

INTEGRATED SAFEGUARDS DATA SHEET

CONCEPT STAGE

Report No.: ISDSC15606

Date ISDS Prepared/Updated: 05-Feb-2016

Date ISDS Approved/Disclosed: 17-Sep-2015

I. BASIC INFORMATION

A. Basic Project Data

Country:	Indonesia	Project ID:	P154947
Project Name:	Regional Infrastructure Development Fund (P154947)		
Task Team Leader(s):	Taimur Samad		
Estimated Appraisal Date:	25-Jan-2016	Estimated Board Date:	30-Sep-2016
Managing Unit:	GSU08	Lending Instrument:	Investment Project Financing
Sector(s):	Other non-bank financial intermediaries (50%), General transportation sector (20%), General water, sanitation and flood protection s ector (20%), Sub-national government administration (10%)		
Theme(s):	Other Financial Sector Development (40%), City-wide Infrastructure and Service Delivery (40%), Other rural development (20%)		
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
Environmental Category:	F - Financial Intermediary Assessment		
Is this a Repeater project?	No		

B. Project Objectives

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

C. Project Description

2. **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.

3. **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

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

5. **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.

6. **Institutional and Governance Arrangements.** GoI and the Bank evaluated two 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.

7. 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

8. 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 safeguards areas of expertise necessary for RIDF business line; (iii) a proposed two-level credit committee based on 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 safeguards aspects.

9. 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.

10. 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.

11. 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. 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.

12. 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.

13. 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.

14. 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.

15. 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.

16. 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.

17. 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.

18. 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. All studies financed through Bank-supported project will need to comply with the ESSF.

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

19. The Project would strengthen PT. SMI capacity in providing capital for lending to eligible local governments (LGs). The on-lend funds under Component 1 would finance eligible projects proposed by LGs, which are likely medium and large-scale infrastructure to increase local service delivery under the mandates of the LGs in the context of decentralization. At this stage, LGs seeking financing supports cannot be identified, however, it is likely that they would come from wide geographical areas in the country. Examples of potential proposed projects eligible to be considered for getting support from PT. SMI under RIDF scheme is specified in Table 4 and Annex 4 in the Project Concept Note. Locations and scope of the environmental and social impacts of projects seeking for financing from PT SMI will be determined during the screening and appraisal of the proposals submitted by LGs.

20. The proposed PDF intends to provide technical assistance (TA) and capacity building (CB) for the LGs who would seek financing support from PT SMI for infrastructure development to be financed under Component 1. The objectives of PDF are to meet the capacity gap of local governments in planning and designing projects as well as generate project pipeline for RIDF and ensure quality delivery of projects. The TA and CB would likely focus on assisting the LGs in preparing projects, such as preparation of feasibility studies and associated environmental and social safeguards assessments and management plans. The detailed and specific downstream activities as results of the TA and CB will be identified during Project implementation when the PDF is established and in operation. TA and CB activities will be covered by the ESSF which will provide guidance on how to assess potential environmental and social impacts and the choice of the specific instruments to manage risks of the future activities during Project implementation.

E. Borrowers Institutional Capacity for Safeguard Policies

21. The Directorate General of State Assets (DJKN) of the Ministry of Finance (MOF) would be the Executing Agency (EA) of this Project on behalf of the Borrower (MOF). With the assumption that RIDF and PDF would be housed in the PT. SMI, PT. SMI would be the Implementing Agency (IA). 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 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 as of to date this mandate has not been fully implemented due to rigidities in the pipeline for such projects. RIDF and PDF will be housed at PT SMI as a new operation arm (unit or division), which will be developed exclusively to serve the LGs and will operate under a separate management and independent from the ongoing PT SMI's operations for PPPs and SOEs.

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.

22. PT. SMI has an Environmental and Social Management System (ESMS) developed based on the Indonesia country system, i.e. Indonesian regulations. However, the ESMS also refers to the World Bank and IFC Standards for health and safety. As of to date, PT SMI has financed mostly public-private partnerships (PPPs) and private sector projects, and therefore the ESMS has been applied for these clients. The Bank noted in a preliminary review that the ESMS is heavily focused on environmental aspects. The social aspects including Indigenous Peoples and Involuntary Resettlement needs to be strengthened. The ESMS, enacted as a Director Regulation issued in January 2015, has been adopted to screen proposed projects for financing, determine environmental and social risk level, and carry out due diligence assessment, all of which, will determine the gaps of meeting the requirements specified in the ESMS. The project proponent seeking for financing is required to prepare a corrective action plan (CAP) to address the gaps identified in the due diligence assessment and meet the requirements specified in the ESMS.

23. A detailed safeguards capacity and institutional assessment will be done which will include the capacity building plan and institutional arrangements as deemed necessary for an FI loan of this type. Presently, within the PT. SMI organizational structure, environmental and social management is mainly managed by the Environmental and Social Unit under the Risk Management Division. An environmental expert has been hired just recently and PT SMI is still in the process of hiring a social safeguards expert. There is also pool of on-call consultants including environmental and social experts under the Project Advisory Division. Currently, a consultant team (CT) is assisting the MoF in designing the establishment of RIDF (including the PDF). This CT will provide advice to MoF on the institutional set-up of RIDF, organizational structure and business plan and implementation, including operational documents for the RIDF operations. The CT will carry out assessment in various areas for PT. SMI including safeguards, both for its current operation, and for the future RIDF and PDF activities in case both are housed in PT. SMI. The CT will, among others:

- Assess PT. SMI's current ESMS and undertake gap analysis with the Bank's safeguards policies as well as assess lessons learned and experiences from PT IIFF on the implementation of its SEMS, as relevant (as PT IIFF is supporting private sectors instead of local governments).
- Based on this assessment, the CT will assist PT. SMI to develop an ESSF for the RIDF and PDF operations which will be fully comply with the national and international standards as envisioned in the current PT.SMI's master plan for environmental and social safeguards management.

- Develop a plan for PT. SMI to adopt ESSF and international standards – determine a detailed timeline and schedule of key milestones with responsible parties and resources needed. Start to use and learn how to implement the ESMS for existing sub-projects with the supports from pool of experts or external E&S experts familiar with WB policies and the international standards of other FIs.
- Develop an Operations Manual (OM) as an operational tool for the PT. SMI staff to implement the ESSF for the RIDF and PDF operations in the overall mainstream of its business operations.
- Assess the needs of the institutional arrangements to manage environmental and social safeguards risks for RIDF and PDF operations. Start with the assessment and clarification of the function and role of each division at PT. SMI in handling E&S aspects (Risk taking, Risk Management and Internal Audit Division). For example, the function of Relationship Officer in the Risk Taking Division to screen out the project with potential high E&S risk. Lessons learned on the experiences and capacity assessment of the existing PT SMI's institutional arrangements in handling E&S aspects should be considered in the development of institutional set-up for E&S management for the RIDF and PDF operations. One of the important aspects that the OM has to include is clear legal measures for PT. SMI LGs' clients to implement the agreed action plans to address the gaps, if any.
- Take into account the national laws and regulations pertaining Local Government related to environmental and social management in the ESSF and OM, as the mandate of RIDF under PT. SMI would serve sub-national governments.
- Assess the capacity of PT. SMI in managing environmental and social safeguards, and based on this develop a short and medium-term capacity building plan for strengthening PT.SMI's capacity in environmental and social safeguards management, especially for the RIDF and PDF operations.
- Assess and determine how capacity of LGs and borrowers will be screened and managed to ensure adequate capacity through capacity building programs or otherwise.

24. The results of these activities and their implementation will be assessed by the World Bank safeguards team prior to appraisal and a more detail information on the PT. SMI's institutional arrangements in its operations and capacity assessment and plan for managing environmental and social safeguards under RIDF (including PDF) operation will be included in the ESSF and summarized ISDS at Appraisal Stage.

25. The environmental and social safeguards frameworks (ESSF) of RIDF will cover Bank financed as well as government financed activities. It will be part of the PT. SMI's Operations Manual (OM) for RIDF and PDF operations that covers Environmental Management Frameworks including Pest Management and Dam Safety; PCR Management Plan as well as Social Safeguards Management Frameworks including RPF and IPPF. The ESSF will also take into account the Bank's Interim Guidelines on the Application of Bank Safeguards Policies for TA and TFs, as well as Guidelines on Advisory Services, as relevant. PT. SMI will adopt its OM (of which ESSF is part of) for all of its LGs clients for the RIDF and PDF operations regardless of financing/capital source (RIDF, government budget, and/or other donors, etc.). The Draft ESSF for RIDF operations will have to be completed and reviewed for Bank approval prior to Project appraisal. In the case that the PDF will be also housed in PT. SMI, the TA and capacity building activities will also adopt the revised ESSF. PT. SMI will have to strengthen environmental and social safeguards management in its future operations, particularly for the RIDF and PDF operations.

Eligible Sectors/Eligible Subprojects

Water Supply and Sanitation

- Water Supply
- Source augmentation
- Water treatment plant, storage reservoirs, pumping machinery and system automation
- Trunk and distribution network (new and rehabilitation)

Sewerage

- Collection network and waste-water treatment facility
- Pumping stations and machinery
- Regional facilities and system automation

Environmental Infrastructure

- Solid Waste Management
- Vehicles and equipment/consumables for collection and transportation solid waste
- Sanitary landfill
- Waste processing facility

Drainage

- Construction of new drainage network
- Rehabilitation of existing drainage networks
- De-silting and/or strengthening of natural drains

Low-Income Housing and Slum Upgrading

- Public or low-income housing projects
- Public housing units in slum areas (in-situ and or relocation)
- Integrated urban upgrading including water, sewerage, drainage, roads and street lighting, etc.

Productive and Logistic Infrastructure

- Road construction, rehabilitation, upgrading and widening
- Flyovers and grade separators
- Busways, bus procurement for public transportation, bus shelters and terminals and related BRT investments
- Multi-level car parking facilities
- Small scale vehicular bridges and foot bridges.

Social Infrastructure

- School construction and rehabilitation
- Hospital and health clinic construction and rehabilitation
- Public market facilities

26. The following main aspects are to be covered by the ESSF for the RIDF and PDF operations:

- Objectives, project components to be financed by the RIDF and PDF, institutional arrangements and types of eligible subprojects, negative lists, safeguards policies triggered and instruments;
- Screening of potential environment and social impacts, determination of specific safeguard plans/instruments to be prepared for subproject (ESIA/AMDAL, EMP/UKL UPL, SOP), policies triggered and subproject category;

- (iii) Screening and assessment of ancillary facilities and potentially linked activities;
- (iv) 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 in the ESSF; defining the scope and activities in the Corrective Action Plan; In the case a proposed subproject does not have any safeguards instruments, require the proponent to prepare the instruments in accordance with requirements specified in the ESSF.
- (v) Gap analysis and gap filling measures between Indonesia's AMDAL System and Bank's EA policy; and between Indonesia's system related to Involuntary Resettlement and Indigenous Peoples and Bank Policies.
- (vi) Screening and assessment of cumulative impacts following established methodology such as the IFC Good Practice Hand Book on Cumulative Impact Assessment;
- (vii) WBG Environmental Health and Safety Guidelines (Environmental Health and Safety being a pervasive issue in the Indonesia portfolio);
- (viii) Dam safety requirements
- (ix) Social impact assessment and social management plan; and
- (x) RPF and IPPF.
- (xi) Stakeholders Analysis, Consultations and Disclosures
- (xii) Grievance Redress Mechanisms
- (xiii) Capacity Building Assessment Plan, developed based on a safeguards institutional assessment for PT SMI and subsequent capacity building of LG sub-borrowers. The institutional assessment of PT SMI and LGs will include capacity building program, resources and budget estimates targeted for the RIDF and PDF operations.
- (xiv) Supervision and Monitoring of the implementation of safeguards instruments implemented by the local governments

27. The ESSF will also clearly spell out the roles and responsibilities of the PT SMI, particularly the operation arm (unit or division) where RIDF and PDF is located, and the local governments for screening of subprojects, preparation of safeguards instruments, review and approval, implementation, supervision, follow up and monitoring. The ESSF will also include the arrangements to screen, identify and manage any potential gaps or inconsistency between TA policy products and Bank safeguard policies. The ESSF should also refer to the Bank's Interim Guidelines on the Application of Bank Safeguard Policies for TA and TFs for Component 2 activities.

28. ESSF will become part of PT SMI Operations Manual for RIDF operations (including PDF) that must be fully adhered by all of its LG clients seeking support from RIDF and PDF, regardless of financing/capital source for the investments (RIDF, Government budget, and/or other donors, etc.) including future local government pipelines and its related feasibility study and safeguards instruments. The draft ESSF will have to be completed and reviewed for Bank's approval prior to the Project appraisal.

F. Environmental and Social Safeguards Specialists on the Team

Indira Dharmapatni (GSUID)

Krisnan Pitradjaja Isomartana (GEN02)

II. SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
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Environmental Assessment OP/BP 4.01	Yes	<p>The subprojects financed by the RIDF for municipalities/districts will cover the following sectors: (i) water supply and sanitation; (ii) environmental infrastructure; (iii) low-income housing and slum upgrading; (iv) productive and logistics infrastructure; and (v) social infrastructure. The ESSF will include an exclusion list of sectors and subprojects that will not eligible for RIDF financing and the rationales for ineligibility.</p> <p>At this concept stage, 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. The potential environmental and social impacts from infrastructure construction such as provincial or district roads, water resources management system, landfills, coastal and river redevelopment for urban improvement project might be significant, diverse and irreversible. The subprojects to be financed by the project will likely be a combination of Category A and Category B subprojects. The Project shall also have likely social impacts other than land acquisition and resettlement 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 at the time that RIDF screens subproject proposals. Impact assessment, minimization and mitigation measures through the conduct of an ESIA will have to be prepared by clients of RIDF and approved and monitored by RIDF based on an Environmental and Social Safeguards Framework (ESSF), which will be an integral part of the Operations Manual to be adopted by RIDF prior to disbursement of the Bank's investments. Refer to para. 25 for its content.</p> <p>The ESSF should also refer to the Bank's Interim Guidelines on the Application of Bank Safeguard Policies for TA and TFs for Component 2 activities.</p>
Natural Habitats OP/BP 4.04	Yes	Some of the infrastructure subprojects may affect natural habitats especially for municipalities or

		<p>districts located in eastern part of Indonesia (e.g. Papua, Maluku, Sulawesi, NTT, NTB). Potential impacts on Natural Habitat will be screened and addressed through the ESSF, which will spell out that the project shall not finance any development on protected areas nor the sub projects with potential significant conversion or degradation to critical natural habitats or natural habitats.</p> <p>For sub-projects that is located adjacent to a protected areas or that may change the purpose and/or designation of a protected area or natural habitats 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>UKL UPL or environmental management plan shall be prepared for subprojects with less potential environmental impacts to natural habitats.</p>
Forests OP/BP 4.36	Yes	<p>Project activities may take place in close proximity to or within forest areas. However, the project, through its ESSF, shall screen out any sub projects with potential significant conversion or degradation to critical natural forest or natural forest (protection forest, conservation forest). For sub-projects that is located in production forest area, the project shall prepare an environmental assessment and shall fulfill forestry regulation for land use permit as per Bank's related previous investment project (Upper Cisokan Pumped Storage etc).</p>
Pest Management OP 4.09	TBD	<p>Agricultural development or irrigation construction is expected to be excluded from the project. The policy is TBD and to be confirmed again during preparation. If triggered, the pest management framework will become part of the Environmental Management Framework of the ESSF.</p>
Physical Cultural Resources OP/BP 4.11	Yes	<p>Some of the sub-projects included under RIDF may affect cultural property and trigger OP 4.11. The environmental screening procedure in the ESSF to be</p>

		included under the Project will ensure the Project will not adversely affect sites having archeological, paleontological, historical, religious or unique natural values. Any contracts let 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 the clients of PT. SMI could be any LGs and projects eligible for financing with a set of criteria for borrowing. It is likely that LGs and projects seeking financing from PT. SMI will be widely geographically distributed in the country and therefore IPs communities which includes Masyarakat Adat (MA) communities might presence and affected. The presence and impacts on IPs or MA communities can only be defined after the RIDF is implemented. PT SMI needs to develop an IPPF in accordance with OP/BP 4.10, which will be part of the ESSF while also being a stand-alone document.
Involuntary Resettlement OP/BP 4.12	Yes	The Project anticipates that the clients of PT. SMI could be any LGs and projects eligible for financing with a set of criteria for borrowing. Although at this stage it is yet to be confirmed as to the definitive menu of eligible sectors that PT. SMI will be financing using the RIDF funds, the preliminary list of potential eligible sectors include: (i) water supply and sanitation; (ii) environmental infrastructure; (iii) low-income housing and slum upgrading; (iv) productive and logistics infrastructure; and (v) social infrastructure. Locations, characteristics and scale of projects and social impacts due to involuntary resettlement as per OP/BP 4.12 policy are yet to be defined during Project implementation. However, it is very likely that projects involuntary resettlement including land acquisition. PT. SMI will have to prepare a RPF in accordance with OP/BP 4.12, which will be part of the ESSF while also being a stand-alone document.
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 (<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 ESSF shall requires reviews by an independent panel of experts, preparation and implementation of</p>

		detail plans (construction, instrumentation, OM and emergency preparedness), prequalification of bidders and periodic safety inspections of the dam after completion.
Projects on International Waterways OP/BP 7.50	No	N/A
Projects in Disputed Areas OP/BP 7.60	No	N/A

III. SAFEGUARD PREPARATION PLAN

A. Tentative target date for preparing the PAD Stage ISDS: 31-Dec-2015

B. Time frame for launching and completing the safeguard-related studies that may be needed.
The specific studies and their timing¹ should be specified in the PAD-stage ISDS:

December 2015

IV. APPROVALS

Task Team Leader(s):	Name: Taimur Samad	
<i>Approved By:</i>		
Safeguards Advisor:	Name: Peter Leonard (SA)	Date: 12-Feb-2016
Practice Manager/ Manager:	Name: Abhas Kumar Jha (PMGR)	Date: 12-Feb-2016

¹ Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.