**PROJECT INFORMATION DOCUMENT (PID)**
**IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC54660

| | |
|---|---|
| **Project Name** | Project Development Facility |
| **Region** | EAST ASIA AND PACIFIC |
| **Country** | Indonesia |
| **Lending Instrument** | IPF |
| **Project ID** | P159047 |
| **Borrower Name** | PT. Sarana Multi Infrastruktur |
| **Implementing Agency** | PT. Sarana Multi Infrastruktur (PERSERO) |
| **Environment Category** | F - Financial Intermediary Assessment |
| **Date PID Prepared** | 04-Aug-2016 |
| **Estimated Date of Approval** | 31-Aug-2016 |
| **Initiation Note Review Decision** | The review did authorize the preparation to continue |

## I. Introduction and Context

### Country Context

1. Infrastructure investment in Indonesia has not caught up with 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 recover. Total infrastructure investment declined from an average 7 percent of GDP in 1995-97 to around 3-4 percent from 2011-2013. In comparison, neighboring countries such as Thailand, Vietnam and China registered rates of approximately 7, 8, and 10 percent, respectively.

2. The limited investment in new infrastructure and maintenance means Indonesia suffers from 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 surpassed Indonesia (see Figure 1). 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 (see Figure 2).

Figure 1: Indonesia►( s ranking on quality of infrastructure

Figure 2: Weak performance across most sectors

Source: World Economic Forum Global Competiveness Report 2010-2011

3. Decreased spending on the part of governments, state-owned enterprises and the private sector caused the decline in infrastructure investment as a proportion of GDP. Private sector investment experienced the biggest fall, declining from 2.3 percent of GDP during 1995-1997 to 0.4 percent from 2008-2011. This is a particular concern given the GOI➢( s 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 now leading in 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. 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**

5. 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. In 2013, Indonesia had an urban population of around 130 million or 52 percent of the total population, making it one of the most urbanized countries in Asia. 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.

6. 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: only about 40-50 percent of waste collected and a small fraction of that is disposed in sanitary landfills.

7. Indonesia boasts of no mass transit system outside of Jakarta➢( which itself meets only 4 percent of demand in the capital region. Modal share of public transport is low and decreasing. It was recently estimated at 27, 7, and 5 percent in metropolitan, large and medium size cities. Local

road networks are unable to cope with the rapid growth in traffic. Between 2002 and 2012 car and motorcycle ownership grew by 12 and 16 percent per year, respectively. An estimated 57 percent of local roads are classified in bad condition. Prolonged flooding of urban areas is increasing due to watershed degradation, a reduction in the hydraulic capacity of existing urban drainage systems, along with an increase in unplanned urban built-up areas, non-absorptive surfaces, land subsidence and sea-level rise, particularly in coastal cities. BNBP lists 22 cities at ►( extremely high risk►( of urban flooding, highlighting the need for comprehensive urban drainage planning and investment in the dredging, rehabilitation and construction of floodways, canals, retention basins and protection from sea-level rise.

8. Large numbers of Indonesian households live in informal settlements and substandard housing conditions. The Ministry of Public Works and Housing (MPWH) estimates that over 38,000 hectares of urban and peri-urban land are classified as slums. BPS estimates a combined quantitative and qualitative housing backlog of 13.5 million units with an approximate 7.5 million Indonesian households live in overcrowded houses.

9. 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, affordable 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.

**Relationship to CAS/CPS/CPF**

10. Alignment with GoI Priorities and the Country Partnership Framework (CPF). 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 2016-2020 Country Partnership Frameworks (CPF). The World Bank►( s twin goals emphasize the need to reduce poverty and increase shared prosperity by improving infrastructure and local service delivery. The Systematic Country Diagnostic (SCD), which will serve as the basis for the upcoming 2016-2020 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 CPF under Engagement Area 4: ►( Delivery of Local Services and Infrastructure►( , stated that the Bank is supporting the sustainable urbanization of cities, particularly through infrastructure development. The CPF also emphasize that the Government spending is insufficient to keep up with the depreciation of local public assets and generally of low quality. Opportunities for financing of large-scale infrastructure investments are limited. All this has resulted in low access and quality of services in water, access and quality of services in transport (public transport services, if existent, are mostly provided by old and badly maintained microbuses, three-wheelers, motorcycles and ordinary taxis), centralized sanitation (2%

of urban population) and sewerage (only present in 11 cities), while only half of urban roads are considered of ►( reasonable quality►( . Private sector companies provide some transportation services (motorcycle or car taxi services), but participation in water and sanitation remains low.

11. 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 LG investment in critical environmental, productive and social infrastructure that will directly benefit the bottom 40 percent of Indonesians.

## II. Project Development Objective(s)

### Proposed Development Objective(s)

12. The Project Development Objective (PDO) is to increase access and support LGs in project identification, planning and preparation through the structuring and operationalization of a Project Development Facility (PDF).

13. Structured under PT.SMI with the Regional Infrastructure Development Fund (RIDF), the PDF would primarily support the development of a project pipeline as well as to channel technical assistance to LGs in areas of project identification, design and construction supervision, and related advisory services.

### Key Results

14. Key measures of increased access and support LGs in project identification, planning and preparation may include:

►(¢ Number of LGs accessing RIDF PDF

►(¢ Number of projects prepared through this facility

15. Other relevant indicators to monitor the project preparation will be included as intermediate results indicators.

## III. Preliminary Description

### Concept Description

16. A Project Development Facility (PDF), whose initial establishment is supported by an RETF, will be established as part of the RIDF project (component 1 of RIDF, which is now being prepared), 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.

17. The activities eligible for PDF support are:

(i) project identification and preliminary structuring;

(ii) project preparation studies, including feasibility studies, safeguards studies and detailed engineering designs;

(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.

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.

18. To avoid potential conflicts of interest, the PDF will be housed under a separate business unit within PT. SMI, specifically under the Project Development Division. This division of PT. SMI 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. Options for ensuring the financial sustainability of the PDF include adopting a fee-for-service structure, and including a small spread on all RIDF loans with proceeds earmarked for the recapitalization of the PDF.

19. Before receiving assistance from PDF, LGs initially submit loan application to RIDF that must fulfill following pre-conditions: i) Infrastructure to be financed is public infrastructure that is most needed (priority) and is contained in the RPJMD; ii) Approval of the relevant legislature (DPRD) at the subnational level; iii) subnational government is not in arrears, whether with SLA or other loan sources; iv) DSCR of at least 2.5 times (as stipulated in PP NO.30/2011); v) Loan amount should not exceed 75% of the accumulated general revenue amount in the APBD of the previous fiscal year; vi) current fiscal year APBD deficit, if any, is within the limits prescribed by applicable regulations; vii) Audit results from BPK (supreme audit institution) from each of the last three years should be at least WDP (qualified opinion) or better; viii) Recommendation from the Ministry of Home Affairs. In addition, RIDF unit will also identify readiness level of each proposed subprojects. There are three types of subprojects that could apply for RIDF funding:

i. Type 1 ➢( subprojects in the early stages of preparation (with sites that have not been selected and design options that are still open);

ii. Type 2 ➢( subprojects that have not been fully prepared. Some of the subproject documents might have been prepared, but in need of an update or revalidation;

iii. Type 3 ➢( subprojects that have been fully prep ared.

RIDF will inform LGs that PDF can assist with subproject preparation if their subprojects fall under type 1 and 2. PDF will, then, provide interested LGs with detailed information on requirements for PDF grant application.

20. The PDF is a facility which facilitates robust project development, by supporting the LGs in taking projects through feasibility study, detailed engineering design, safeguards studies such as AMDAL, EMP, LARAP, IPP, etc. and other project preparation documents. The objectives of PDF are to meet the capacity gap of LGs in planning and designing subprojects as well as to generate project pipeline for RIDF lending facility for LGs and ensure quality delivery of projects. The PDF is a business development operation, independent from the RIDF lending facility but both are supporting to each other, both under the overall World Bank-supported operations to support infrastructure development in LGs housed at PT SMI. The PDF, once it is mature would receive other source of financing, from international donors, financing institutions and APBN. The PDF is designed to be a development facility to support LGs in developing subprojects which are primarily

realistic, feasible and within the ambit of RIDF lending facility. The PDF would also result in creating a pipeline of bank-able infrastructure subprojects sponsored by LGs, for the RIDF to evaluate lending to.

21. Eligible LGs. All LGs applying for RIDF funding are eligible towards receiving the PDF support. Eligibility towards PDF support will be assessed for the LGs based on the sectors and subprojects that are eligible for RIDF financing. All LGs are eligible towards receiving the PDF support except those, who have defaulted under any of the earlier grant agreements under PDF support. The type and extent of support shall be determined upon the evaluation of the LGs➢( application by RIDF. Further assistance shall be provided to the LG within the designated limits of maximum financial assistance.

22. Eligible activities under PDF funding. The RETF supported PDF would be used to establish the PDF and to assist LGs in the below listed aspects of project development. All other activities beyond the list would have to be undertaken by LG through its own internal resources / other sources of funding. The PDF would ensure that the subprojects prepared with its support are consistent with technical, financial, economic, social and environmental appraisal standards established for RIDF lending operation under the umbrella of RIDF operations. Therefore, principles, procedures, and requirements for environmental safeguards applied for activities supported by PDF will be the same with those of RIDF. Specifically, eligible activities under PDF funding include:

➪(¡ Project identification and preliminary structuring ➢( LGs often appreciate the solution involving larger infrastructure intervention, however, they are to some extent unable to identify the infrastructure interventions in a project format. The PDF will assist the LG towards subproject identification, prioritization and preliminary structuring.
➪(¡ Project preparation studies ➢( feasibility studies, environmental and social safeguards studies and detailed engineering designs - The PDF would support LGs by appointment of consultants / advisors to assist them in undertaking technical including detailed engineering designs (DEDs), financial including FS, environmental and social assessment. The appointment of such advisors / consultants shall follow a transparent procurement procedure, recommended by PDF team and be driven by the LG.
➪(¡ Design-supervision assistance - Certain technically critical subpro jects, might require all round support and would require accountability from the consultants in terms of design (for instance, a regional landfill or a treatment plant). In that case, the PDF can engage a consultant to both design and to supervise / vet the ou tputs for the subprojects.
➪(¡ Preparation of Procurement and Contract Documents - The PDF would support LGs in preparation of contract / procurement documents, for subprojects being supported by the PDF. Over time, PDF could help develop model / standard pr ocurement and contract documents that can be used across various subproject types / sectors. This value addition of the PDF to the current system, can subsequently lead to standard procurement policies / acts, to be followed by LGs.
➪(¡ Capacity building for local governments ➢( The PDF would support LGs in the form of workshop, training, or advisory support in the area of technical, fi nancial, project management, and environmental and social aspects required to strengthen their capacity for subproject preparation and implementation.

23. Eligible sectors / subprojects: All sectors and subprojects eligible for lending under the

RIDF lending facility shall be eligible for support under the PDF. The nature of subproject, eligible under RIDF lending facility shall also be eligible for support under PDF: (1) water supply and sanitation (including water supply and sewerage); (2) environmental infrastructure (including solid waste management and drainage, and energy efficiency projects etc.); (3) low-income-housing and slum upgrading (including public or low-income housing projects, public housing units in slum areas, integrated urban upgrading including water, sewerage, drainage, roads, street lighting, etc.); (4) transportation and logistics infrastructure (road, public transportation, terminals, parking facilities, bridges, etc.); and (5) social infrastructure (schools, hospitals, public markets, etc.). Refer to Table 1 for a complete list.

Table 1: Eligible Sectors and Subprojects

| Eligible Sectors | | Eligible Subprojects |
|---|---|---|
| 1 | Water Supply and Sanitation | Water Supply<br>►(¢ Source augmentation<br>►(¢ Water treatment plan, storage reservoirs, pumping machinery and system automation.<br>►(¢ Trunk and distribution network (new and rehabilitation)<br>Sewerage<br>►(¢ Collection network and waste-water treatment facility<br>►(¢ Pumping stations and machinery<br>►(¢ Regional facilities and system automation |
| 2 | Environmental Infrastructure | Solid Waste Management<br>►(¢ Construction of a municipal waste-processing facility (sanitary, land-fill, processing plant, incineration unit, etc.).<br>►(¢ Construction of construction and demolition waste processing facility.<br>►(¢ Waste recycling project.<br>►(¢ Purchase of vehicles and bins for solid waste collection.<br>Ã¢③( Â¢ Development of vehicle-tracking and waste disposal monitoring system.<br><br>Drainage<br>►(¢ Development of storm water drainage network<br>►(¢ Rehabilitation of existing drainage networks<br>►(¢ De-silting and/or strengthening of natural drains<br><br>Energy Efficiency<br>►(¢ Improvement of electricity installation and equipment in building and public facilities<br>►(¢ Retrofitting building and infrastructure with efficient energy consumption instruments<br>►(¢ Improving system that can control energy consumption |
| 3 | Low-Income Housing and Slum Upgrading | ►(¢ Public or low income housing projects.<br>►(¢ Integrated urban upgrading including water, sewerage, drainage, roads and street lighting, etc. |
| 4 | Transportation and Logistic Infrastructure | ►(¢ New carriageway development (at grade, flyovers, bridges)<br>►(¢ Road rehabilitation, upgrading and/or widening<br>►(¢ Junction-improvements projects<br>►(¢ Development of mass transit (non - rail based) infrastructure. |

►(¢ Development of pedestrian infrastructure (foot-over bridges, footpath, street furniture, street-lighting, etc.).
►(¢ Development of pedestrian infrastructure (foot-over bridges, footpath, street furniture, street-lighting, etc.).
►(¢ Purchase of public buses
►(¢ Development of street-furniture for bus-stops
►(¢ Development of bus depot and shelters
►(¢ Development of dedicated BRT lane and related infrastructure, tracking and monitoring system for operating BRT etc.
►(¢ Development of multi-level car parking structure
►(¢ Development of traffic monitoring and management system
►(¢ Development of building and/or facilities to house traffic management unit.
►(¢ Irrigation development
5 Social Infrastructure ►(¢ School construction and rehabilitation
►(¢ Hospital and health clinic construction and rehabilitation
►(¢ Public market facilities

## IV. Safeguard Policies that Might Apply

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

## V. Financing *(in USD Million)*

| Total Project Cost: | 3 | Total Bank Financing: | 0 |
|---|---|---|---|
| Financing Gap: | 0 | | |

| Financing Source | Amount |
|---|---|
| Indonesia Sustainable Urbanization | 3 |

## VI. Contact point

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