

**PROJECT INFORMATION DOCUMENT (PID)
ADDITIONAL FINANCING**

Report No.: PIDA91280

Project Name	Indonesia Infrastructure Finance Facility - Additional Financing (P154779)
Parent Project Name	Indonesia Infrastructure Finance Facility (P092218)
Region	EAST ASIA AND PACIFIC
Country	Indonesia
Lending Instrument	Investment Project Financing
Project ID	P154779
Parent Project ID	P092218
Borrower(s)	
Implementing Agency	PT. Indonesia Infrastructure Finance
Environmental Category	F-Financial Intermediary Assessment
Date PID Prepared/Updated	16-Nov-2016
Date PID Approved/Disclosed	23-Nov-2016
Estimated Date of Appraisal Completion	
Estimated Date of Board Approval	21-Feb-2017
Appraisal Review Decision (from Decision Note)	The review did authorize the team to appraise and negotiate
Other Decision	Project authorized to proceed to negotiations upon agreement on any pending conditions and/or assessments

I. Project Context

Country Context

Indonesia proved to be resilient during the 2008-09 global economic downturn, bouncing back at one of the fastest rates in the G-20, and the economy continues to build momentum. The overall positive economic outlook provides a robust foundation for stronger and more inclusive growth, provided that necessary reforms continue to take place. In the next two decades, Indonesia aspires to generate prosperity, avoid a middle-income trap, and diminish inequality as it attempts to catch up with high-income economies. Realizing these ambitious goals requires sustained high growth, job creation, and reduced inequality. How Indonesia's economy progresses will depend on a growth strategy that unleashes the economy's productivity potential, and consistent implementation of a few long-standing structural reforms to boost growth and share prosperity.

Country Partnership Framework (CPF). In end 2015, the World Bank Group renewed its partnership with Indonesia through the CPF for the period of FY2016-2020, which envisions analytical and lending support of over \$10 billion dollars from IBRD, IFC, and MIGA. The CPF is

aligned with the GOI's national medium term development plan, known as the RPJMN, of 2015-2019 and was developed through consultations with stakeholders, including civil society organizations, development partners and the private sector. The IIFF-AF is closely aligned with CPF filters of supporting the GOI priorities to build a more prosperous, equal and economically independent Indonesia, and eliminating extreme poverty and boosting shared prosperity. The IIFF-AF supports three engagement areas identified in the CPF: (i) national infrastructure programs that are essential for growth and improving the lives of Indonesians across the archipelago; (ii) the energy sector, in order to increase sustainable energy and connect millions of families to reliable electricity; and (iii) programs to build the maritime economy and improve connectivity.

Sectoral and institutional Context

An essential and critical element of Indonesia's structural transformation is closing the country's large infrastructure gap. Despite rising government spending in recent years, Indonesia's core infrastructure stock, such as road networks, ports, electricity, irrigation and water and sanitation services has not kept pace with economic growth and the infrastructure stock as a share of GDP has actually declined over the past decade. Indonesia has lost more than 1% of additional GDP growth due to under-investment in infrastructure. Reduced access to basic infrastructure has translated into road congestion, health issues stemming from poor water and sanitation, energy shortages, stunted business growth due to poor logistics and transportation.

It is estimated that the total financing gap for infrastructure is about \$50-60 billion a year. In 2014, the central government capital spending allocated was IDR 188 trillion (2% of GDP). The 2015 figure is reported at a significantly higher IDR 290 trillion but falls far short of the investment needs in Indonesia. While subnational governments have stepped up their investment recently to 1.5% of GDP, the spending remains insufficient and often misallocated. Overall, over the past decade, total government spending on, as well as private investment in, infrastructure has fallen in comparison with the 1990s.

However, there remains a shortage of long-term resources, both domestic and international, to appropriately finance infrastructure. While the government has announced recapitalization of SOEs to \$7 billion, it appears inadequate to bridge the infrastructure financing gap. On the demand side, Indonesia's infrastructure market needs sustainable long term capital - both long duration debt and additional sources of equity - to ensure that infrastructure projects are financially sustainable.

II. Proposed Development Objectives

A. Current Project Development Objectives – Parent

The objective of the Project is to strengthen and further develop the institutional framework of the financial sector to facilitate financing of commercially viable infrastructure projects and thereby increase provision of private infrastructure in Indonesia. Key performance indicators to judge PT. IIF's success include the following outcomes: (i) increase in the number of commercially viable infrastructure projects achieving financial closure through long-term debt financing, other financial products, and advisory services from the IIFF over the life of the project; (ii) Increase in the amount of private capital (including long-term debt and equity) available for infrastructure projects over the life of the project; (iii) Increased support to government's policy making in private provision of infrastructure through advisory services from IIFF; and (iv) Increase in privately financed infrastructure in Indonesia.

B. Proposed Project Development Objectives – Additional Financing (AF)

To strengthen the financial capacity of IIF to increase the access of private sector financing for infrastructure.

III. Project Description

Component Name

An investment loan by the Bank to be made available to IIF as subordinated debt to be used for eligible infrastructure

Comments (optional)

The Bank's lending instrument for the parent IIFF project is a Financial Intermediary Loan (FIL). The World Bank OP 8.30 has been retired as of July 2014, and FIL-structures are now processed under the new OP 10.0 on Investment Project Financing (IPF). Accordingly, the World Bank provides an investment loan to the Republic of Indonesia as the Borrower. The Borrower provides these funds to IIF as the sole participating financial intermediary, through SMI. IIF in turn, uses these funds to provide predominantly long-term loans, equity investment and other financial products as well as advisory services for infrastructure development.

The project design remains unchanged. Lessons learned from the implementation of the parent IIFF project warrants the continuation of the design of the project.

IV. Financing (in USD Million)

Total Project Cost:	200.00	Total Bank Financing:	200.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			0.00
International Bank for Reconstruction and Development			200.00
Total			200.00

V. Implementation

VI. Safeguard Policies (including public consultation)

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

Comments (optional)

VII. Contact point

World Bank

Contact: Christopher Juan Costain
Title: Lead Financial Sector Speciali
Tel: 1-202-473-94
Email: jcostain@worldbank.org

Contact: Kalpana Seethepalli
Title: Senior Financial Sector Econom
Tel: 5720+71251 /
Email: kseethepalli@worldbank.org

Borrower/Client/Recipient

Name:
Contact:
Title:
Tel:
Email:

Implementing Agencies

Name: PT. Indonesia Infrastructure Finance
Contact: Nur Hydiawati Rahayu
Title: Head of Center for Planners Development, Education & Training
Tel: 31928280
Email: pusbindiklatren@bappenas.go.id

VIII. For more information contact:

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>