

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

April 27, 2015

Report No.:

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Operation Name	Indonesia Energy Sector DPL
Region	EAST ASIA AND PACIFIC
Country	Indonesia
Sector	General energy sector (50%); Public administration- Energy and mining (50%)
Operation ID	P154291
Lending Instrument	Development Policy Lending
Borrower(s)	GOVERNMENT OF INDONESIA
Implementing Agency	Coordinating Ministry for Economic Affairs and the Ministry of Finance
Date PID Prepared	April 26, 2015
Estimated Date of Appraisal	October 15, 2015 (tbc)
Estimated Date of Board Approval	December 3, 2015
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Key development issues and rationale for Bank involvement

Over the past decade Indonesia has seen strong growth and job creation, supporting poverty reduction, but the end of the commodity boom has exposed deep structural weaknesses. Annual growth averaged 5.6 percent for the period 2001-12 but, as the external tailwinds of commodity prices and demand and global financing conditions have turned to headwinds, growth has slowed, down to 5 percent in 2014. While the national poverty rate was halved from 1999 to 2012, vulnerability remains high and inequality has risen.

Reducing poverty and increasing shared prosperity in Indonesia requires delivery on three challenges. These include (i) sustaining economic growth that generates quality jobs, (ii) improving the quality of spending and access to key services and (iii) enhancing the quality of natural resource governance and management. In turn, the first growth challenge will require addressing a broad range of structural weaknesses that impede the competitiveness of the economy including infrastructure bottlenecks, for example, in transport, energy and agriculture; a poor business environment; labor, land and capital markets that are unsupportive to inclusive and sustainable growth; and skills shortages and mismatches.

Sustainable and inclusive energy sector development is central to a strategy aimed at addressing these challenges and has been set as a high priority by the Government of Indonesia, motivating the development of this programmatic DPL series. Among the various structural challenges that Indonesia faces, the new Government has placed a particular emphasis on those in the energy sector. It has set ambitious goals for increasing generation capacity by 35

GW by 2019 and for a higher share of renewable generation and access to electricity. Investments in the currently inadequate energy infrastructure need to be scaled up significantly, particularly from the private sector, so as to limit related constraints on future growth given rapidly growing demand. This will require improvements in the investment climate, for example, through licensing reform, as well as improvements in the financial position of the State Electricity Company (PLN). Reducing the fiscal cost of poorly targeted energy subsidies can support a reallocation of spending to more pressing development needs. A greater role for renewable energy is needed to improve the sustainability of growth given fast growing fossil fuel emissions (with coal accounting for just over half the generation fuel mix in 2014). Increasing access to modern energy, with approximately 50 million of people lacking access to reliable electricity, is also important to support progress on poverty reduction and reducing vulnerability.

The proposed DPL series is an integral part of the overall World Bank Group energy strategy in Indonesia in support of the Government's objectives for the sector and its objectives closely support CPF and twin goal objectives. The broader WBG strategy has been formulated with the Government to respond to the key challenges of the sector and includes a diversified lending portfolio in which a programmatic DPL series aims to unlock core bottlenecks. The operation is informed by long-standing, and deep, related technical assistance and analytical work.

II. Proposed Objective(s)

This is the first in a proposed series of two development policy loans to support the Government of the Republic of Indonesia's efforts to promote a sustainable and inclusive energy sector by addressing key constraints that the energy sector currently poses to the development of the country. The four pillars of the operation have the following development objectives: A) Reducing the fiscal cost of electricity provision; B) Improving the competitiveness of the economy through enhanced efficiency of PLN and by facilitating new entrants to the sector; C) Improving the environmental sustainability of the energy sector; D) Expanding access to modern energy.

III. Preliminary Description

The proposed DPL series aims to address key constraints that the energy sector poses to the development of the country through institutional and policy reforms within the above pillars:

- Pillar A. Reducing the fiscal cost of electricity provision by moving to cost-reflective tariffs for electricity;
- Pillar B: Improving the competitiveness of the economy through enhancing PLN's efficiency by the adoption of Performance-Based Regulation, and through facilitating new entrants to the sector by supporting gas supply development and licensing reform.
- Pillar C: Improving the environmental sustainability of the energy sector through renewable energy development, including by finalizing the regulatory framework for the full implementation of the 2014 Geothermal Law, and by putting in place incentives for the development of other renewable energy resources.

- Pillar D: Expanding access to modern energy by strengthening fiscal mechanisms for budget support to PLN for electrification programs and by establishing a credible road map and action plan on electrification.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The reform area under the DPL with the most likely impact on the poor and vulnerable is the move to the adoption of economic tariffs for electricity. However, the prior actions under the first DPL operation phase out subsidies for larger customers but retain the subsidy for the two smaller household voltage categories which cover most of the poor and vulnerable. The PSIA will examine the direct and indirect effects of the tariff adjustments for the poor and vulnerable.

Environment Aspects

The environmental impacts of the DPL are likely to be positive and will be investigated in greater detail as part of project preparation. They include the impact of the prior actions on greenhouse gas emissions, local air pollution and environment and forest management.

V. Tentative financing

Source:	(\$m.)
Borrower	0
International Bank for Reconstruction and Development Borrower/Recipient IBRD	500
Others (specify)	
	Total

VI. Contact point World Bank

Contact: Ashley Taylor
Title: Senior Economist
Tel: 1-202-473-6682
Email: ataylor2@worldbank.org

Contact: Anh Nguyet Pham
Title: Senior Energy Specialist
Tel: 62-21-5299-3242
Email: npham@worldbank.org

Borrower

Contact: Ayu Sukorini
Title: Director of Loan and Grant, Ministry of Finance
Tel: 62-21-345-9616
Email: ayu_sukorini@dmo.or.id

VII. For more information contact:

The InfoShop

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 458-4500

Fax: (202) 522-1500

Web: <http://www.worldbank.org/infoshop>