

**PROGRAM-FOR-RESULTS INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

Report No.: 99377

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Program Name	Power Distribution Development Program
Region	East Asia & Pacific
Country	Indonesia
Sector	Energy & Extractives
Lending Instrument	Program-for-Results
Program ID	P154805
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Borrower(s)	PT Perusahaan Listrik Negara (PLN)
Implementing Agency	PT Perusahaan Listrik Negara (PLN)
Date PID Prepared	July 31, 2015
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Concept Review Decision	Following the review of the concept, the decision was taken to proceed with the preparation of the operation.

I. Introduction and Context

A. Country Context

1. Indonesia is the world's largest archipelagic state, its fourth most populous nation, and the 10th largest economy in terms of purchasing power parity. It is a member of the ASEAN group of countries that have a combined population of 608.4 million and is also a member of the G-20. With more than 17,500 islands, of which 6,000 are inhabited, Indonesia has a population of over 250 million, with 300 distinct ethnic groups and over 700 languages and dialects. It has a gross national income per capita of US\$3,524 (2014) and it has more than halved extreme poverty to 11.3 percent in the past fifteen years.

2. Indonesia's economic planning follows a 20-year development cycle, spanning from 2005 to 2025. The current five-year medium-term development plan, i.e. the third phase of the long-term plan runs from 2015 to 2020, and focuses on key development priorities including energy and infrastructure development, and on improving social assistance programs in education and health-care. Recent energy subsidy reforms have enabled shifts in public spending towards programs that directly impact the poor. However more than 28 million Indonesians currently live below the poverty line set at US\$24.4 per month and approximately half of all households remain clustered around this poverty line. Employment growth has been slower than population growth, and public services remain inadequate by middle income country standards. Indonesia is also doing poorly on a number of health and infrastructure related indicators.

3. In addition despite rising government spending in recent years, Indonesia's core infrastructure stock, such as electricity, road networks, ports, and telecommunication facilities, has not kept pace with economic growth. The resultant "infrastructure gap" in terms of both quantity and quality of investment is due to several factors among which the most important are: a complex and non-transparent regulatory framework for implementation of infrastructure projects; an underdeveloped framework for Public-Private Partnerships resulting in insufficient mobilization of private funds for investment; and the inadequate participation of domestic capital markets in channeling funds to infrastructure sectors. The infrastructure gap contributes to undermine productivity, growth, competitiveness and poverty reduction efforts.

4. Going forward, reducing the infrastructure gap would support growth and prosperity through several channels. The spending effect would support short-term growth and the creation of jobs. As the investments translate into infrastructure stock, private investment will be crowded-in and productive capacity, and long-term growth will be supported. As infrastructure services are delivered firms' competitiveness would increase and so would the population's access to services.

B. Sectoral (or multisectoral) and Institutional Context of the Program

5. The power sector in Indonesia is dominated by the state owned power utility PLN that owns and operates 39.3 GW of the 51.6 GW of installed generating capacity (2014). IPPs represent 7.9 GW of installed capacity, and the balance is from captive generation. Total electricity produced in 2014 was 228,555 GWh of which 198,602 GWh was sold during the year to industries (33.2 percent), households (42.3 percent), businesses (18.3 percent), and others (6.2 percent). PLN's annual peak load in 2014 was 33,321 MW, an increase of 8.06 percent over the prior year. PLN with its monopoly until 2009 on power transmission and distribution (39,910 km of transmission lines, and 925,312 km of distribution lines) is also the major purchaser of electricity produced by IPPs (53,258 GWh or 23.3 percent of total production). The sector is regulated by the Ministry of Energy and Mineral Resources, while decisions relating to the sector's financial footing including those on proposed tariff increases are taken at the Parliamentary level (Commission VII of the House of Representatives) in discussion with the Ministry of Finance, the State Planning Ministry, the Ministry of State Owned Enterprises, and PLN. The sector until recently was characterized by low electricity tariffs, and high subsidies to PLN. These subsidies projected at 0.6 percent of GDP in 2015 remain unsustainable at current levels, and the government has embarked upon a tariff rationalization effort aimed at limiting subsidies to low income consumers.

6. In addition, Indonesia, with an electrification ratio of 84.3 percent of the population, lags behind its neighbors like Thailand, Vietnam and China which have achieved universal access. Access to electricity is an important driver for improvements in health and educational outcomes as well as for income growth opportunities for the population. With demand continuing to increase at an annual rate of about 8 percent the national power expansion plan (RUPTL) for the next ten years to 2024 projects a requirement for 70 GW of new generation capacity together with associated transmission and distribution capacity. Public sector resources through PLN are used to finance part of the additional generation capacity alongside the private sector which is expected to develop, finance and operate at least 50 percent (36 GW) of the new capacity during 2015-24.

7. In the face of tremendous pressure to keep pace with economic growth combined with investments that were well below the levels needed to ensure reliable supply, Indonesia's power system has been left with inadequate generating capacity to meet electricity demand (average annual demand growth of 7.8 percent during 2009-13). The sector has faced significant challenges in mobilizing large investments from the public and private sectors due to the following reasons:

- a. *Weak sector financial footing* of PLN due to low electricity tariffs combined with limited Government fiscal space to support major investments.
- b. *A large and unsustainable government public service obligation (PSO) subsidy* averaging US\$9.3 billion annually during 2011-14, and projected at 0.6 percent of GDP in 2015 covering 40 percent of PLN's revenues.
- c. *PLN's limited borrowing capacity* due to subsidized electricity tariffs combined with delayed subsidy payments negatively impacting PLN's financial condition and therefore its access to financial and capital markets.
- d. *Weak contract management and implementation capacity* at PLN leading to long lead times in contracting and construction required to install new capacity.
- e. *High political risk* due to an evolving policy framework, regulatory uncertainty, and delays in the issuance of licenses and approvals, undermining private investment.

8. Additional energy sector challenges include a rapid increase of coal in power generation imposing environmental costs on the economy and on society and energy efficiency programs that have yet to gain any significant traction. Coal accounted for about 52 percent of the generation fuel mix at the end of 2014 and its share is expected to increase to 60 percent by 2019. The lack of implementation of a significant energy efficiency program contributes to the persistent rapid growth in power demand which in turn imposes large capital investment requirements for the country.

9. The impacts of inadequate investment in power infrastructure are felt through power deficits and persistent low access to electricity (42 million Indonesians have no access to electricity).

10. To address these challenges, at a strategic level, the GoI has committed to a number of long term measures around the following targets:

- a. reducing, and better targeting, energy subsidies to improve productive and resource allocative efficiency;
- b. expanding electricity access by improving the electrification rate from 84.3 percent in 2014 to 99 percent by 2024;
- c. scaling-up renewable energy deployment from 11 percent in 2014 to 23 percent of the energy mix by 2025;
- d. placing investment to expand power generation capacity as one of the high priority pillars of its infrastructure revival program; and
- e. mobilizing a partnership program on energy conservation to incentivize industrial enterprises to convert to energy efficient technologies.

11. At an operational level the GoI has undertaken or initiated the following several measures to address the above power sector challenges:

- a. *Prepared an ambitious power sector investment program.* PLN has developed a power system expansion plan called the “Rencana Usaha Penyediaan Tenaga Listrik”, (RUPTL) for 2015-2024 which is expected to add 70 GW to the system at a total cost of about US\$97 billion. For the first five years (2015-2019) the program will add 42 GW, including 7 GW carried over from prior fast track programs. Out of this program PLN is expected to build, finance and operate 10 GW at an estimated cost of US\$40 billion, including the cost of the associated transmission and distribution investments and the private sector is expected to implement the balance of 25 GW. Given the implementation difficulties in the past and with ongoing projects, delivery of such a massive program will be challenging for both PLN and the GoI. To succeed, it will be necessary for GoI and PLN to step up measures to address the constraints to the implementation of the investment program and to identify new ways of doing business. The proposed Program presents a new approach for implementation of the distribution investments.
- b. *Implemented substantial increases in electricity tariffs* in the last two years to improve PLN’s financial performance, to better manage power demand and to reduce the PSO subsidy.
- c. *Issued a new geothermal law and pricing decree* to provide incentives for the development of Indonesia’s substantial domestic energy resource.
- d. *Completed a gas development master plan* to provide a strategy/road map for improving the management of gas resources, including their availability to the domestic market.
- e. *Initiated a performance based regulation for PLN* so that power prices can be based on efficient costs.
- f. *Introduced a feed-in tariff* to incentivize private finance for renewable energy development.
- g. *Initiated a process to introduce a direct lending mechanism* for SoEs to borrow directly from bilateral and multilateral sources for infrastructure financing.
- h. *Created a performance management unit* at the line ministry and a project management office under the Vice President, to improve energy project delivery.

12. The Bank is also providing support to Indonesia to help address the above noted sector development challenges. Specifically, the Bank is providing support through both ongoing investment lending and development policy lending as well as through a series of technical assistance advisory services funded through grants. Three ongoing IPF operations for a total of about US\$1.2 billion in IBRD Loans are supporting the sector’s ability to meet demand by financing expansion of renewable energy generation capacity (Upper Cisokan Hydropower Project) and transmission lines and substations. For the next five years the World Bank Group’s (WBG) support to the sector comprises a mix of lending instruments - Investment Project Financing (IPF), Development Policy Loans (DPLs), Program for Results (PforRs), IFC equity and loans to private sector projects and TA-- to finance expansion of more renewable energy (geothermal, hydropower) and efficient power system connectivity. The policy lending will leverage reforms to improve the regulatory framework for private sector participation in both

power and gas, to reduce energy subsidies, and to improve the framework for increased electrification nationwide.

13. Thus, the proposed Power Distribution Development Program for Results is part of a larger package of the WBG's support to the Indonesian energy sector. The operation will support the GoI in addressing the above key challenges of helping to meet demand by expanding access, and increasing the efficiency and reliability of power supply in the Sumatra region. The operation will complement the generation and transmission investments carried out by PLN and other development partners in Sumatra, including the Bank's own support for improved transmission capacity in the region. Improvements in the policy framework leveraged by the proposed DPL series, including on tariff reforms, will help to improve the viability of the Program.

14. As noted above the implementation of public sector power investments (including the Bank's ongoing portfolio) has generally been unsatisfactory with projects encountering substantial delays due to both systemic regulatory constraints and institution-specific constraints. The proposed Program will seek to help the GoI to address these constraints through a performance-based approach that provides appropriate incentives for speedier implementation of investments and through TA to resolve institutional and process issues.

C. Relationship to CAS/CPS

15. The Bank's current Country Partnership Strategy (CPS) for Indonesia covering the period 2013-2015 expires this year. To support economic growth with equity the CPS includes the following key pillars for the energy sector: (i) creating and maintaining an attractive investment climate for investment in energy infrastructure; (ii) improving the regulatory framework and strengthening the enforcement of existing regulations; and (iii) scaling up of renewable energy, particularly geothermal.

16. As noted above and in line with the current CPS, the Bank is supporting power infrastructure projects, especially renewable energy through investment project financing; leveraging policy reforms through DPLs to move the sector towards a low-carbon development path; and technical assistance to facilitate the rationalization of the electricity tariffs and subsidy regime, and to strengthen project/program implementation capacity of the line ministry and of energy sector SoEs. The proposed program for results is consistent with the Bank's assistance strategy of enhancing connectivity to accelerate growth and improve equity, and of creating and maintaining an attractive investment for energy infrastructure.

17. The recently completed (2015) Systematic Country Diagnostics (SCD) identified infrastructure bottlenecks as constraints to inclusive growth and energy is expected to be a priority in the new Country Partnership Framework that is under preparation.

D. Rationale for Bank Engagement and Choice of Financing Instrument

18. The Government considers the role of infrastructure development, including energy as crucial to its goal of increasing economic growth to at least 7 percent per annum in the medium term in order to reduce inequality and poverty. Yet, actual investments have lagged in the past

several years creating an infrastructure gap that constrains both growth and achieving 100 percent electrification by 2024. Access to electricity is an important driver for improvements in health and educational outcomes as well as for income growth opportunities for the population.

19. With electricity demand continuing to increase at an annual rate of about 8 per cent per annum the national power expansion plan for the next ten years to 2024 projects a requirement for 70 GW of new generation capacity together with associated transmission and distribution capacity. Public sector resources through PLN are used to finance part of the additional generation capacity alongside the private sector.

20. In addition to financing new generation, public funding would be provided by and through PLN for the construction of the additional transmission and distribution networks that are required to evacuate and distribute power to consumers. The proposed distribution program will help to increase the percentage of the population with access to electricity in Sumatra, a region with the largest population outside of Java-Bali. About 2.85 million additional customers will be added over the next five years. About 85 percent of the population already has access to power in Sumatra. The remaining population is either far from the grid in the remote areas or are the poorest households in already electrified areas. The program would therefore contribute to reaching the poorest and the bottom 40 percent of the population on Sumatra. During program preparation the team will seek data on the profile of the population in the areas likely to be reached by the program to better understand the program's potential reach to the poorest.

21. As noted above implementation of power investments has been slow resulting in the country failing to adequately meet demand. The choice of a PforR is to facilitate improvements in program implementation by:

- a. focusing the attention of PLN and other concerned government agencies on results since disbursements of the Bank Loan would be based on results instead of expenditures as is the case with Investment Project Financing;
- b. allowing PLN to use its own program systems while simultaneously supporting the improvements of those systems; and
- c. reducing the cost of doing business (especially the hassle factor) for PLN by allowing it to use the same systems (its own) for both International Financial Institutions (IFIs) financing the program i.e. the Asian Development Bank (ADB) and the Bank.

22. Not only is the PforR instrument expected to enable faster program implementation but it is also expected to contribute to improvements in the effectiveness of PLN's expenditure programs and to the strengthening of institutions.

II. Program Development Objective(s)

A. Program Development Objective(s)

23. The program's development objective is to increase access to electricity supply and to improve the efficiency and reliability of its delivery in Indonesia's Sumatra region.

B. Key Program Results

24. The proposed program to be supported by the Bank will contribute to five key result areas which are integral to the RUPTL's objectives of increasing access to electricity, and improving the efficiency and reliability of its delivery. The Bank team and PLN have discussed preliminary intermediate, output and outcome indicators that will be used for assessing the achievement of results in each of the result areas. These are summarized as follows:

- a. **Result Area 1: Improve access to electricity.** The key intermediate indicators would be the kilometers of low voltage distribution lines (20 kV) erected and the additional substation capacity (MVA) constructed. The number of customers connected to the network would measure the degree of additional access achieved by the program.
- b. **Result Area 2: Improve quality of service.** Decreases in the frequency and duration of outages and in voltage fluctuations in areas supported by the program will measure the improvement in quality of services. The relevant indicators for the frequency and duration of outages are the System Average Interruption Frequency Index (SAIFI) and the System Average Interruption Duration Index (SAIDI).
- c. **Result Area 3: Improve distribution efficiency.** The key outcome indicator for distribution efficiency improvement will be distribution losses reduction. Rehabilitation and upgrading of some low voltage lines and transformers, and metering improvements will contribute to the reduction in distribution system losses.
- d. **Result Area 4: Increase supply of electricity for local development.** The indicator would be the additional energy sales made possible by the incremental distribution investment over the program period. The expansion and rehabilitation of the distribution network as well as the improvements in efficiency will contribute to make more electricity available for consumption by consumers in the region.
- e. **Result Area 5: Improve institutional capacity.** The key indicators for this result area will be determined through the technical, fiduciary, and environmental and social assessments to be prepared as part of the program preparation.

III. Program Description

A. Description

25. The proposed operation would be a hybrid program for results and an investment project financing (IPF) operation. The bulk of the financing (US\$-TBD-million) would be for the program results but a small allocation (US\$-TBD-million) would be used to finance technical assistance for improvement of PLN's program management systems and for the verification of program implementation results. The parallel IPF support would be fully defined based on the findings of program assessments and the Program Action Plan to be agreed upon with PLN during program preparation.

Program for Results

26. The program proposed for Bank support is PLN's power distribution plan for Indonesia's Sumatra region during 2015-2019 which is the first five years of the 10-year (2015-2024) RUPTL. The RUPTL includes total generation, transmission and distribution investment requirements to meet power demand irrespective of implementation responsibility; i.e. it includes investments to be implemented by third parties such as IPPs. The RUPTL is updated annually on a rolling basis. For the 2015-2024 period the RUPTL is intended to add 70 GW of additional generation capacity and the associated transmission and distribution infrastructure.

27. The broader context for the RUPTL is the Rencana Umum Ketenagalistrikan Nasional (RUKN) which is a 20-year national policy document approved by Parliament. The RUKN provides the GoI's policy guidance for preparation of the RUPTL. This guidance is related primarily to the projected energy demand and desired targets for electrification and the energy mix of production. The current RUKN was approved by Parliament in 2008 and covers the period up to 2027.

28. To accelerate development of infrastructure so as to close the infrastructure gap which is constraining economic growth the current administration has prepared a five-year National Power Expansion Priority Program (NPEPP) which covers the first 5 years of the RUPTL (2015-2019).

29. **Program boundary and size.** The proposed Bank-supported program covers the distribution subprogram of the first five years of the 2015-2019 RUPTL in the Sumatra region. PLN has selected the Sumatra region for coverage under the proposed program based on several specific criteria. Sumatra, with an electrification ratio of about 85 percent, ranks in the middle between Java Bali with an electrification ratio (ER) of 94 percent and Eastern Indonesia with ERs as low as 44 percent in Papua, 59 percent in NTT, and around 60 percent in parts of Sulawesi and Eastern Kalimantan. Although Sumatra has a higher average ER than Eastern Indonesia, it also has the largest population center outside Java Bali with about 54 million people, of which 9 million have no access to electricity. In addition, there are substantial existing and planned generation and transmission investments in Sumatra that require complementary investment in distribution in order to enable the power produced when these investments are commissioned to be delivered to the regional economy. A focus on Sumatra, therefore, offers the best prospect for fast progress towards achieving the RUPTL's national ER target of 99.4 percent by 2024. Up to about 2.85 million customers could be added to the grid in the 5 year period to 2019 resulting in an increase in the regional ER ratio from 85 percent to about 90 percent. PLN's strategy is to mobilize multilateral funding to complement its own and fill the financing gap for the Sumatra distribution program. Finally, PLN sees Sumatra as offering the best opportunity for "piloting" the use of the IFI's performance-based lending instruments, learning lessons, and improving effectiveness of its program expenditure management before attempting to use them in the more difficult terrain of Eastern Indonesia.

30. The table below shows the key parameters of the RUPTL, the 5-year NPEPP and the Sumatra subprogram within the NPEPP (targets, components, implementation arrangements, and expenditure estimates). The proposed program would be US\$1.45 billion. PLN is planning to finance the program with an ADB Loan of US\$480 million, an IBRD Loan of US\$500 million and its own resources for the balance of US\$470 million.

Table 1: Summary of PLN’s Power System Expansion Program

Program Features	RUPTL (2015-2024)	RUPTL5-Year time slice (2015-2019)	Sumatra Subprogram (2015-2019)
Targets	ER=99.4% Base year: 84.3%	ER=97.4% Base year 2014: 84.3%	ER=90.0% Base year 2014: 84.6%
	Add Customers: 21,000,000	Add Customers: 13,793,000	Add customers: 2,850,000
Key Components	<u>Generation (70GW)</u> <ul style="list-style-type: none"> • PLN (21GW) • IPPs (36GW) • Unallocated (13 GW) 	<u>Generation (42 GW)</u> <ul style="list-style-type: none"> • PLN (18 GW) • IPP (25 GW) • Unallocated (1.3GW) 	<u>Generation (9.2 GW)</u> <ul style="list-style-type: none"> • PLN (5.5 GW) • IPP (3.7 GW)
	<u>Transmission(kms)</u> 500kV= 5,829 500kV DC=1,543 275kV= 8,371 150kV=40,413 70kV= 3,116 Transformer: 145,499 MVA	<u>Transmission (kms)</u> 500kV= 3,541 500kV DC=1,543 275kV=5,262 150kV=33,563 70kV=2,689 Transformer: 108,789 MVA	<u>Transmission (kms)</u> 500kV= 1,130 500kV DC= 1,243 275kV=5,082 150kV=11,240 70kV=611 Transformer: 32,406 MVA
	<u>Distribution</u> MV(in kms)=165,700 LV(in kms)= 138,400 Dist. Transformer = 43,400 MVA	<u>Distribution</u> MV(in kms)= 82,100 LV(in kms)= 68,100 Dist. Transformer = 20,800 MVA	<u>Distribution</u> MV(in kms)=18,200 LV(in kms)=19,300 Dist. Transformer= 2,600 MVA
Expenditure Estimates	<u>Generation (US\$97bn)</u> <ul style="list-style-type: none"> • PLN (US\$34 bn) • IPP (US\$63 bn) 	<u>Generation (US\$58.9bn)</u> <ul style="list-style-type: none"> • PLN (US\$18.8 bn) • IPP (US\$40.1 bn) 	<u>Generation (US\$13.04 bn)</u> <ul style="list-style-type: none"> • PLN (US\$ 4.4 bn) • IPP (US\$8.64 bn)
	<u>Transmission</u> US\$21 bn	<u>Transmission</u> US\$17.1 bn	<u>Transmission</u> US\$5.9 bn
	<u>Distribution</u> US\$14 bn	<u>Distribution</u> US\$7.4 bn	<u>Distribution</u> US\$1.45 bn
	<u>Total Expenditures:</u> US\$132 bn	<u>Total Expenditures:</u> US\$83.4bn	<u>Total Expenditures:</u> US\$20.38 bn (excluding IPP generation)

31. Institutional arrangements for implementation. The program will be administered by a central Project Management Office (PMO) located at PLN’s headquarters, but the physical implementation activities will be carried out by PLN’s regional offices called “Wilayahs” through Project Management Units (PMUs). The Wilayahs have been carrying out similar programs over the years and are experienced and capable of managing the distribution construction work envisaged under the program. Most material requirements will be requisitioned from approved suppliers under PLN’s Supply Chain Management (SCM) system and the balance of items will be procured locally by the Wilayahs. The construction works contracts will be procured by the Wilayahs. All implementation activities will be carried out by the respective contracts divisions within each Wilayah and overseen by the distribution systems manager under the Wilayah General Manager. The PMO supported by the Wilayahs will bear overall responsibility for the work program, quality and timeliness of the program works, and its satisfactory completion.

32. Program Results. Table 2 describes the results chain for each of the results areas. It suggests an indicative list of indicators on the basis of which disbursements of the Bank Loan will be made. These will be agreed upon with PLN during program preparation. As noted above the ADB is preparing a results-based project that will broadly cover the same program definition in terms of content and geography with that proposed for the PDDP. Based on the identification mission and discussions with both PLN and ADB the results areas and indicators are likely to be broadly the same which is an important achievement for the harmonization of development partner efforts. Initial indications are that all the indicators so far identified are already being measured and monitored by PLN. During program preparation the allocation of the Loan amount would be determined taking into account the relative importance of the different result areas and of indicators within each area as well as the allocation of the ADB Loan which is being processed for approval by the ADB board before the end of the year.

Table 2: The Results Chain

Result Area	Activities	Intermediate indicators/outputs	Outcomes	Preliminary DLI
RA 1: Improve access to electricity	Extension of 20kV distribution lines	Additional Length of distribution lines (increase in kms) Additional Capacity of distribution transformers (increase in MVA) Annual work plans (RKAP) Annual approved expenditure plans	Number of residential customers connected	Number of residential customers connected
RA 2: Improve quality of service	System reinforcement, Customer outage management	Additional Length of distribution lines (increase in kms) Additional Capacity of distribution transformers (increase in MVA) Annual work plans (RKAP) Annual approved expenditure plans	Reduction in SAIFI and SAIDI Improved voltage profile	Reduction in SAIFI and SAIDI Minimum system voltage experienced
RA 3: Improve distribution efficiency	Rehabilitation and upgrading of distribution lines and substations, improved metering	Annual work plans (RKAP) Annual approved expenditure plans	Reduction in distribution losses, GHG emissions reductions	Reduction in distribution losses
RA 4: Increase supply of electricity for local development	All above activities will contribute to this result area	Annual work plans (RKAP) Annual approved expenditure plans	Volume of additional energy sales (increase in TWh)	Volume of additional energy sales (increase in TWh)
RA 5: Improve institutional capacity	To be identified through assessments	To be identified through assessments	To be identified through assessments	To be identified through assessments

IV. Initial Environmental and Social Screening

33. PLN already has a set of procedures to comply with the environmental and social safeguards requirements of its projects, and it has a good track record of environmental compliance under Bank funded projects. The Wilayahs have been carrying out similar distribution programs over the years and are experienced in and capable of managing distribution construction envisaged under the project. The environmental impact of the proposed distribution activities is small and temporary i.e. during construction. The operation will most likely require an SPPL (a Project Proponent's Letter of Commitment for Environmental Management and Monitoring) or to the maximum extent a partial environmental assessment (UKL/UPL) as per the GOI's environmental regulations for such activities.

34. For social safeguards, the construction of distribution substations (area 2 m²) and switching substations (area 48 m²) will likely require the acquisition of small parcels of land. PLN

Wilayahs will buy the land from landowners on a willing buyer, willing seller basis. For the installation of poles, it is common practice in rural and urban areas for villages and communities in need of electricity to donate a small piece of land to PLN's Wilayahs. In most cases however, the poles will be installed along the right of way (ROW) of existing roads owned by the district/provincial government. However, based on a site visit, interviews and documentation, the Bank has identified some weaknesses in the practices related to the donation of land to PLN.

35. During program preparation, the Bank with support from PLN will carry out an environmental and social system assessment (ESSA) to gauge the environmental and social management systems applicable to the program which include among others, potential risks and impacts of the proposed program, compliance with environmental and social management regulations, harmonization with GOI's environmental and social risk management systems, and capacity for effective management in light of PLN's current performance. The Bank will consult with relevant stakeholders regarding the draft ESSA and disclose it in Infoshop and on PLN's website prior to appraisal.

36. During appraisal the Bank together with the GOI will finalize the ESSA and agree upon the necessary actions to improve project performance. Following appraisal, the final system assessment and agreed actions will be disclosed in Infoshop and on PLN's website. In parallel with ESSA preparation, the Bank will support PLN in preparing a program operations manual (POM), detailing the environmental and social safeguards procedures and compliance requirements. Socialization, training and assistance to Wilayahs on the implementation of the POM will also be provided.

V. Tentative Financing

Source:	(\$m.)
Borrower/Recipient	470
IBRD	500
IDA	
Others (ADB)	480
	1,450

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