Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 13-Oct-2021| Report No: PIDC28096

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Indonesia	P171353	Indonesia Infrastructure Finance Development Policy Loan (P171353)	
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
EAST ASIA AND PACIFIC	Mar 24, 2022	Infrastructure, PPP's & Guarantees	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Ministry of Finance	Coordinating Ministry of Economic Affairs		

Proposed Development Objective(s)

Support sustainable finance for infrastructure development and the energy transition in Indonesia

Financing (in US$, Millions)

SUMMARY

Total Financing	500.00

DETAILS

Total World Bank Group Financing	500.00
World Bank Lending	500.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. **Indonesia is the largest economy in Southeast Asia and aspires to become the 5th largest economy in the world by 2030, but it continues to face substantial challenges that limit human capital development and erode competitiveness.** With approximately 265 million people living in over 6,000 islands, the country has maintained macroeconomic and political stability over the last two decades. Indonesia's solid macroeconomic fundamentals have allowed for robust economic growth, averaging 5.0 percent per year over 2015-2019. Indonesia has also made significant

progress in poverty reduction and shared prosperity. In the period between 2006 and 2019, the proportion of the population living below the national poverty line almost halved, reaching a record low of 9.4 percent.

2. **The platform for President Jokowi's second term, as evidenced in the RPJMN 2020–2024, envisages an infrastructure strategy with a number of key reforms designed to increase private investment in infrastructure, including energy transition infrastructure.** This strategy includes a requirement to consider private and Public-Private Partnership (PPP) financing structures before resorting to SOE and public funding and encouraging the use of innovative financing structures such as blended finance, climate finance, and asset recycling.[1] The transition to new renewable energy sources is a key pillar of the RPJMN, not only to achieve the target of 23 percent renewable energy in the mix by 2030 but also looking ahead to secure new renewable energy sources to replace exiting supply from fossil fuel sources in the future.

Relationship to CPF

3. **Developing and financing sustainable infrastructure are featured prominently within the engagement areas of the Country Partnership Framework (CPF) 2021–2025.** The DPL contributes to achieving the objectives under two of the four CPF engagement areas: Improve Infrastructure (improving infrastructure provision and quality of service and transitioning to low carbon energy) and Strengthen Economic Competitiveness and Resilience (reducing barriers to trade and investment and increasing the efficiency, equity and effectiveness of public spending), and supports the cross-cutting theme of Climate Change deemed critical to supporting the sustainability of growth in an economy of increasing sophistication.

C. Proposed Development Objective(s)

Support sustainable financing for infrastructure development and the energy transition in Indonesia.

Key Results

4. **This operation will result in increased private investment mobilized for infrastructure and the energy transition, including through PPP and asset recycling**.

D. Concept Description

5. **The reforms to be advanced by this proposed IFDPL support sustainable[2] financing for infrastructure development and the energy transition in Indonesia.** The reforms to achieve this are set out in three pillars:

(a) **Pillar A: Creating opportunities for private investment in SOE assets.** This includes:

(i) Publicly listing SOE subsidiaries to attract private investment,

(ii) Leveraging private sector capital and efficiency gains by recycling existing SOE assets.

[1] 'Asset recycling' refers to the sale, lease, or concession of state-owned assets to the private sector to improve operational efficiency and release capital for further investment.
[2] "Sustainable financing" refers to the ability to maintain adequate financial capacity to meet investment needs over time.

(b) **Pillar B: Incentivizing private investment for energy transition infrastructure.** This includes:

(i) Incentivizing private investment in renewable energy through increased power purchase agreement (PPA) tariffs,

(ii) De-risking exploratory drilling for geothermal energy projects,

(iii) Pricing carbon to incentivize investment in infrastructure that achieves emissions reductions.

(c) **Pillar C: Strengthening fiscal sustainability of infrastructure sectors.** This includes:

(i) Strengthening the financial viability of the energy sector to improve the climate for private investment,

(ii) Increasing the financial sustainability of the national PPP program.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

6. **Overall, this DPL would result in positive social and poverty outcomes by improving Indonesia's ability to sustainably finance its infrastructure and energy transition agenda.** Many studies show that infrastructure development generates long-term social economic benefits, contributes to poverty reduction and sustainable development, and improves access to markets, jobs and public services. Indonesia-specific studies have found that infrastructure development, such as electricity, health and sanitation, would overall reduce the ratio of people under the poverty line.[3] However, there is a need to effectively plan, develop and maintain infrastructure services to ensure that they are accessible to the poor and marginalized groups. A poverty and social impact analysis (PSIA) will be conducted during preparation to maximize positive social and poverty outcomes and manage risks.

Environmental, Forests, and Other Natural Resource Aspects

7. **The reform actions under this DPL are expected to have overall positive impacts on the environment.** As indicated in the Environment and Poverty/Social Analysis Table in annex 4, five of the prior actions have potential positive effects on environmental quality and natural resources. None will have direct negative impacts. Asset recycling (Prior Action #2) will provide an opportunity for the new owner or operator of an asset to remedy any deficiencies in its environmental management. Incentivizing private investment in renewable energy (Prior Action #3), establishing a de-risking fund for geothermal exploration (Prior Action #4), and establishing a regime for carbon pricing and emissions reduction training (Prior Action #6) will together increase the share of electric power derived from renewal sources, thereby reducing or avoiding GHG emissions and environmental negative externalities and liabilities.

CONTACT POINT

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[3] Galih Pramonoa and Waris Marsisnoa (2018) Availability of Infrastructure for Poverty in Indonesia: Spatial Panel Data Analysis. Economics and Finance in Indonesia Vol. 64 No. 2, December 2018: 157–180

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APPROVAL

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