SMI to build their knowledge and capacity to apply and comply with Bank safeguard policies, in particular use of the project ESMF. At the same time, participating subnational governments will receive substantial support from PT. SMI through the PDF mechanism.

For the first five high-risk subprojects, the Bank will conduct joint appraisal and review together with PT. SMI prior to subproject approval. If found to be necessary during project implementation, this joint prior review approach could be extended to additional high-risk subprojects beyond the first five. As part of regular Bank supervision of project safeguards implementation, for medium

and low-risk projects the Bank will monitor RIDF operations through post-review to ensure that the ESMF is consistently adhered to, and promptly initiate any corrective action as required

**5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.**

The Ministry of Finance (MoF) is the Borrower while PT. SMI is the Implementing Agency (IA) for this project. RIDF and PDF will be housed at PT. SMI, within separate divisions.

PT. SMI is an infrastructure financing company which was established on 26 February 2009 as a state owned enterprise (SOE) with 100 percent shares owned by the Government of Indonesia through the MoF. PT. SMI plays an active role in facilitating infrastructure financing as well as preparing projects and serving advisory for infrastructure projects in Indonesia. Based on its original mandate, PT. SMI aims to finance commercially-viable projects including investments in toll road & bridges, transportation, oil and gas, telecommunication, waste management, electricity, irrigation and waterway, and water supply sectors. By mandate, PT. SMI provides financing for public-private partnership (PPPs) and private sector projects, however to-date this mandate has not been fully implemented due to rigidities in the pipeline for such projects.

PT. SMI is one of the key shareholders (with shares of 33.88 percent) in the Indonesia Infrastructure Financing Facility (IIFF), an independent business entity, which has been in full operations since 2011 and since then continued to have growing portfolio. PT. IIFF has an Operations Manual that includes an ESSF and SEMS which was developed in reference to IFC, World Bank and ADB Environmental and Social Safeguards Standards and Policies.

Other key stakeholders are the subnational governments that borrower from RIDF, as well as the main beneficiaries of the project i.e. the residents of those areas that will served by the infrastructure subprojects.

Mechanisms for consultation and disclosure on safeguards policies, especially on potentially affected people:

Stakeholder consultations on the draft of ESMF were held on June 21-22, 2016 in Jakarta and relevant inputs have been incorporated in the final drafts of ESMF. The ESMF was disclosed on PT. SMI website ([www.ptsmi.co.id](http://www.ptsmi.co.id)) and the Infoshop on 15 June and 18 July 2016 respectively. During the RIDF and PDF operations, mechanisms of public consultations and disclosures for subprojects are specified in the ESMF. In principle, subnational governments receiving support from the RIDF lending facility and TA of the PDF will have to carry out public consultations in relation to subproject preparation (including preparation of safeguards instruments), construction, and operations. Safeguards instruments should be disclosed on the website of the respective subnational government and on PT. SMI website.

**B. Disclosure Requirements**

<b>Environmental Assessment/Audit/Management Plan/Other</b>	
Date of receipt by the Bank	15-Jun-2016
Date of submission to InfoShop	17-Jun-2016
For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors	

"In country" Disclosure	
Indonesia	15-Jun-2016
<i>Comments:</i>	
<b>Resettlement Action Plan/Framework/Policy Process</b>	
Date of receipt by the Bank	15-Jun-2016
Date of submission to InfoShop	17-Jun-2016
"In country" Disclosure	
Indonesia	15-Jun-2016
<i>Comments:</i>	
<b>Indigenous Peoples Development Plan/Framework</b>	
Date of receipt by the Bank	15-Jun-2016
Date of submission to InfoShop	17-Jun-2016
"In country" Disclosure	
Indonesia	15-Jun-2016
<i>Comments:</i>	
<b>Pest Management Plan</b>	
Was the document disclosed prior to appraisal?	NA
Date of receipt by the Bank	NA
Date of submission to InfoShop	NA
"In country" Disclosure	
<i>Comments:</i>	
<b>If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.</b>	
<b>If in-country disclosure of any of the above documents is not expected, please explain why:</b>	

### *C. Compliance Monitoring Indicators at the Corporate Level*

<b>OP/BP/GP 4.01 - Environment Assessment</b>	
Does the project require a stand-alone EA (including EMP) report?	Yes [ <input checked="" type="checkbox"/> ] No [ <input type="checkbox"/> ] NA [ <input type="checkbox"/> ]
If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?	Yes [ <input checked="" type="checkbox"/> ] No [ <input type="checkbox"/> ] NA [ <input type="checkbox"/> ]
Are the cost and the accountabilities for the EMP incorporated in the credit/loan?	Yes [ <input checked="" type="checkbox"/> ] No [ <input type="checkbox"/> ] NA [ <input type="checkbox"/> ]
<b>OP/BP 4.04 - Natural Habitats</b>	
Would the project result in any significant conversion or degradation of critical natural habitats?	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> ] NA [ <input type="checkbox"/> ]
If the project would result in significant conversion or degradation of other (non-critical) natural habitats, does the project include mitigation measures acceptable to the Bank?	Yes [ <input checked="" type="checkbox"/> ] No [ <input type="checkbox"/> ] NA [ <input type="checkbox"/> ]

<b>OP 4.09 - Pest Management</b>			
Does the EA adequately address the pest management issues?	Yes [ <input checked="" type="checkbox"/> ]	No [ <input type="checkbox"/> ]	NA [ <input type="checkbox"/> ]
Is a separate PMP required?	Yes [ <input type="checkbox"/> ]	No [ <input checked="" type="checkbox"/> ]	NA [ <input type="checkbox"/> ]
If yes, has the PMP been reviewed and approved by a safeguards specialist or PM? Are PMP requirements included in project design? If yes, does the project team include a Pest Management Specialist?	Yes [ <input type="checkbox"/> ]	No [ <input type="checkbox"/> ]	NA [ <input checked="" type="checkbox"/> ]
<b>OP/BP 4.11 - Physical Cultural Resources</b>			
Does the EA include adequate measures related to cultural property?	Yes [ <input checked="" type="checkbox"/> ]	No [ <input type="checkbox"/> ]	NA [ <input type="checkbox"/> ]
Does the credit/loan incorporate mechanisms to mitigate the potential adverse impacts on cultural property?	Yes [ <input checked="" type="checkbox"/> ]	No [ <input type="checkbox"/> ]	NA [ <input type="checkbox"/> ]
<b>OP/BP 4.10 - Indigenous Peoples</b>			
Has a separate Indigenous Peoples Plan/Planning Framework (as appropriate) been prepared in consultation with affected Indigenous Peoples?	Yes [ <input checked="" type="checkbox"/> ]	No [ <input type="checkbox"/> ]	NA [ <input type="checkbox"/> ]
If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?	Yes [ <input checked="" type="checkbox"/> ]	No [ <input type="checkbox"/> ]	NA [ <input type="checkbox"/> ]
If the whole project is designed to benefit IP, has the design been reviewed and approved by the Regional Social Development Unit or Practice Manager?	Yes [ <input type="checkbox"/> ]	No [ <input type="checkbox"/> ]	NA [ <input checked="" type="checkbox"/> ]
<b>OP/BP 4.12 - Involuntary Resettlement</b>			
Has a resettlement plan/abbreviated plan/policy framework/process framework (as appropriate) been prepared?	Yes [ <input checked="" type="checkbox"/> ]	No [ <input type="checkbox"/> ]	NA [ <input type="checkbox"/> ]
If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?	Yes [ <input checked="" type="checkbox"/> ]	No [ <input type="checkbox"/> ]	NA [ <input type="checkbox"/> ]
Is physical displacement/relocation expected?  Provided estimated number of people to be affected	Yes [ <input type="checkbox"/> ]	No [ <input type="checkbox"/> ]	TBD [ <input checked="" type="checkbox"/> ]
Is economic displacement expected? (loss of assets or access to assets that leads to loss of income sources or other means of livelihoods)  Provided estimated number of people to be affected	Yes [ <input type="checkbox"/> ]	No [ <input type="checkbox"/> ]	TBD [ <input checked="" type="checkbox"/> ]
<b>OP/BP 4.36 - Forests</b>			
Has the sector-wide analysis of policy and institutional issues and constraints been carried out?	Yes [ <input type="checkbox"/> ]	No [ <input checked="" type="checkbox"/> ]	NA [ <input type="checkbox"/> ]
Does the project design include satisfactory measures to overcome these constraints?	Yes [ <input checked="" type="checkbox"/> ]	No [ <input type="checkbox"/> ]	NA [ <input type="checkbox"/> ]
Does the project finance commercial harvesting, and if so, does it include provisions for certification system?	Yes [ <input type="checkbox"/> ]	No [ <input type="checkbox"/> ]	NA [ <input checked="" type="checkbox"/> ]
<b>OP/BP 4.37 - Safety of Dams</b>			
Have dam safety plans been prepared?	Yes [ <input type="checkbox"/> ]	No [ <input type="checkbox"/> ]	NA [ <input checked="" type="checkbox"/> ]



Have the TORs as well as composition for the independent Panel of Experts (POE) been reviewed and approved by the Bank?	Yes [ ] No [ ] NA [ × ]
Has an Emergency Preparedness Plan (EPP) been prepared and arrangements been made for public awareness and training?	Yes [ ] No [ ] NA [ × ]
<b>The World Bank Policy on Disclosure of Information</b>	
Have relevant safeguard policies documents been sent to the World Bank's Infoshop?	Yes [ × ] No [ ] NA [ ]
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?	Yes [ × ] No [ ] NA [ ]
<b>All Safeguard Policies</b>	
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes [ × ] No [ ] NA [ ]
Have costs related to safeguard policy measures been included in the project cost?	Yes [ × ] No [ ] NA [ ]
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes [ × ] No [ ] NA [ ]
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes [ × ] No [ ] NA [ ]

### III. APPROVALS

Task Team Leader(s):	Name: Marcus John Jin Sarn Lee	
<b>Approved By</b>		
Safeguards Advisor:	Name: Peter Leonard (SA)	Date: 14-Sep-2016
Practice Manager/ Manager:	Name: Abhas Kumar Jha (PMGR)	Date: 14-Sep-2016