

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC25762

Project Name	Regional Infrastructure Development Fund (P154947)
Region	EAST ASIA AND PACIFIC
Country	Indonesia
Sector(s)	General transportation sector (20%), General water, sanitation and flood protection sector (20%), Other non-bank financial intermediaries (50%), Sub-national government administration (10%)
Theme(s)	Other Financial Sector Development (40%), City-wide Infrastructure and Service Delivery (40%), Other rural development (20%)
Lending Instrument	Investment Project Financing
Project ID	P154947
Borrower(s)	Debt Management Office, Ministry of Finance
Implementing Agency	PT Sarana Multi Infrastruktur
Environmental Category	F-Financial Intermediary Assessment
Date PID Prepared/ Updated	15-Jun-2015
Date PID Approved/ Disclosed	13-Jul-2015
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Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

1. Infrastructure investment in Indonesia has not caught up with the pre-Asian financial crisis levels and lags well behind regional competitors. Infrastructure played a key role in driving growth and poverty reduction in the 30 years prior to the 1997 Asian financial crisis. However, after falling off sharply following the crisis, Indonesia's infrastructure investment has struggled to return to the levels seen prior to the crisis. Total infrastructure investment, declined from an average 7 percent in 1995-97 to around 3-4 percent of GDP over 2011-2013. In comparison, neighboring countries such as Thailand, Vietnam and China registered rates of around 7, 8 and 10 per cent, respectively.

2. The limited investment in new infrastructure and maintenance has led to Indonesia having some of the poorest infrastructure indicators in the region. Indonesia outranked Thailand, Taiwan,

and China in the Global Competiveness Report's 1996 Index of 'overall infrastructure quality'. By 2002, these countries had all surpassed Indonesia. The inadequate supply of infrastructure is consistently identified by firms as a constraint on their operations and investment. While a slowdown in infrastructure investment was to be expected in the immediate aftermath of the crisis, investment has not kept pace with the resurgent economy, let alone addressed the needs of those who have poor access to basic infrastructure services, such as piped water and electricity.

3. The decline in infrastructure investment as a proportion of GDP was broad-based across governments, state-owned enterprises and the private sector. Private sector investment experienced the biggest fall, declining from 2.3 percent to 0.4 percent as a percentage of GDP during 1995-1997 to 2008-2011. This is a particular concern given the increasing focus on public-private partnerships to finance Indonesia's infrastructure development. While investment by state-owned enterprises and central government fell by 1.8 and 1.9 percentage points, respectively, subnational government spending increased by 0.9 percentage points over the same period. Subnational governments are currently leading on the amount of infrastructure spending in Indonesia, accounting for 39 percent of total infrastructure spending in 2010-2011.

4. Relatively low infrastructure investment has led to slow real growth in the infrastructure capital stock since the 1997 crisis. As a result, Indonesia's infrastructure capital stock has gradually declined relative to output. In 2001-2011, Indonesia's real infrastructure stock grew by 3 percent annually, against 5.3 percent real GDP growth in that period.

5. The low ratio of infrastructure investment as a proportion of GDP has imposed a significant opportunity cost on Indonesia's economic growth and poverty reduction potential. According to World Bank calculations, if real infrastructure capital stock had grown by 5 percent over 2001-2011 instead of the actual rate of 3 percent, it is estimated that real GDP growth would have been 5.8 percent, a 0.5 percentage difference. Furthermore, if it stood at 10 per cent, real GDP growth would have reached 7 percent. Poor levels of infrastructure development are not just holding back Indonesia's growth potential, but also progress on poverty reduction. Indonesia, compared to its peers who are at similar stage of development, is far behind in terms of access to water and sanitation facilities.

Sectoral and Institutional Context

6. Against the backdrop of declining overall infrastructure investment, Indonesia is undergoing a major and rapid structural transformation from a predominantly rural and agricultural-based economy into an urban service-based and manufacturing economy. As one of the most urbanized countries in Asia, Indonesia has an urban population of around 130 million or 52 percent of the total population in 2013. By 2025, an estimated 68 percent of Indonesia's population will be urban. Of the 20 million jobs created between 2001 and 2011, 18 million were in urban areas marking a major shift in the employment base to cities. This structural shift is significant as increasing urban formal employment and associated labor productivity will drive Indonesia's ability to generate and share prosperity.

7. However, a large local infrastructure deficit is threatening to stifle future growth and prosperity in Indonesia. Access to and quality of basic services, such as clean water, sanitation, electricity, drainage, housing and transportation is weak and in many cases worsening. In 2012, only about 52 percent of Indonesia's population had access to clean water. Piped sewerage networks are present in only 12 cities which in total serve only 2 percent of the urban population. In 2006, poor

water supply and sanitation services were calculated to have an economic cost of USD 6.3bn (2.3 percent of GDP) in the form of health care expenses, lost productivity, premature death, water resource and fishery loss and the declining value of land and tourism. Solid waste collection efficiency has not been in line with generation, with only about 40-50 percent of the waste is collected and a small fraction of this waste disposed in sanitary landfills.

8. Current financing instruments available are limited and ill-fitting for the nature and scale of required urban and local infrastructure investment. In recent years Indonesia has developed vehicles for public private partnerships (PPPs) for commercially viable infrastructure (i.e. energy production, distribution and transmission, toll roads, airports or ports). Indonesia has also recently amended regulations to enable provinces and high fiscal capacity sub-national governments to directly issue bonds for urban infrastructure. The market for PPPs remains modest and municipal bonds have remained largely untapped at scale, particularly for local infrastructure. Local budget (APBD) can be used to pay for small-scale projects or marginal improvements in basic services that usually take less than a year to complete given budgetary rules. However, there are limited sources for subnational governments to access project financing of multi-year investments that are economically rather than financially viable (i.e. do not generate a clear or robust revenue stream but have significant positive economic benefits), such as water, sanitation, solid waste, drainage, housing and urban transport projects. Addressing this 'missing middle' for medium- to long-term infrastructure finance is a critical priority for GoI as a means to meet the local infrastructure gap.

9. The ability to significantly leverage private finance for economically viable infrastructure is constrained in the current environment. At present, no banking or non-banking financial institution in Indonesia is providing access to long-term financing for local public infrastructure investment. Although there are no specific regulations that hinder commercial banks to invest in long-term financially viable projects, commercial banks in Indonesia typically focus on short-term, corporate balance sheet secured financing and do not lend to local governments due to a range of factors including asset-liability matching, equity provisioning, ban exposure and enforceable security risks. Banks limit exposure to shorter maturity lending due to asset-liability mismatch as over 85 percent of Indonesian bank deposits are less than one month maturity. The recent weakening of IDR and slowing of the domestic economy will temporarily halt banking sector mood to sanction excessing lending with high credit exposure including infrastructure. Similarly, non-bank financial institutions (NBFIs), including pension funds and insurance companies, traditionally invest in high and quick yielding investments such as time deposits, bonds and stocks. Pension funds, for example, allocate investment to government and private bonds (30 percent), time deposits (31 percent), stocks (19 percent) and properties (11 percent). It is unlikely in the short-term that private finance will enter into the market for long-term subnational infrastructure investment. GoI will require strategies into the medium-term to increasingly leverage private capital for economically viable subnational infrastructure.

10. The market for subnational borrowing is large and growing. Levels of local government borrowing are extremely low in Indonesia. Consolidated subnational borrowing was estimated at 0.07 percent of GDP in 2014. The low exposure of Indonesian local governments stands in stark contrast, for example, to unsustainable local government debt levels in China, for example, estimated by the IMF at 36 percent of GDP in 2013 and set to grow to 52 percent by 2019. Indonesian local governments are creditworthy and possess considerable borrowing capacity as a result of growing transfer revenues. The 30 largest cities in Indonesia are estimated to have an untapped borrowing capacity of approximately USD 3.8bn based on Indonesian norms. A market

assessment conducted by the World Bank in 2015 on a subset of 15 of these cities estimated an overall local infrastructure investment financing gap of USD 11.1bn against a borrowing capacity of USD 1.7bn based on Indonesian norms.

11. A sound subnational indebtedness framework is in place, although regulatory adjustments and strengthened supervision and oversight mechanisms may be required to enhance the system and improve enforcement. GoI has regulations in place that impose conservative restrictions to regulate subnational borrowing consistent with international standards. As outlined in Table 1, subnational borrowing is MoF restricted to the lowest value of the four ‘binding’ norms: (i) outstanding loans plus proposed loans not equal or greater than 75 percent of previous year general revenue; and (ii) debt service coverage ratio (DSCR) should be greater or equal to 2.5; (iii) loan value not to exceed maximum allowed deficit; and (iv) total debt service not to exceed 20 percent of the sum of the local government general purpose grant (DAU) and revenue sharing transfer (DBH) so as to ensure adequacy in case of the need to intercept (i.e. intercept rule).

12. While generally sound and conservative, the subnational indebtedness framework could be reformed into the medium-term to reflect international best practices. First, GoI might consider simplifying the indebtedness framework by focusing solely on DSCR and decreasing DSCR limits from 2.5 to 1.5 which is more consistent with international standards to enable greater subnational borrowing. Second, the DSCR formula might also be restructured factor in operations and maintenance costs. Third, allow for local governments to pledge own source revenues as collateral against borrowing. Fourth, the oversight and monitoring system for subnational debt within MoF could be strengthened including the development of a continuous tracking and rating system (e.g. Colombia’s ‘red, orange, green streetlight system’).

13. Concurrent to the need to expand access to finance for local infrastructure, greater effort is also required to improve the effectiveness and efficiency of spending at the local level. Since the decentralization began in 2001, the assignment of new functions to LGs was accompanied by massive reallocation of funding – subnational expenditure grew from 2.7 percent of GDP in 2000 to 7.2 percent of GDP in 2011. Subnational governments now manage about half of total core public spending (i.e. excluding central government subsidies and interest payments). While subnational governments are responsible for 60 percent of consolidated public infrastructure spending, this is barely sufficient to keep up with the depreciation of local public assets. While the expectation was that decentralization would allow subnational governments to better respond to service delivery needs, the effectiveness of decentralized provision has not yet met expectations. Local governments have 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.

Relationship to CAS

14. Alignment with GoI Priorities and the Country Partnership Strategy (CPS). The proposed operation aligns with the Government of Indonesia’s development priorities as defined in the National Medium Term Development Plan (RPJMN) and the World Bank Group’s 2013-2015 Country Partnership Strategy (CPS). The CPS emphasizes the need to reduce poverty and increase shared prosperity by improving infrastructure and local service delivery. The draft Systematic Country Diagnostic (SCD), which will serve as the basis for the upcoming 2016-2018 Country Partnership Framework (CPF) cites infrastructure development, including water and sanitation,

waste management, and transport amongst others, as critical for meeting the challenges presented by rapid urban growth. The SCD emphasizes that eradicating poverty and increasing shared prosperity in Indonesia will depend on the country's ability to manage its urbanization process through significant improvements in local services and infrastructure development.

15. Alignment with Twin Goals. The proposed operation supports the World Bank's twin goals of reducing poverty and increasing shared prosperity by promoting access to local services, inclusive urban growth, economic development and improved access to services that reduce the vulnerability of the urban and rural poor. There is strong global evidence for the link between improved quality of infrastructure, economic growth and reductions in income inequality. The proposed operation would support local government investment in critical environmental, productive and social infrastructure that will directly benefit the bottom 40 percent of Indonesians.

16. Alignment with other World Bank Engagements. The World Bank has outlined a series of strategic engagement areas to support the Government of Indonesia to meet key development challenges. The proposed operation links directly to the Engagement on Local Service Delivery, which focuses on strengthening incentives, coordination, capabilities and delivery systems across multiple levels of government to ensure that local governments deliver efficiently and effectively deliver results. More immediately, under the umbrella of the Local Service Delivery engagement area, the operation related directly to the PAAA windows on Sustainable Urbanization and Decentralization that Delivers, respectively.

17. The PAAA on Sustainable Urbanization includes advisory support GoI for the developed of the RIDF as a horizontal domestic financing solution for urban infrastructure. The PAAA articulates a link as to how the RIDF can relate to deep vertical national sector programs for water supply, sanitation, urban transport, slum upgrading and drainage that would incent through capital investment subsidies and technical assistance sector reform, capacity enhancement and improved performance. In this context, the RIDF operation relates closely – as a source of financing for potential local government co-financing contributions – to proposed pipeline World Bank financed investment operations including the National Slum Upgrading Program, National Urban Water Supply Program and the National Solid Waste Management Program.

18. The PAAA on Decentralization that Delivers includes advisory support to the MoF on strengthening the intergovernmental indebtedness framework as well as to support the broader agenda of enhancing the efficiency and effectiveness of local service delivery through the reform of the intergovernmental fiscal system. In this context, the operations relates to the USD 720.0m Local Government Decentralization Project (LGDP) currently supporting GoI to introduce performance-based incentives to enhance the effectiveness of the Specific Purpose Grants (DAK) for infrastructure.

19. Lastly, the proposed operation relates closely to both the Indonesia Infrastructure Finance Facility (IIFF) and Indonesia Infrastructure Guarantee Fund (IIGF) operations which aim to support GoI to leverage private finance into commercially-viable infrastructure projects largely in productive sectors. The IIFF was established in 2009 as a mixed-equity private non-banking institution with the aim to provide long-term finance to commercially feasible infrastructure projects. IIFF shareholders include PT. SMI – implementing agency for this operation – ADB, IFC, DEG and Sumitomo Mitsubishi Bank Corporation (SMBC), providing a total capitalization of IDR 1.8 trillion today (approx.. USD 150 million at current exchange rate). After an initial start-up

period, IIFF has experienced maintains a portfolio of 9 projects including in toll roads, coal, hydro and gas-fired power plants and the telecommunication sector. IIGF also established in 2009 with the World Bank technical advice, and is being supported by USD 29.6m financing from the World Bank. IIGF aims to encourage private investment in commercially-viable infrastructure by mitigating the private sector's exposure to government-related contractual risk through the provision of guarantee. With World Bank technical support, IIGF has developed a standardized set of operational norms and procedures as well as guarantee-appraisal standards, corporate governance and other critical functions of the IIGF.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

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

Key Results (From PCN)

30. The Project will contribute to two sets of results at the PDO level: (i) increased access to infrastructure finance at the subnational level; and (ii) the financial performance and sustainability of the RIDF.

31. Key measures of increased access to infrastructure finance at the subnational level may include:

- External borrowing as a percentage of overall capital expenditure in local governments accessing RIDF lending facility
- Number of local governments accessing RIDF lending facility
- Debt Service Coverage Ratio (DSCR)

32. Key financial performance and sustainability indicators may include:

- Capital Adequacy (as measured by Leverage Ratio = Total Assets/Total Capital)
- Profitability (as measured by: (i) ROE = After Tax Profits/Period-Average Total Capital; and (ii) ROA = After Tax Profits/Period-Average Earning Assets)
- Non-Performing Loans (as measured by NPL Ratio = Outstanding Principal Value of All Past Due Loans/Outstanding Principal Balance)
- Portfolio at Risk (as measured by Outstanding balance of All Loans Past Due by 30 Days/ Gross Outstanding Loan Portfolio)

33. A complete results framework with indicators and targets will be developed during preparation in consultation with GoI counterparts.

III. Preliminary Description

Concept Description

1. Project Scope. The Project aims to support the structuring and operationalization of a 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 across Indonesia. However, it is expected that the RIDF business strategy will disproportionately target fast growing medium and large urban local 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 local governments in areas of project identification, design and construction supervision, and related advisory services.

2. Project Cost. The estimated Project cost at the concept stage is USD 1.015bn 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.

4. Component 1: Capital Support for Regional Infrastructure Development Fund (USD 1.0bn with USD 500.0m of Bank financing and USD 500.0m of Borrower equity contribution). The component will provide up to USD 1.0bn for the Regional Infrastructure Development Fund (RIDF) within PT. SMI to operate a financial intermediary lending business line providing senior debt to local governments for economically viable infrastructure projects. Preliminary design principles for the RIDF have been outlined by the MoF and PT. SMI as part of the ongoing World Bank advisory support to GoI towards the detailed structuring and operationalization of RIDF scheduled to produce a final deliverable by September 2015. Key proposed RIDF design characteristics are summarized below.

5. Institutional and Governance Arrangements. GoI and the Bank evaluated three institutional options for RIDF at the pre-identification and identification stage including locating the entity within either: (i) BLU (i.e. PIP or new entity); or (ii) a state-owned company (PT. SMI or new entity). The abovementioned February 2015 MoF decision to locate RIDF within PT. SMI allows the fund to be organized around three core design objectives. First, as a state owned company, PT. SMI has an independent and autonomous management and operational structure. The structure will enable PT. SMI to develop and maintain rigorous entity and project appraisal criteria and independent credit decisions. Second, as an SOE, PT. SMI will benefit from its limited liability structure, subject to the discipline of borrowing and repaying debts from a discrete balance sheet. Third, based on its location with PT. SMI, RIDF will be possess the ability to build capital over time and leverage an increasing net worth to mobilizing incremental funds.

6. GoI and PT. SMI officials have decided to structure RIDF as a strategic business unit within PT. SMI. The core benefits of a separate business unit model include independent management and operational systems, clear performance indicators and measurement and the use of a separate bank account to allow for discrete RIDF profit and loss statements within the overall consolidated accounts of PT. SMI. A range of alternatives had been considered at the pre-identification and identification stage with respect to the appropriate structure for the RIDF within or linked to PT. SMI including: (i) a trust managed by PT. SMI; (ii) a strategic business unit (SBU) with PT. SMI; (iii) a separate bank account within PT. SMI; and (iv) as an integral part of PT. SMI. In preparation,

the Bank and GoI counterparts will develop a detailed governance and organizational structure for the RIDF.

7. A series of additional institutional consideration and design aspects will be outlined during preparation including, amongst others: (i) an independent operational structure for the RIDF business line; (ii) required capacity enhancements in technical, financial, environmental and social areas of expertise necessary for RIDF business line; (iii) a proposed two-level credit committee based no size of loan (i.e. credit committee to be different from PT. SMI Board of Directors); (iv) system of reporting to PT. SMI Board of Directors; and (v) system of third party due diligence after term sheet on technical, legal, environmental and social aspects.

8. Flow of Funds and Capital Structure. At this preliminary identification stage it is proposed that the Project will channel funding to PT. SMI to capitalize the RIDF business line through a mix of debt and equity. Bank financing under this component will be passed through the MoF in a two-stage loan process by which GoI will borrow from the World Bank in foreign currency and on-lend the proceeds to PT. SMI in IDR. Under this arrangement MoF will assume the exchange rate risk and the sub-loan to PT. SMI will be priced to cover such risk as per GoI regulation for lending to SOEs. Matching equity contributions from GoI will come in the form of both new capital injections and asset transfer from PIP as outlined above. Further details on the capital structure will be elaborated during preparation.

9. Borrower Eligibility. The RIDF will focus on lending to creditworthy local and provincial governments. It is expected that the initial five-year business plan to be developed during preparation will focus on district or local governments initially, scaling up to more complex regional projects at the provincial level as PT. SMI appraisal and financial capacity deepens. During preparation the Bank and GoI will assess whether RIDF would lend directly to locally-owned enterprises (e.g. PDAMs) and Perusahaan Daerah (PD), or whether debt obligations for such projects would rest with LGs which would transfer assets and potentially liabilities to such enterprises.

10. Sector Eligibility. The RIDF will focus on an open menu of viable environmental, social and productive infrastructure that fall within the clear jurisdictional responsibility of local or provincial governments under the Indonesian decentralization framework. Likely eligible sectors will include water, sanitation, sewerage, solid waste, drainage, urban transport, roads, low-income housing, slum upgrading and primary health and education facilities. The RIDF will focus on sectors – and specific subprojects within sectors – that are economically viable and have clear development and poverty reduction impacts. Table 4 below provides further detail on potential eligible sectors and activities. An exhaustive positive list of eligible sectors and subprojects will be developed during preparation. Detailed SOPs covering sector eligibility and associated technical, economic, financial, social and environmental appraisal criteria will also be developed during preparation.

11. Lending Policies. The RIDF will provide medium to long-term financing for subnational infrastructure. The Bank and GoI stakeholders have agreed at the identification stage on a set of preliminary core lending policies around which the entity will be structured including:

- general obligation borrowing, appraisal of entity and project due to the economic rather than financial viability

- use of 'cost plus' pricing (i.e. lend at price that cover the cost of capital, operating expenses and anticipated risk);
- provision of senior debt;
- medium- to long term tenor loans (e.g. minimum 10 years, maximum 20 years);
- rigorous provisioning norms consistent with OJK regulations; and
- a clear system of prudential norms.

12. A preliminary set of recommended prudential norms discussed with GoI counterparts include: (i) loan to total project cost capped at 90 percent; (ii) limit of 10-15 percent of RIDF net worth lent to any single borrower; (iii) limit of 10 percent of RIDF net worth lent against a single investment; and (iv) limit of 30-35 percent of RIDF net worth to be lent to a single sector. A complete set of prudential norms for RIDF will be developed under preparation.

13. Security Structure. At the identification stage the Bank and GoI stakeholders have outlined a two-tier security structure including: (i) a debt service reserve fund; and (ii) a partial guarantee with intercept mechanism. The debt service reserve fund would provide security to PT. SMI related to local government repayment risk. The debt service fund would be capitalized by local governments up to the value of two annuities as part of borrower obligations under the loan agreement with PT. SMI. Payout from the reserve fund would be triggered in cases on missed or non-payment until which point the debt fund has been exhausted at which point borrowers would enter into default status.

14. The second tier of the security structure – a partial guarantee and intercept mechanism – would provide protection to PT. SMI in the case of borrower default. As per GoI regulations, only the MoF can exercise an intercept of transfers to local governments. Under this proposed structure, the MoF and PT. SMI would enter into an umbrella arrangement by which all RIDF lending will be covered by a partial guarantee from MoF in the case of local government default. Upon the triggering and payout of the partial guarantee, MoF would bilaterally intercept local government intergovernmental transfers to cover the value of the executed partial guarantee. The exact value and structure of the partial guarantee mechanism will be assessed and set during its preparation with a concern for moral hazard risk and assurances that PT. SMI retains a strong incentive to maintain rigorous appraisal and credit risk management practices.

15. Component 2: RIDF Project Development Facility (USD 15.0m with USD 5.0m in bilateral grant financing and USD 10.0m in USD in Borrower contribution). A Project Development Facility (PDF) will be established as part of the operation with the objective of supporting local governments in project identification, planning and preparation. The detailed design of the proposed PDF will be developed as part of the RIDF business plan and operational framework development work.

16. The PDF would primarily support the development of a project pipeline for RIDF through the financing of feasibility studies, ensuring that projects are consistent with technical, financial, economic, social and environmental appraisal standards established for RIDF lending. During preparation the Bank and GoI stakeholders will explore additional services that might be provided through the PDF including: (i) design supervision consultancy; (ii) project implementation third-party technical supervision; (iii) preparation of procurement documents and procurement supervision support; (iv) project-related public consultations and training support; and (v) upstream strategic investment planning and prioritization. The Bank and GoI stakeholders have discussed

alternatives for ensuring financial sustainability for the PDF including the use of: (i) a fee-for-service structure; or (ii) including a small spread on all RIDF loans to local governments earmarked for recapitalization of the PDF. The PDF structuring exercise will include an assessment of alternative mechanisms to ensure financial sustainability of the PDF.

17. The PDF structuring exercise will also define institutional and governance arrangements for the facility. An initial set of three characteristics for the institutional arrangements for the PDF have been discussed at the identification stage and will be subject to further analysis during preparation. First, the PDF would be established as a separate business unit under PT. SMI, creating a 'firewall' between the RIDF lending and PDF business units to avoid conflict of interest. Second, the PDF would directly develop ToRs for feasibility studies and related advisory as well as directly contract the same on behalf of local governments. Third, local governments would be responsible for project identification under the PDF, review and approve ToRs, actively supervise contracted feasibility studies and related advisory, and would provide final approval on completed feasibility studies and related reports.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04	x		
Forests OP/BP 4.36	x		
Pest Management OP 4.09			x
Physical Cultural Resources OP/BP 4.11	x		
Indigenous Peoples OP/BP 4.10	x		
Involuntary Resettlement OP/BP 4.12	x		
Safety of Dams OP/BP 4.37	x		
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	1015.00	Total Bank Financing:	500.00
Financing Gap:	0.00		
Financing Source			Amount
Borrower			510.00
International Bank for Reconstruction and Development			500.00
SWITZERLAND, Govt. of (Except for FOFEA)			5.00
Total			1015.00

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