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Project Document
of the Asian Infrastructure Investment Bank

The Republic of Indonesia
Mandalika Urban and Tourism Infrastructure Project

Currency Equivalents
(Exchange Rate Effective Aug. 8, 2018)

Currency Unit – Indonesian Rupiah (IDR)
USD1.0 = IDR14,500

Fiscal Year
Jan. 1 – Dec. 31

Abbreviations

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
BAPPEDA	*Badan Perencanaan Pembangunan Daerah* (Regional Development Planning Agency)
BNPB	*Badan Nasional Penanggulangan Bencana* (National Agency for Disaster Management)
BPN	*Badan Pertanahan Nasional* (National Land Agency)
BPS	*Badan Pusat Statistik* (Central Agency on Statistics)
BTDC	Bali Tourism Development Corporation
BWS	*Balai Wilayah Sungai* (River Basin Office)
CMC	Construction Management Consultant
DED	Detailed Engineering Design
DRM	Disaster Risk Management
EIRR	Economic Internal Rate of Return
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
ESP	Environmental and Social Policy
EWS	Early Warning System
FIRR	Financial Internal Rate of Return
FM	Financial Management
GDP	gross domestic product
GoI	Government of Indonesia
GWT	Ground Water Tank
HPL	*Hak Pengelolaan* (Land Management Right)
IPDP	Indigenous Peoples Development Plan
ITDC	Indonesia Tourism Development Corporation
ITMP	Integrated Tourism Master Plans
LTDC	Lombok Tourism Development Corporation
LUDA	Land Utilization and Development Agreement
MICE	Meetings, Incentives, Conferencing, Exhibitions
MPC	Main Panel Control
MoPWH	Ministry of Public Works and Housing
MoSOE	Ministry of State-Owned Enterprises
NPV	Net Present Value
NTB	*Provinsi Nusa Tenggara Barat* (West Nusa Tenggara Province)

PDAM	*Perusahaan Daerah Air Minum* (Regional Water Supply Company)
PDS	Project Delivery Strategy
PLN	*Perusahaan Listrik Negara* (National Power Company)
PMC	Project Management Consultant
PMU	Project Management Unit
PPNPPI	*Program Prioritas Nasional Pembangunan Parawisata Indonesia* (Indonesia Tourism Development Priority Program)
PV	Photovoltaic
ROW	Right of Way
RPF	Resettlement Planning Framework
RPJMN	*Rencana Pembangunan Jangka Menengah Nasional* (Medium-Term Development Plan)
SEZ	Special Economic Zone
SLS	Sewage Lift Station
SOE	State-Owned Enterprise
SWRO	Sea Water Reverse Osmosis
SWM	Solid Waste Management
TA	Technical Assistance
ToR	Terms of Reference
TES	Temporary Evacuation Shelter
UNWTO	United Nations World Tourism Organization
WACC	Weighted Average Cost of Capital
WB	World Bank
WEF	World Economic Forum
WTTC	World Travel and Tourism Council
WWTP	Waste Water Treatment Plant

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1. Project Summary Sheet

Indonesia: Mandalika Urban and Tourism Infrastructure Project

Project No.	000069
Client Guarantor Borrower Implementation Agency	 Republic of Indonesia PT Pengembangan Pariwisata Indonesia (Persero) / Indonesia Tourism Development Corporation (ITDC) ITDC
Sector(s) Subsector(s)	Multisectoral infrastructure
Project Objectives / Brief Project Description	The objective of the proposed project is to provide sustainable core infrastructure for the development of a new tourism destination in the Mandalika region of Lombok. The Project consists of two components. Component 1: Provision of Basic Services and Infrastructure. This supports construction and improvement of road infrastructure and drainage, water supply, waste water management and sanitation, solid waste management, electricity distribution, disaster risk management, landscaping and community facilities. Component 2: Technical Assistance and Capacity Building. This provides support to project and construction management, institutional development, training, sector studies and destination management.
Project Implementation Period	Indicative Start Date: March 1, 2019 Indicative End Date: March 31, 2024
Expected Loan Closing Date	September 30, 2024
Project cost and Financing Plan	Project Cost: USD316.5 million Financing Plan (i) Asian Infrastructure Investment Bank (AIIB) Loan: USD248.4 million (78.5 percent) (ii) Government of Indonesia / ITDC: USD68.1 million (21.5 percent)
AIIB Loan (Size and Terms)	USD248.4 million A sovereign-backed loan with the loan tenor up to 35 years, and a grace period of 10 years, at AIIB's standard interest rate for sovereign-backed loans.
Cofinancing	No
Environmental and Social Category	Category A

Project Risk (Low/Medium/High)	High
Conditions for Effectiveness and Disbursement (if any)	For Effectiveness, ITDC shall prepare and adopt an acceptable project operational manual. For Disbursement, ITDC shall: (i) Procure or acquire the land required for the construction of proposed infrastructure under the Project (Sub-component 1.1) in a manner acceptable to AIIB. (ii) Have entered into a contractual agreement for the design, construction, and operation of sea water reverse osmosis (SWRO) plants with selected operator(s), satisfactory to AIIB (for Sub-component 1.1 - for disbursement related to the construction of pipeline for potable waters, etc.). (iii) engage consultants, satisfactory to AIIB, for project management and construction supervision.
Key Covenants	ITDC shall: (i) Maintain, until the completion of the Project, a Project Management Unit (PMU) with terms of reference, functions and resources acceptable to AIIB. (ii) Ensure that the implementation of all project activities comply with AIIB's Environmental and Social Policy and Standards, Prohibited Practices Policy, Procurement Policy and the Procurement Directive. (iii) Carry out all project activities in accordance with the environmental and social safeguard instruments acceptable to AIIB, including the Environmental and Social Management Plan (ESMP), to Resettlement Planning Framework (RPF) and to Indigenous Peoples Development Plan (IPDP). (iv) Monitor and evaluate the progress of the Project and prepare project progress reports, which cover the period of one calendar year and shall be submitted to AIIB within 45 days after the end of the period covered by such report. (v) Prepare and furnish to AIIB interim unaudited financial reports for the Project covering the preceding quarter, in form and substance satisfactory to AIIB no later than 45 days after the end of each calendar quarter.

	(vi) Have its financial statements audited by independent auditors acceptable to AIIB. Each such audit shall cover one fiscal year of ITDC and be submitted to AIIB no later than six months after the end of the period. (vii) maintain, commencing March 31, 2019, and until the full payment of the Loan, a ratio of (i) the net revenues of ITDC for the 12 months preceding the date of calculation to (ii) the debt service requirements of ITDC for the same period on all debt, not less than 1.1. (viii) Submit a project completion report within six months of physical completion of the Project.
Policy Assurance	The Vice President, Policy and Strategy, confirms an overall assurance that the Bank is in compliance with the policies applicable to the project.
President	Jin Liqun
Vice President, CIO	D.J. Pandian
Director General, Investment Operations	Supee Teravaninthorn
Project Team Leader	Sangmoo Kim, Investment Operations Specialist
Project Team Members	Chongwu Sun, Senior Environmental Specialist David Ginting, Young Professional Geoffrey Read, Senior Urban Development Consultant Giacomo Ottolini, Senior Procurement Specialist Gregor Herda, Young Professional Jan Agerholm Høybye, Senior Investment Operations Specialist Kishor Uprety, Senior Counsel Michaela Sara Bergman, Principal Social Development Specialist Pajnapa Peamsilpakulchorn, Infrastructure Sector Economist Wu Ning, Senior Financial Management Consultant Yan Li, Senior Financial Consultant Youxuan Zhu, Senior Social Development Consultant Yongxi Liu, Project Assistant Xuemei Yang, Project Assistant

2. Strategic Context

A. Country Context

1. The Republic of Indonesia is the most populous country in the Association of South East Asian Nations (ASEAN) region, with a population of 261 million. With a Gross Domestic Product (GDP) of USD932 billion, it is also ASEAN' biggest economy.[1] Indonesia is the world's largest archipelago, consisting of more than 17,000 islands with a total land area of about 190 million hectares (ha). Indonesia shares land borders with Papua New Guinea, Timor-Leste and Malaysia, and maritime borders with Singapore, the Philippines and Australia. Over half of the country's population lives in the Java-Bali region, while the rest is spread across Sumatra, Sulawesi, Kalimantan, Nusa Tenggara and Maluku, Papua and other smaller inhabited islands. Economic activity is also mostly focused in the Java-Bali region. The country's island geography makes transportation and service provision challenging in outlying provinces.

2. Enabled by political stability, an educated workforce and technological advancements, the Indonesian economy has achieved impressive growth since the Asian financial crisis with the gross national income per capita rising from USD2,200 in 2000 to USD3,603 in 2016, with an average annual GDP growth of 5.6 percent. While this sustained economic growth has helped in lowering poverty levels and improving the performance of social sectors, infrastructure investments have declined as a percentage of GDP.[2] In addition, the gains from economic growth have not been distributed evenly with a large percentage of the population still living close to the poverty line.

3. Furthermore, as the external tailwinds of commodity prices and demand and global financing conditions have turned to headwinds since 2012, growth and job creation have slowed, exposing Indonesia's dependence on natural resources for export and investment. The end of the commodity market growth provides a unique opportunity for Indonesia to diversify its economy through judicious investments to support growth in non-commodity sectors.

B. Sectoral and Institutional Context

4. **The tourism industry serves as a major contributor to GDP, job creation, tax revenues and an important source of foreign exchange earnings.** Tourism, if properly managed, is increasingly recognized by governments and development partners for its potential to promote sustainable economic growth.[3] Worldwide, the tourism industry is projected to grow by four percent per annum over the next decade

[1] World Bank database (assessed on Feb. 15, 2018). In terms of GDP (PPP, current international dollar) in 2016, Indonesia is the largest economy in Southeast Asia and the 8th largest in the world (USD3.03 trillion), which is bigger than the United Kingdom (9th) and smaller than Brazil (7th).

[2] World Bank, Indonesia Economic Quarterly. Current challenges, future potential, June 2011, pp. 28.

[3] Tourism can have strong backward and forward linkages with other sectors of the economy as well as large employment and income multipliers.

(2017-2027), outpacing global economic growth.[4] Destinations in Southeast Asia have been key beneficiaries of this robust demand, receiving 112 million international visitors in 2016 (nine percent of total global international visitor flows), with further expected growth of nine percent in 2017.[5] In Indonesia, the travel and tourism sector is one of the major economic drivers, currently contributing six percent to the country's exports, 6.2 percent to GDP and 5.6 percent to total employment.

5. **Indonesia has a strong comparative advantage in tourism to accelerate growth and job creation, given its rich tourism resources.** The archipelago of Indonesia is endowed with a vast array of cultural and natural resources, harboring a huge untapped potential for developing the tourism industry. In particular, Indonesia is home to one of the most biodiverse habitats in the world that form the underlying draw for visitors. Although tourism is an important growth sector of the country, given its tangible and intangible cultural, natural, and archaeological assets, the tourism sector is not living up to its full potential. Indonesia currently ranks 42nd overall on the World Economic Forum (WEF)'s Travel and Tourism Competitiveness Index (Table 1), behind regional competitors such as Thailand, Malaysia and Singapore.

Table 1: Indonesia's Tourism Competitiveness (Overall rank: 42nd out of 136)

Tourism Competitiveness Index	2017	Tourism Competitiveness Index	2017
Enabling environment		T&T policy and enabling conditions	
Business environment	60	Prioritization of travel and tourism	12
Safety and security	91	International openness	17
Health and hygiene	108	Price competitiveness	5
Human resources and labor market	64	Environmental sustainability	131
Infrastructure		Natural and cultural resources	
Air transport infrastructure	36	Natural resources	14
Ground and port infrastructure	69	Cultural resources and business travel	23
Tourist service infrastructure	96		

Source: WEF's Travel and Tourism Competitiveness Report 2017.

6. **Despite its rich tourism resources, poor access and quality of infrastructure and services prevents Indonesia from realizing its full tourism potential.** Basic infrastructure and services such as roads, water supply, sanitation and solid waste management are inadequate to meet residents' needs and growing tourism demands, failing to provide safe and attractive environments for residents and visitors alike. Poor, and lack of, infrastructure can undermine the overall attractiveness and sustainability of the tourism destinations or attract travelers with low expenditure levels. Indonesia could better leverage its comparative advantage in the tourism industry by providing tourism-related infrastructure in priority tourism destinations, while effectively preserving cultural and natural tourism assets. This would also unlock untapped private sector investments by strengthening its economic competitiveness.

[4] World Travel and Tourism Council (WTTC) 2017. Travel & Tourism Economic Impact 2017: World.

[5] United Nations World Tourism Organization (UNWTO) 2017. World Tourism Barometer. Volume 15, Advance Release January 2017.

7. **Indonesia's tourism growth has been spatially imbalanced, and increasingly concentrated in Bali.** Over the next decade, Bali's growth is expected to continue at rates higher than national growth, increasing regional economic growth disparities. In 2016, Bali received more than 40 percent of all foreign tourist arrivals to the country, with Jakarta and Batam a distant second and third, and the remainder thinly spread across the rest of the archipelago.[6] Unlocking the country's full tourism potential requires tourism development in other subnational destinations beyond Bali. International experience shows that countries that have turned tourism into an important source of growth have developed multiple destinations.

8. **The Government of Indonesia (GoI) has prioritized tourism as an important growth sector.** The National Medium-term Development Plan (or *Rencana Pembangunan Jangka Menengah Nasional,* RPJMN) for 2015-2019 designated tourism as one of four sectoral development priorities and is investing about nine percent of its budget in the sector. Along with RRJMN, the GoI launched the Indonesia Tourism Development Priority Program (or *Program Prioritas Nasional Pembangunan Parawisata Indonesia,* PPNPPI)[7] to accelerate the development of 10 priority tourism destinations—including the area of Mandalika in the island of Lombok.

9. **Given Indonesia's growth agenda and the tourism potential in Lombok, the Mandalika development has been identified as an important lever to that effect.** While Lombok is becoming increasingly popular with foreign and domestic visitors, this growth has not been accompanied by comparative increases in accommodation and tourism-related infrastructure. A number of hotels and tourism facilities have been built in coastal locations. However, this development has been largely unplanned and haphazard. The Mandalika project site[8] is strategically located on the south coast of Lombok island in Central Lombok Regency, with good access from the Lombok International Airport.[9] The Project site and surrounding communities benefit from a large variety of natural and cultural assets, which are both vital for the

[6] World Bank 2017. Technical Assessment Report, Indonesia: Tourism Development Project.

[7] Guided by GoI's RPJMN for 2015-2019, the PPNPPI aims to increase foreign (from nine million in 2014 to 20 million in 2019) and domestic visitors and related foreign exchange earnings (IDR120 trillion in 2014, targeting IDR240 trillion in 2019), employment (11 million in 2014, targeting 13 million in 2019), contribution to GDP (four percent in 2014, targeting eight percent in 2019) as well as tourism competitiveness (targeting 30th in 2019). It includes a wider range of expenditures related to tourism development, including for international and national marketing, immigration and visas, and security. The Book III of RPJMN specifically states the contributing role of tourism in Nusa Tenggara region to national benefit.

[8] About 1,164 ha of Mandalika area is under the Indonesia Tourism Development Corporation (ITDC)'s land management rights (or HPL = *Hak Pengelolaan*) and the remaining is under individual property rights. Of 1,164 ha land areas controlled by ITDC, about 1,077 ha or 92 percent of total land areas is considered as clean and clear (undisputed), while the remaining area is litigated or claimed by individuals; project-financed investments and related infrastructure services will not be implemented or delayed on this account.

[9] Lombok International Airport is 16 km (or a 20-minute drive) from the Mandalika site. Currently the construction of its expansion is underway. With roughly one million visitor arrivals per year, it offers domestic and international connections which are expected to increase along with its expansion.

success of the Project and will be affected by its impacts.[10] Its location adjacent to Bali island, the established tourism destination, will make Lombok island the beneficiary of continuing spillover tourism business. The Mandalika development has also implications for poverty alleviation as the Province of West Nusa Tenggara (or *Nusa Tenggara Barat province*, NTB), where the project site is located, suffers from more severe poverty[11] compared to other provinces.

10. **The GoI has, therefore, designated Mandalika as a priority tourism destination and has laid the initial groundwork for its development.** Specifically, GoI had initiated and completed the following: (i) designated Mandalika as a Special Economic Zone (SEZ) and the proposed project as a National Strategic Project (or *Proyek Strategis Nasional*);[12] (ii) renamed the previous Bali Tourism Development Corporation (BTDC) to the Indonesia Tourism Development Corporation (ITDC) or PT Pengembangan Pariwisata Indonesia (Persero), while expanding its mandate to also cover the planning and development of Mandalika; (iii) prepared an integrated Mandalika Masterplan, that guides future tourism development to concentrate at Mandalika, and an Environmental Impact Assessment (EIA);[13] (iv) acquired most of the required land around the Mandalika area;[14] (v) commenced construction of roads and community facilities in the western part of the Mandalika site and (vi) planned regional infrastructure investments such as a bypass road connecting the airport and the Mandalika site, expansion of the Lombok international airport and related infrastructure improvements.

11. ITDC, previously known as BTDC, is a 100-percent state-owned enterprise (SOE). Established in 1972, it started its commercial operation in 1982, with an initial geographical focus on Nusa Dua, Bali. Pursuant to Government Regulation No. 55 of 2008 and No. 33 of 2009, it acquired the rights to manage the Mandalika SEZ in Lombok. BTDC was converted into ITDC in 2014, with an authorized capital of IDR1 trillion. Currently, it operates two business units: (i) Nusa Dua, Bali and (ii) Mandalika, Lombok. ITDC is responsible for: (i) planning the designation and use of land for tourism purposes in Nusa Dua and Mandalika Lombok Tourism Area; (ii) handling and leasing the land to third parties to build tourism facilities, hotels, villas as well as other supporting facilities and planning and (iii) constructing and developing infrastructure services and other public facilities. It is also legally authorized to borrow funds directly from international financial institutions (IFIs).

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[10] See *Environmental and Social Impact Assessment*, Chapter 5 "Environmental and Social Impact Assessment and Mitigation Measures."

[11] In 2017, the province's Poverty Severity Index (PSI) stood at 0.85, compared to 0.16 in Bali. The Central Bank of Indonesia also notes the geographically concentrated nature of economic benefits arising from tourism at the subprovincial level, with Bali's Badung Regency, where most tourism activity in the province is located, scoring a PSI of 0.05 while Jembrana Regency stands at 0.19. Central Lombok, the project site's relevant regency, scores a PSI of 0.75.

[12] Presidential Regulation No. 3 of 2016.

[13] EIA (or *Analisis Mengenai Dampak Lingkungan*) was updated in December 2017 based on the updated Mandalika Masterplan.

[14] ITDC obtained plots of land, located in Kuta, Sengkol, Sukadana, and Mertak villages, Central Lombok Regency, NTB Province, with a total area of 1,164 ha through: (i) transferal from the GoI to ITDC as state capital injection based on the Government Regulations No.55 of 1993 and No.44 of 1998 and (ii) land purchase.

3. The Project

A. Rationale

12. **The Project will contribute to AIIB's goal of "*fostering sustainable economic development by investing in infrastructure*"** and meets the bank's key strategic investment priorities[15] particularly related to sustainable infrastructure and mobilizing private capital, through the following:

- ***A catalytic investment for growth.*** The anticipated increase in tourist arrivals, length of stay of tourists, and tourist expenditure because of the project intervention will help Indonesia increase its foreign exchange earnings, generate additional jobs, and improve total economic output. The improved amenities and infrastructure in Mandalika and surrounding areas have the potential to enhance not only the experience of tourists but also improve the living conditions of nearby communities. 80 percent of tourists spending stays in the Indonesian economy,[16] and generates strong subsequent multiplier impacts through direct, indirect, and induced effects.

- ***Promoting balanced regional development.*** By geographically targeting one of the poorest parts of the country[17] and supporting a sector which is inherently labor-intensive, has generally low entry barriers, and employs a high share of women, the Project has implications for spatial and gender equity. The Project would distribute the benefits of tourism more evenly between Bali and Lombok as well as between the more frequented western part of Lombok and Southern Lombok. In the longer term, the Project is expected to demonstrate a tourism development model throughout Indonesia which can function as a driver for sustainable and inclusive growth. Without such strategic focus on destinations in poorer regions and the public investment to kick-start their tourism sectors, many of these regions would be unlikely to develop organically. This would help the GoI reach its goal of promoting equity across regions and reduce poverty in some of its poorest provinces.

- ***Reducing infrastructure constraints to mobilize private capital.*** Given that Mandalika has been identified as one of the key areas for national tourism development, the Project provides an opportunity to shape a potentially catalytic investment in Lombok. For this to occur, however, core infrastructure is required in order to attract private investments in the tourism sector and enable the destination to create additional visitor demand. Such "foundational" infrastructure

[15] Three priorities for AIIB's investments are: (i) sustainable infrastructure (ii) cross-border connectivity and (iii) private capital mobilization for infrastructure.

[16] Estimated using tourism sector input-output tables, drawn from the tourism satellite account produced by Central Agency on Statistics (*or Badan Pusat Statistik,* BPS) and the Ministry of Tourism.

[17] In 2010, NTB Province had the sixth highest poverty rate of Indonesia's 33 provinces. With nearly one million of its 4.5 million people living below the poverty line, NTB's poverty rate of 22 percent was nearly double the national rate of 13 percent.

is generally not suitable for private sector financing. The project intervention could subsequently enable mobilization of some USD2.8 billion of private capital over the coming three decades.[18] In addition, private sector investments into tourism facilities on Lombok has hitherto been largely haphazard and unplanned. The Project would allow a large part of tourist facilities to be concentrated in a managed way at a contained and contiguous site.

13. **The Project is well-aligned with national priorities and can bring synergies with parallel initiatives supporting the tourism sector.** The proposed project is fully consistent with and supportive of the GoI's national tourism development priorities as defined in the RPJMN and PPNPPI. In addition, the GoI has been moving towards consolidating support for tourism development provided by its international development partners. The Indonesia Tourism Development Project (ITDP) for 2018-2023,[19] financed by the World Bank (WB) and the Swiss State Secretariat for Economic Affairs (SECO), is under implementation with the aim of supporting three priority tourism destinations based on Integrated Tourism Master Plans (ITMP),[20] including for Lombok and improving basic infrastructure in the existing settlements. In this context, the GoI has requested[21] AIIB's support to develop a new tourism estate in Mandalika as an integral part of this coordinated effort.

14. ***Value addition to the client.*** Increased visitor spending would generate significant economic gains in wider Lombok and the province. This, however, would depend, to a large extent, on project design. Since the development is placed in the mid to upper market segment, this could significantly limit the economic benefits accruing to the local economy other than "*first-round*" providers of goods and services. AIIB's participation would add value to the client by optimizing the design to maximize economic and social interlinkages and, by influencing local planning, promote sustainable development in the immediate locality.

15. In addition, between 2013 and 2015, Indonesia's WEF competitiveness ranking on natural resources and environmental sustainability has declined sharply, reflecting situations such as in Bali, where beaches are becoming overcrowded and marine and

[18] This estimate is based on projected LUDA signing dates and associated number of rooms completed as well as per-room capex industry benchmarks.

[19] ITDP is designed to improve the quality of, and access to, tourism-relevant basic infrastructure and services, strengthen local economy linkages to tourism, and attract private investment in selected tourism destinations in Indonesia, i.e., Lombok, Borobudur-Yogyakarta-Prambanan and Lake Toba. ITDP comprises four components: (i) increase institutional capacity to facilitate sustainable tourism development, (ii) improve tourism-relevant road quality and basic services accessibility, (iii) promote local participation in the tourism economy and (iv) enhance the enabling environment for private investment and business entry in tourism.

[20] ITMP will consist of an overall development plan for the entire Lombok island (with a planning horizon of 25 years) and detailed development plans (with a planning horizon of five years) for existing and selected future key tourism areas within the island. The plan is currently under preparation and will guide development of tourism facilities and supporting infrastructure at the regional level.

[21] Through its letter dated Feb. 27, 2018 ("Financing Proposal for Infrastructure Development Project in Mandalika, Lombok—West Nusa Tenggara, Indonesia").

coastal ecosystems burdened with waste. Private actors who are operating in such destinations will tend not to internalize the social costs of growth leading to the degradation of natural and cultural assets. For this reason, there is a clear need for the government to invest in environmental preservation, putting in place mechanisms to forestall such asset degradation. AIIB's involvement would help ensure that this investment is taking place.[22]

16. ***Value addition to AIIB.*** As the bank's first standalone operation in Indonesia, the Project will strengthen AIIB's partnership with the GoI and demonstrate the bank as a reliable partner for Indonesia. The Project is also AIIB's first tourism-related infrastructure project. It will help open up a new and potentially important business line with many future opportunities in the bank's member countries. By providing financial support and technical inputs at different stages of project preparation and implementation, AIIB will make a major contribution to materializing a project concept which is recognized by the GoI as a national priority and which will facilitate the development of tourism. It will help establish the AIIB's reputation to the GoI and other banks' member countries in the field of infrastructure development support for sustainable tourism.

B. Objective

17. **The objective of the proposed Project is to provide sustainable core infrastructure for the development of a new tourism destination in the Mandalika region of Lombok.** Essential environmentally responsive and tourism-related infrastructure will be provided on some 1,200 ha of land which has been largely acquired by the GoI. Serviced land will be leased to private investors to construct and manage retail facilities, accommodation, and other tourist facilities to an internationally acceptable standard. In addition, the Project includes improvements to essential infrastructure and services for adjacent communities that will serve both visitors and residents. The Project will also aim to protect and enhance the unique cultural life and scenic attractions of the project area which are its major tourism assets.

18. While the Project will focus on the Mandalika SEZ as the entry point, it is expected to benefit a wider set of communities in Lombok and support sustainable development and poverty reduction in the island. It has been designed to also mobilize private capital and increase the number of foreign and domestic tourists to Lombok, thereby boosting foreign exchange earnings, local employment, and contributing to Indonesia's tourism competitiveness.

19. **Results Indicators.** Progress toward the project objective will be measured by the following key results indicators: (i) private capital mobilized for Mandalika tourism development, (ii) number of tourists with overnight stays and (iii) number of local residents (women and men) employed in tourism. The Project's outputs will be measured by physical progress of infrastructure output and utility services in Mandalika.

[22] This will be ensured through low-impact infrastructure solutions, sub-components 2.3 and 2.4, and the project's Environmental and Social Management Plan.

A detailed results framework containing result indicators and monitoring and reporting arrangements is attached in Annex 1.

20. ***Lessons learned.*** The project design incorporates lessons learned from relevant tourism infrastructure projects in Indonesia and elsewhere, as well as an extensive literature review. These include: (i) setting up coordination arrangements among a wide range of public agencies, private investors and project-affected people for project implementation, management and monitoring; (ii) ensuring that sustainable destination management is provided with sufficient long-term resources; (iii) understanding land legacy issues and anticipating adequate responses early on through a detailed resettlement planning framework; (iv) obtaining early investment assurances from private investors to ensure the financial viability of the Project in its initial phase; (v) maximizing benefits for local communities by, for instance, integrating local businesses into hotel supply chains, investing into hospitality skills and improving access to basic infrastructure; (vi) not overlooking the considerable demands on infrastructure not only by hotels and facilities themselves but also by employees and dependent businesses and (vii) ensuring the readiness of procurement packages at project effectiveness. Detailed lessons learned for the project design are included in Annex 2.

C. Project Description and Components

21. According to the Mandalika Masterplan,[23] the development of the Mandalika tourism destination is to be carried out over a 30-year period between 2016-2045.[24] In order to lay a foundation for further development of the Mandalika site, key infrastructure is proposed to be developed in two phases: Phase-I (2019-2023) and Phase-II (2024-2026). This project will focus on Phase-I. Subsequently, AIIB's financing for Phase-II would be considered if implementation progress of Phase-I is satisfactory.

22. **Component 1: Provision of basic services and infrastructure** would include new construction, rehabilitation, and reconstruction of infrastructure in Mandalika as well as in selected surrounding communities.

- ***Sub-component 1.1. Construction of core infrastructure in Mandalika.*** This would provide essential infrastructure in the Mandalika SEZ for Phase-I, including

[23] The first visioning masterplan for Mandalika was developed in 2012, followed by a detailed masterplan in 2015. In 2017, DEDs and architectural design as well landscape design guidelines, with some significant changes to the 2015 plan, were prepared by several other consultants. The Masterplan defines the site's overall vision and branding, its preferred land uses, different neighborhood or "zonal" characteristics, an integrated infrastructure plan for the site and its integration with the public road and utility network of the area. The plan also defines mandatory building regulations to be followed by leaseholders.

[24] During 2016-2018, extensive land development, some road construction, a beach promenade and tourist facilities, as well as the construction of a mosque have already been self-financed through an equity injection by GoI (USD53.74 million).

internal roads, streets, landscaping, and drainage; water supply, sanitation, sewerage and wastewater treatment; solid waste management; electricity distribution; disaster risk management facilities; public facilities and public open space.[25] The phasing of infrastructure implementation would be based on the location of already leased out or in-demand lots, thereby facilitating optimal take up by investors, and the efficient integration of site infrastructure into the adjacent public utility network. Accommodation, retail, and other tourist facilities will be financed by private investors through long-term lease arrangements, under Land Utilization and Development Agreements (LUDAs).

- ***Sub-component 1.2. Infrastructure improvements to neighboring communities.*** This sub-component would support infrastructure improvements for adjacent villages, including water supply and sanitation, drainage, solid waste management, transport, disaster risk reduction facilities, protection of natural and marine assets, and community facilities. This would ensure that an equitable share of the benefits of the Project reaches local communities, while helping to mitigate possible negative externalities from an increased volume of tourists and associated businesses.

23. **Component 2: Implementation Support and Capacity Building,** to complement Component 1, would provide Technical Assistance (TA) to increase the capacity of the ITDC in carrying out project activities to a high standard. TA activities include: (i) project management support, [26] including procurement, financial management, monitoring and evaluation, environmental and social safeguards, and stakeholders' collaboration at the destination-level; (ii) construction management support, including final review of engineering drawings, construction oversight, quality assurance and supervision works, contract management, and handover of works from contractors to ITDC; (iii) training and skills development for selected nearby villages to maximize economic and social benefits for local communities and (iv) destination management and monitoring including developing monitoring tools for the destination and extended areas, including the coastal environment and conducting preparatory studies for Phase-II and future tourism destinations. A detailed project description can be found in Annex 3.

D. Cost and Financing

24. The total project cost (designated Phase-I, 2019-2023) is estimated to be USD316.5 million, which will be financed by a sovereign-backed loan from AIIB and counterpart funds to be provided by GoI/ITDC. The ITDC will meet any cost overruns. The cost estimates of the Project and financing sources are summarized in Table 2.

[25] Additional infrastructure including Seawater Reverse Osmosis (SWRO) plants and a solar PV power plant will be provided, financed and operated under a joint venture between the public and private investors.

[26] It will include works design and supervision, monitoring, and reporting for Sub-component 1.2.

Table 2: Project Cost and Financing Sources—Phase I[27] (in USD millions)

Project Components	Cost Amount	Financing source			
		AIIB		*GoI/ITDC*	
		Amount	%	Amount	%
Component 1: Provision of core services and infrastructure	169.30	169.30	100	0.00	0
1.1 Construction of core infrastructure in Mandalika	164.30	164.30	100	0.00	0
1.2 Infrastructure improvements for neighboring communities	5.00	5.00	100	0.00	0
Component 2: Implementation support and capacity building	15.40	14.40	93.5	1.00	6.5
2.1 Project management support	8.47	8.47	100	0.00	0
2.2 Construction management	4.93	4.93	100	0.00	0
2.3 Establishing economic linkages	1.00	0.00	0	1.00	100
2.4 Destination management and monitoring	1.00	1.00	100	0.00	0
Land Cost	67.11	0	0	67.11	100
Base Cost	251.81	183.70	72.9	68.11	27.1
Contingencies (Physical and Price)	41.36	41.36	100	0	0
Front-end Fee	0.62	0.62	100	0	0
Interest and Commitment Fee during Construction*	22.72	22.72	100	0	0
Total Project Cost	**316.5**	**248.4**	**78.5**	**68.1**	**21.5**

Note: Interest and commitment fee on the proceeds of the bank loan, accruing during the construction will be capitalized. Exchange rate used is IDR14,500=USD1.

E. Implementation Arrangement

25. The Project would be implemented in five years between March 1, 2019 and March 31, 2024. The loan closing date would be Sep. 30, 2024. Details of implementation arrangements can be found in Annex 4 and are summarized below.

26. **Project Implementation.** The Borrower, Indonesia Tourism Development Corporation (ITDC),[28] would be responsible for implementation of the proposed project

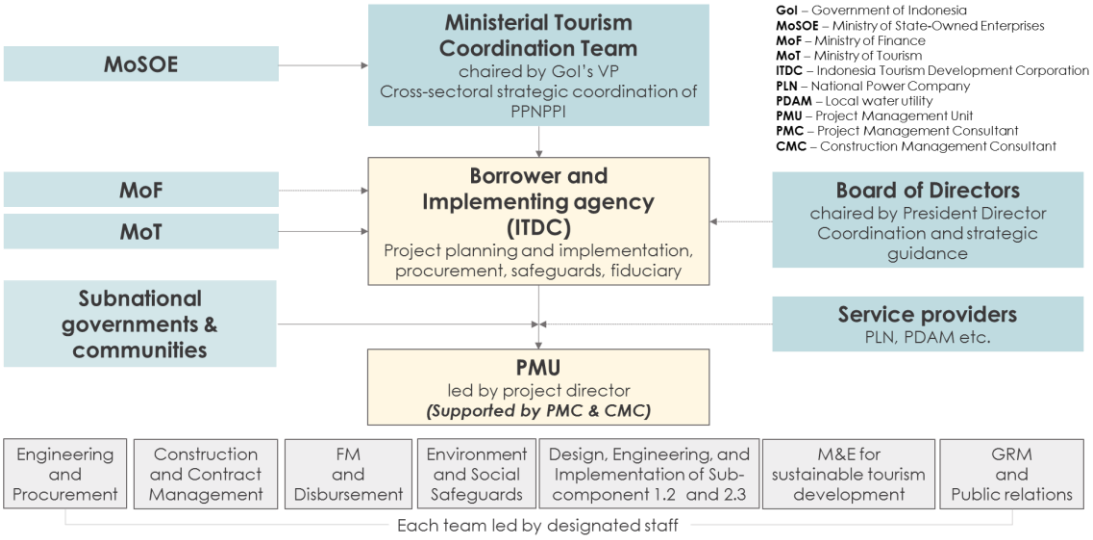
[27] (i) Phase I (2019-2023) financed by this AIIB loan will finance the construction of essential core infrastructure principally in the western part of the project site; (ii) a proposed future Phase II will focus mainly on the eastern part (2024-2026). Along with construction progress of basic infrastructure, development of productive assets including accommodation and other tourist facilities will be leased out for implementation by private investors.

[28] Bali Tourism Development Corporation (BTDC), a State-Owned Enterprise, was established in 1972 to develop and manage the Nusa Dua tourism estate. Its initial role was to acquire land, create a master plan, build infrastructure and resort facilities of international standards, and establish an attractive investment environment in Nusa Dua. In line with the GoI's national tourism strategy, in 2014 BTDC changed its name to ITDC, which is 100-percent owned by the GoI with authorized capital of IDR1 trillion. Pursuant to PP No. 55 and Government Regulation No. 33, ITDC acquired the rights to develop and manage a tourism facility in the Mandalika area of Lombok, drawing on the successful Nusa Dua experience.

including the design, construction, subsequent management and operations of works and services at Mandalika (Figure 1), through a Project Management Unit (PMU), which has been established in Mandalika. The PMU, headed by a Project Director, would be responsible for overall project preparation, implementation, ensuring overall quality and timeliness of investments and required service provision. It would also be responsible for the overall fiduciary and safeguard aspects of the Project, for ensuring compliance with environmental and social safeguards, and overall project Monitoring and Evaluation.

27. A Project Management Consultant (PMC) and Construction Management Consultant (CMC) will be engaged to support ITDC and PMU to carry out their responsibilities. Particular attention will be given to familiarizing ITDC and PMU with the policies, procedures, and requirements related to the Bank's procurement, social and environmental safeguards, and financial management system. Such capacity building and development will continue to be carried out during project implementation.

Figure 1: Proposed Implementation Arrangement



28. **Supervision and Coordination Arrangements.** ITDC and PMU would be supervised by a Board of Directors which is composed of the President Director/CEO, and three Directors each heading a department of ITDC. This management group is headquartered in Jakarta to provide coordination among the government agencies involved in the Project. This group will also provide strategic guidance and direction on key issues such as government policies, project objectives, and resource allocation.

29. For central government coordination, the MoSOE and ITDC would participate in the Tourism Coordination Team, chaired by Indonesia's Vice-President, that provides cross-sectoral strategic coordination of the PPNPPI.[29] The ITDC will also

[29] Regulation of The President of the Republic of Indonesia, Number 64 of 2014 concerning the Cross-Sectoral Strategic Coordination of Operations of Tourism.

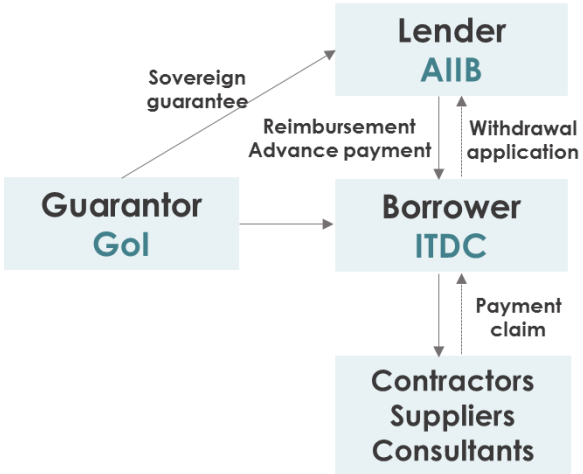
participate in a Steering Committee and a Technical Committee[30] to be established by the Ministry of Public Works and Housing (MoPWH), when relevant to development of the Mandalika.

30. For destination level coordination, the bi-monthly stakeholder coordination meeting will be organized by ITDC, participated in by members representing service providers, local governments and communities, Ministries, and relevant public and private companies, [31] to coordinate, synchronize, and facilitate the planning, development and construction of tourism facilities and infrastructure on Lombok island. This would be important for the effective implementation of the Mandalika Masterplan.

31. **Operation and Management (O&M).** ITDC through the PMU will be responsible for managing the tourism estate including water supply networks, sewerage systems, maintenance of roads, landscaped areas, power networks, solid waste management, and security. The PMU will progressively shift its mandate from construction and project implementation to O&M of the estate. Leaseholders will be responsible for operations and maintenance of services, structures and common facilities within their delineated sites, as individually set out in their respective LUDAs.

32. **Funds Flow Arrangement and Disbursement.** The AIIB loan will be disbursed primarily using the advance method. The ceiling for the advance will be equivalent of next quarter's forecast of AIIB's share of eligible expenditures. The use of the advances will be reported using the Statement of Expenditure form, which will be subject to audit. The loan proceeds may be also disbursed using the reimbursement method. The disbursement arrangements will be documented and finalized in a disbursement letter.

Figure 2: Proposed Funds Flow Arrangement



[30] Under the WB-financed tourism project (2018-2023), the Steering Committee is proposed to be composed of Echelon 1 officers from each involved ministry or agency. The proposed Technical Committee consists of tourism development Echelon II officials from each involved ministry or agency.

[31] Public Works of the NTB provincial government, the Central Lombok Regency, relevant public agencies and utility companies such as PDAM, PLN could be participated.

33. The bank loan will be disbursed to ITDC within 60 months, from March 2019 to March 2024. The expected disbursement of the loan is presented in Table 3.

Table 3: Expected Disbursements in USD million

Fiscal Year	2019	2020	2021	2022	2023	2024
Annual	23.8	55.4	46.6	55.4	62.1	5.1
Cumulative	23.8	79.2	125.8	181.2	243.3	248.4

34. **Sovereign Guarantee Arrangement.** The project lending will be covered by a full Indonesian Government guarantee in the case of default by ITDC (Borrower). Upon the triggering of the guarantee, the Republic of Indonesia as a "Guarantor" will repay the loan, interests and all charges to the Bank pertaining to the guaranteed loan (see Annex 4. for details). The Directorate General of Budget Financing and Risk Management of the Ministry of Finance (MoF) will have the primary responsibility for overseeing the government guarantee mechanism for the project loan.

35. **Anticorruption.** AIIB is committed to preventing fraud and corruption in the projects that it finances. It places the highest priority on ensuring that projects that it finances are implemented in strict compliance with AIIB's Policy on Prohibited Practices, 2016. Implementation will be monitored rigorously and regularly by AIIB staff. The bank reserves the right to investigate, directly or indirectly through its agents, any alleged corrupt, fraudulent, collusive or coercive practices relating to the Project and to take necessary measures to prevent and redress any issues in a timely manner, as appropriate. Detailed requirements will be specified in the Loan Agreement and the project tender documents. AIIB will facilitate and monitor the work related to tender document preparation and tender/proposal evaluation under bank financing.

36. **Bank supervision plan.** In view of the Project's scope and nature, both new for AIIB and Indonesia in the sector, it would be prudent to plan on an intensive level of supervision of about 40 staff weeks per year through the first two years of implementation (see Annex 9. for details). Supervision missions will be scheduled about three times annually. AIIB's supervision during the implementation period will include focused oversight and works supervision through a chain of technical and financial audits.

4. Project Assessment

A. Technical

37. The ITDC aims to replicate Bali's Nusa Dua model of development, a successful intervention financed by the WB in 1974, and implemented and managed by the ITDC. The ITDC aims to build on that experience and explicitly focuses on how tourism development could optimally benefit local communities, including exploring potential actions such as mandating high percentage of local employment in the resort, sustaining and protecting the pristine Mandalika ecosystem, working to develop training centers for tourism and integrating local customs and cultures into the Mandalika project.

38. The scope of works, which involves construction of high quality urban infrastructure including roads and landscape conservation, water supply provision and distribution networks, waste water collection, treatment and reuse, solid waste management, coastal marine environmental protection arrangements, and power networks, are of varying technical complexity; due to their integrated nature, they require a high level of planning, coordination, and management. Both planning and implementation are realistically within the experience of the ITDC and engineering firms to be contracted. It has been noted that while a regulatory framework for development control, including for tourism, exist at provincial level, enforcement of some planning regulations at the Regency level could be enhanced.[32] Based on the Masterplan and SEZ building regulations, Detailed Engineering Designs (DEDs) for infrastructure works have been prepared. The infrastructure has been designed primarily based on the current national standards in Indonesia, in line with the respective technical guidelines issued by the line ministries and agencies. All DEDs are subject to third party review by a construction management consultant. The consultant will also support construction management and management of civil works contracts during implementation, with oversight from ITDC and PMU.

39. In the selection of infrastructure solutions, particular attention has been given to reducing the adverse impact of the development. The storm water drainage systems proposed are designed to replenish the ground water aquifer to a greater degree than conventional drainage systems, while safely intercepting and discharging major storm flows, for instance from cloudbursts, maintaining existing drainage lines. Cross drainage lines will be maintained to safely enable flows, promoting natural biological and hydraulic conditions through using protective natural, stone rip-rap and indigenous plant species swales. The abstraction and discharge points for the proposed SWRO plants, following an additional study to be completed, will be located to minimize impacts on marine ecosystems. Similarly, the waste water management strategy, while complying with national regulations, will ensure that the effluent will be reused for landscaping purposes, thereby reducing impacts on ground water resources. The Project's solid waste and landscaping management plan incorporates collecting and sorting of organic and non-organic wastes, and composting of organic waste for

[32] GIZ and Bappenas. 2016. Lombok Sustainable Tourism Destination Evaluation Report.

landscaping in order to ensure environment sustainability and reduce the volume of nonbiodegradable solid waste diverted to landfill. All landscape planting as needed would utilize indigenous species, focusing on "*soft*" interventions. A detailed description of infrastructure solutions can be found in Annex 2.

B. Economic and Financial

Economic Analysis

40. The economic analysis employs cost-benefit methodology to calculate the Economic Internal Rate of Return (EIRR) and Net Present Value (NPV) of the project. The methodology adopted is in line with similar tourism development projects. The economic benefits focus on the impacts on the local economy from tourism development through tourist spending. Moreover, the project will generate other traditional economic benefits for the users of infrastructure, but these are not estimated in the cost-benefit analysis.[33]

41. Incremental costs and benefits between the with- and without- project scenarios are used in the economic analysis. The baseline scenario is defined as the scenario in which large-scale foreign investment in the SEZ and broad-based tourism development in Mandalika would not take place. Without the project, only small-scale and largely local hotel operators and tourism-related businesses are likely to invest in Mandalika. As a result, this will likely not lead to transformative development of Mandalika as another global tourist destination and large-scale job creation and local economic development would not be achieved. Without the project, Mandalika will continue to attract tourists with low expenditure profiles instead of higher-income tourists with high spending pattern which are targeted in the project.

42. The scope of the economic analysis includes investments made by both the public (infrastructure) and private sector (for hotel and related facilities) which are integral to generate economic benefits of the project. As high-quality basic infrastructure is one of the key factors in attracting private investment, the public investment is considered critical to leverage private investment (i.e., by hotel operators and providers of other tourism facilities) in the development of Mandalika.

43. Based on available data and assumptions adopted, the EIRR for the proposed project is 18 percent and NPV at social discount rate of 10 percent is USD674.71 million (Table 4). A sensitivity analysis of the project was also conducted in three scenarios. The EIRRs in the two scenarios exceed the social discount rate of 10% while the EIRR is less than 10 percent in one scenario. Further details of economic analysis are provided in Annex 5.

[33] For example, user of improved road infrastructure will benefit from reduced travel times.

Table 4: Results of the Economic Analysis and Sensitivity Analysis

No.	Sensitivity Scenario	EIRR	NPV @ 10% (million USD)
1	Base Case	18%	674.71
2	20% increase in project cost	14%	380.37
3	20% decrease in project benefit	13%	245.43
4	Combined effect	9%	(48.91)

44. **Employment Benefits.** The project is expected to result in job creation directly and indirectly; approximately 30,000 jobs in direct hotel employment and 60,000 jobs in indirect and induced employment in related businesses, for example, food and beverages, agriculture, wholesale and retail, and transport.

Financial Analysis

45. A financial analysis was carried out from the perspective of ITDC to assess the financial viability of the company's infrastructure investments in Mandalika SEZ.

46. The Weighted Average Cost of capital (WACC) is estimated at 6.35 percent. ITDC's revenues come from four sources: (i) land lease (50 percent), (ii) revenue sharing from onsite hotels (26 percent), (iii) residential revenue (16 percent) and (iv) infrastructure fees (8 percent).

47. Recurrent expenditures include (i) staff salaries (53 percent), (ii) marketing expenses (13 percent), (iii) maintenance costs (12 percent), (iv) property tax and insurance (10 percent), (v) electricity for the nonsalable areas (6 percent), (vi) administration and general expenses (5 percent), and (vii) others (1 percent).

48. Based on the above-mentioned assumptions, ITDC's infrastructure investments in Mandalika SEZ yield a Financial Internal Rate of Return (FIRR) of 11.06 percent, exceeding the estimated WACC of 6.35 percent. Thus, the Project is financially viable. Further details of financial analysis are provided in Annex 5.

Table 5: Outcomes of the Financial Analysis and Sensitivity Scenario

No.	Sensitivity Scenario	FIRR
1	Base Case	11.06%
2	20% increase in project cost	8.25%
3	20% decrease in project benefit	7.58%

Credit and Investment Analysis

49. A credit and financial assessment of ITDC, the borrower, was carried out to assess the company's: (i) business environment, (ii) financial performance and projections, (iii) creditworthiness and (iv) debt service capacity (see Annex 6. for details).

50. **Corporate Credit Rating.** Using AIIB's internal credit assessment scorecard to assess ITDC's credit profile, the result was BBB- rating. The Fitch Ratings recently assigned a BBB- rating to the ITDC, which is subject to upgrade with the sovereign guarantee.

51. **Financial Performance.** ITDC's financial statements in the period of 2014-2017 were reviewed and key information is summarized in Annex 6. ITDC has recorded stable financial performance with growing revenues and asset base albeit declining profitability in recent years due to rising maintenance costs. The company has demonstrated high albeit declining profit margins, strong liquidity and low leverage.

52. **Financial Sustainability.** Based on the available information, a 10-year financial projection was carried out to assess ITDC-Mandalika operation's financial sustainability. The projection indicates that in the period of 2018-2027, the company will maintain a healthy margin along with strong liquidity. With the primarily debt-financed new investments, the company will see a fundamental shift in its capital structure toward higher debt-to-equity ratios over time. Due to the long grace period associated with the sovereign-backed long-term financing, the company will continue enjoying a requirement low debt service burden over the projection period.

53. **Financial Covenant.** Until 2017, ITDC had recorded no borrowing on its balance sheet. Going forward, the Mandalika SEZ investment will be financed by a sovereign-backed long-term loan from AIIB with a tenor of up to 35 years, including a grace period of 10 years during which ITDC only needs to service the interest of the project loan. Over the financial projection period of 2018-2027, ITDC's Mandalika operation maintains a Debt Service Coverage Ratio (DSCR) in the range of 1.3 and 2.8. In view of the company's current and projected financial information, a financial covenant of a DSCR of 1.1 times is considered appropriate for the Project.[34]

C. Fiduciary and Governance

54. **Financial Management (FM).** An FM assessment was carried out to assess the adequacy of the FM system of ITDC. The assessment confirmed that ITDC has a sound FM system which covers staffing, planning and budgeting, accounting policies

[34] The Borrower maintains, commencing March 31, 2019, and until the full payment of the Loan, maintain a ratio of the net revenues of ITDC for the 12 months preceding the date of calculation to the debt service requirements of ITDC for the same period on all debt, not less than 1.1. - (i) the term "net revenues" means the difference between the sum of revenues from all sources related to operations and net non-operation income and the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operation charges and interest and other charges on debt; (ii) the term "net non-operating income" means the difference between revenues from all sources other than those related to operations and expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues, and; (iii) the term "debt service requirements" means the aggregate amount of repayments of, and interest and other charges on, debt.

and procedures, internal controls, financial reporting and monitoring and internal and external audits.[35]

55. The Project will use the existing FM arrangements of ITDC, which are consistent with AIIB's FM requirements. For project implementation, ITDC will ensure that: (i) designated financial staff will be assigned to PMU responsible for the project FM; (ii) annual project workplan and budget particularly the budget for the bank loan will be prepared and then approved by the line ministry; (iii) the computerized accounting system will be customized to have the capacity to record the receipts and payments of project funds and generate project financial statement; (iv) the internal controls will ensure the Bank loan proceeds will be used exclusively in carrying out the project; (v) the internal audit unit will include the project in their annual plan and; (vi) a private audit firm will be appointed to audit project account, and provide opinions and management letter. To ensure this, a project FM manual has been prepared and will be reviewed by AIIB.

56. **Procurement.** AIIB's Procurement Policy and its associated Interim Operational Directive: Procurement Instructions for Recipients for public sector apply to the Project. A Project Delivery Strategy (PDS) has been prepared by ITDC in accordance with AIIB's requirements and includes the tendering and contracting arrangements for the project. The bank has determined that the proposed arrangements outlined in the PDS are fit for purpose. All contracts will be procured in accordance with the provisions of the International Open Competitive Tendering (IOCT) as defined in AIIB's Procurement Instructions for Recipients and will be subject to prior review, unless otherwise agreed by the bank during implementation. ITDC will use as a basis the latest World Bank's Procurement Documents for works, goods and consulting services procurement and modifications will be made to comply with AIIB's procurement policies.

57. During project appraisal, a procurement capacity assessment confirmed that the ITDC procurement team is sufficiently experienced with local procurement procedures. However, the team does not have previous experience in undertaking procurement under IFIs nor at international competition level. ITDC requested AIIB to initially support procurement in the preparatory phase of implementation thereby expediting progress until such time the PMC will be in place through/by an individual consultant; the bank has agreed to support this request. ITDC will be supported by a PMC and CMC throughout project implementation.

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[35] Most of ITDC's financial staff are certified accountants, but do not have specific experience in implementing multilateral development bank-financed projects; annual workplan and financial budget are prepared by ITDC, and then reviewed and approved by line ministry; Indonesia Accounting Rules which are aligned with the internal accounting standards are followed, and computerized accounting software is used for bookkeeping entries, analyzing transactions, and producing financial reports; internal controls are in place for the preparation and approval of transactions and for the duty segregation; reports include the information of the physical and financial progress of the activities, comparison of the budgeted and actual values, discussion of issues, and action plans; the internal audit unit is in place, functioning, and reports directly to the ITDC's President Director; a private audit firm is appointed for the financial statement audit and follows the Indonesia's Standards of Auditing that follows the International Standards of Auditing.

58. The PDS and its associated draft Procurement Plan indicate the placement of ten packages for the procurement of works (six), including supply and installation of a WWTP, and consulting services (four) including large consulting services for PMC and CMC. ITDC is currently conducting a procurement process using their own funds to procure works and goods similar to a package that will be procured under the loan proceeds. The outcome of the tender would give an indication of the level of competition, interest as well as market prices. The draft procurement plan is included in Annex 4.

59. **Integrity check.** Integrity due diligence was conducted thorough research using various internal and external sources to identify integrity risk issues such as criminal activities, legal issues, and political influence. This includes: (i) open source research in English and Bahasa using internet search engines, media sources and websites of regulatory bodies; (ii) screening of ITDC, Board Directors and senior management, and other key shareholders against various sanctions[36] including AIIB's Debarment List and (iii) external reference checks using industry contacts. No critical issues were identified so far.

60. ITDC screens private investors for hotels and other tourism facilities according to the government regulation[37] as a SOE under the MoSOE. The AIIB team will continue to conduct screening of key shareholders including private investors throughout the project cycle against various sanctions, watch, regulatory and law enforcement lists. The project will balance potential adverse reputational risk with potential development impact and other factors such as economic benefits and financial return. If integrity issues could present a perceived or actual risk to AIIB's reputation, the bank team will make a necessary assessment of the risk and prepare mitigation measures.

D. Environmental and Social

61. AIIB's Environmental and Social Policy (ESP) is applicable to the proposed Project. The Project has been assigned Category A, due to the nature of the project activities, the local environmental and social context, as well as the significant and diverse potential environmental and social impacts. AIIB's three Environment and Social Standards (ESSs) are triggered. The proposed ES instruments are as follows: Environmental and Social Impact Assessment (ESIA)/Environmental and Social Management Plan (ESMP), Resettlement Planning Framework (RPF) and Indigenous Peoples Development Plan (IPDP).

62. At the project identification stage, a gap analysis between AIIB's ESP and national legislative and regulatory framework was undertaken. Furthermore, a study

[36] A standard tool, called "*Lexus Nexis Due Diligence,*" has been used for screening, searching across: Negative News, Company Reports, D&B Global Profiles, Biographical References and Directories, Sanctions & Warnings, Politically Exposed Persons, and Legal Sources.

[37] Ministerial Government Regulation No.03 of 2017, the Ministry of State-Owned Enterprise.

was conducted to assess land legacy issues within the Mandalika SEZ. During project appraisal, additional site visits, desk reviews, and discussions with ITDC and its consultants were conducted to further improve the prepared safeguards instruments to meet AIIB's ES policy requirements. In addition, based on due diligence conducted by the bank, ITDC prepared semiannual environmental management reports for infrastructure development during 2016-2018 in accordance with national requirements.

Environmental Safeguards

63. **Preparation of environmental safeguard instruments.** Upon completion of the first visioning Masterplan for Mandalika in 2012, an Environmental Impact Assessment (EIA, or *Analisis Mengenai Dampak Lingkungan*, AMDAL) as well as an Environmental Management Plan and Environmental Monitoring Plan were prepared and cleared in 2012, in accordance with, *inter alia*, the then applicable Law No. 32 of 2009 and Ministry of Environment Decree No. 45 of 2005. Subsequently, an environmental permit was issued. Due to the introduction of Government Regulation No. 5 of 2012, the development of the detailed Masterplan for Mandalika in 2015 and the subsequent amendments in 2017, ITDC prepared an "Addendum AMDAL" in 2018 to reflect the environmental and social impacts of the increased number of hotel rooms and other facilities envisioned for the SEZ and the newly introduced infrastructure solutions. Drawing on the draft Addendum AMDAL, a separate ESIA and ESMP has been prepared in 2018 to ensure that the requirements of AIIB's ESP are adequately reflected and taken into consideration.

64. The ESIA covers both the benefits of the proposed Project as well as environmental risks and impacts with regards to water, air, soil quality, biodiversity (both flora and fauna) and solid waste management. The document presents baseline data, screens potential environmental impacts, analyses the design and site selection for proposed activities, conducts an analysis of alternatives, and outlines mitigation measures to prevent or reduce direct, indirect, and cumulative environmental impacts. These measures will be implemented by ITDC, contractors, project consultants and other concerned stakeholders, during project preparation, as well as construction and operational phases, informing the design of the ESMP's monitoring and reporting arrangement.

65. **Impacts on sensitive environments and habitats.** Potential impacts on sensitive environments and habitats during both design, construction and operation were identified and assessed. Assessed environments and habitats included nearby communities; rivers, wetlands and freshwater aquatic biota; marine and coastal ecosystems including mangrove, coral reef and seagrass ecosystems; marine biota; terrestrial habitats and fauna within the Project Area; protected forests surrounding the Project Area; and potential endangered species including terrestrial fauna and marine turtles.

66. **Associated facilities.** In addition to the proposed AIIB-financed project, other activities financed by third parties are expected to provide facilities and services in, and are impacted by, Mandalika. The following are identified as associated facilities to the

proposed AIIB-financed project, because they are: (i) directly related to the Project; (ii) carried out or planned to be carried out, contemporaneously with the Project; and (iii) necessary for the Project to be viable and would not be constructed or expanded if the Project was not implemented:

- **Sea Water Reverse Osmosis (SWRO) Plant(s).** [38] Under a conservative scenario, demand for potable water is estimated to reach 10,544 m³/day. Potable water will be supplied by two SWRO plants through the distribution network constructed under AIIB financing. Currently, one SWRO plant with a capacity of 3,000 m³/day has been constructed in the western part of the site but is not yet operational as no tenants have been connected and no discharge pipe has been installed. Both plants are modular in nature and can be upgraded in increments of 3,000m³/day to reach a maximum of 15,000m³/day each at full capacity. It is intended that the completed as well as the second future plant will be commissioned once an additional study for identifying optimal locations for safe brine effluent discharge has been completed, the requisite environmental permits for discharge have been obtained and the first tenants have been connected.

- **Pengengat sanitary landfill.**[39] Under a conservative scenario, Mandalika is expected to produce up to 347 m³/day of solid waste at full capacity. A 5,000-m² Solid Waste Management (SWM) facility will be established within the Mandalika SEZ and operated by ITDC. Leaseholders will be able to have their solid waste collected and processed by ITDC or use third-party solid waste collectors. In the on-site facility, solid waste will be sorted and processed: organic waste will be composted and used for landscaping; non-organic waste will be reused/recycled to the extent possible; non-reusable/non-recyclable non-organic waste will be transported to a sanitary landfill at Pengengat village, Pujut Sub-district, 25 kilometers (km) from the site.

67. **Anticipated benefits.** Upon full implementation of the operations, the Project is anticipated to result in a wide array of environmental and social benefits within and around the project site, over the life of the Project. Due to large investments in water management, waste management, social institutions, and community infrastructure improvements, anticipated improvements include improved quality of groundwater, surface water, and sea water, ultimately resulting in significantly improved

[38] Currently, one SWRO plant with a capacity of 3,000 m³/day has been constructed in the western part of the site. It is intended that the completed plant will be commissioned once an additional study for identifying an optimal location for safe and reliable seawater abstraction and brine effluent discharge has been completed, the requisite environmental permit for discharge has been obtained and the first tenants have been connected. When additional lots are released and occupied in the eastern part of the site, a second SWRO plant is proposed, supplying the eastern section of the site. Both plants are modular in nature and can be upgraded in increments of 3,000m³/day to reach a maximum of 15,000 m³/day each at full capacity. Under present market assumptions, the first expansion of the western SWRO will be required as early as 2026.

[39] There is an expansion plan under consideration by local government using their own resources or other funding resources. The Project will support studies and preliminary designs for phased future upgrading of the Pengengat Sanitary Landfill ensuring Mandalika environmental sustainability.

environmental conditions for residents and institutions within and around the project site.

68. **Potential impacts during the construction phase.** Temporary environmental impacts during the construction phase include dust and noise pollution during civil works, localized erosion, temporary deterioration of water quality during river normalization, interruption to nearby communities and small business, potential issues related to labor management and other minor impacts. Construction-related impacts of this nature are predicted to be short-term and are expected to be manageable through active mitigation and monitoring.

69. **Potential impacts during the operational phase.** Environmental impacts for project-financed components, including effluent and sludge from WWTP operation, inorganic and non-composting items from solid waste facility, and dust and noise from traffic, were assessed in the ESIA. The WWTP was designed to use up all effluents (maximum amount less than 10,000 cubic meters (m^3)/day) for landscape irrigation, so it would be zero discharge of effluents to nearby water system and the sea. Sludge generated from the WWTP would be used as fertilizer for landscaping. Residuals from the solid waste facility will be transported to the landfill for final disposal. Furthermore, traffic management and safety inspection will be in place, especially at the road section that is close to local communities. To ensure compliance with national and AIIB requirements, monitoring and inspection have been designed as part of the environmental management plan.

70. **Alternative analysis.** Alternative analysis was conducted for a without-project scenario. Conclusion was that the without-project was not considered a desirable or appropriate Project alternative given the Project's significant expected socio-economic benefits at the local, regional, and national level. In addition, infrastructure alternatives for potable waste supply and distribution, waste water collection and treatment, drainage, and solid waste management were assessed. For example, a single on-site SWM facility in the eastern part of the Mandalika SEZ, without incinerators, was concluded to be the most appropriate due its reduced visual impact and improved environmental management. Multiple alternative waste water treatment technologies were also assessed in terms of effluent quality, treatment capacity, operational costs and land requirements.

71. **Cumulative impact.** As part of the development of the ESIA, screening was conducted for cumulative impacts that might be caused by the proposed Project activities. It is concluded that no cumulative impact is expected. The development in the Mandalika SEZ is in early stage and ITDC will manage all investment and development program within Mandalika SEZ in accordance with the Masterplan. ITDC will take responsibility of screening from environmental and social perspectives to prevent any activities/investment that may bring potential risks and impacts to cause cumulative impacts to the Mandalika area.

72. **Mitigation measures and environmental management.** The ESIA/ESMP reviews and identifies mitigation measures applicable during the preparation, construction and operational phases to avoid, minimize, reduce and compensate any

impacts identified. Furthermore, in the ESIA/ESMP, health and safety requirement and standards, labor management and management of worker and community relations were discussed and included, in line with the World Bank Group's Environmental, Health and Safety Guidelines. The ESIA/ESMP strictly prohibits child labor and forced labor, discrimination against gender and age. The Environmental and Social Exclusion List in AIIB's ESP has been considered in ESMP preparation. Assessments and focused interventions will be implemented as measures for coastal marine environmental protection arrangements.

73. **Monitoring and reporting.** ITDC/PMU will engage a consultant to carry out environmental monitoring during project implementation. The proposed parameters, sampling locations and frequency have been included in the ESMP, as well as reporting requirements. ITDC/PMU's implementation capacity for environmental and social issues needs to be enhanced. ITDC/PMU will hire an in-house environmental specialist and will be supported by the Project Management Consultant with regards to environmental safeguards. Furthermore, as part of project components, monitoring and training will be carried out during implementation.

Social Safeguards

74. **Expected project impact and socio-economic context.** The Mandalika SEZ covers small portions of four villages in Pujut Sub-district, namely Kuta, Sukadana, Mertak, and Sengkol. A demographic and socioeconomic overview of the four villages is given in Annex 2, Table A-1 and paragraph 4, with a review of current infrastructure provision in Annex 2, paragraphs 10, 11, and 14. Significant socioeconomic benefits are anticipated over the life of the Project as a direct impact of the increased employment, business, and income levels the Project will bring to local residents, and resulting benefits such as improved health care, education, training and support for vulnerable groups.

75. **History of land ownership in the project area.**[40] ITDC presently holds land management rights (*hak pengelolaan,* or HPL) to most of land within the Mandalika SEZ. It obtained these rights through a transfer from the state in 2009. Before being transferred to the state, most of land areas was initially obtained by the Lombok Tourism Development Corporation (LTDC). Following a location permit, a total of 1,088 ha of land in Mandalika were purchased by LTDC from local land owners and occupants in the 1990s. A review of relevant documents indicates that LTDC acquired the land in accordance with relevant laws and regulations. Most of these titles were transferred to the state during the economic crisis at the end of the 1990s when LTDC defaulted on debt held by the banks.

76. ITDC, under its previous name '*BTDC*', applied to the National Land Agency (*Badan Pertanahan Nasional*, or BPN) in 2009 to issue HPL certificates for the plots obtained from the state. In response to that, BPN issued decrees SK BPN 22 and SK

[40] Land Due Diligence Report for the Mandalika SEZ (2018) and draft Resettlement Planning Framework.

BPN 23 on Aug. 31, 2009, covering 1,034 ha comprising 97 HPL certificates. In the process, several plots were disputed totaling 135.2 ha.

77. In 2016, ITDC, the NTB government, and BPN conducted due diligence on the disputed plots comprising 135.2 ha. Based on the review, plots of land only partially paid for by LTDC were identified, and ITDC paid cash compensation to affected individuals. To accelerate the settlement of claimed land in Mandalika, in 2016, the NTB government established a dedicated team to obtain HPL certificates for ITDC. Based on the assessment, of the 109 ha claimed land, 93.8 ha had not been registered or certified. The only evidence of occupancy was a statement letter by the village head confirming that the individual was cultivating the plot but was not the owner. Although relevant laws and regulations do not recognize such letters as proof of ownership, to accelerate the process, the governor of NTB approved payment of cash compensation to the claimants to the amount of IDR45,000/square meter (m^2). Following the payment, BPN issued 28 new HPL certificates with respect to the 93.8 ha land area to ITDC in 2017.

78. In summary, of the 1,164 ha transferred to ITDC, approximately 27.2 ha with 19 HPL are in potential dispute or are being negotiated, 59.5 ha with nine HPL are being litigated, and the remaining 1,077 ha with 105 HPL are undisputed. In addition, there are 35 plots of so-called "enclaved" land covering 42.4 ha with third parties having legal titles.

79. **Land acquisition and RPF.** Based on a review of the engineering design, only 1.57 ha of enclaved land need to be obtained for construction of proposed infrastructure investments. ITDC is making continuous efforts to purchase these plots. However, such purchases are progressing slowly.[41] It has been agreed by ITDC that in the event that all required plots cannot be purchased on the basis of "*willing buyer and willing seller*" before implementation, land acquisition will be pursued. This would require ITDC to seek "special assignment" status by the national government, which would have to be issued before starting construction of infrastructure (Sub-component 1.1). A Resettlement Planning Framework (RPF) has been developed for the Project, which includes identification of land acquisition impacts, legal framework, entitlements, requirements for consultations and disclosure, implementation arrangements, basic steps for resettlement plan preparation and implementation, as well as monitoring and evaluation. In case land acquisition is required, following RPF, a Resettlement Action Plan would be prepared by ITDC to ensure land acquisition will be carried out in such a way that affected people will be compensated timely and adequately.

80. **IPDP and community development.** The Sasak ethnic group accounts for two thirds of the total population of NTB Province. Among the four villages surrounding the Mandalika SEZ, including Kuta, Sukadana, Mertak and Sengkol, Sasak account for over 99 percent of their population. As a distinct ethnic group with clear self-identification, distinct language and culture, the Sasak people meet the definition of

[41] Of 1.57 ha land required for road construction, only one plot with 1,600 m^2 was purchased in 2018.

indigenous people,[42] as per AIIB's ESP. Following the requirements of AIIB, an IPDP was developed for the Project. The content of the draft IPDP was presented to communities and disclosed on both AIIB's and ITDC's website. Feedback will be included in the final document. After project approval, the final IPDP will be disclosed both by AIIB's and ITDC's website, as well as in the project area.

81. **Public consultations and community expectations.** The first round of public consultations for the 2012 AMDAL was conducted in January 2012. Another public consultation meeting was held in April 2018 in Kuta village, Pujut Sub-district following the governmental requirement for the Addendum AMDAL.[43] Additional consultations by AIIB and ITDC were held throughout project preparation. Consultations took the form of workshops, group discussions and interviews, with participants including representatives of the surrounding villages, business owners, small traders and persons in vulnerable situations. Local communities, the Regency government and national authorities have shown broad support for and have high expectations of the Project. Some concerns were also raised by local people, such as poor access and quality of community-level infrastructure and services and poor workforce skills for jobs to be created during construction and operation of the Project. These concerns and expectations were incorporated into the proposed IPDP and sub-components 1.2 and 2.3 of the Project to ensure an equitable share of the benefits of the Project could be reached to local communities. Along with development of core infrastructure for the Mandalika SEZ, the Project is expected to improve basic infrastructure and services for local communities and create job opportunities during construction and operation, thereby enhancing income and livelihoods for the local population.

82. **Gender.** Women participants were well-represented and participated in project preparation workshops and group discussions. Their concerns and expectations for the Project were documented during such consultations, which include lack of drinking water and street lighting in the villages, and low education and lack of training for women to access to employment. To address these concerns, investments on village infrastructure and trainings for women have been proposed in the Component 1.2 and 2.3. Continuous consultations, with a particular focus on the full and meaningful involvement of girls and women, will be carried out during project implementation, particularly during the implementation of a community development plan for surrounding villages.

83. **Grievance Redress Mechanism.** A Grievance Redress Mechanism will be established by ITDC and disclosed to local communities, in addition to being reflected in all safeguards documents, to ensure that affected people can present their grievances and get timely consideration and resolution. Individuals and communities who believe that they are adversely affected by the Project may submit complaints to the head of respective local village, which will be passed on to the ITDC Mandalika

[42] It is locally known as "local community" or "customary law community (masyarakat hukum adat)".

[43] In addition, there were several stakeholder engagement activities and meetings conducted in 2017 and 2018 to introduce the project and solicit concerns and suggestions from stakeholders and local communities.

office for resolution. Each complaint will be documented into grievance log and its resolution will be carefully monitored by a PMU grievance contact person and community relation staff.

84. **Disclosure.** The draft ESIA/ESMP, RPF and IPDP in both Bahasa and English have been disclosed in-country on Sep. 25, 2018 by ITDC through their website: http://www.itdc.co.id. In addition, a hard copy in Bahasa of all safeguards instruments has been displayed in the ITDC Mandalika office and the respective village councils of project-affected villages. The draft ESIA/ESMP, RPF and IPDP in English have also been disclosed on AIIB's website on Oct. 19, 2018. All safeguard documents and implementation progress reports will be disclosed and maintained throughout project implementation.

E. Risks and Mitigation Measures

85. The overall project risk is rated "*High*" (see Table 6). Despite (i) the strong GoI policy support for the Mandalika development and ITDC's (ii) sound financial status, (iii) technical and implementation capacity and (iv) sound record of performance for developing and managing a tourism destination, there are significant potential environmental and social risks, including delays due to land disputes, environmental degradation and project benefits not flowing to local communities. Potential implementation risks foreseen are manageable and appropriate mitigation measures have been considered and incorporated in the project design. The project's main risks and mitigation measures are summarized in Table 6 and detailed further in Annex 8.

Table 6: Ratings of Key Potential Risks and Mitigation Measures

Description	Risk Assessment	Mitigation Measures
1. Financial and regulatory risks Key risks identified are: • Default risk due to low profitability • Regulatory changes	Medium	○ Full government guarantee ○ Minimum debt service coverage ratio of 1.1 times as legal covenant to Loan Agreement ○ Close coordination with GoI to minimize potential risks from regulatory changes and improve policies and regulations relevant to the Project
2. Environmental and social risks Key risks identified are: • Community opposition to project • Delays in land acquisition	High	○ Extensive consultations during project preparation and, going forward, during implementation ○ Addition of Sub-components 1.2 and 2.3, as well as provision of on-site lots for MSMEs

• Unequal distribution of benefits • Negative environmental and social impacts		○ Land study conducted to identify legacy issues and outstanding land disputes ○ ESIA and ESMP prepared ○ Budget allocation for additional studies on impacts on water systems and spatial expansion ○ Projections of resource use until 2040 including potable water, waste water, irrigation water, and solid waste streams, based on likely number of rooms completed ○ RPF prepared which is to be followed by detailed resettlement plan ○ IPDP prepared, with external monitoring and evaluation
3. Project implementation risks Key risks identified are: • Weak institutional capacity for project implementation • ITDC cannot control or manage services by third parties and off-site infrastructure • Weak procurement, fraud and corruption	Medium	○ Establishment of PMU within ITDC ○ Further capacity strengthening by hiring qualified construction management and project management consultants under Component 2, including separate design and supervision consultants for Sub-component 1.2 ○ Signed MoU between ITDC and PLN to ensure electricity supply, on-going negotiations with a Design-Build-Operate contractor to ensure water supply via SWRO, and continued engagement with ITDC and Regency government on solid waste management ○ Assessment and strengthening of ITDC's procurement system to comply with AIIB's Prohibited Practices Policy
4. External risks Key risks identified are: • Demand risk • Foreign exchange risk	Medium	○ Diversification of Mandalika's tourism offering catering to a variety of segments as well as both domestic and foreign visitors ○ Familiarity of ITDC with foreign-denominated transactions ○ All structures within the project boundary to comply with building

• Force majeure (natural hazard risk) • Unplanned induced development		code and regulations to ensure seismic resistance; a tsunami mitigation plan relying on hard infrastructure, signage, escape routes, public information and an early warning system are part of the masterplan and AIIB-financed infrastructure ○ Addition of Sub-component 2.4 and continued dialogue with ITDC, local government and line ministries stressing the importance of enforcing a balanced local area plan for Pujut Sub-district.

5. Next Steps

86. The major milestones are projected as follows:

December 2018	Board Consideration

Annex 1: Results Framework and Monitoring

The objective of the proposed project is to provide sustainable core infrastructure for the development of a new tourism destination in the Mandalika region of Lombok.

PROJECT OBJECTIVE INDICATORS										
Indicator Name	**Unit of Measure**	**Baseline** 2018	**Cumulative Target Values**					**Monitoring Frequency**	**Data Source/ Methodology**	**Responsibility for Data Collection**
			Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**			
Private capital mobilized for Mandalika tourism development[44]	Number (Million USD)	0	126	389	473	720	787	Annually	Signed LUDAs	ITDC
Number of tourists with overnight stays[45]	Number	-	-	-	62,000	120,000	200,000	Annually	Hotel operators	ITDC
Number of local residents (women and men) employed in tourism[46]	Number	-	-	-	959	1,638	2,539	Annually	Progress reports	ITDC
INTERMEDIATE RESULTS INDICATORS										
Indicator Name	**Unit of Measure**	**Baseline** 2018	**Cumulative Target Values**					**Monitoring Frequency**	**Data Source/ Methodology**	**Responsibility for Data Collection**
			Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**			
Roads constructed (including underground utility corridors)	Km	0	0.7	5.3	11	21.3	25.95	Quarterly	Progress reports	ITDC

[44] This includes only legally committed private sector investments within the Mandalika SEZ after Board Approval, as reflected in signed LUDAs.

[45] This includes foreign and domestic tourists with overnight stays in newly developed hotel rooms within the SEZ Mandalika. This excludes induced tourist numbers who may be attracted to the site for day-trips or will be staying off-site.

[46] This excludes indirect employment, for instance, in hotel supply chains or as tour operators and performing artists, but includes direct employment in hotels as well as vendors operating out of the site's 305 market lots, called UMKM, for locals and MSME. "local residents" are defined as residents of Lombok as of January 2018. Target figures follow the ESIA's assumption, based on Nusa Dua as a reference, that 65 percent of employees will come from Lombok. The figures have also been adjusted based on projected room the occupancy rates assumed in the economic analysis.

Piped water supply network completed	Km	0	0	6	10	22	24.6	Quarterly	Progress reports	ITDC
Waste water network completed	Km	0	0	6	10	22	24.6	Quarterly	Progress reports	ITDC
Waste Water Treatment Plant completed	Number	0	0	0	0	0	1	Annually	Progress reports	ITDC
Landscape Watering network completed	Km	0	0	6	10	22	24.6	Quarterly	Progress reports	ITDC
Power distribution network completed	Km	0	0	0	2.6	28.6	34.2	Quarterly	Progress reports	ITDC
Early Warning and Evacuation Facilities completed[47]	Number	0	0	4	4	9	11	Annually	Progress reports	ITDC
Solid Waste Management facility completed[48]	Number	0	0	0	0	1	1	Annually	Progress reports	ITDC
Destination Management Manual completed with responsibilities assigned and funded	Y/N	N	N	Y	Y	Y	Y	Annually	Progress reports	ITDC
Monitoring tool for expansion of urban extent developed and results included in progress reports	Number	0	0	1	1	1	1	Annually	Progress reports	ITDC
Water monitoring tool developed and results included in progress reports	Number	0	0	1	1	1	1	Annually	Progress reports	ITDC
Grievance Redress Mechanism established and functional	Y/N	N	Y	Y	Y	Y	Y	Annually	Progress reports	ITDC

[47] This includes nine fully equipped Temporary Evacuation Shelters (TESs) located on the site's hilltops near the beachfront, to be completed first, and two TESs at the northern periphery, as well as sirens and CCTV equipment attached to each TES.

[48] This includes an SWM facility and haulage fleet of three-wheeled pick-up vehicles, pick-up trucks, containers, and garbage trucks.

Annex 2: Strategic Context and Mandalika Masterplan

A. Context analysis

1. **Geographical and climate context.** The Central Lombok Regency of West Nusa Tenggara (*Nusa Tenggara Barat,* NTB) Province covers the central and southern part of Lombok island, which is located east of the Lombok Strait separating Lombok and Bali. The Mandalika SEZ is located on the southern coast of Central Lombok Regency (*kabupaten*) in the sub-district (*kecamatan*) of Pujut (Figure A-1). Dominated by Mt. Rinjani, Lombok's scenery is characterized by mountainous terrain, white sandy beaches, a diverse maritime ecosystem and lush vegetation. The climate in the southern part of the island is considerably more arid than in the north and west. Mandalika SEZ itself is intersected by seven small streams and is dotted with a series of hillocks. It includes 7.5 kilometers of white sandy beaches and three coves.

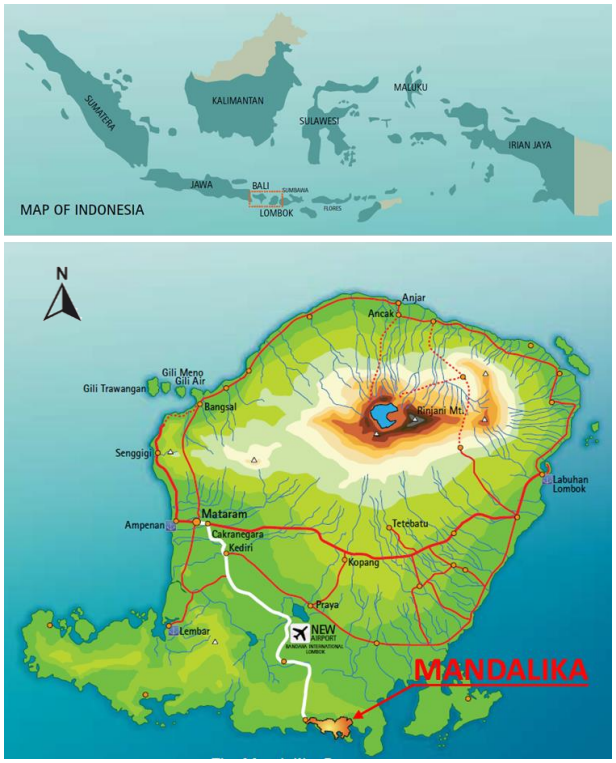


Figure A-1: Location of Mandalika.

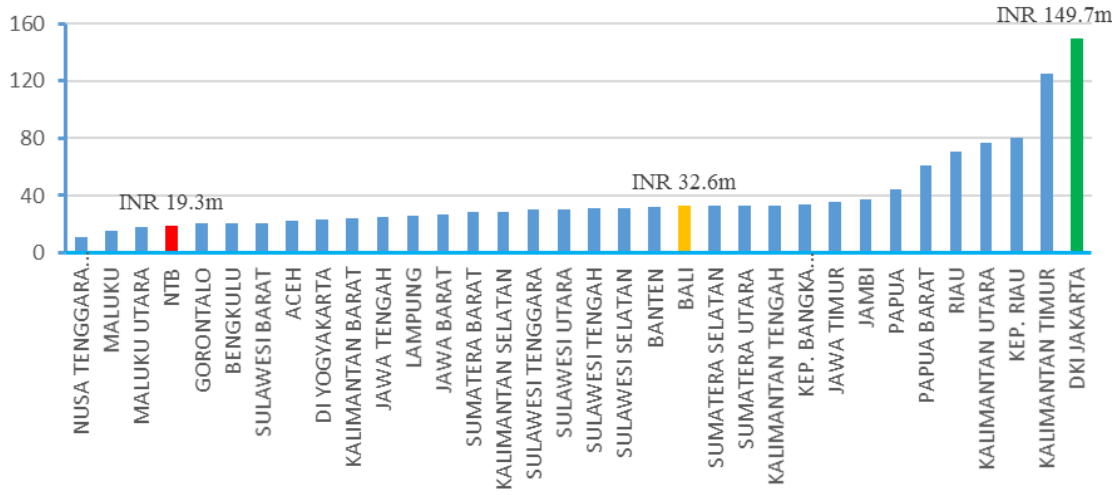
2. **Cultural context.** Contrary to Hindu-influenced Bali, Lombok's culture is heavily shaped by the predominantly Muslim *Sasak* who make up 85 percent of Lombok's population. In recent years, Lombok has pivoted to cater increasingly to the Halal tourism segment, promoting not only its natural but also cultural heritage in the form of customs, oral traditions,[49] architecture and handicrafts. These considerations will feature as the tourism site develops.

3. **Economic context.** NTB Province contributed 0.92 percent to Indonesia's GDP in 2016. In per capita GDP terms, it ranked fourth lowest among Indonesia's 34 provinces in 2016 (see Figure A-2). NTB also experiences more severe poverty than the national average. At regency level, Central Lombok fares significantly worse than Bali's Badung Regency.[50]

[49] The Mandalika takes its name from a legendary princess of the Kuripan kingdom of South Lombok who, in despair over the fighting among her many suitors to win her hand, threw herself into the waves. Each February, the *Bau Nyale* festival is held at Kuta beach and revolving around catching *nyale*, a type of sea worm, thought to represent Princess Mandalika's hair. It is highly likely that the project will contribute towards preserving this and other traditions as a major tourist attraction.

[50] The Central Bank of Indonesia (2017, Tourism Income Equality: Evidence of Bali Province) notes the geographically concentrated nature of economic benefits arising from tourism at the sub-provincial level.

Figure A-2: Per Capita Gross Regional Domestic Product by Province, 2016 (Million INR)



4. **Villages (desa) in the immediate vicinity of Mandalika SEZ.** Within Pujut Sub-district, Mandalika SEZ partly overlaps with four villages (*desa*), namely Kuta, Sukadana, Mertak and Sengkol, which are subdivided further into a total of 77 sub-villages (*dusun*) which cover an area of 6,412 ha. The combined population stands at 9,448 households or 32,857 persons, almost exclusively Sasak. In welfare terms, as defined by the National Family Planning Coordinating Board (BKKBN), 50 percent of households within the four villages currently fall into the lowest (*pra sejahtera*) of five welfare categories (*pra sejahtera*).[51]

Table A-1: Surrounding villages, demography and population density

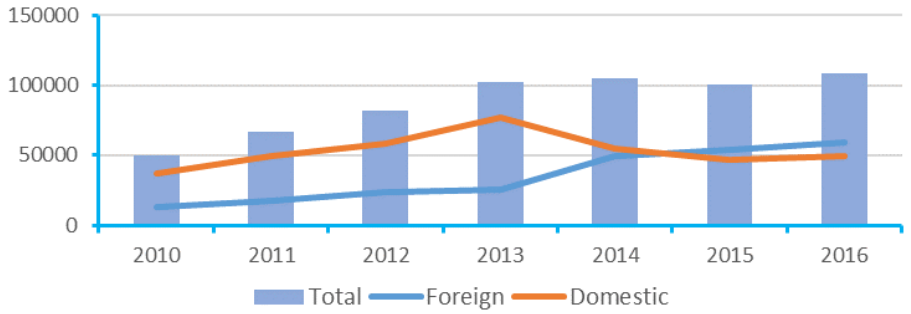
	Village	Land Area (km^2)	Number of Sub-villages	Male Pop.	Female Pop.	Total	HH	Density (person/km^2)	HH Size
1	Kuta	23.66	20	4,544	4,576	9,120	2,262	385	4.03
2	Mertak	14.27	20	3,697	3,829	7,526	2,364	527	3.18
3	Sengkol	18.36	20	5,255	5,758	11,013	3,212	600	3.43
4	Sukadana	7.83	17	2,468	2,730	5,198	1,610	664	3.23
	Total	64.12	77	15964	16893	32857	9448	512	3.48

5. **Tourism trends in Lombok.** While foreign tourist arrivals to Indonesia have increased by 8.87 percent annually between 2010 and 2017, much of this growth continues to be concentrated in Bali, with its share of foreign tourist arrivals growing from 36 percent to 42 percent during the

[51] Badan Pusat Statistik—Kabupaten Lombok Tengah (2017) *Kecamatan Pujut Dalam Angka 2017*.

same period.[52] Lombok is typically part of a side trip from Bali. Having retained its allure as an "unspoiled paradise," foreign visitor arrivals to Lombok have more than doubled since 2010, though the increasing deterioration of the natural environment is a cause for concern.[53] Eighty-four percent of this increase in foreign tourists has been captured by the Gili Islands located in the northern part of Lombok. Tourist arrivals to Central Lombok Regency grew by more than 28 percent annually between 2010 and 2016 (Figure A-3).[54] Southern Lombok is currently marketed primarily to Australian, Singaporean, Malaysian and some French and British tourists either as a standalone short-term beach destination, or as a day excursion from Senggigi.[55] Domestic visitor arrivals to Lombok have benefited from additional flight connections over the past decade, a trend which is expected to continue. Featuring Halal conditions at the Mandalika is also expected to broaden the potential for both domestic and foreign visitors.

Figure A-3: Tourist Arrivals to Central Lombok Regency (2010-2016)



Source: Culture and Tourism Office of Central Lombok Regency.

6. **Insufficient tourism facilities in Lombok.** The increase in tourist arrivals has not been accompanied by a comparative increase in tourism accommodation, which today has significantly less capacity than neighboring Bali (Figure A-4). A number of towns and villages on Lombok have developed tourist accommodation and services, most prominently in Senggigi on the north-western coast. The number of available rooms in Central Lombok is limited, with presently only 361 rooms (102 star-rated) in and around Mandalika.

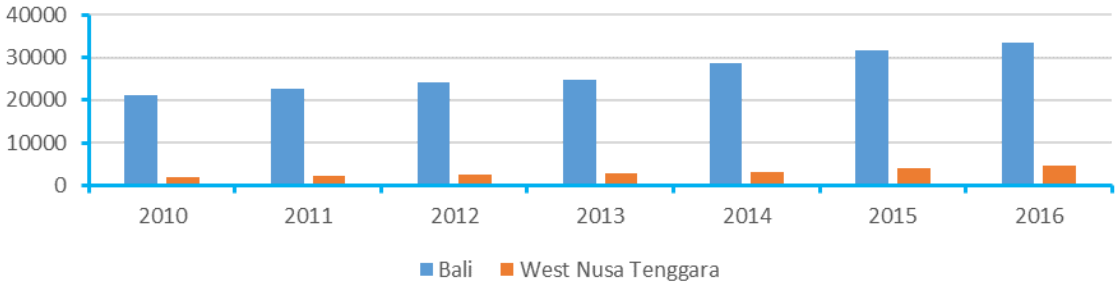
[52] Due to the limited number of direct international flights to Lombok, NTB's share of the national total has not breached the one percent mark. The national BPS figures do not include foreign tourist arrivals to the province via domestic flights or the sea route, causing some incomparability between national and subnational statistics.

[53] Horwath HTL and Surbana Jurong (2017). Lombok: Baseline supply and demand, market demand forecasts, and investment needs. p. 23.

[54] It is worth noting that in 2014 the share of foreign against domestic tourists to the regency increased from an average of 27 percent in the immediately preceding three years to an average of 52 percent in the three years since.

[55] Horwath HTL and Surbana Jurong (2017), p. 15-16.

Figure A-4: No. of Rooms in Classified Hotels in Bali and NTB (2010-2016)



Source: Badan Pusat Statistik (BPS)

7. **Role of Nusa Tenggara and Mandalika in national tourism development.** According to the National Medium-term Development Plan (*Rencana Pembangunan Jangka Menengah Nasional,* RPJMN), the Nusa Tenggara archipelago has been identified to become a national model for ecological, adventure, cultural and maritime tourism, benefiting Small and Medium-sized Enterprises and fully exploiting its potential as a MICE destination.[56] To encourage further tourism development on Lombok, the proposed 1,164 ha Mandalika project site was designated a Special Economic Zone (SEZ) in 2014,[57] granting a range of tax incentives to potential investors. The GoI also provides a range of support measures to the development of Mandalika through its additional status as a National Strategic Project.[58]

B. Regional infrastructure and spatial planning in Lombok

8. **Airport infrastructure.** The Lombok International Airport (*Bandara Internasional Lombok, BIL*) is located 16 km (or 20-minute drive) from the Mandalika site. It started operations in October 2011, replacing the former Selaparang Airport in Mataram City. Six airlines are currently offering domestic flights to BIL. Only two international connections to Kuala Lumpur and Singapore are operational but it is expected that airlines will establish additional connections once the supply of star-rated hotels on Lombok has increased. The airport has seen a steady growth in passenger traffic reaching 2.5 million in 2015. The existing airport infrastructure can handle three million passengers per year and has a surplus capacity. Currently the construction of its expansion is underway including: (i) construction of terminal building with a passenger handling capacity of 3.25 million per year; (ii) runway extension to 4,000m x 45m; (iii) construction of additional two apron spaces (Code E, wide body aircraft) to the current 10 stands and (iv) a parallel taxiway.

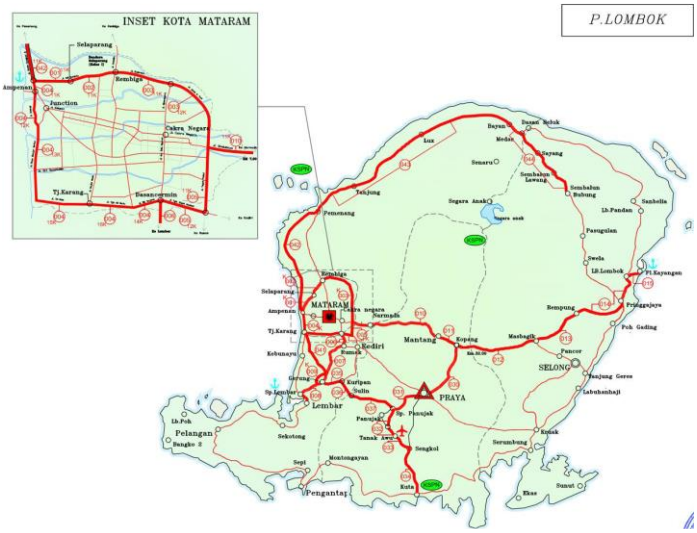
9. **Sea transport infrastructure.** The sea transport options for Lombok are fast boat services, RORO (Roll-on/Roll-off) ferries, and cruise ships. Foreign visitors typically take the frequent and direct 2-hour fast boats from Bali to the Gili Islands. Lembar Port located on the western coast is the most important harbor in Lombok, primarily used for inter-island freight and

[56] MICE stands for “meetings, incentives, conferencing, exhibitions,” a type of planned tourism in which large groups are brought together for a particular purpose.
[57] Government Regulation No. 52 of 2014.
[58] Presidential Regulation No. 3 of 2016.

passenger transport. Currently, the ferry port can handle a maximum of 48 ferry trips per day, though occupancy is relatively low.

10. **Road infrastructure.** Lombok Island is served by national, provincial, and regency-level roads (Figure A-5). One hundred percent of national roads are paved and in good condition, while 93 percent of provincial roads are paved and 8.8 percent in poor condition.[59] The 16-km road connecting Praya (BIL) and Kuta (Mandalika) is well paved with a 7-meter right-of-way (ROW) and adequate drainage provision. While the main seaside artery running through the western section of the project site, Jalan Pariwisata Pantai Kuta, is in good condition, pedestrian facilities along this and the regency-level feeder roads throughout the site are very limited. The condition of road infrastructure in surrounding villages is generally problematic, especially during the wet season. However, the proposed Indonesia Tourism Development Project financed by GoI and WB includes major investments in the Lombok road infrastructure.

Figure A-5: National Road Network (in red) on Lombok



Source: Ministry of Public Works, SK NO. 290 TAHUN 2015

11. **Water supply and sanitation.** Potable water resources in South Lombok, especially during the dry season, are severely limited, and present a major barrier to any major development on the island. Presently, water of unsatisfactory quality and reliability is provided by the local water utility (*Perusahaan Daerah Air Minum*, PDAM) to the southern part of Lombok and the project site from a 25-year-old and poorly maintained water treatment plant at Penujak, drawing raw water from the nearby Batujai reservoir. Treatment consists of aeration, chemical dosing with alum, followed by horizontal clarifiers, rapid gravity filtration, and chlorination. However, treated water currently does not meet potable water standards. The quantity of water supplied is also

[59] World Bank 2017. Technical Assessment Report, Indonesia: Tourism Development Project.

insufficient.[60] Whereas overall capacity was reported as being 50l/sec in 2015 (20l/sec of which served Kuta and 30l/sec the rest of Pujut Sub-district and BIL),[61] Penujak Water Treatment Plant staff during the Bank's site visit in April 2018 reported only 34l/sec of overall capacity. According to information from interviews with Kuta village representatives in February 2018, 10 percent of households are connected to the PDAM system, with the vast majority relying on wells. According to resident statements given during several site visits, households prefer the ground water's quality to PDAM's, regardless of water shortages during the dry season. There is currently no reticulated sanitation system on or near Mandalika. A quarter of households presently do not have individual toilet facilities.[62]

12. **Solid Waste Management (SWM).** The coverage of SWM services varies widely on Lombok but is in general substandard: only Mataram City is well-served and has achieved 95-percent coverage, whereas West and Central Lombok Regencies stand at 70 percent and 20 percent, respectively.[63] In areas where solid waste collection services are lacking, including in and around Mandalika, residents dispose of their waste by dumping or open burning, leading to increasingly worrisome solid waste pollution of marine and land ecosystems on Lombok.[64] The Mandalika SEZ would divert all nontoxic, nonrecyclable waste to the 2ha sanitary landfill in Pengengat village, Pujut Sub-district, 20 km from Praya City. According to the Ministry of Public Works and Housing (MoPWH) assumptions, the landfill will reach capacity in 2023. There is urgent need for a long-term SWM solution which adequately addresses the increasing solid waste generated by growth in the regency, by Mandalika itself as well as induced developments.

13. **Power supply.** Power in Lombok is generated from several power plants (diesel, steam, mini-hydro) with a total installed capacity of 255 MW. Coverage of the National Power Company (*Perusahaan Listrik Negara*, PLN) power supply varies among the five regencies: (i) Mataram City has 100-percent coverage; (ii) North, West and Central Lombok have average coverage of 64 percent; while (iii) East Lombok is inadequately covered with only 33.14 percent.[65] All households in Kuta village were reported to be connected to the grid as of February 2018. There are plans for the installation of a 50 MW Mobile Power Plant in the short-term, and new power plants with a total capacity of 500 MW by 2021 and 720MW by 2025 in the medium to long term. In addition, a recent direct lending facility between PLN and the Asian Development Bank (ADB) should improve the reliability and capacity of power distribution on Lombok.[66]

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[60] For tourism areas, the more stringent SNI 3-7065-2005 applies, requiring a house connection and 24-hour water supply at 120l/cap/day for domestic users and 250l/bed/day for star-rated hotels.

[61] Bita Enarcon Engineering J.V. Egis International Indonesia (2015) *Detailed Master Plan—Mandalika Resort, Lombok*, p. 7-60.

[62] See SPM Permen PU 01/PRT/M/2014 for the national sanitation standards.

[63] World Bank 2017. Technical Assessment Report, Indonesia: Tourism Development Project.

[64] GIZ and Bappenas 2016. Global Sustainable Tourism Council (GSTC): Lombok Sustainable Tourism Destination Evaluation Report.

[65] World Bank 2017. Technical Assessment Report, Indonesia: Tourism Development Project.

[66] ADB Loan ID 50016-001: Sustainable Energy Access in Eastern Indonesia-Electricity Grid Development Program.

14. Overall, in the absence of effective zoning and building controls, Lombok island is increasingly affected by uncontrolled growth of individual hotels and tourism facilities with varying standards of construction and service. Basic infrastructure and services including water supply, sewerage, and SWM are generally lacking, leading to an environmental degradation and social concerns in a number of locations.

15. **Spatial planning around Mandalika.** In order to anticipate and control the induced development expected to occur around the Mandalika SEZ, the planning agency of Central Lombok Regency (BAPPEDA Kabupaten Lombok Tengah) is preparing a district strategic plan for the larger region around the SEZ, covering a "Core 1" (Mandalika SEZ), "Core 2" with several "areas of development" (wilayah perencanaan), and a buffer zone.

C. Overview of Mandalika Masterplan

16. Given the fact that Mandalika is likely to absorb a large share of as yet untapped demand for Lombok tourism for decades to come, concentrating facilities to accommodate this demand in a contained, well-regulated and competently managed environment, could preempt haphazard tourism development in other parts of Lombok, provided that development control especially in the immediate vicinity of Mandalika is well-enforced.

17. **Vision.** The Mandalika aspires to be a multi-faceted destination appealing to tourists seeking both traditional beach relaxation but also catering to the halal, MICE, sports and ecotourism segments. It aims to: (i) create a new tourism destination that complements existing tourism destinations, i.e., Bali; (ii) provide international standards of infrastructure and utilities; and (iii) promote sustainable tourism development.

18. **Land use planning.** The Mandalika is divided into two main sections: the more mixed-use western part catering to the middle- and upper-middle income and the more exclusive eastern part, each centered around circular "*hubs*" and connected by a main east-to-west artery (Figure A-6). The land use distribution as a share of the total project area is given in Figure A-7.

Figure A-6: Land use plan, updated in December 2017

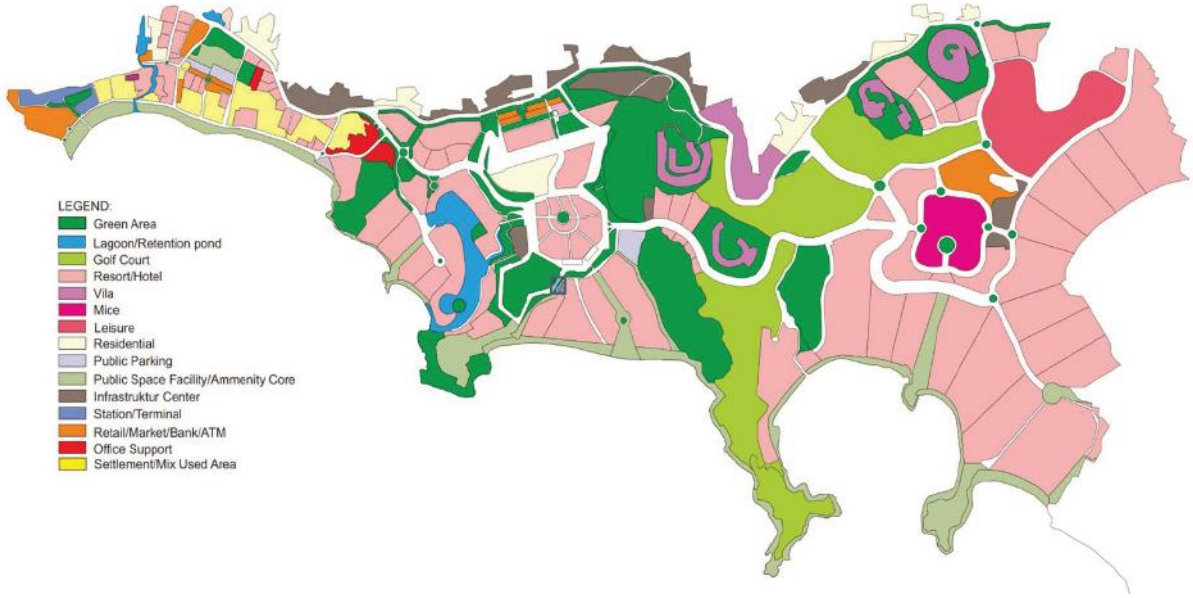
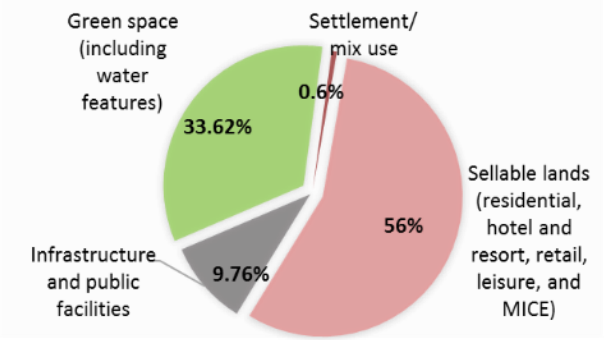


Figure A-7: Land use distribution



19. **Public access to Mandalika site and beachfront.** The main access to the site will be through the western part, though a new entrance to the site is planned for the later stage when the by-pass road to the airport is completed. The beachfront is open to the public in accordance with Indonesian regulations. Both resident and non-resident visitors will furthermore be able to access the popular Merese Hill and other elevated viewing spot without hindrance. A separate access to Gerupuk village from the provincial road will be provided, with an elevated access road to the Mangrove Sanctuary area at the western periphery of the site passing over the Gerupuk access road. While the various north-south promenades from the beachfront into the site's interior, presently called "*amenity cores*", will be publicly accessible, both resident and non-resident visitors will have to pass a security check at the western and eastern entrances to the site.

20. **Controlled release of salable lots in sync with infrastructure provision.** In order to prevent an oversupply of room keys which is out of step with present demand, salable lots will be released gradually, focusing initially on the western part of the site before progressing eastwards in later years (Figure A-8). According to the masterplan and latest market projection, full capacity is expected to be achieved in 2040 (Figure A-9). All public infrastructure is to be completed between 2018 and 2026.

Figure A-8: Exemplary release plan of salable lots (2020-2024 only)

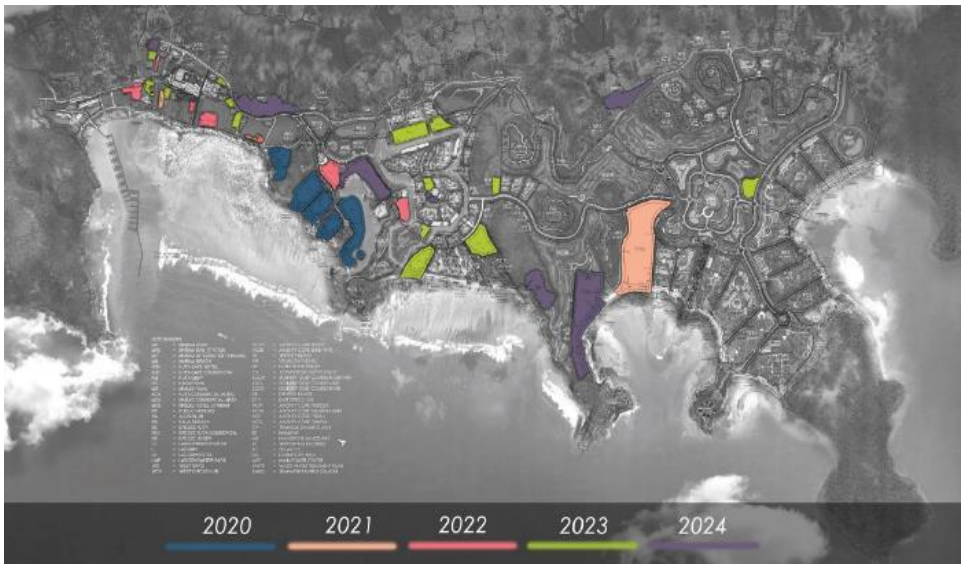
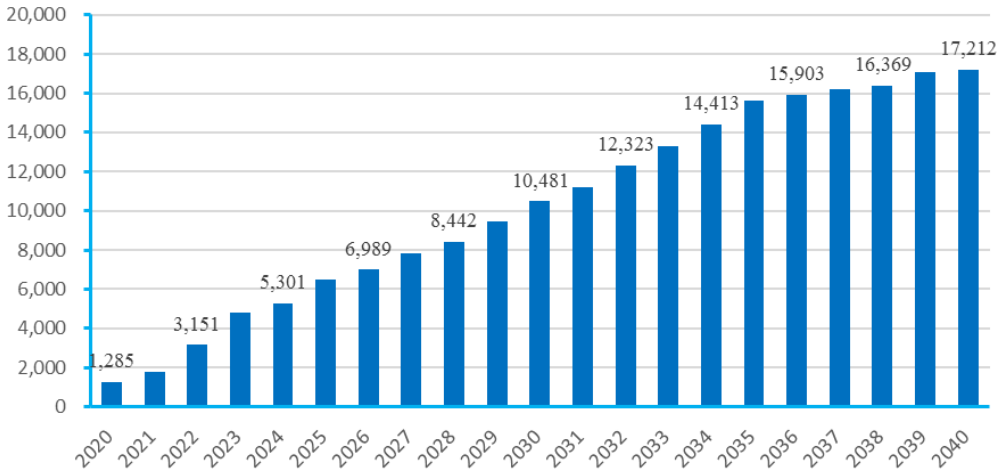


Figure A-9: Completion of Room Keys – Conservative Scenario (2020-2040)



Arrangements with Leaseholders and Current Status

21. **LUDA terms.** In addition to financial and legal provisions, each Land Utilization and Land Development Agreement (LUDA) signed with leaseholders stipulates, *inter alia*:

- Adherence to the masterplan's lot-wise limitations on building setbacks, maximum building coverage, building height, and landscaping.

- Pedestrian and utility easements on the property and their maintenance.
- That ITDC provide a paved access road, and adequate lines for potable water, sewage disposal, electricity and telephone services, as well as common facilities such as roads, medial strips, cart paths, walkways and landscaped areas.
- The approval procedure for leaseholders' plans and drawings by ITDC's Design Committee and requirements for construction quality and building maintenance.
- The maximum time after which facilities on leased property should be operational.

22. **Current status and uptake projections.** At the time of appraisal, LUDAs have been signed or committed for roughly 30 percent of salable land, primarily in the western part of the site. Apart from the existing Novotel, ITDC is well advanced in the construction of a Pullman hotel whereas tender preparations for a design and build contractor for a ClubMed are ongoing.

Water supply

23. **Demand assumptions for potable water.** The destination's future demand for resources and estimates of associated environmental and social impacts will, to a large extent, depend on two factors: the number of rooms and the occupancy rate. In principle, the site could host as many as 27,869 rooms, if the maximum allowable number of rooms would be constructed on each of the site's 140 lots. However, to be cognizant of the natural and social environment's carrying capacity, to calibrate the site's intended visual amenity, and to prevent oversupply of rooms which could affect the sustainability of business operations, the actual number of rooms sanctioned by ITDC at full capacity in 2040 is expected to be between 15,300-17,200 rooms (see Figure A-9). Likewise, occupancy rates for a new tourism destination at the scale envisioned are likely to slowly increase from 40 to around 75 percent in 2040. The following demand assumptions therefore present both the maximum estimate (indicated by 'max.') assuming full build-up and 100 percent occupancy, as well as the conservative estimate assuming a controlled build-up and conservative occupancy rates (indicated by 'cons.'). At full capacity, demand for potable water is estimated to reach 20,210 m^3/day (max.)[67] or 10,544 m^3/day (cons.), respectively.

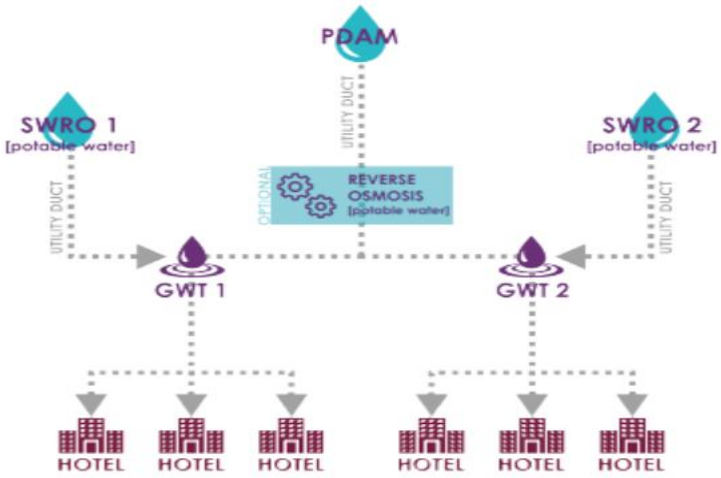
24. **Proposed solution.** Clean water could be supplied to the project area from two main sources: Seawater Reverse Osmosis plants (SWRO) and PDAM (Figure A-10). As ITDC expects both the quantity and quality of PDAM water to remain below tenant requirements, at least in the near term, the project will rely entirely on SWRO water for the foreseeable future.[68] Currently, one SWRO plant with a capacity of 3,000m^3/day has been constructed in the western part of the site. It is intended that the completed plant will be commissioned once an additional study for identifying an optimal location for safe and reliable seawater abstraction and brine effluent discharge has been completed, the requisite environmental permit for discharge has been obtained and the first tenants have been connected. When additional lots are released and

[67] This includes a 10+ percent safety buffer in addition to the demand assumptions given in SNI 03-7065-2005 and other resort benchmarks drawn on to estimate total final demand.

[68] Presently, discussions are ongoing for PDAM to construct a tertiary treatment plant to improve the quality of its supply up to the level required by Mandalika's tenants, before delivering it to, and mixing it at, the site's water storage facilities.

occupied in the eastern part of the site, a second SWRO plant is proposed, supplying the eastern section of the site. Both plants are modular in nature and can be upgraded in increments of 3,000m³/day to reach a maximum of 15,000m³/day each at full capacity.

Figure A-10: Potable water supply network in Mandalika



25. **Storage and distribution.** Water from either SWRO and/or PDAM will be stored in circular reinforced concrete reservoirs, labeled 'Ground Water Tanks' by ITDC (GWTs), located at topographically higher locations at the eastern and western zone, with a total storage capacity equal to the project area's water demand for two days.[69] Water would be pumped into the main water distribution network, with standby power provided by ITDC's local generator sets, at each of the GWT sites. A network of pressurized distribution lines will then divert water from the GWTs to smaller storage tanks at each lot provided by the respective leaseholder with a storage capacity equal to three days demand.

Waste water treatment

26. **Demand assumptions for waste water treatment.** The project assumes that waste water will constitute roughly 80 percent of potable water supplied.

27. **Proposed solution.** Waste water will be collected through a closed pipe network, constructed as a combined system of gravity- and pumping-based transmission, to one Waste Water Treatment Plant (WWTP) each in the western and eastern zone. The WWTPs will adopt Anaerobic Baffled Reactor—Sequencing Batch Reactor technology as the central treatment process, with a maximum operational capacity of 20,000 m^3/day. Effluent will be compliant with

[69] Six GWTs are planned to be constructed with a collective storage capacity of 45,000 m³ (three tanks in the western zone with a combined capacity of 24,000 m³ and three tanks in the east totaling 21,000 m³). The western GWTs will be constructed first, at full capacity, with a temporary connection to the eastern zone. The construction of the eastern GWTs is expected to be completed in 2022.

national regulations[70] and reused for irrigation of green spaces throughout the site. The produced sludge will be composted and reused at ITDC's plant nursery.

28. **Distribution.** Wastewater will be first collected into Sewage Lift Stations (SLS), a system comprised of a wastewater storage tank and pump, located at lot boundaries. Smaller lots will share one SLS while larger lots will be assigned a dedicated SLS. Leaseholders are responsible for providing and maintaining the sewage collection network within their lots and diverting sewage to the SLS storage tank provided by ITDC at the boundary, from where it is pumped to the main sewer. SLS pumps will work collectively, in relay, to ensure sufficient pressure.

Irrigation

29. **Demand assumptions for irrigation water.** Demand assumptions for irrigation water are based on per lot building coverage ratios, a green open space coverage of 40 percent of the un-built component, and an irrigation water need of 5l/m²/day. At full capacity and averaged out over dry and wet seasons, total irrigation demand, including for the planned 98-ha golf course, is estimated to reach 11,802 m^3/day.

30. **Proposed solution.** WWTP effluent will be the main water source for irrigating both public and private greenery in the Mandalika SEZ. Total treated wastewater effluent is estimated to constitute 70 percent of waste water treatment capacity. Effluent will be distributed to 2 x 1,500 m^3 semi-submerged tanks for the western, and 3 x 2,340 m^3 for the eastern zone, sufficient for 1 day of irrigation demand, while hotels are also required to provide for additional on-site backup storage. Three distribution pumps will be deployed at each WWTP.

31. **Risks.** Due to irrigation water supply being primarily dependent upon the use of potable water, treated waste water effluent may, in case of low occupancy rates, not satisfy irrigation demand especially during the dry season, requiring ITDC, hotels and golf facilities to purchase additional irrigation water from the SWRO, PDAM or third-party water vendors. As the Landscape Design Guidelines or LUDAs do not yet specifically call for vegetation with low water needs or other specific water efficiency measures, there is a risk that the project could contribute to the depletion of both ground and surface water in South Lombok, unless closely monitored and managed. As a reference, the existing condition in Nusa Dua, Bali, where grey water supplied by the resort itself is proving insufficient to meet the irrigation demands of the resort during dry seasons, has led to ITDC Nusa Dua requesting the local municipality to treat part of the municipality's waste water to be able to close the existing irrigation supply gap. This is in the context of intense competition by Bali's tourism sector and other stakeholders for ever scarcer water resources.[71]

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[70] (i) Decree of the Environmental Minister no. 51/2004 on the seawater quality standard for marine tourism and (ii) Decree of the Environmental Minister no. 68/2016 on the domestic sewage quality standard.

[71] Cole, S., and Browne, M. (2015) 'Tourism and Water Inequity in Bali: A Socio-Ecological Systems Analysis'. Human Ecology 43(3), pp. 439-450.

Solid Waste Management (SWM)

32. **Projected solid waste production.** Based on national solid waste standards, industry benchmarks,[72] Mandalika is estimated to produce up to 600.5 m³/day (max.) or 347 m³/day (cons.) of solid waste at full capacity in 2040.

33. **Proposed solution.** In general, ITDC plans to adopt in Mandalika the SWM approach found successful in Nusa Dua. Leaseholders are charged for solid waste collection under the normal "assessment fee" at a per m² rate. Leaseholders can choose not to make use of ITDC's service, however, and instead sell unseparated waste to third-party waste collectors. If utilizing ITDC's services, hotels are required to separate waste at source. Organic waste will then be composted on-site and used for landscaping, while inorganic, non-toxic, non-recyclable waste will be disposed at the nearby Regency Pengengat landfill. A SWM center, including relevant facilities and a solid waste haulage fleet, will be established for the Mandalika SEZ at an eastern location.

34. **Impact on Central Lombok Regency's solid waste management capacity.** If Mandalika's initially quite marginal, but eventually significant, solid waste production is factored into the capacity of the Pengengat landfill, the currently allocated land area of two ha is likely to be exhausted in 2023, necessitating a further expansion or a secondary landfill location. A more urgent concern than solid waste produced on-site, however, may be the inevitable increase in solid waste production from induced development in the periphery of Mandalika where coverage of solid waste collection services may continue to be infrequent and unregulated. AIIB has sought to address this concern both through the content of Component 1.2 and coordination efforts with the Regency government and the WB.

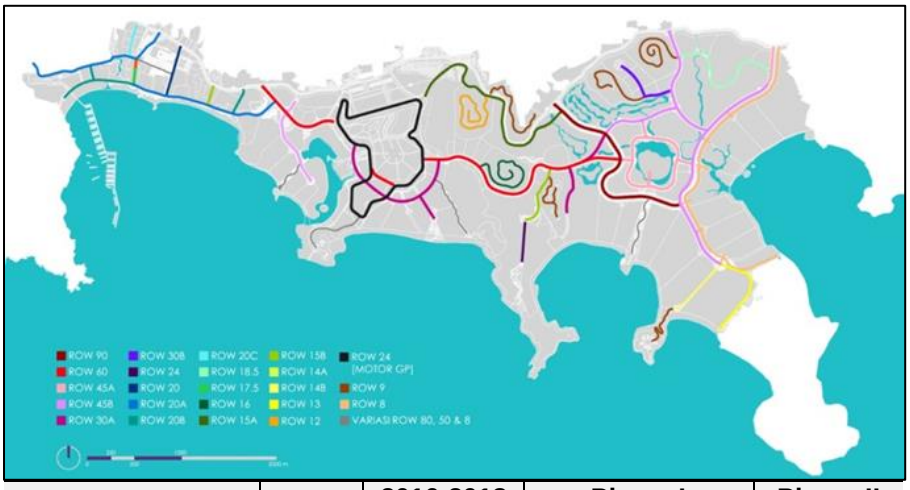
Roads

35. **Demand assumptions.** Given the spatial expanse of the site and the expected number of room keys, offering a high degree of mobility to a large volume of guests and visitors with different mobility needs and preferences will be a key priority for the project. At present, a total of 4.5 kilometers have been constructed using a government allocation (*Penyertaan Modal Negara*).

36. **Proposed solution.** The project will finance a combination of a road network, universal sidewalks and dedicated cycle lanes, a bus service connecting different parts of the site, and parking plazas located along the amenity cores and in-service areas. At full capacity, Mandalika will feature a 55.25 km road network, including 35.15 km of local roads (ROW8-30), 11.2 km of main collector roads (ROW45-50), a 6.03 km ROW60 east-west backbone, a 0.65 km ROW80 section and a 2.23 km ROW90 connecting to the future airport by-pass (see Figure A-11). The ROW of each road segment has been selected based on topographical conditions as well as trip generation projections in turn based on adjoining land uses and expected trip intensities.

[72] See SNI 19-3983-1995, the Bita masterplan of 2015, and Pirani and Arafat (2014) 'Solid waste management in the hospitality industry: A review'. Journal of Environmental Management 146, pp. 320–336.

Figure A-11: Proposed Alignment for all ROWs at Mandalika

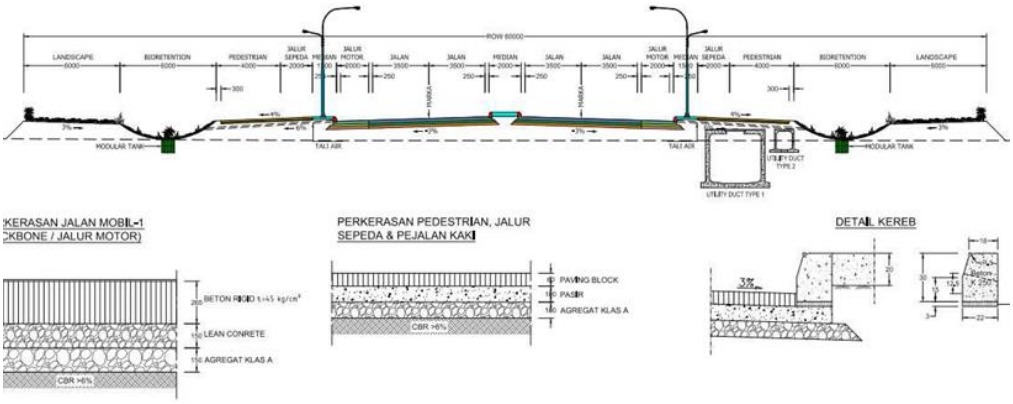


Type of ROW	Length (Km)	2016-2018 (financed by GoI/ITDC)	Phase-I 2019-2023 (financed by AIIB)	Phase-II 2024-2026
ROW 8	4.46		0.93	3.52
ROW 9	4.93			4.93
ROW 12	1.77		0.24	1.52
ROW 13	1.00		1.00	
ROW 14	0.67		0.67	
ROW 15	4.54	3.15	1.39	
ROW 16	1.25			1.25
ROW 17.5	0.90	0.90		
ROW 18.5	1.37		1.37	
ROW 20	5.85	3.25	0.47	2.13
ROW 24	5.11		5.11	
ROW 30	3.30	1.30	2.00	
ROW 45	10.79	0.77	10.02	
ROW 50	0.41		0.41	
ROW 60	6.03	1.87	1.71	2.46
ROW 80	0.65		0.65	
ROW 90	2.23	2.23		
Total	**55.25**	**13.47**	**25.97**	**15.81**

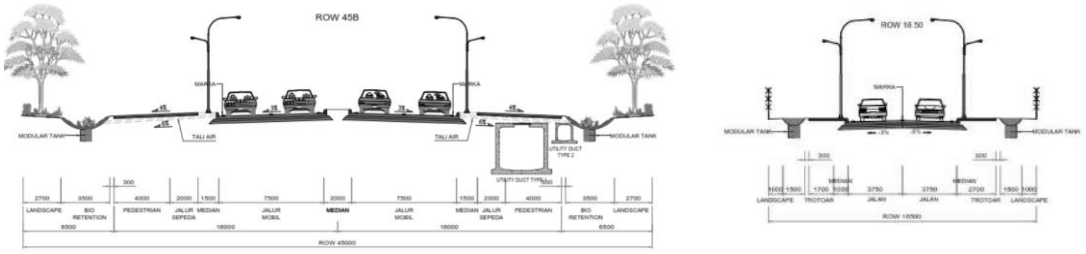
37. **Road design.** Road designs comply with the Bina Marga national highway design code both in terms of geometric structure, construction materials specification, safety provisions and road signage. The average design speed is 30km/h.[73] Various cross-sections are reproduced in Figure A-12.

[73] According to RSNI T-14-2004, design speeds for local secondary roads are 30 – 50 km/h.

Figure A-12: Examples of cross-sections - ROW 17.5, 45B, and 60



ROW 60: Type: 2 x 1 lane (2 undivided lanes); Total width: 60 m; Pavement: 15 m



ROW 45B: 2 x 1 lane (2 unseparated lanes); Pavement width: 15 m (left)
ROW 18.5: 2 x 1 lane (2 unseparated lanes); Pavement width: 7.5m (right)

38. **Utility corridors.** All utilities such as water supply, sewerage, irrigation, power, telecommunications, and gas, will be housed in concrete utility corridors within the right of way. The proposed utility corridor solution has been chosen considering its advantages such as: (i) easy accessibility to utilities for maintenance, new connections as the site develops, upgrading, and resulting cost savings over the lifecycle; (ii) reduced surface area required, and cons: (i) high initial construction cost compared to traditional open excavation methods; (ii) difficulty of installing the sewerage line,[74] which is designed as a combined gravity and pressurized network. The underlying calculations provide reasonable confidence in the feasibility of the proposed solution.

Drainage and Flood Protection

39. **Risk assessment.** The proposed project is exposed to three main flood hazards: extreme local rainfall; high river discharge (river overflow and flashflood); and high sea water level.

40. **Proposed solution.** Three different measures have been selected to overcome these threats which, collectively, will constitute an integrated flood protection for the project: bioretention

[74] This is due to difficulties in ensuring the minimum slopes necessary for gravity flow which might have implications for the utility corridor grade/slope and depth causing deeper excavations and higher costs.

(for extreme local rainfall); river normalization (for river overflow and flashflood); and project area elevation through earth-fill work (for high sea water level).

- **Bioretention.** Instead of being diverted through concrete channels (conventional drainage system), rainfall-runoff will be diverted into grids of swales, made up of underground modular tanks and porous filling materials, storing the rainfall and then allowing it to infiltrate to the local soil. Statistical analysis, as well as soil permeability and storing capacity tests have been carried out to estimate the design rainfall intensity, quantify the runoff volume, and thus determine the number of tanks and their alignment along the roadside. Leaseholders are held to comply with a zero-runoff requirement under each LUDA. The ITDC Design Committee will review the drainage plans and flood protection measures for each lot and request changes, if needed, before approval.

- **River normalization.** River normalization (bank management and widening) will be carried out to significantly increase the capacity of the surrounding rivers. Statistical analysis was conducted to estimate the maximum river discharge, with a return period of 50 years selected as the basis of design. This was used to calculate the river dimension required to cope with the design river discharge, and the potential debris load transported during flashflood, without causing overflow into the project area.

- **Offsite retention ponds.** River normalization will only be sufficient in the short and medium term as rainfall intensifies and the river capacity reduces due to sediment accumulation on the riverbed. ITDC has therefore engaged the local river basin organization (*Balai Wilayah Sungai Nusa Tenggara 1,* BWS) and the MoPWH proposing to construct seven retention ponds upstream of and outside the project area. These ponds are projected to regulate the maximum river discharge, provide a first line of defense against debris during flashfloods, and improve onsite water quality by capturing potential domestic sewage disposed upstream of the project area. The proposal overlaps partially with the current work plan of the BWS which has been planning to construct one of the proposed ponds and completed a DED in 2013. Both MoPWH and BWS have responded positively to this proposal.

- **Project area elevation.** Studies and surveys were conducted on the tidal characteristics along the shoreline of the project area with the main objective of estimating the high sea water level currently and in the long term, also factoring in expected sea level rise due to climate change. Results were subsequently used to determine a flood-safe elevation for the project area and to plan the earthworks needed to elevate it to such a level.

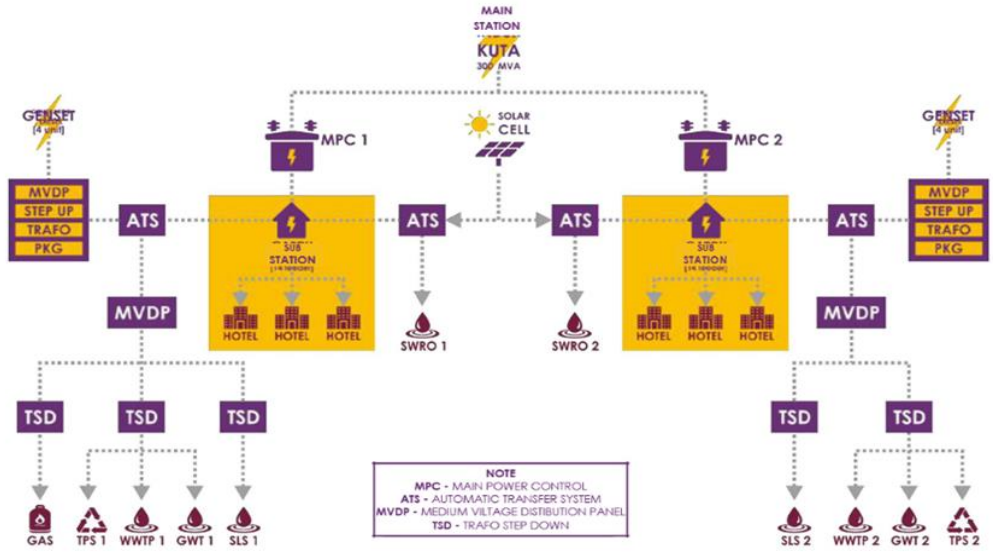
Electricity Supply

41. **Demand assumptions.** Mandalika's projected power demand at full capacity will be 265 MVA. Electrical load for the western zone was estimated at 120 MVA and 145 MVA for the eastern zone.

42. **Proposed solution.** PLN would be responsible for supplying reliable electricity to Mandalika. An MoU between PLN and ITDC was signed in 2018. [75] PLN currently has 20MW of surplus capacity with expansion on-going. In addition, there are plans for a Joint Venture to construct a 35MW solar PV power plant at the northern site boundary under a Power Purchase Agreement with PLN, which will buy electricity back in bulk from PLN and sell it on to leaseholders.

43. **Distribution and backup.** Electric power for this area is planned to be supplied from the main substation located on the northern site boundary. Two Main Panel Controls (MPCs) of 120MVA and 145MVA will serve the western and eastern zone, respectively, via 15 feeders, each with maximum load of 11MVA, and distributed substations, respectively. [76] The internal 20kV/220v distribution network will also be housed in the roadside submerged utility corridor. Connections from the utility corridor to individual lots, and the provision of transformers, would be the responsibility of leaseholders. Any large hotel complex in need of three-phase systems will, in addition, in coordination with PLN be supplied with 380V distribution. The system will be Supervisory Control and Data Acquisition controlled. The MPC package also includes Automatic Transfer Switch-controlled emergency generators with a capacity of 4MVA each for the eastern and western zone to ensure firefighting capacity and continued operation of both SLSs, WWTPs, SWROs, ICT, EWS, and ITDC office in the case of blackouts.

Figure A-13: Power Distribution System in Mandalika



[75] The MoU is expected to lay the foundation for the establishment of a new shared entity (foreseen to be in the form of a Joint Venture Company) which will manage electricity supply to the project area. Therefore, for the coming two years both SOEs have agreed to: (i) conduct a preparatory study for future formal cooperation; especially related to the legal, operational, technical, economic and financial aspects of the new entity; (ii) conduct a joint study on the management of electricity power in Mandalika SEZ, including preparing a renewable energy generation and utilization plan focused on solar energy.

[76] General standards applicable are: General Rules of Electrical Installation; Standard of State Electrical Company.

Disaster Risk Management (DRM)

44. **Known hazards.** According to a 2016 BNPB[77] hazard risk score, the following hazards were deemed '*high*' for Mandalika: flooding; flash flooding; extreme waves and erosion; earthquakes (medium); drought; landslides; and tsunamis.[78] Based on a 2010 Ministry of Public Works Probabilistic Seismic/Ground Motion Hazard Assessment (PSHA), Mandalika's bedrock has a relatively high peak ground acceleration (PGA) potential, with a 10 percent probability of a 0.250g event over a 50-year return period. In July and August of 2018 Lombok was struck by a series of earthquakes, causing significant loss of life and property, particularly in the north and west of the island (a M_w 6.4 earthquake on July 24, 2018, M_w 6.9 on Aug. 5, 2018, and M_w 6.9 on Aug. 19, 2018). While property on the project site itself was not damaged, the need for appropriate mitigation measures is more than evident. Concurrently, Lombok has a 1-10 percent annual probability of experiencing a tsunami with a height of >3.0 m. [79]

45. **Risk management measures: seismic hazard.** Outlined in the project's Resort Design Guidelines and enforced through the Design Committee, all structures within the project boundary must comply with the building code and the following legislation and regulations to ensure seismic resistance: Law No. 28 of 2002 on Buildings; SNI 1726-2002 on Seismic Resistant Design Standard for Buildings; and SNI 1727-2013 on Minimum Loads for Buildings and Other Structures.

46. **Risk management measures: tsunami hazard.** In response to the tsunami hazard, buildings and infrastructure are required to comply with Ministry of Public Works Regulation No. 06/PRT/M/2009 on Guidelines for Infrastructure Development in Tsunami Hazard Zones. The project will also provide a total of 11 Temporary Evacuation Shelters (TESs), located on the site's hilltops near the beachfront and further inland and near the northern periphery, all equipped with kitchens, toilets, first-aid facilities, sirens and CCTV. In addition, leaseholders are required to provide so-called elevated "evacuation zones" on upper floors and rooftops. Detailed engineering designs for TESs have been completed. The location of TESs and escape routes has been determined in such a way that even visitors with limited mobility would be able to reach the nearest TES within 15 minutes.

47. **Early Warning System (EWS) and drills.** The Emergency Action Plan of Nusa Dua will be replicated in Mandalika, consisting of four components: (i) a study analyzing the potential risks; (ii) communication of the tsunami risks to staff and guests; (iii) constant monitoring of potential

[77] BNPB—Badan Nasional Penanggulangan Bencana, or National Agency for Disaster Management.

[78] Extreme wind conditions do occur, often in conjunction with heavy rainfall, but do not represent a material risk to permanent structures. Flash floods had a return period on the site of 10-12 years. Their occurrence was considered in the calculations for the "river normalization" works envisioned, assuming that the northern periphery retention ponds are *not* built. Risks for high waves are highest at the Kuta beach site but will not affect structures due to the steep beach profile and a 100m setback from the shoreline.

[79] Horspool et al. (2014) 'A probabilistic tsunami hazard assessment for Indonesia'. *Natural Hazards and Earth System Sciences* 14, pp. 3105–3122.

tsunami events;[80] (iv) enhancement of the resort's response capacity. The plan foresees DRM training for ITDC staff and an annual drill on December 26 covering all possible disasters to be conducted by all ITDC and hotel staff. Socialization measures for guests in the form of videos and direct communications are also part of the non-structural DRM measures. According to national regulation, ITDC also has the responsibility to provide shelter and emergency evacuation to the local population in the immediate vicinity of the site. Both staff capacity and physical facilities will be ensured to accommodate this additional demand.

48. **Phasing.** Though the full EWS system will not be operational until 2025, the building in Kuta beach to house the monitoring capacity on an interim basis has already been constructed. The EWS control room and facilities are currently under procurement and will be completed in 2019. Until 2025, existing fiber-optic infrastructure (minimum capacity without backup) will be used to provide EWS services for the existing tenants. In 2025, monitoring functions will be transferred to the ITDC office building.

D. Key lessons learned for project design and implementation

49. Tourism being a new asset class for the Bank, lessons learned were gathered from a series of projects, including from, but not limited to, Indonesia,[81,82] Turkey,[83] Mexico[84] and the Dominican Republic,[85,86] as well as a wide literature review.[87,88,89,] Key lessons relevant for individual phases of the project cycle have been incorporated into the project design and are outlined in Table A-2 below.

Table A-2: Relevant Lessons Learned for Project Design

Project stage	Relevant key lessons

[80] BMKG (Agency for Meteorology, Climatology, and Geophysics) sensors notify the BNPB (National Agency for Disaster Management) in the case of seismic activity which could trigger a tsunami. The provincial BPBD (Provincial Agency for Disaster Management) has the authority to issue a tsunami warning which would then be communicated to TV/local radio and ITDC Mandalika. National regulations require the communication chain to the potentially affected public to be completed within at most four minutes.

[81] World Bank (1985) Indonesia: Bali Tourism Project—Project Completion Report.

[82] Additional findings based on a site visit and stakeholder consultations in February 2018.

[83] World Bank (1986) South Antalya Tourism Infrastructure Project – Project Completion Report.

[84] Padilla (2015) 'The environmental effects of tourism in Cancun, Mexico'. International Journal of Environmental Sciences 6 (1), 282-294.

[85] IADB (2017) 'Tropicalia Sustainable Tourism – Environmental Review'. Available online at: iic.org/en/projects/project-disclosure/12130-01/tropicalia-sustainable-tourism [16-Jan-2018]

[86] Fundación Tropicalia (2016) *Sustainability Report 2016.* Available online at: https://www.unglobalcompact.org/system/attachments/cop_2017/378341/original/Tropicalia_Sustainability_Report_2016_Eng-Spa.pdf?1493130585 [01-Feb-2018]

[87] UNWTO (2004) Indicators of Sustainable Development for Tourism Destinations.

[88] UNEP (2008) Disaster Risk Management for Coastal Tourism Destinations.

[89] UNWTO (2017) Managing Growth and Sustainable Tourism Governance in Asia and the Pacific.

Overall institutional arrangements	A strong institution with the appropriate authority is required to coordinate the activities of a wide range of private investors, public utilities and project affected people. Through Component 2, the capacity of ITDC to fulfil this role will be enhanced. The pursuit of the Indonesian National Standard for Sustainable Tourism Destinations will further guide the engagement with and coordination of these various stakeholders.
Pre-construction phase	Land acquisition can delay the project significantly. A detailed land study was conducted to determine, and identify ways and timelines for resolving, any outstanding land legacy issues. Further, detailed designs of project works have been finalized for all sectors except waste water treatment and drainage, though the conceptual design is considered adequate. A Resettlement Planning Framework, Disaster Risk Management Plan, and Environmental Monitoring and Management Plan is in place. The issue of adequate employee housing is being addressed by ITDC.
Early operational phase	Pre-project assurances from private investors for hotel and other tourism facilities are crucial to ensure the viability of the project in its initial phase. This appears to be the case, with LUDAs signed for roughly 30 percent of salable land as of July 2018. The site's SEZ status, while attracting investors, will reduce public revenues significantly, making the argument for the project to provide off-site infrastructure in the immediate vicinity especially pertinent. Simply increasing tourist numbers and average spending or focusing on cultural tourism do not necessarily lead to economic benefits to the local economy. What will instead ensure these benefits is a less enclaved site layout and access policy, the provision of dedicated lots for local vendors (which the masterplan and loan component foresees), a wide range and high quality of artisanal products with a distinct local flavor, proactively linking local suppliers of consumables and non-consumables with hotels and restaurants early on to ensure product quality/quantity and reliability, a comprehensive hospitality training program, and the diversification of beach package tourism, among others.[90]
Later operational phase	Irrigation demand, 15 to 25 percent of which could be to maintain the planned golf course, is likely to eventually exceed treated waste water supply and thus needs to be modelled accurately. Monitoring the long-term equitable use of water[91] and other natural resources by large coordinated tourism interests as well as smaller tourism and non-tourism stakeholders in South Lombok needs to be an integral part of the ESMP. While on-site infrastructure appears to be adequate, the impact of induced off-site activities both on land as well as at sea (yachts, speedboats, cruise ships) on ecosystems needs to be prevented, anticipated, regulated and mitigated, which will require an active role by, and sufficient resources from, the Regency. External risks such as global economic shocks affecting demand can be somewhat mitigated through diversification of tourism facilities targeting different income brackets (mid- to high), travel purposes (MICE, business, eco, sports, leisure) as well as both domestic and foreign tourists.

[90] SNV and ODI (2006) How can governments boost the local economic impacts of tourism? Options and tools. London, United Kingdom: ODI.

[91] Cole, S., and Browne, M. (2015) Tourism and Water Inequity in Bali: A Socio-Ecological Systems Analysis. Human Ecology 43(3), pp. 439-450.

Annex 3: Detailed Project Description

50. The main objective of the proposed project is to provide sustainable basic infrastructure for the development of a new tourism destination in the Mandalika region of Lombok. Critical basic and tourism-related infrastructure will be provided for the Madnalika SEZ site which have been largely acquired by the GoI. Serviced lands are to be leased to private investors to construct retail, accommodation and other tourist facilities to an internationally acceptable standard. In addition, the project includes improvements to basic infrastructure and services in selected surrounding communities that can serve both visitors and residents. The project will aim to protect and enhance the unique cultural life and scenic attractions of the project area which are its major tourism assets.

51. The total cost of the Project is estimated to be USD316.5 million, of which USD248.4 million will be funded by a sovereign backed loan from the Bank's financing. Key basic infrastructure in Mandalika is proposed to be developed in two phases: Phase-I (2019-23); and Phase-II (2024-26). AIIB's financing will focus on the Phase-I. During 2016-18, extensive land development, some road construction, a beach promenade and tourist facilities, as well as the construction of a mosque have already been self-financed through an equity injection by GoI. Detailed project component design and estimated costs were developed during preparation, drawing also on the ITDC experience gained from developing and managing Nusa Dua. The cost estimates of the project and financing sources are summarized in Table A-3.

Table A-3: Project Cost and Financing Sources (Indicative, in million USD)

Project Components	Total Cost		Financing source					
			AIIB			GoI/ITDC		
	IDR in billion	USD in million	IDR in billion	USD in million	%	IDR in billion	USD in million	%
Component 1: Provision of basic services and infrastructure	**2,454.92**	**169.30**	**2454.92**	**169.30**	**100.00**	**0.00**	**0.00**	**0.0**
1.1 Construction of basic infrastructure in Mandalika	2,382.42	164.30	2,382.42	164.30	100.00	0.00	0.00	0.00
1.2 Infrastructure improvements for neighboring communities	72.50	5.00	72.50	5.00	100.00	0.00	0.00	0.00
Component 2: Implementation support and capacity building	**223.22**	**15.39**	**208.72**	**14.39**	**93.50**	**14.50**	**1.00**	**6.50**
2.1 Project management support	122.75	8.47	122,75	8.47	100.00	0.00	0.00	0.00
2.2 Construction management	71.47	4.93	71.47	4.93	100.00	0.00	0.00	0.00
2.3 Establishing economic linkages	14.50	1.00	0.00	0.00	0.00	14.50	1.00	100.00
2.4 Destination management and monitoring	14.50	1.00	14.50	1.00	100.00	0.00	0.00	0.00
Land Cost	973.09	67.11	-	-	0.00	973.09	67.11	100.00

Base Cost	3,651.23	251.81	2663.64	183.70	72.95	987.59	68.11	27.05
Contingencies (Physical and Price)	599.66	41.36	599.66	41.36	100.00	-	-	0.00
Frond-end fee	8.92	0.62	8.92	0.62	100.00	-	-	0.00
Interests and Commitment Fee during construction	329.45	22.72	329.45	22.72	100.00	-	-	0.00
Total Project Cost	**4,589.26**	**316.50**	**3,601.66**	**248,39**	**78.48**	**987.59**	**68.11**	**21.52**

Component 1: Provision of basic infrastructure (USD169.30 million, of which USD169.30 million AIIB financing)

52. **The objective of Component 1 is to support the development of a new tourism destination in Mandalika through infrastructure investments.** This component includes interventions in the following areas: (i) provision of core infrastructure in the Mandalika area; and (ii) infrastructure improvements in selected nearby villages.

Sub-component 1.1 - Construction of basic infrastructure in Mandalika

53. Sub-component 1.1 would provide financing to implement the first phase of essential infrastructure investments in the Mandalika SEZ of Lombok. This will include internal roads; drainage; water supply network, sewerage network; waste water treatment; solid waste management; electricity distribution; landscaping, public and community facilities; and disaster risk management.[92] The location of infrastructure to be implemented first would be based on the location of leased or in-demand lots to facilitate optimal take up by investors as well as efficiency concerns.

54. AIIB financing will support the following:

(i) Carrying out of road and paving works, including the construction of 25.9 km roads, with culverts, crossing box drains, drainage, landscaping, street lighting, and utility corridors, connecting hotels and tourism service facilities in the SEZ.
(ii) Construction of solid waste management facilities to collect, sort, and transport domestic and landscape garden wastes in the SEZ, including a waste management center with relevant buildings, fencing, and haulage equipment.
(iii) Construction of pipelines for potable water, sewerage, and irrigation water networks (including sprinklers) of 24.6 km each, with 1 water storage tank (west), sewage lift stations, 1 Waste Water Treatment Plant (west), installation of electrical cables[93] (34.2

[92] Additional infrastructure investments by public and private sectors during this period would include the construction of green infrastructure assets in the form of a 35-Megawatt solar PV power plant and two SWRO plants, which will reduce reliance on limited natural resources in the island.

[93] Under the MoU signed by PLN and ITDC, PLN would undertake the work required to link the Mandalika to its local power system and ensure that sufficient generating capacity to serve the future power demand in Mandalika would be available as and when needed.

km) with 1 Main Panel Control (west) and distribution substations, to serve accommodation, retail, and other tourist facilities in the SEZ.

(iv) Carrying out of the integrated drainage works for the SEZ, including bio-retention (swales and modular tanks), river normalization (including bank management and widening, retention ponds, lagoons, and wetlands) and flood protection through earth-fill work to overcome extreme local rainfall, high river discharge, flashfloods, and high tide and sea storms water level.

(v) Construction of disaster risk management facilities in the SEZ, including the installation of an Early Warning System connected to PCC-R, CCTV, and sirens, the construction of temporary evacuation shelters, escape routes, comprehensive signage.

(vi) Construction of public facilities, including gates, amenity cores (public promenades leading from the beachfront into the interior of the site), a small mosque (east), and public spaces, to serve both visitors and residents in the broader Mandalika region.

Sub-component 1.2 - Infrastructure improvements for neighboring communities

55. The Sub-component 1.2 would support infrastructure improvements for the selected surrounding villages, including water supply and sanitation, drainage, solid waste management, transport, disaster risk reduction, protection of natural assets, and community facilities. This would ensure that an equitable share of the benefits of the Project reaches local communities, while mitigating likely negative externalities from an increased influx of tourists and associated businesses.

56. One of the risks faced by the Project is that it could fail to materially improve, or even maintain, livelihoods, while negatively impacting on communities' socio-cultural identities or access to land and natural resources. Alternatively, potential project-related benefits such as increased employment and socioeconomic status may take too long to materialize so that broad community support for the Project is no longer given. It is therefore crucial that the project benefit surrounding villages in a timely fashion, without having to wait for incidental spillover effects. This sub-component aims to: (i) ensure commitment and continued support from local communities to the Project during preparation, implementation, and operation; (ii) sustain environmental livability conditions of surrounding areas and improve infrastructure linkages with the Mandalika tourism area and (iii) improve livelihood and well-being of surrounding local communities.

57. The geographical scope of this sub-component will broadly support the four villages of Kuta, Sukadana, Mertak, and Sengkol (see Annex 2. for details). The maximum cumulative contract values for each village will be determined following a multi-criterion analysis based on population size, socioeconomic status, infrastructure needs, existing and immediate infrastructure investments planned by local government and development partners as well as proximity to, as well as likely induced impacts from, activities within the Mandalika SEZ.

58. **Eligible Infrastructure.** Eligible expenditure can cover a range of contract sizes, though not exceeding the maximum per-village cumulative contract value. Extensive consultations were

carried out during project appraisal which identified a range of eligible infrastructure types to be included, leading to the following shortlist:

(i) Water supply: construction or expansion of water supply network; repairs or replacement of water storage facilities.
(ii) Sanitation: construction or improvement of household and community toilets; purchase of septic tank pump out trucks; construction or improvement of community septic tanks.
(iii) Drainage: improvement or construction of drainage infrastructure including culverts, underground and road side drainage channels, swales, retention ponds.
(iv) Solid waste management: small-scale solid waste processing facilities; household-level collection equipment; small garbage collection vehicles and other collection equipment; small-scale biogas and composting equipment; temporary disposal sites.
(v) Transport: routine and preventative road maintenance; road improvement and reconstruction; road betterment including minor widening; improvement of sidewalks and bicycle paths; bridge routine and periodic maintenance; other road-related infrastructure such as street lighting.
(vi) Disaster risk reduction: Construction of high level evacuation structures or retro-fitting of existing public-access buildings such as schools to perform as such; on-shore breakwaters, seawalls or coastal forests; installation of sirens and integration with *Badan Penanggulangan Bencana Daerah* early-warning system; escape routes; signage.
(vii) Protection of natural assets: rehabilitation of mangrove and coral reef habitats; small-scale water-efficient irrigation facilities.
(viii) Community facilities: landscaping and beautification; hospitality training centers; cultural centers; small-scale medical facilities; improvement of existing piers and other low-impact coastal facilities.

59. **Ineligible expenditures.** Sub-component 1.2 funds cannot be used to finance: (i) purchase of land; (ii) economic activities involving revolving funds; and (iii) activities with significant adverse environmental and social impacts that are irreversible, cumulative, diverse or unprecedented (Category A) requiring a full AMDAL in accordance with Ministry of Environment Regulation No. 5 of 2012 and Ministry of Public Works and Housing Regulation No. 10 of 2008.[94]

60. Upon determination of shortlisted investment activities under Sub-component 1.2, commencement of procurement of works is dependent on written no objection by the Central Lombok Regency and the Regional Planning Development Agency (*Badan Perencanaan Pembangunan Daerah*, BAPPEDA) to ensure alignment with all other parallel infrastructure investments and the local government budget (*Anggaran Pendapatan dan Belanja Daerah,* APBD), if applicable. Works and goods will then be procured by ITDC in accordance with procedures agreed with AIIB. The Project's Grievance Redress Mechanism will apply throughout the implementation of Sub-component 1.2.

[94] Investment activities requiring a UKL-UPL or SPPL, however, are explicitly eligible.

61. **O&M.** Small-scale infrastructure and community facilities will be maintained by the community while larger-scale secondary infrastructure such as drainage, water supply, and secondary roads, will be maintained by the Regency government.

62. A consultant will be hired under Component 2 and reporting to the ITDC/PMU.

Component 2: Implementation Support and Capacity Building (USD15.40 million, of which USD14.40 million AIIB financing)

63. This Component will provide TA to strengthen the ITDC/PMU for carrying out project activities to ensure that project implementation is consistent with project objectives and incompliance with the loan agreement and long-term sustainable destination management.

Sub-component 2.1. Project management support

64. To ensure the effective implementation of the Project, the ITDC will strengthen PMU's project management capacity by hiring a Consultant, separate from, and in addition to, a supervision consultant to assist the ITDC in the following tasks: procurement, financial management, monitoring and evaluation, coordination among all stakeholders, compliance with environmental and social safeguards, stakeholder engagement and communications. This Sub-component will provide project-related professional training,[95] workshops and public information for ITDC staff and relevant stakeholders in topics related to the tasks listed above as well as ensuring that project implementation benefits local communities (men and women) to the greatest extent possible. This Sub-component will also finance consultancy services to carry out feasibility studies, detailed design studies as well as environment and social impact assessments in order to enable the implementation of the Sub-component 1.2.[96]

Sub-component 2.2. Construction management

65. Given the complexity of works and leaseholders' quality requirements, a strong focus will be given to ensuring sufficient personnel will be available for contract management and

[95] The Terms of Reference for all additional experts to be hired under this Sub-component should include training activities. It would also support ITDC for obtaining certification and adopting monitoring software for infrastructure development under Sub-component 1.1.

[96] The ITDC will engage a Consultant to: (i) assess the environmental, social, demographic, infrastructure context of selected villages; (ii) carry out in-depth consultations with communities within the geographical scope to identify a long list of infrastructure interventions down to the sub-village (or *dusun*) level; (ii) jointly, with a representative cross-section of communities and the four respective village councils (or *Musyawarah Desa*), and in close consultation with MoPWH, BAPPEDA, Central Lombok Regency, and the WB, prepare a shortlist of infrastructure interventions, taking into account existing annual and medium-term development plans and implementation schedules; (iii) for the shortlisted investments for infrastructure improvements, carry out combined feasibility studies, detailed engineering designs, and other revenant documents; and (iv) training on infrastructure O&M to local government and communities directly benefiting from or responsible for deployed infrastructure under sub-component 1.2.

construction supervision. This Sub-component will support the employment of consultants to support: (i) final review of engineering drawings; (ii) procurement procedure; (iii) construction oversight and supervision works, to ensure compliance of works with contractual specifications, environmental and social safeguards requirement and budget and (iv) handover of works from contractors to ITDC.

Sub-component 2.3. Establishing economic linkages[97]

66. This sub-component will build on ITDC's existing Corporate Social Responsibility activities and target direct interventions strengthening economic linkages of Mandalika resort with the local economy by: (i) providing both assistance in linking hotels with local suppliers of goods and services as well as training for business/enterprise development, language and hospitality skills for local populations, ensuring that these are accessible by men and women and those of different education levels. This will familiarize suppliers with the quantity, quality and reliability requirements of high quality large hotel chains and ways to meet them well before project completion while convincing hotel chains of the benefits of local sourcing for both branding and sustainability; (ii) developing business and hospitality skills for the semi-skilled and unskilled, micro and small enterprises as well as craft makers in and around Mandalika while identifying ways to close financing gaps and (iii) training and organizing of local guides as skilled mediators between tourists on the one hand and local culture/natural assets on the other.

Sub-component 2.4. Destination management and monitoring

67. This sub-component aims to assist ITDC in establishing the organizational mechanisms, expertise, and legal instruments required to manage Mandalika in line with international best practice on the sustainable management of tourism destinations.

68. **Management of Mandalika SEZ.** The component will provide TA to ITDC to work towards the achievement of the 104 Sustainable Tourism Destination indicators outlined in Ministry of Tourism Decree No. 14 of 2016.[98] This will include the development of various sectoral plans and their implementation arrangements required to achieve some of these indicators. This implies it is envisioned that some of the Decree's indicators will be met before the operational phase commences. This is to ensure a sound policy foundation has been established alongside the requisite internal expertise as early as possible, for ITDC to manage the destination to the highest international standard. A Destination Management Manual will be developed to guide this aspect of ITDC's operation.

[97] Sub-components 2.3 and 2.4 will coordinate activities intensively with Component 2.4 of the WB-financed Indonesia Tourism Development Project (P157599) as they relate to Lombok island.

[98] This will also include periodic monitoring of the project impacts on the coastal environment from construction and operation of two SWRO plants in the Mandalika area as well as the upstream retention ponds and water treatment facilities.

69. **Monitoring of induced impacts outside the SEZ.** Furthermore, evidence from large tourism resorts globally indicates that these often induce significant, sometimes uncontrolled, urban expansion in the periphery of managed estates. Sub-component 2.4 will thus determine a baseline of urban expansion around Mandalika using an established methodology for analysis of satellite imagery[99] to ensure comparability of results after project completion. This information will be made available to BAPPEDA, MoPWH and Central Lombok Regency as primary data to evaluate the enforcement of planning regulations in Core Zone 2 and the Buffer Zone as outlined in the district strategic plan for the area.

70. Finally, Sub-component 2.4 will support preparatory studies for the development of Phase-II of the development of Mandalika (2024-2026) and future tourism development.

71. The breakdown of costs by project activities is presented in the Table A-4.

Table A-4: Breakdown of Costs by Project Component

Component	Cost Amount (IDR in billion)	Cost Amount (USD in million)	Financing source	
			AIIB	GoI/ITDC
Component 1: Provision of basic services and infrastructure	**2,454.92**	**169.30**	**169.30**	**0**
Sub-component 1.1. Construction of basic infrastructure in Mandalika (USD164.30million)				
(i) Roads, including culverts, road drainage, landscapes, street lightings, and utility corridors	1,058.92	73.03	73.03	0.00
(ii) Water supply, sewage, and irrigation network, including GWTs (west), SLSs, and sprinklers	285.66	19.70	19.70	0.00
(iii) Public and community facilities, including gates, amenity cores, mosque, and public spaces	84.46	5.82	5.82	0.00
(iv) Storm water drainage, flood management, and DRM facilities, including TESs, river normalization, and modular tank blocks	292.28	20.16	20.16	0.00
(v) WWTP (west)	83.91	5.79	5.79	0.00
(vi) SWM facility, including a waste management center with relevant buildings and vehicles	31.39	2.17	2.17	0.00
(vii) Electricity distribution including electrical cables with a MPC (west) and distribution substations	545.79	37.64	37.64	0.00
Sub-component 1.2. Infrastructure improvements for neighboring communities (USD5.00million)				
(i) Infrastructure improvements in selected near-by villages	72.50	5.00	5.00	0.00
Component 2: Implementation support and capacity building	**223.22**	**15.39**	**14.50**	**1.00**
(i) Project management support	122.75	8.47	8.47	0.00

[99] Possible methodologies could include those described in World Bank (2015) *East Asia's Changing Urban Landscape*, Angel, S. et al. (2016) *The Atlas of Urban Expansion: Volume 1*, or private sector solutions.

(ii) Construction management	71.47	4.93	4.93	0.00
(iii) Establishing economic linkages	14.50	1.00	-	1.00
(iv) Destination management and monitoring	14.50	1.00	1.00	0.00
Land Cost	973.09	67.11	-	67.11
Base Cost	3651.23	251.81	183.70	68.11
Contingencies (Physical and Price)	599.66	41.36	41.36	0.00
Frond-end Fee	8.92	0.62	0.62	0.00
Interests and Commitment Fee during Construction	329.45	22.72	22.72	0.00
Percentage	100.00	100.00	78.48	21.52
Total Project Cost	**4589.26**	**316.50**	**248.39**	**68.11**

72. Indicative financing terms of AIIB's loan are summarized in Table A-5.

Table A-5: Key Financing Terms

Amount	USD248.4 million
Interest Rate	Six months LIBOR + 1.40%
Front-end Fee	0.25% of loan principal
Commitment Charge	0.25% per annum on the undisbursed loan balances (recurring)
Tenor (grace period)	Up to 35 years (10 years)
Repayment	Amortized, customized principal repayment schedule

*The principal and interest on the proceeds of the bank loan will be repaid by ITDC from the eleventh year over a period of 24 years in annual installments. During the repayment period, interest will accrue on the outstanding principal and capitalized charges.

Annex 4: Implementation Arrangements

A. ITDC's mandate and organizational structure

73. Indonesia Tourism Development Corporation (ITDC), *or Perusahan Perseroan (Persero) PT Pengembangan Pariwisata Indonesia,* was established in 1973 by the Government of Indonesia (GoI) based on Government Regulation No. 27 of 1972. It has obtained a status as a legal entity pursuant to the Ministry of Law and Human Rights Decree No.Y.A.5/254/3, dated July 10, 1974. The ITDC changed its name from the Bali Tourism Development Corporation (BTDC)[100] to ITDC in 2014, while expanding its mandate to also cover the planning and development of other tourism destinations including Mandalika. The ITDC head office is located in Menara BCA, Jakarta (Figure A-14). It operates two units, Nusa Dua, Bali and Mandalika, Lombok. ITDC is a State-owned Enterprise (SoE) under the Ministry of State-owned Enterprises (MoSOE), as of December 2017, has 177 permanent employees.

74. The ITDC is engaged in the tourism business and activities, whose line of business, among others, is to establish, manage, and develop tourism destinations namely the Nusa Dua and the Mandalika. The vision of ITDC is to become a world-class tourism destination developer with an aim to contribute to national economic growth through tourism development. As such, the most important role is to acquire land, to formalize conceptual Masterplan, to lay down the international standard of infrastructure and utilities; as well as to build up attractive system of investment for the investors to invest at new tourism destinations. The followings are ITDC's missions:

- Developing selected tourism destinations in cooperation with the Government and the public.
- Developing quality human resources in destination management.
- Synergizing with other SoEs in developing tourism destinations.
- Making the company's brand equity as an icon of Indonesia's tourism destination promotion through cooperation with international institutions.

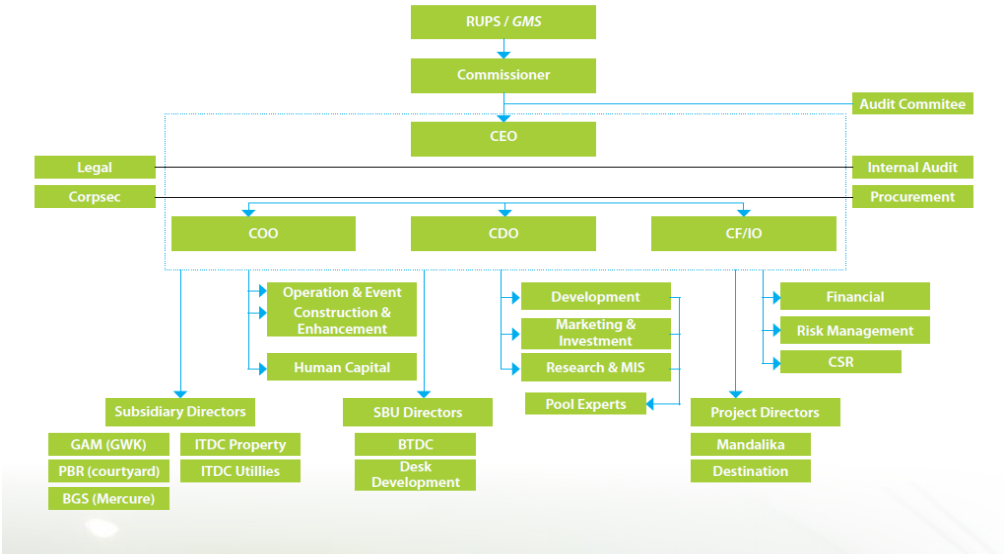
75. The Board of Commissioners,[101] appointed based on the Decree of the MoSOE, performs supervisory function on the management of ITDC, including supervision of the implementation of whistleblowing system. The Board of Directors,[102] appointed based on the Decree of the MoSOE, develop goals, objectives and strategic direction for ITDC, and ensure ITDC to pertinent laws, regulations, and sound business practices, among others.

[100] The initial role of BTDC was to obtain land, prepare a master plan, build area infrastructure at international level, and develop an attractive investment system for investors to invest in Nusa Dua, Bali.

[101] As of project appraisal, the Board of Commissioners consists of: I Gede Ardika, President Commissioner; Dadang Rizki Ratman, Commissioner; Triarko Nurlambang, Commissioner; and Gita Ariadi, Commissioner.

[102] As of project appraisal, the Board of Directors consists of: Abdulbar M. Mansoer, President Director/CEO; Ngurah Wirawan, Director; Edwin Darmasetiawan, Director.

Figure A-14: Organizational Structure of ITDC head office



76. With over 40 years of experience in creating world-class tourism destination, ITDC started assisting the Government to carry out national tourism development programs by creating new tourism destinations all over Indonesia. ITDC has been planning the development of Mandalika area, one of the Government's 10 priority tourism destinations, with the highest quality standard for an environmentally friendly tourism destination.

77. Pursuant to Government Regulation (PP) No. 55 of 2008 and PP No. 33 of 2009, ITDC acquired the rights to develop and manage the Mandalika area in Lombok with an area of 1,164 ha. Based on PP No. 52 of 2014, it has been designated as a Tourism Special Economic Zone (SEZ). Moreover, based on the Decision Letter of Central Lombok Regent No. 513 in 2014, ITDC has been assigned as the Developer Company and Manager of Mandalika SEZ in Central Lombok Regency.

B. Project Implementation Arrangements

78. ITDC, as an implementing agency, would be responsible for implementation of the proposed project including the design, construction and operation of works at Mandalika. The Project Management Unit (PMU), headed by the Project Director, has been established in Mandalika. The PMU would be responsible for overall project preparation and implementation, ensuring overall quality and timeliness of investments. It will also be responsible for the overall fiduciary and safeguard aspects of the Project, for monitoring compliance with the environmental and social safeguards, and overall project Monitoring and Evaluation.

79. Project Management Consultant (PMC) and Construction Management Consultant (CMC) will be engaged, as and when necessary, to complement the staff of ITDC and PMU in overall project delivery and construction management. PMC will be hired to provide technical advisory services for ITDC and PMU, with particular attention to familiarizing ITDC and PMU with the policies, procedures, and requirements related to AIIB's procurement, social and environmental

safeguards, and financial management systems. Such capacity building and development will continue to be carried out during project implementation. CMC will be engaged to carry out, among others, (i) final review of DEDs; (ii) construction oversight and supervision works, including the inspection and testing of materials, plant and equipment; and (iii) handover of works from contractors to ITDC, to ensure compliance of works with contractual specifications, environmental and social safeguards requirement and budget.

80. PMU would be also responsible for implementation of infrastructure improvements to the selected villages (Sub-component 1.2). ITDC will engage a consultant for design and construction for this activity which will be in consistent with the policies, procedures, and requirements related to AIIB's procurement, social and environmental safeguards, and financial management system as well as Government national, provincial, and Kabupaten level investments and expenditures. The Consultant will also help prioritize investments, finalize important design features, and ensure readiness of the Project for implementation. As the ITDC does not have the mandate for infrastructure delivery outside of the Mandalika SEZ, this will require close coordination with MoPWH, NTB provincial government, Central Lombok Regency and village representatives to cover the infrastructure improvements for the adjacent communities. A detailed implementation arrangement with, and appropriate assurances from MoPWH, the government of Central Lombok Regency, and village representatives, will be developed, with support from a consultant.

81. The ITDC and PMU would be supervised by a Board of Directors which is composed of the President Director/CEO and three Directors heading the respective departments of ITDC. This management group is headquartered in Jakarta to provide: (i) coordination among the Government agencies involved in the Project; and (ii) strategic guidance and direction on key issues such as government policies, project objectives and resource allocation.

82. For central government coordination, the MoSOE and ITDC will participate in the Tourism Coordination Team, chaired by Indonesia's Vice President, that provides cross-sectoral strategic coordination of the PPNPPI.[103] The ITDC is also proposed to take part in a Steering Committee and a Technical Committee[104] to be established by the MoPWH.

83. For destination level coordination, the bimonthly stakeholder coordination meeting will be organized by PMU with participation of members representing service providers, local governments and communities, Ministries, and relevant public and private companies [105] to coordinate, synchronize, and facilitate the planning, development and construction of tourism facilities and infrastructure on Lombok Island. The close coordination is vital for the successful

[103] Regulation of The President of the Republic of Indonesia, Number 64 of 2014 concerning the Cross-Sectoral Strategic Coordination of Operations of Tourism.

[104] Under the WB-financed tourism project (2018-23), the Steering Committee is proposed to be composed of Echelon 1 officers from each involved ministry or agency. The proposed Technical Committee consists of tourism development Echelon II officials from each involved ministry or agency.

[105] Public Works of the NTB provincial government, the Central Lombok Regency, relevant public agencies and utility companies such as PDAM, PLN will be participated.

participation of the Lombok population in the economic opportunities from the Project, and also for the effective implementation of the Mandalika Masterplan.

84. ITDC through the PMU will be responsible for managing the tourism estate including water and sewage system, maintenance of roads, landscaped areas, power networks, solid waste management and security. The PMU will be progressively shift its mandate from construction and project implementation to operation and maintenance of the estate. Leaseholders' responsibilities for upkeep and maintenance of superstructures and common facilities are individually laid out within their respective LUDAs.

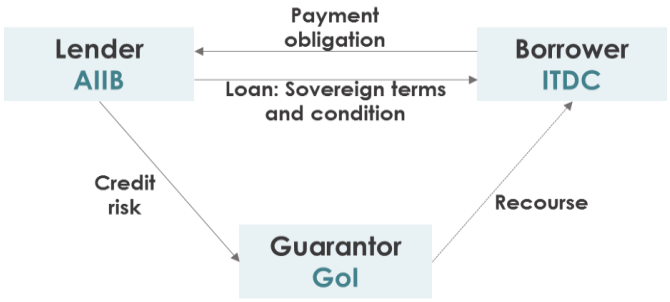
C. Proposed Sovereign Guarantee Arrangement

85. The Ministry of Finance (MoF) recently passed its regulations that allow SoEs including ITDC to borrow directly from the Bank against a sovereign-backed guarantee. GoI prefers direct lending to ITDC with a government guarantee, which can increase efficiency and simplify the project approval process. ITDC, working with the Bank team, submitted the required documents for the Government guarantee (PMK 189/2015) including: (i) copy of government infrastructure project list; (ii) Letter of Interest from lender; (iii) project feasibility study; (iv) draft guarantee agreement from lender; (v) guarantee benefit analysis; (vi) documents showing a SoE has ability to service the loan; and (vii) commitment letter to manage the risk including risk mitigation plan. As part of the MoF requirement, ITDC pursued an international credit rating from the Fitch Ratings.

86. The MDB-financed projects with the government guarantee on direct lending have been successful in Indonesia. These projects being financed by ADB, IsDB, and WB include: (i) the Electricity Grid Strengthening Sumatra Program (USD600 million); (ii) the Power Distribution Development Program (USD500 million); and (iii) the Sustainable Energy Access in Eastern Indonesia-Electricity Grid Development Program (USD600 million).

87. Under the terms of the loan and guarantee agreements, the sovereign guarantee is an undertaking by the Government of Indonesia (Guarantor) to pay, after the occurrence of certain events which have led to a substantial deterioration of the creditworthiness of ITDC (Borrower or/and Beneficiary) (Figure A-15). If payment of the guaranteed amount, in whole or in part, has been made, the guarantor has the right to demand the amount in question from the beneficiary (recourse). The minimum portion is equal to the total amount of financial obligation borne by ITDC for 12 months after the grace period of the loan has ended.

Figure A-15: Proposed Sovereign Guarantee Mechanism



88. The Directorate General of Budget Financing and Risk Management of MoF will have the primary responsibility for overseeing the government guarantee mechanism for the project loan.

D. Financial Management, Disbursements

89. AIIB will, based on a guarantee from GoI, sign a loan agreement directly with ITDC. It will thus be ITDC that prepares withdrawal applications for submission to the bank, and disbursements will accordingly be made directly to ITDC's general account with a commercial bank.

90. To ensure that the AIIB loan is used for the purposes of the Project, ITDC has developed a financial management system for the Project which incorporates ITDC's financial management arrangements, which satisfies its business profile, into the Bank's financial management requirements. This project financial management system, which reflected in the project financial management manual, includes staffing, budgeting, internal control, accounting, reporting, and auditing.

- **Staffing.** ITDC has assigned five financial staff to the Project for project FM including project budget preparation and implementation, accounting and reporting, and disbursement. These financial staff were trained in AIIB's FM and disbursement procedures.

- **Budgeting.** The project budget will be based on project workplan and procurement plan and incorporated into ITDC's planning and budgeting system for preparation, approval, and monitoring. The annual budget of the Project will be sent to AIIB for review and comments in September each year. The implementation of annual budget will be reviewed quarterly and revised budget, if any, will be sent to the bank.

- **Internal Control.** The principles of the internal control of ITDC will be applied by the Project including preparation, approval, and amendment of project workplan, budget, contract awards, and payment, etc.

- **Accounting and Reporting.** ITDC's accounting principles, rules, and procedures will be applied to the project accounting and reporting. The receipts and payments of project funds including AIIB loan and counterpart funds will be recorded and reported. The quarterly interim financial statements of the Project will be submitted to AIIB. The computerized accounting system will be customized to have the capacity to record the receipts and payments of project funds and generate project financial statements.

- **Auditing.** The internal audit unit of ITDC has included the Project in their annual plan and the internal audit report of the Project will be submitted to AIIB for review and as an input to the monitoring report. A private audit firm will be recruited to audit the project accounts following Indonesia's Standards of Auditing. The auditor's report of the Project will contain a single opinion on the project financial statements, the designated account, and the statement of expenditures, and a management letter on internal controls as well. The auditor's report will be submitted to the bank within six months after the end of each fiscal year.

E. Procurement Plan

		Currency: USD '000									
1	2	3	4	5	6	7	8	9	10	11	12
No	Description	Estimated contract value	Financing by AIIB	Financing by others		Contract type	Procure-ment method	Bank's Review	Tender Invitation mmm/yy	Contract Award mmm/yy	Contract completion mmm/yy
				Financier	Amount						
	Provision of basic services and infrastructure – Component 1										
1	Construction of core infrastructure - West	66,000	66,000			Works	IOCT	Prior	Jun-19	Oct-19	Mar-23
2	Construction of core infrastructure - East	53,000	53,000			Works	IOCT	Prior	Jan-19	May-19	Mar-23
3	Infrastructure improvements to neighboring communities	5,000	5,000			Works	TBD	TBD	Feb-19	Jun-19	May-20
4	Design, Build, O&M - Waste Water Treatment Plant - West	5,800	5,800			Works	IOCT	Prior	Jun-20	Oct-20	Jun-22
5	Design, Build, O&M - Solid Waste - East	2,200	2,200			Works	IOCT	Prior	Jun-19	Oct-19	Sep-20
6	Electricity and supporting facilities - specialized works	37,300	37,300			Works	IOCT	Prior	Jun-20	Oct-19	Oct-23
	Sub - Total	***169,300***	***169,300***								
	Consultancy Contracts - Component 2										

1	Procurement Advisor	52	52			Individual Consultant	Single Source	Prior	N/A	Oct-18	Feb-19
2	Construction Management / Supervision Engineer	4,930	4,930			Consultancy	IOCS	Prior	Nov-18	Feb-19	Dec-23
3	Project Management Consultant	8,470	8,470			Consultancy	IOCS	Prior	Nov-18	Jan-19	Dec-23
4	Destination Management and Monitoring	1,000	1,000			Consultancy	IOCS	Prior	Apr-19	Jun-19	Dec-20
	Establishing economic linkages			ITDC	1,000						
	Sub - Total	***15,452***	***14,452***		**1,000**						
	Contingencies										
	Land cost			ITDC	67,110						
	For all contracts	41,360	41,360								
	Total:	**226,112**	**225,112**		**68,110**						

F. Monitoring and Evaluation Arrangements

91. ITDC/PMU will be responsible for monitoring the project progress and submitting to the bank quarterly reports, which required to be submitted within 45 days of the end of each fiscal year quarter, and annual reports on project implementation progress. The contents of the reports will cover all essential aspects of project implementation, including contract awards, disbursements, physical progress, key performance indicators, environmental and social safeguards, covenant compliance, key implementation issues and solutions, and updated implementation and procurement plans for the next 12 months. ITDC/PMU will also submit a project completion report within six months of physical completion of the Project.

92. ITDC/PMU will be also responsible for collecting data and reporting on implementation progress for each indicator in the Results Framework (Annex 1). The achievements of the indicators will be evaluated by comparing the actual results against planned targeted values. The Results Framework, with appropriate data and associated evaluations, will be incorporated into the Project's quarterly progress reports. Any challenges that may affect the achievement of project targets will be highlighted in each quarterly report. In addition, the ITDC/PMU will submit to AIIB an annual progress report to provide an overview of the status of achievement of each performance indicator at impact, outcome and output level and summarize the results of related monitoring and impact studies.

93. Project implementation will be closely monitored and supported by AIIB's project team on a regular basis (see Annex 9. for details).

Annex 5: Economic and Financial Analysis

Economic Analysis

A. Introduction

94. The project scope includes investment by the public and private sector for infrastructure and site development of the Mandalika SEZ, construction of about 17,212 hotel rooms and related facilities. The project will finance part of the public infrastructure component. Public infrastructure includes the construction of road infrastructure and drainage, water supply and sanitation, irrigation, solid waste management, electricity distribution, disaster risk management and response, landscaping and public facilities.

B. Methodology, Assumptions and Data Sources

95. The economic analysis employs cost-benefit analysis to calculate the Economic Internal Rate of Return (EIRR) and Net Present Value (NPV) of the project. The methodology adopted is based on similar tourism development projects. The economic benefits focus on the impacts on the local economy from tourism development through tourist spending and employment generation. Moreover, the project will generate other traditional economic benefits for users of infrastructure, but these are not estimated in the cost-benefit analysis.[106]

96. Incremental costs and benefits between the "with" and "without" project scenarios are used in the economic analysis. The baseline scenario is defined as the scenario which large-scale foreign investment in the SEZ and broad-based tourism development in Mandalika would not take place. Without the project, only small-scale and largely local hotel operators and tourism related businesses are likely to invest in Mandalika. As a result, this will not lead to transformative development of Mandalika as another global tourist destination and large-scale job creation and local economic development would not be achieved. Without the project, Mandalika will continue to attract tourists with low expenditure profiles instead of higher-income tourists with high spending pattern which are targeted in the project.

97. The scope of the economic analysis includes investments made by both the public (infrastructure) and private sector (for hotel and related facilities) which are integral to generate economic benefits of the project. As high quality basic infrastructure is one of the key factors in attracting private investment, public investment is considered critical to leverage private investment (i.e., by hotel operators and providers of other tourism facilities) in the development of Mandalika.

[106] For example, users of improved road infrastructure will benefit from reduced travel times.

98. The project life is assumed to be 25 years based on economic life of infrastructure assets. The analysis covers the period from 2018 to 2043.

99. Costs and benefits are estimated in constant 2018 prices. The exchange rate used is IDR 14,500 per 1 USD.[107] The financial cost is converted to economic cost by a Standard Conversion Factor of 0.85 based on Shadow Exchange Rates for Project Economic Analysis: Toward Improving Practice at the Asian Development Bank (2004) as practiced in Indonesia. A social discount rate of 10 percent is applied.[108] Data are based on information provided by ITDC, tourist surveys and international benchmarks where local data does not exist. Macroeconomic data are based on BPS and Bank of Indonesia.

C. Summary of Economic Analysis

100. Based on available data and assumptions adopted, the EIRR for the proposed project is 18 percent and NPV at 10-percent social discount rate is USD674.71 million.

101. A sensitivity analysis of the project was also conducted in the three scenarios: (i) 20-percent increase in project cost (ii) 20-percent decrease in project benefit and (iii) combined effect of 20-percent increase in project cost and 20-percent decrease in project benefit. In the first two scenarios, the EIRRs exceed the social discount rate of 10 percent. However, in the worst scenario with combined effect, the EIRR will be reduced below 10 percent which recommends that project cost need to be closely monitored and the ITDC put in place proactive measures to attract tourists.

Table A-6: Results of sensitivity analysis (economic)

No.	Sensitivity Scenario	EIRR	NPV @ 10% (million USD)
1	Base Case	18%	674.71
2	20% increase in project cost	14%	380.37
3	20% decrease in project benefit	13%	245.43
4	Combined effect	9%	(48.91)

D. Economic Benefits

(i) Estimating Benefits

102. The main benefit of the project is the impact of tourist spending on the local economy. This entails estimating the number of incremental tourists as a result of the project, daily spending of the project tourists, and then estimating how much of this tourist spending will translate to the

[107] Exchange rate as of Aug. 8, 2018.

[108] Indonesia has no guideline for the use of appropriate discount rate to evaluate the development of tourism SEZ. For Mandalika, a social discount rate of 10 percent is applied as the rate is commonly used to assess the economic viability for infrastructure projects in Indonesia.

local economy by taking into consideration import leakages and multiplier effect of each dollar spent.

103. **Number of tourists with the project.** Project tourists are estimated based on assumptions on room capacity expansion and occupancy ratio of hotels to be developed under the project. Assumptions on room capacity expansion is based on ITDC's business planning on releasing of hotel lots to investors. Room capacity will be added from year 2020 onward when the infrastructure services become available and will continue gradually until 2040. The average rate of annual addition of room capacity is 820 rooms per year and will reach around 17,212 in 2040.

104. Based on ITDC's financial projections, the occupancy ratio for hotels under the project is assumed to reach 43 percent in 2020, gradually increase to 60 percent in 2027, and exceed 70 percent from year 2033 onward. The AIIB team conducted due diligence of the assumptions and adopted 15 percent downward adjustment from ITDC's projected growth in occupancy rate to be conservative. As the hotels in the Mandalika SEZ aim to attract a number of high-end hotel operators specifically targeting the foreign tourist segment, it is assumed that the share of foreign tourists for the project hotels on average are 70 percent. The estimated number of project tourists are provided in the table below.

Table A-7: Projected tourists with overnight stays in Mandalika (2020-2040)

Number of Project Tourists	2020	2025	2030	2040
Foreign	36,092	223,973	421,257	819,333
Domestic	18,225	113,099	212,721	413,738
Total	54,317	337,072	633,978	1,233,070

105. The economic analysis only accounted for spending made by the tourists who stay in the hotels under the project scope. However, it is likely that the development of basic infrastructure will also attract incremental visitors to Mandalika beyond the scope of the project.

106. **Tourist expenditures.** Average daily spending[109] of foreign and domestic tourists was estimated to calculate the impact on local GDP. Length of stay and average daily expenditure is provided in the table below.

Table A-8: Assumptions made for length of stay and daily expenditure

Tourist Type	Average Length of Stay[110]	Average Daily Expenditure (USD)[111]

[109] It is recognized that purchasing behavior of tourists varies according to demographics, length of stay, types of accommodation used, purpose of visit, and other factors. Wang, Y. (2010) A review of micro-analyses of tourist expenditure. Current Issues in Tourism 13(6).

[110] Based on survey commissioned by ITDC and conducted by Mataram University of tourists visiting Mandalika.

[111] Average daily expenditure is estimated based on survey commissioned by ITDC and conducted by Mataram University of tourists visiting Mandalika and Ministry of Tourism survey at the national level.

Foreign	5.4	127
Domestic	4.6	36

107. To calculate how much tourist spending will contribute to local GDP, a part of the spending which comprises of import content is treated as leakage from the local economy. Import leakages in Indonesia's tourism sector is estimated to be 12 percent.[112] In addition, tourist spending also has multiplier effect where each USD1 spent will generate more than USD1 of GDP through indirect impact due to linkages of the tourism sector with other sectors in the economy. According to the WTTC study, for every USD1 spent by tourist, it will generate USD1.7 in the economy.

(ii) Other benefits

108. **Generated direct employment.** Based on an assumed staff-to-room ratio of 1.8,[113] the project is expected to generate 30,980 jobs of direct hotel employment for 17,212 rooms capacity.

109. **Generated indirect employment.** Based on a WTTC study[114], each direct employment will induce 1.95 jobs in the tourism supply chain. The project is expected to generate 60,411 jobs as indirect and induced employment in related businesses, for example, food and beverages, agriculture, wholesale and retail, transport, etc.

110. **Other economic impact.** Other potential economic impacts from the project which have not been quantified are: (i) increase in government revenue from higher tax collection due to economic growth and businesses creation, (ii) increase in government revenue from dividend payments by ITDC (through land rents and managements fee revenue of ITDC) to the MOF, (iii) foreign exchange earnings[115] and (iv) poverty reduction.

E. Economic Costs

(i) Estimating economic costs

111. **Capital costs.** The capital costs of the project comprise of the following.

- Capital cost for public infrastructure which will occur between 2018 and 2026. Cost estimation is based on the most recent cost estimates using government rates including price and physical contingency as provided by ITDC.
- Additional investments through PPP for solar and SWRO.

[112] According to WTTC study in 2015 (Indonesia Benchmarking Report, p. 3.), the import leakage for tourism sector is estimated to be 12 percent. The analysis adopted 20 percent import leakage to be conservative.

[113] Based on ITDC's experiences of the Nasa Dua tourism development.

[114] WTTC (2015) Indonesia Benchmarking Report, p. 3.

[115] While the project is expected to attract a relatively high percentage of foreign tourists from hard currency countries, the project also aims to attract large international investors, meaning hotel operations could involve a high import content, non-local employees and earnings dividend payments to international shareholders.

- Induced private investments for hotel development during 2020-2040. The cost is based on three industry-benchmarked cost bands and hotel rating assigned to each lot in the project area.

Table A-9: Summary of capital expenditures

Capital Expenditures	Financial Cost (IDR Billion)	Economic Cost (IDR Billion)
Public investment in basic infrastructure 2018-2026	4,540	3,859
PPP in solar and SWRO 2021-2026	540	459
Private investment in room development in the SEZ 2020-2040	37,866	32,186
Total	**42,946**	**36,504**

112. *O&M costs.* The O&M cost of the project comprises of the following cost items.

- Operation and maintenance costs of public infrastructure and common facilities to be borne by ITDC. The O&M cost is estimated at two percent of capital investment based on ITDC's previous operating experiences.
- Operation and maintenance of hotel rooms to be borne by private investors. A per-room O&M industry benchmark has been applied and data provided by ITDC. [116] This benchmark includes routine repairs and maintenance, large-scale improvement works, O&M staff costs, as well as energy and water utility costs.
- Operating costs of ITDC.

(ii) Other costs

113. Additional costs required for the preservation of marine, estuarine and land ecosystems as well as sociocultural assets could not yet be quantified and have thus not been included in the economic analysis.

Financial Analysis

A. Project financial analysis

114. A financial analysis was carried out from the perspective of ITDC to assess the financial viability of the company's investments in the Mandalika SEZ, of which the project investment constitutes the first phase (2019-2023) focusing on building the basic infrastructure for the majority of the SEZ, to be followed by a second phase (2024-2026) focusing on covering any

[116] Lai, J., and Yik, F. 2008. Benchmarking operation and maintenance costs of luxury hotels. Journal of Facilities Management 6(4), p. 279-289.

remaining areas of the site. The two phases of infrastructure investments, although sequential, are essential for the SEZ to achieve its full revenue potential. Therefore, the financial analysis treats them as integral parts of a single investment.

115. **Methodology and key assumptions.** A financial analysis was carried out over 45 years inclusive of the construction and expansion periods of both Phase I and Phase II. All costs and benefits to ITDC are expressed in USD equivalent at an exchange rate of USD1 to IDR14,500. A price escalation of five percent was assumed for all costs and benefits.

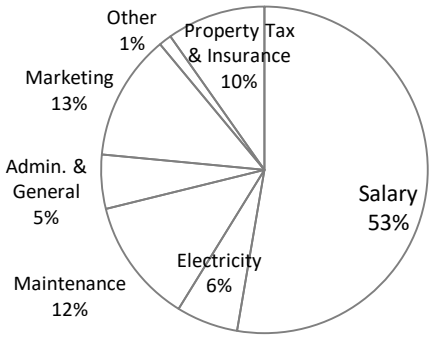
116. **Investment, financing and weighted average cost of capital.** The combined investment of both phases is estimated at around USD443 million in 2018 USD equivalent, of which 79 percent in physical infrastructure, will be financed by debt at an estimated annual rate of four percent, and the remaining 21 percent in land to be financed by the state-owned company's equity at an estimated annual cost of 14.93 percent. Therefore, the weighted average cost of capital (WACC) before tax is estimated at 6.35 percent.

Table A-10: Weighted Average Cost of Capital (WACC)

Weighted Average Cost of Capital (WACC)	
Risk-free rate	4.69%
Equity market risk premium	7.62%
Beta	1.34
Cost of equity	**14.93%**
Cost of debt	**4.0%**
Debt:Equity	79:21
WACC	**6.35%**

117. Ongoing expenses include (i) staff salary (53 percent); (ii) marketing expenses (13 percent); (iii) maintenance cost (12 percent); (iv) property tax and insurance (10 percent); (v) electricity for the non-salable areas; (vi) administration and general expenses (5 percent); and (vii) other (1 percent). See following illustration of the composition of ITDC's ongoing expenses.

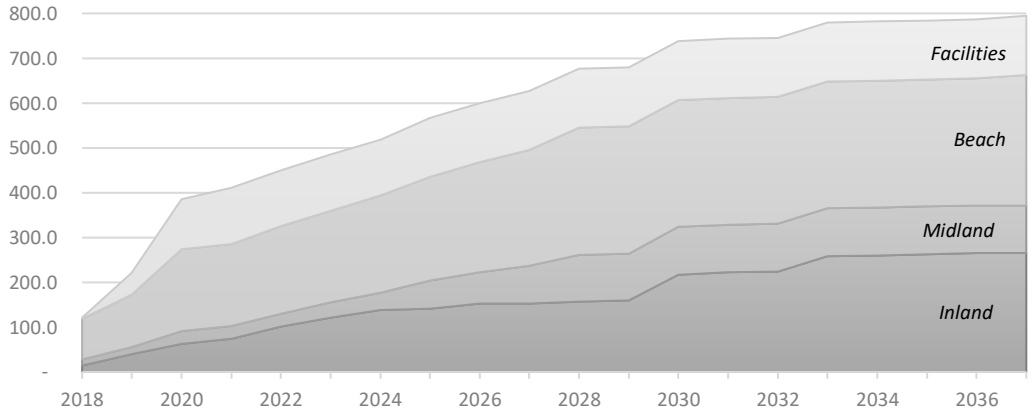
Figure A-16: Composition of ITDC's ongoing expenses over Project lifetime



118. Revenues constitutes of four parts: (i) revenue from land lease, (ii) revenue sharing from onsite hotels (iii) infrastructure fees and (iv) residential revenue.

- **Land lease.** Over the project lifetime, 140 plots of land of a combined area of 794.7 ha on the Project site will be leased. Figure A-17 illustrates the composition and lease out schedule of the plots of land in the Project area.

Figure A-17: Leased Land (ha)

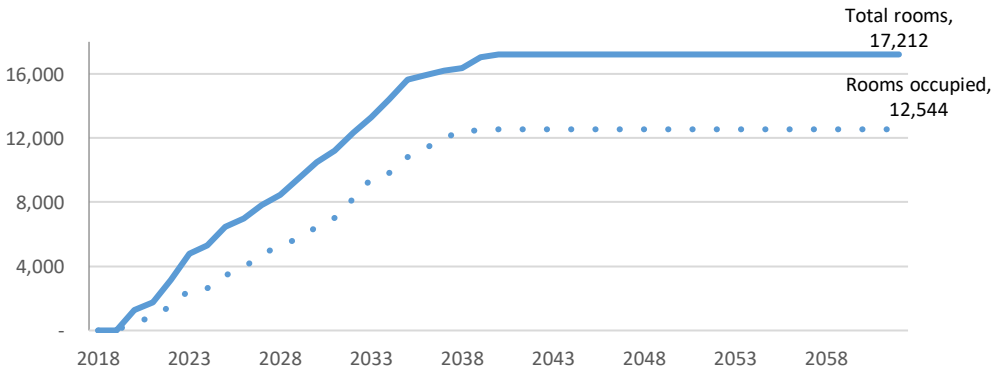


- **Land tariff** varies according to the location and use of land. Beachfront plots command the highest tariff; and plots for facilities the lowest.

Land Tariff in 2018 – Base Case (USD/m^2)	
Inland	2.93
Midland	3.25
Beach	5.00
Facilities	1.14

- **Revenue sharing from on-site hotels.** A total of 17,212 hotel rooms will be constructed in the Project area by 2040; and room occupancy rate is expected to grow from 43 percent in 2020 to 73 percent by 2040, staying constant thereafter. (Figure A-18) The average hotel spending is estimated at USD81.48 per night in 2018, growing at five percent per annum. ITDC expects to take a three percent share of the revenue.

Figure A-18: Projection Rooms Completed and Occupied



- **Infrastructure fees** on wastewater and irrigation. ITDC will receive revenues from providing basic infrastructure services. By 2033, demand for clean water, wastewater treatment and irrigation are expected to grow to 8.21 million tons, 6.57 million tons and 1.35 million tons, respectively. To be conservative, demand is expected to stay constant thereafter. In the base year (2018), the wastewater and irrigation tariff stands at USD0.33/m^3 and USD0.67/m^3, respectively.

- **Revenues from residential properties.** By 2038, a number of villas and a total of 91,650 m^2 of residential space are expected to be rented out annually.

119. Based on the above assumptions, the composition of the revenues from the investments over the lifetime of the Project include (i) land lease (50 percent); (ii) revenue sharing for onsite hotels (26 percent); (iii) residential revenue (16 percent) and (iv) infrastructure fees (eight percent).

Figure A-19: Composition of revenues

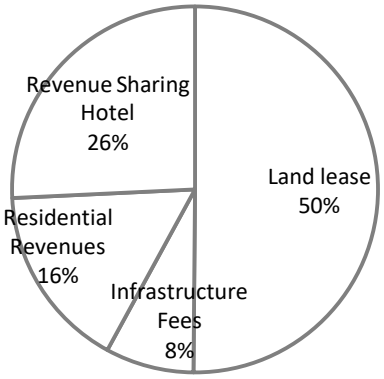
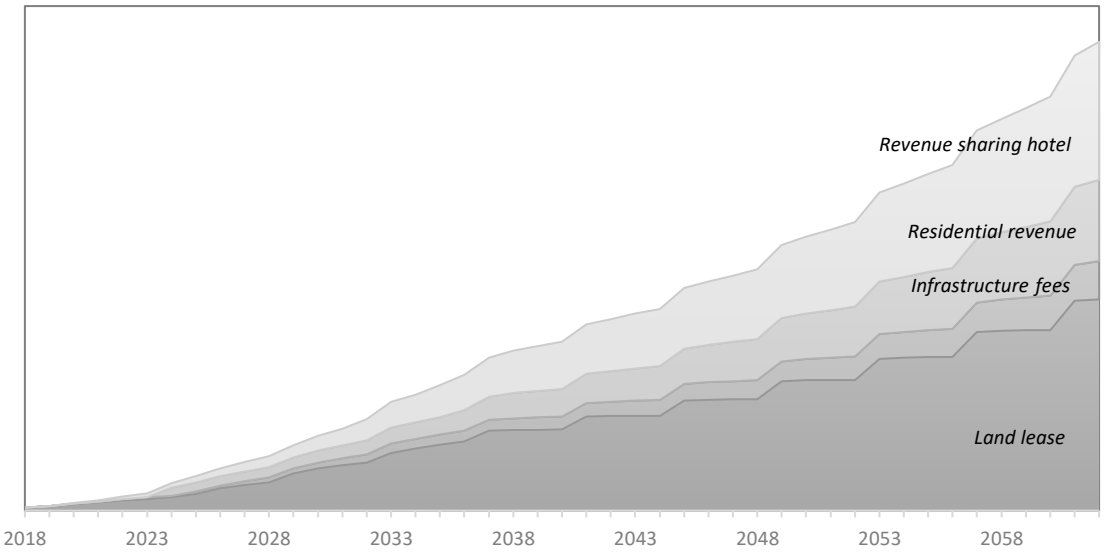


Figure A-20: Revenue Schedule—Base Case (2018-2062)



120. Outcomes of the financial analysis. Based on the above-mentioned assumptions, the Project's investment yields a financial internal rate of return (FIRR) of 11.06 percent, exceeding the Project's WACC of 6.35 percent. Thus, the Project is financially viable.

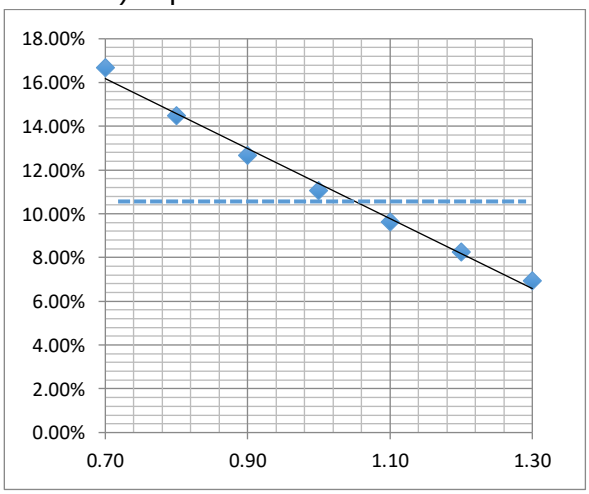
Table A-11: Results of financial analysis

Financial analysis															
In million USD	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2038	2048	2058	2062
Cash inflow															
Land lease	2.0	3.2	3.9	4.8	6.2	6.8	7.8	9.9	12.9	15.0	16.7	47.5	65.3	104.5	122.6
Infrastructure fees	-	-	0.2	0.3	0.6	1.0	1.1	1.6	1.9	2.4	2.9	7.6	12.4	20.2	24.6
Residential revenue	-	-	-	-	-	-	5.1	5.7	6.0	6.3	6.6	16.3	26.5	43.2	52.6
Revenue sharing from hotels	-	-	0.5	5.5	23.0	25.8	27.0	27.9	30.3	33.2	34.4	75.6	94.2	124.2	140.9
Total cash in	**2.0**	**3.2**	**4.6**	**10.6**	**29.7**	**33.7**	**41.1**	**45.1**	**51.1**	**56.9**	**60.7**	**147.0**	**198.4**	**292.2**	**340.7**
Cash outflow															
Invesments	13.3	49.8	64.9	94.5	51.4	67.0	33.6	22.8	16.9	-	-	-	-	-	-
On-going expenses															
Salary	0.8	0.8	1.0	1.1	1.2	1.4	1.5	1.9	2.3	2.6	3.1	14.4	37.4	97.1	142.1
Electricity cost of non-sellable area	0.1	0.1	0.2	0.3	0.3	0.4	0.5	0.6	0.7	0.8	0.9	2.3	3.7	6.0	7.3
Maintenance Costs	-	-	-	0.3	1.0	1.3	1.8	2.0	2.9	3.0	3.2	4.6	6.2	8.3	9.4
Administrative and General Expenses	0.1	0.1	0.2	1.8	7.6	7.9	8.4	8.4	9.0	9.6	9.1	16.0	17.1	18.9	19.9
Marketing Expenses	0.3	0.4	0.8	2.2	3.5	3.8	4.1	4.3	4.5	4.5	4.6	5.9	8.2	11.8	13.6
Other Expenses	0.0	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.3	0.3	0.3	0.7	1.0	1.5	1.7
Property Tax and Insurance	0.3	0.7	1.3	2.2	2.7	3.3	3.6	3.8	3.8	3.7	3.6	2.6	1.5	0.4	0.0
Tax	0.3	0.5	0.7	0.6	1.1	1.3	2.4	3.0	3.6	4.3	4.9	16.9	23.7	35.0	39.2
Total cash out	**15.1**	**52.5**	**69.1**	**103.2**	**68.9**	**86.7**	**56.1**	**46.9**	**43.9**	**28.9**	**29.7**	**63.5**	**98.8**	**179.1**	**233.3**
Net cash	**(13.1)**	**(49.3)**	**(64.5)**	**(92.6)**	**(39.2)**	**(53.0)**	**(15.0)**	**(1.9)**	**7.2**	**28.0**	**30.9**	**83.5**	**99.6**	**113.1**	**107.4**
FIRR	**11.06%**														
WACC	**6.35%**														

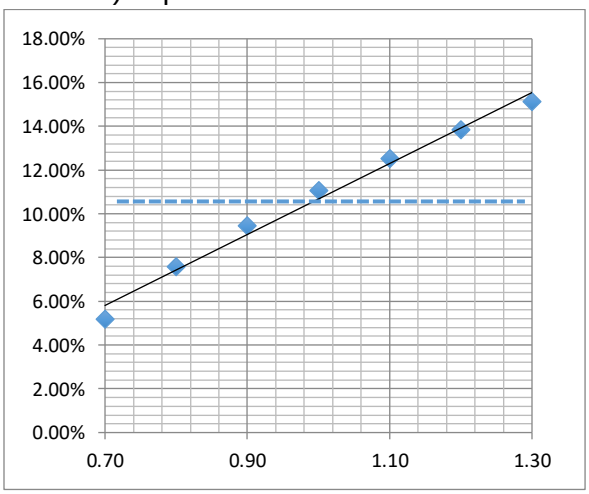
121. **Sensitivity analysis** indicates that the Project will be able to withstand 35 percent cost overrun or 25 percent of revenue shortfall while remaining financially viable. Figure A-21 illustrates the sensitivities of FIRR to cost overrun and/or revenue shortfall.

Figure A-21: Sensitivity analysis

a) Impact of costs on FIRR



b) Impact of revenue on FIRR



Annex 6: Credit and Investment Analysis

A. Corporate Briefing

122. Indonesia Tourism Development Corporation (ITDC), previously known as Bali Tourism Development Corporation (BTDC), a fully state-owned enterprise (SOE), was established in 1972. The Company started its commercial operation in 1982, with an initial geographical focus on Nusa Dua, Bali. Pursuant to PP No. 55 of 2008 and Government Regulation No. 33 of 2009, the Company acquired the rights to manage the Mandalika Resort area of Lombok. In line with GoI's national tourism strategy, BTDC changed its name to ITDC in 2014, with an authorized capital of IDR1 trillion. Today, the Company operates two business units: (i) Nusa Dua, Bali and (ii) Mandalika, West Nusa Tenggara.

123. ITDC undertakes the following business activities: (i) planning the designation and use of land and utilize land for tourism purposes in Nusa Dua and Mandalika Lombok Tourism Area, (ii) handling and leasing the land to third parties to build tourism facilities including supporting facilities, hotels, villas and agro-tourism as well as other supporting facilities and planning, (iii) constructing and developing infrastructure services and other public facilities.

B. Business Risk

124. **Industry Risk.** Tourism industry is one of the world's fastest-growing industries with nearly USD1.6 trillion worth of bookings in 2017. The industry growth over the coming decade is projected at an average annual rate of four percent, outpacing the growth rate of the world economy. Indonesia boasts some of the world's most spectacular natural and cultural environments. The tourism industry is a major contributor to Indonesia's economy, contributing to 6.2 percent of the country's GDP, 5.6 percent of its employment and six percent of its exports.

125. Indonesia's tourism industry faces two key obstacles. The first is poor infrastructure. The World Economic Forum's Travel and Tourism Competitiveness Report (2017) ranked tourist service infrastructure the worst performing area of Indonesia's tourism industry. The second is a shortage of funds to address the infrastructure quantity and quality gap. For the period 2015-2019, the industry has an estimated infrastructure funding need of USD450-520 billion, of which Government could fund at most USD330 billion.[117] The Project loan is an important step toward bridging the funding gap.

126. **Demand Risk.** Specializing in the tourism industry, ITDC is naturally exposed to extraordinary demand risks due to domestic, regional and international factors, such as fuel price volatilities, natural disasters, conflict, epidemics, commodity price volatilities, macroeconomic shocks, etc. ITDC has more than forty years of experience in managing and operating Nusa Dua

[117] Smith, J., Rizal, S., Wiryawan, A., Boothman, T. and Harrison G., 'Indonesia Infrastructure: Stable Foundations for Growth', PwC Indonesia, 2016, pp. 7-10.

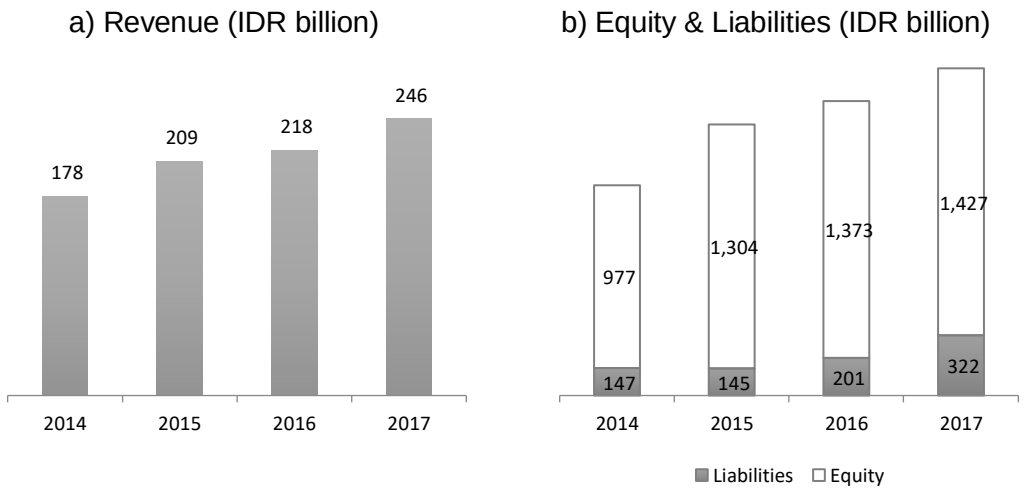
and was able to recover quick from shocks to tourist demand after the Asian Financial Crisis or major natural disasters such as the 2004 tsunami.

C. Competitive Position

127. **Effective Monopoly Status and first-mover advantage**. ITDC, formerly BTDC, acquired the rights to develop and manage Mandalika Resort area pursuant PP No. 55 of 2008 and Government Regulation No. 33 of 2009. The company has prepared a Master Plan and is playing a first-mover role by building new hotels and constructing onsite infrastructure, which can diversify Lombok's tourism offer and attract new visitor markets to Mandalika for an integrated resort experience.

128. On the operation front, ITDC aims to carry out its tourism operations with the efficiency and quality that place it in the industry with a competitive edge. To this end, the company applies commercial principles to its business operations, realizing stable revenue and asset growth year-on-year.

Figure A-22: ITDC Revenue and Asset (2014-2017)



129. Corporate Credit Rating. Using AIIB's internal credit assessment scorecard to assess ITDC's credit profile, the result was BBB- rating. Fitch Ratings recently assigned a BBB- rating to the ITDC, which is subject to update with the sovereign guarantee.

130. ITDC has a strong track record in its financial status and well-established revenue structure arising from land rents, management fees, profit-sharing with leaseholders, and service charges for various utilities. There are strong assurances from private investors for hotel and other tourism facilities with LUDAs signed for around 30 percent of salable land as of August 2018. Therefore, the default risk is minimal. In the case of default by ITDC, the project lending will be covered by a full government guarantee. The default risk is further minimized by stating, as a financial covenant in Loan Agreement, a minimum debt service coverage ratio of 1.1 times, to safeguard its financial position.

131. **Business mission.** ITDC's business mission compasses four components:

- Developing selected tourism destinations in cooperation with the Government and the public.
- Developing quality human resources in destination management.
- Making the company's brand equity as an icon of Indonesia's tourism destination promotion through cooperation with international institutions.
- Synergizing with other SOEs in the development of tourism destinations.

D. Financial Risk

132. ITDC's financial statements in the period of 2014-2017 were reviewed and key information is summarized below. All financial information was extracted from audited financial statements prepared in accordance with Standards on Auditing established by the Indonesian Institute of Certified Public Accounts and Auditing Standards for State Finance (SPKN) set by the Supreme Audit Board of the Republic of Indonesia.

133. ITDC has recorded stable financial performance with growing revenues and asset base albeit declining profitability in recent years due to rising maintenance costs. The Company has demonstrated high albeit declining profit margins, strong liquidity and low leverage.

Table A-12: ITDC financial performance 2014-2017

	(IDR million)				Growth Y/Y (%)		
	2014	**2015**	**2016**	**2017**	**2015**	**2016**	**2017**
BALANCE SHEET							
Current assets	347,795	699,686	760,018	500,435	*101*	*9%*	*-34%*
Non-current assets	776,528	749,626	813,511	1,249,24	*-3%*	*9%*	*54%*
Total assets	**1,124,32**	**1,449,31**	**1,573,52**	**1,749,67**	*29%*	*9%*	*11%*
Current liabilities	53,094	54,327	109,178	186,364	*2%*	*101*	*71%*
Non-current liabilities	94,178	90,556	91,742	135,872	*-4%*	*1%*	*48%*
Total liabilities	**147,272**	**144,883**	**200,920**	**322,236**	*-2%*	*39%*	*60%*
Total equity	977,051	1,304,42	1,372,60	1,427,44	*34%*	*5%*	*4%*
Total equity and liabilities	**1,124,323**	**1,449,312**	**1,573,529**	**1,749,676**	*29%*	*9%*	*11%*
INCOME STATEMENT							
Revenues	**177,764**	**208,706**	**218,232**	**246,385**	*17%*	*5%*	*13%*
Operating expense	(94,767)	(110,754)		(176,841)	*17%*	*29%*	*23%*
Operating income (loss)	67,714	87,226	80,676	63,192	*29%*	*-8%*	*-22%*
Total income (loss)	**65,047**	**85,598**	**77,816**	**62,898**	*32%*	*-9%*	*-19%*
KPIs							
EBIDTA margin (%)	*39.2%*	*47.5%*	*51.1%*	*39.0%*			
Net profit margin (%)	*36.6%*	*41.0%*	*35.7%*	*25.5%*			
Return on equity (%)	*9.4%*	*6.6%*	*5.7%*	*4.4%*			

	(IDR million)				Growth Y/Y (%)		
	2014	2015	2016	2017	2015	2016	2017
Current ratio	*6.55*	*12.88*	*6.96*	*2.69*			
D / (D+E) (%)	*13%*	*10%*	*13%*	*18%*			
E / (D+E) (%)	*87%*	*90%*	*87%*	*82%*			

134. **Financial Sustainability.** Based on the available information, a financial projection was carried out to assess ITDC-Mandalika operation's financial sustainability. The table below provides a summary of key projected financials and Key Performance Indicators (KPIs).

135. With the addition of the Mandalika operation, ITDC will maintain a healthy margin along with strong liquidity. With the primarily debt-financed new investments, the Company will see a fundamental shift in its capital structure toward higher debt-to-equity ratios over time. Due to the long grace period associated with the sovereign-backed long-term financing, the Company will continue enjoying a low debt service burden over the projection period.

Table A-13: ITDC-Mandalika Financial Projection

In million USD	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F
Income statement										
Revenue	2.0	3.2	4.6	10.6	29.7	33.7	41.1	45.1	51.1	56.9
Expenese	(1.5)	(2.2)	(3.5)	(8.0)	(16.4)	(18.3)	(20.1)	(21.2)	(23.4)	(24.5)
EBITDA	**0.5**	**1.0**	**1.2**	**2.6**	**13.3**	**15.3**	**21.0**	**23.9**	**27.7**	**32.4**
Depreciation	(0.6)	(0.6)	(0.6)	(2.0)	(3.9)	(5.4)	(6.9)	(7.6)	(8.1)	(10.7)
EBIT	**(0.1)**	**0.4**	**0.5**	**0.6**	**9.4**	**10.0**	**14.0**	**16.3**	**19.6**	**21.7**
Interest expense	-	-	-	-	-	-	-	-	-	-
Tax	(0.3)	(0.5)	(0.7)	(0.6)	(1.1)	(1.3)	(2.4)	(3.0)	(3.6)	(4.3)
Net income	**(0.4)**	**(0.1)**	**(0.2)**	**0.0**	**8.3**	**8.6**	**11.6**	**13.3**	**16.0**	**17.4**
Balance sheet										
Current assets	9.2	9.9	10.6	12.7	26.1	40.4	54.3	62.5	71.4	82.9
Non-current assets	90.4	139.5	203.8	296.4	343.9	405.6	432.3	447.5	456.2	445.6
Total assets	**99.5**	**149.4**	**214.3**	**309.1**	**370.0**	**446.0**	**486.5**	**509.9**	**527.6**	**528.5**
Current liabilities	0.4	0.6	0.9	1.1	2.2	2.6	3.7	4.4	5.2	6.0
Non-current liabilities	-	39.5	104.5	199.0	250.4	317.5	351.0	373.8	390.7	390.7
Total liabilities	**0.4**	**40.2**	**105.3**	**200.1**	**252.6**	**320.0**	**354.8**	**378.2**	**395.9**	**396.7**
Total equity	**99.1**	**109.2**	**109.0**	**109.0**	**117.4**	**126.0**	**131.7**	**131.7**	**131.7**	**131.7**
Total liabilities and equity	**99.5**	**149.4**	**214.3**	**309.1**	**370.0**	**446.0**	**486.5**	**509.9**	**527.6**	**528.5**
Cash flows										
Cashflow from operating activities	0.5	0.6	0.6	1.7	11.7	14.0	19.1	21.2	24.4	28.4
Cashflow from investment activitie	(13.3)	(49.8)	(64.9)	(94.5)	(51.4)	(67.0)	(33.6)	(22.8)	(16.9)	-
Cashflow from financing activities	21.8	49.8	64.9	94.5	51.4	67.0	27.7	9.5	0.9	(17.4)
Total cashflow	**9.0**	**0.6**	**0.6**	**1.7**	**11.7**	**14.0**	**13.3**	**7.9**	**8.4**	**11.0**
Beginning year cash balance	-	9.0	9.6	10.2	11.9	23.6	37.6	50.9	58.8	67.2
Ending year cash balance	**9.0**	**9.6**	**10.2**	**11.9**	**23.6**	**37.6**	**50.9**	**58.8**	**67.2**	**78.2**
KPIs										
EBIDTA margin	*26%*	*32%*	*25%*	*25%*	*45%*	*46%*	*51%*	*53%*	*54%*	*57%*
Net profit margin	*-22%*	*-4%*	*-4%*	*0%*	*28%*	*26%*	*28%*	*30%*	*31%*	*31%*
Return on equity	*0%*	*0%*	*0%*	*0%*	*7%*	*7%*	*9%*	*10%*	*12%*	*13%*
Current ratio	*20.7*	*15.5*	*12.0*	*11.7*	*11.8*	*15.8*	*14.5*	*14.2*	*13.7*	*13.7*
DSCR	-	-	-	-	*2.78*	*3.31*	*1.31*	*1.31*	*1.31*	*1.48*
D/(D+E)	*0%*	*27%*	*49%*	*65%*	*68%*	*72%*	*73%*	*74%*	*75%*	*75%*
E/(D+E)	*100%*	*73%*	*51%*	*35%*	*32%*	*28%*	*27%*	*26%*	*25%*	*25%*

Annex 7: Sovereign Credit Fact Sheet

136. Indonesia is a lower-middle-income country as classified by WB. Indonesia's Gross National Income per Capita rose from USD560 in 2000 to USD3,374 in 2015. According to IMF Article IV 2016 for Indonesia, despite the sharp fall in international oil prices, episodes of capital outflows, and turbulent global financial markets in 2015, the Indonesian economy performed well with a relatively stable growth at 4.7 percent. This is largely due to sound monetary management and a prudent fiscal stance. In 2016, growth is projected to increase moderately to 4.9 percent supported by domestic demand, which is driven by investment and public sector spending. Inflation has fallen sharply at the end of 2015, and it is expected to remain within the inflation target band (3-5 percent) in 2016. The current account deficit narrowed significantly in 2015 to around two percent of GDP on lower imports, but the deficit is projected to increase again in line with higher domestic demand. The fiscal deficit will remain below three percent of GDP, the statutory limit for the general government.

Table A-14: Selected macroeconomic indicators (2014-2018)

Economic Indicators	2014	2015*	2016*	2017*	2018*
Real GDP	5.0	4.7	4.9	5.3	5.5
CPI inflation (% change, end-of-year)	8.4	3.4	4.5	4.4	4.4
Central government balance	-2.2	-2.8	-2.8	-2.8	-2.8
Total external debt (% of GDP)	33.1	36.6	36.6	36.0	35.1
Gross external financing requirement ($bn)	83.8	75.2	82.6	--	--
Nominal gross public debt	24.7	27.5	28.4	29.2	30.0
Public gross financing needs	4.4	4.5	4.6	4.7	4.5
Broad money (M2, % annual change)	13.5	13.5	14.0	--	--
Net FDI inflows (% of GDP)	1.8	1.4	1.5	--	--
Gross reserves (months imports)	8.0	7.3	6.8	6.6	6.2
Current account balance (% of GDP)	-3.1	-2.0	-2.5	-2.5	-2.6
Exchange rate (Rupiah/$, end period)	12435	13788	--	--	--

Note: *denotes projected figures. Source: IMF Country Report No. 16/81, March 2016.

137. Looking ahead, Indonesia's medium-term growth is projected to reach six percent by 2020, factoring in strong infrastructure investment and structural reforms that support productivity growth. The main external risks include: (i) more volatile global financial conditions with poor market liquidity possibly amplifying volatility in the event of capital outflows and (ii) a deeper-than-expected slowdown in EM trading partners that could further weaken external demand and commodity prices. The possible domestic risks will be the slow progress in investment-enabling structural reforms and public investment projects, and continued declines in government revenue. On debt outlook, Indonesia's external debt remains at a moderate level of 36.6 percent of GDP in 2015 and is projected to be sustainable over the medium-term. Growth in private external debt is expected to slow as global financial conditions tighten and borrowing costs rise. Public debt remains low while contingent liabilities arising from borrowing by state corporations pose fiscal risks.[118]

[118] International Monetary Fund (IMF), 2016. Country Report No. 16/81– 2015 Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for Indonesia, March, 2016.

Annex 8: Risks and Mitigation Measures

138. The Project has been assigned a "High" overall risk rating. This is partly because it is a Category-A project (environmental and social safeguards) with land legacy issues and potential adverse impacts. The Project's main risks and mitigation measures are summarized in Table A-15.

Table A-15: Summary of key risks and mitigation measures

1. Financial and regulatory risks (Assessment: Low)	
1.1 Default risk due to low profitability	**Assessment:** Low
Description: ITDC has a strong track record in its financial status and well-established revenue structure arising from land rents, management fees, profit-sharing with leaseholders, and service charges for various utilities. There are strong assurances from private investors for hotel and other tourism facilities with LUDAs signed for around 30 percent of salable land as of August 2018. Therefore, the default risk is minimal.	**Mitigation Measure:** In the case of default by ITDC, the project lending will be covered by a full government guarantee. The default risk is further minimized by stating, as a financial covenant in Loan Agreement, a minimum debt service coverage ratio of 1.1 times, to safeguard its financial position.
1.2 Regulatory changes	**Assessment:** Low
Description: The Project is fully supported by GoI's relevant policies and regulations, among others, designation of Mandalika as a SEZ and one of national strategic projects, and government guarantee. The Project is also one of ten national tourism priority destinations defined by PPNPPI.	**Mitigation Measure:** ITDC, together with AIIB, will continue to coordinate with relevant Ministries and government agencies during project implementation, to minimize any potential risks from regulatory changes and improve policies and regulations relevant to the Project.
2. Environmental and social risks (Assessment: High)	
2.1 Community opposition	**Assessment:** Medium
Description: Some tourism projects have attracted a wide range of opposition from various stakeholders, especially when public beaches and adjoining hinterlands were made inaccessible to the public. This project by its nature engages with different private and public stakeholders. Though a 2017 perception study commissioned by ITDC found generally positive attitudes towards the Project, aligning the national	**Mitigation Measure:** To improve understanding of the proposed Project, a number of public consultation workshops were carried out in 2018 by ITDC and AIIB staff. The participants include local government agencies, village heads, business owners, small traders, and individuals. Continuous public consultations, with a particular focus on the full and meaningful

and local government visions for development with those of local communities and businesses may present a challenge once construction and operation begins in earnest. Stakeholders who may not benefit directly from the Project or who at first may not be fully supportive of a tourism-based economy may see the Project as a direct threat. Alternately, given the high profile of the Project and the high expectations associated with it by some stakeholders, there is also a risk, though less pronounced, that any delays in implementation will affect stakeholder sentiment and support.	involvement of girls and women, will be carried out during project implementation More consultations were made with local communities in preparing IPDP including group discussions, interviews and sample survey. Based on these consultations, broad program for assisting those communities has been defined. The program includes improvement of village physical infrastructures (Sub-component 1.2) and capacity building for local population in order to improve their income and livelihood (Sub-component 2.3). During project implementation, external monitoring and evaluation will be carried out to ensure IPDP is implemented and benefits of the Project reach the local communities.
2.2 Land acquisition	**Assessment:** High
As of August 2018, ITDC had acquired roughly 92 percent of the total 1,164 ha site, with the remainder tied up in the courts (59 ha) or otherwise claimed by various individuals (27 ha). In addition, there are 42 ha of enclaved land areas located in Mandalika Area, might have some impacts on the construction of some internal roads. Although ITDC is making efforts to purchase those land areas from current owners, not all of them could be purchased before project implementation.	To address such issue, ITDC agrees that land acquisition will be triggered for the Project. Following the Bank's requirements and the government's laws, a RPF has prepared by ITDC, which defines basic process, entitlements, and implementation arrangements for land acquisition. For different types of land acquisition impact, following the RPF, a resettlement plan will be developed based on detailed impact survey and consultation with affected people so that the income and livelihood of the affected people could be restored or improved.
2.3 Distribution of benefits	**Assessment:** Medium

Description: Under the Project, it will be critical to ensure transparency in project management and the distribution of benefits. International best practices have shown that tourism projects only qualify as sustainable, if a sufficient share of tourist expenditures is enabled to exit the large hotel chains and enter the local economy. Given the Mandalika SEZ's upmarket branding and its partial focus on high-end tourist profiles with a preference for import goods and services, there is a risk of a disproportionate amount of project benefits not benefiting the local or regional economy.	**Mitigating measures:** Sub-component 2.3 has been added to the Project design specifically to strengthen economic linkages between operators on the site and the local economy. In addition, public access to the site and on-site lots for local MSMEs are intended to increase economic participation. Sub-component 1.2 will also ensure that marked and timely infrastructure improvements are delivered to selected surrounding villages. The effectiveness of all measures will be continuously monitored through the indicators identified in the results framework.
2.4 Environmental and social management	**Assessment:** High
Description: There is a risk that the implementation of the ESMP, RPF, and IPDP by ITDC could not be carried out satisfactorily due to weak institutional capacity, lack of professional staff, and lack of experience.	**Mitigating measures:** ITDC will assign designated environment and social staff in PMU responsible for implementation of ESMP, RPF, and IPDP. The implementation of ESMP will be supported by environment engineers in the construction supervision consultant. The implementation of RPF and IPDP will be supported by consultant and external monitoring and evaluation teams. During project implementation, the AIIB team will conduct regular supervision and provide training and guidance for implementation support.
3. Project implementation risks[119] (Assessment: Medium)	
3.1. Institutional capacity for project implementation	**Assessment:** Medium
Description: ITDC has a sound record of performance in development, operation, and management of the Nusa Dua tourism	**Mitigation measures:** To mitigate these risks, ITDC has established a PMU staffed with technical experts. During project preparation, the

[119] Project implementation risks are risk which ITDC and AIIB can manage to a significant degree.

destination financed by the World Bank. Most of ITDC staff left the organization and also the Mandalika project is a first engagement for ITDC with AIIB. There might be delays due to ITDC's relative unfamiliarity with bank-financed procurement, unsuccessful tenders, financial management and the integrated nature of infrastructure to be deployed. The risks associated with complex urban infrastructure interventions include road infrastructure, water supply, sanitation, SWM, DRM, etc.	Bank team provided support to familiarizing the ITDC and consultants with the Bank's Operational Directive on Procurement Instructions for Recipients, financial management requirements. This process will be continued during implementation to strengthen staff capacities, and also project implementation will be carried out according to the project operational manual, satisfactory to AIIB. These risks are expected to be mitigated by ensuring that adequate assistance is provided to achieve a high quality of detailed engineering designs and construction as part of the Project (Component 2).
3.2. Services by third parties and off-site infrastructure	**Assessment:** Medium
Description: There are risks of services and critical off-site infrastructure not being provided by service providers and relevant government agencies including PLN, provincial-level public works, or the regency.	**Mitigating measures:** An MoU between PLN and ITDC was signed in 2018, laying the foundation for the establishment of a new shared entity, foreseen to be in the form of a Joint Venture Company, which will manage electricity supply to the project area. Further agreements have been reached, or are in the process of being reached, between ITDC and a Design-Build-Operate contractor for the site's SWRO plant, and ITDC and PDAM. The impact of the development on the regency's landfill at Pengengat, collection services off-site and associated access routes has been highlighted to both ITDC and the Regency government. A coordination meeting between ITDC and relevant utilities as well as provincial and local government has been established and is convening regularly.
3.3. Procurement, fraud and corruption	**Assessment:** Medium
Description:	**Mitigating measures:**

Although ITDC is governed under a corporate governance structure, there remains a risk that procurement of goods and consulting services could be subject to corrupt practices.	AIIB's Procurement Policy and Policy on Prohibited Practices will apply to the Project. The project team will carry out through assessment of ITDC's procurement system and assist in strengthening its procurement management capacity.
4. External risks[120] (Assessment: Medium)	
4.1. Demand risk	**Assessment:** Low
Description: The tourism sector is highly competitive, both from domestic and international competitors. Trends such as ecotourism, MICE (meetings, incentives, conferences and exhibitions), adventure or cultural tourism are subject to long-term fluctuations in demand, caused by fuel price volatilities, natural disasters, conflict, epidemics, commodity price volatilities, macroeconomic shocks, and others, all of which could affect the viability of the site.	**Mitigation measures:** The Project is designed to cater to both foreign and domestic tourists in a range of categories such as business, leisure, sports and ecotourism. This diversification should insulate the Project against some naturally occurring volatility in tourism demand. While tourism projects are naturally more exposed to extraordinary demand risks, the ITDC has a more than 40-year experience in managing and promoting a similar asset in Nusa Dua and was able to recover quickly from shocks to tourist demand after the Asian Financial Crisis or major natural disasters such as the 2004 tsunami.
4.2. Foreign exchange risk	**Assessment:** Medium
Description:	**Mitigation measures:** ITDC is familiar with foreign currency-denominated transactions.
4.3. Force majeure (natural hazard risk)	**Assessment:** Medium
Description: Based on a 2010 Ministry of Public Works Probabilistic Seismic/Ground Motion Hazard Assessment (PSHA), Mandalika's bedrock has a relatively high peak ground acceleration (PGA) potential, with a 10-percent probability of a 0.250g event over a 50-year return period. In July and August of 2018, Lombok was struck by a series of earthquakes, causing significant loss of life and property, particularly in the north and west of the island (a M_w 6.4 earthquake on	**Mitigation measures:** Outlined in the Project's Resort Design Guidelines and enforced through the Design Committee which reviews and approves engineering and architectural proposals from leaseholders, all structures within the project boundary have to comply with the building code and the following legislation and regulations to ensure seismic resistance: (i) Law No. 28 of 2002 on Buildings; (ii) SNI 1726-2002 on Seismic Resistant Design Standard for Buildings;

[120] External risks are risks which the ITDC or the Bank have no control over and only limited flexibility to manage.

July 29, 2018, M_w 6.9 on Aug. 5, 2018, and M_w 6.9 on Aug 19, 2018). While property on the project site itself was not damaged, the need for appropriate mitigation measures is more than evident. Concurrently, Lombok has a 1-10 percent annual probability of experiencing a tsunami with a height of >3.0 m. [121]	and (iii) SNI 1727-2013 on Minimum Loads for Buildings and Other Structures. In response to the tsunami hazard, buildings and infrastructure are required to comply with Ministry of Public Works Regulation No. 06/PRT/M/2009 on Guidelines for infrastructure development in tsunami hazard zones. A tsunami mitigation plan relying on hard infrastructure, signage, escape routes, public information and an early warning system are part of the masterplan and AIIB-financed infrastructure. Mitigation measures to be applied during the construction phase will be included in relevant bidding documents.
4.4. Unplanned induced development	**Assessment:** Medium
Description: Nusa Dua and comparable tourism projects have demonstrated the possibility of uncontrolled induced development in the periphery of project sites, as well as the resulting negative environmental and social impacts.	**Mitigating measures:** Sub-component 2.4 will establish a baseline of urban expansion around Mandalika using an established methodology for analysis of satellite imagery to ensure comparability of results after project completion, and utilization of this data for monitoring of the district strategic plan. In addition, AIIB has emphasized to both the ITDC, local government as well as line ministries the need for continued tourism management and development and enforcement of a sound local area plan for Pujut Sub-district as a whole.

[121] Horspool et al. (2014) 'A probabilistic tsunami hazard assessment for Indonesia'. Natural Hazards and Earth System Sciences 14, pp. 3105–3122.

Annex 9: Implementation Support Plan

139. The implementation support plan, supported by AIIB's supervision capacity, has been developed in view of the complex nature of the Project. The plan aims to enhance project supervision, while mitigating the identified risks and effectively responding to issues and challenges as they arise. It will include a concerted plan of technical, fiduciary, and safeguards support needed to ensure due diligence over the course of project implementation.

140. AIIB will carry out implementation support missions three times a year, including review and support of procurement processes. Missions' frequency will be adjusted based on the speed of the activities and the performance of the Project. In addition to formal missions, AIIB will conduct smaller and more targeted missions, when required, to resolve specific matters related to finalization of designs, procurement and financial management matters, and the review and improvement of engineering supervision and implementation plans. After project completion, an independent assessment of the Project will be undertaken to draw lessons to inform future or similar operations.

141. AIIB will provide intensive implementation support during the first year of project implementation in the following areas to ensure a smooth start to project implementation.

- **High-level planning and donor coordination.** AIIB, together with ITDC, will coordinate with relevant government entities including the Ministry of Tourism, the Ministry of Public Works and Housing, and local governments to ensure their planning and budgeting consistent with the Project. AIIB, together with ITDC, will also continuously communicate with key relevant service providers such as PLN, PDAM, and the SWRO contractor to ensure utility provisions in the project site such as power and water. AIIB will closely coordinate with relevant donor partners including the World Bank as the World Bank-financed Integrated Tourism Master Plan (ITMP) for Lombok Island is expected to be developed during the first year of project implementation and will guide tourism-related investments adjacent to the project site. Such coordination would be directed towards ensuring the most advantageous allocation of donor support to the Project. To facilitate improved dialog and cooperation, it is envisaged that donor coordination meetings would take place a minimum of twice a year.

- **Technical design of the Project.** At the technical level, AIIB will assemble the appropriate technical skills mix and experience needed to support implementation of this complex and large operation. AIIB will engage a local consultant to coordinate project activities, monitor frequently project progress, and provide just-in-time technical support when required. Support to technical designs of the Project have started as part of project preparation and will continue throughout implementation. In addition, AIIB will provide on-demand technical advice, especially with respect to: (i) environmental performance of key infrastructure under the Project, and also ones to be designed, built and operated by third parties

including for SWRO plants and solar PV power plant; (ii) the LUDA compliance and behavioral change of leaseholders for project performance; (iii) induced development of surrounding areas and (iv) capacity building of ITDC and relevant contractors to improve management of infrastructure assets to be constructed.

- **Environmental and Social.** AIIB will support ITDC in implementing the agreed safeguard instruments and reviewing compliance during implementation support missions. AIIB will: (i) periodically carry out field supervision, (ii) review the periodic monitoring reports furnished by ITDC and (iii) provide safeguard training and guidance to ITDC for the implementation and monitoring of ESMP. Particularly, AIIB will closely monitor implementation of various infrastructure including waste water treatment, water supply, and the solid waste facility, to minimize adverse environmental and social safeguards risks and impacts. AIIB will also consult with ITDC on corrective measures to rectify any failures, when identified, to comply with its environmental and social obligations.

- **Procurement.** Procurement support involving (i) prior review of procurement documents, (ii) individual consultant support and coaching of procurement staff and detailed guidance on AIIB's procurement policy and (iv) monitoring of procurement progress against the detailed procurement plan and contract management. Process of familiarizing the ITDC with AIIB's policy has already begun and will be continued during project implementation.

- **Financial Management (FM).** AIIB will ensure that adequate training on FM is provided to relevant ITDC. FM reviews will be regularly conducted by AIIB to ensure that FM capacity and system remain adequate during project implementation in accordance with AIIB's standard. The reviews may include: (i) review of annual project budget, together with procurement plan; (ii) review and verification of specific transactions; (iii) review of internal controls of FM; (iv) analysis of the financial statements in relation to the funds disbursed by AIIB; (v) physical verification of existence of structures and others and (vi) review of the Project Financial Reports and internal and external audit reports.