I. Introduction and Context

Country Context

In recent years, Indonesia's strong economic growth has supported gains in poverty reduction and contributed to a growing middle class. The country has emerged from the severe economic turmoil of the 1998 Asian Financial Crisis, and the difficult political transition from authoritarianism to democracy. Indonesia's development has made remarkable progress in lifting millions of people out of poverty and in improving social indicators. Prudent economic management has resulted in low budget deficits, a much reduced public debt-to-GDP ratio, and manageable inflation. The past decade has also seen robust economic growth even through the more recent global financial crisis. In addition, Indonesia has benefited from a boom in commodity exports, increasing investor confidence and substantial capital inflows, as well as a strong demographic dividend. Output growth has averaged 5.5 percent per year during 2002 to 2011, on the back of strong domestic consumption and generally sustainable external surpluses. Although financial markets remain vulnerable to changes in international investor sentiment, imbalances declined rapidly as corporate and financial
sector balance sheets were repaired.

Despite this growth, Indonesia needs to address many development challenges to achieve the sustainable and inclusive growth goals set by the Government. Despite sustained economic growth and poverty reduction, Indonesia still has a large poor population (30 million live below the national poverty line, which is just below PPP $1.25 a day) and the pace of poverty reduction is slowing. An additional 65 million people live above the poverty line but are highly vulnerable to falling back into poverty, and inequality is growing.

Building the capacity of Indonesia’s institutions to effectively formulate and implement public policy and programs remains a significant task. Public investment is lagging behind targets and a severe lack of infrastructure will increasingly hold Indonesia back from reaching its potential in terms of economic growth and prosperity. Further, private sector participation in infrastructure, logistics, healthcare and education services, among other sectors needs to increase significantly to lead to additional job growth.

**Sectoral and Institutional Context**

Tourism is increasingly recognized around the globe for its potential to serve as a transformative vehicle for sustainable economic growth. As a result, both industrialized and emerging countries feature travel and tourism as an element of their development agenda’s and consider tourism as a source of income generation and jobs, particularly for women and young people.

Tourism is the third largest foreign exchange earner for Indonesia, bringing in above USD 8 billion and employing many SMEs. Yet, Indonesia has significant unfilled tourism potential. Despite a generally growing trend in terms of numbers of visitors and tourism receipts, Indonesia has the tourism assets needed to attract a significantly larger number of tourists. Domestic tourism is particularly strong, hitting 224 million in 2008, well above 219.8 million in 2007.

Toward the goal of increasing competitiveness of the sector, the Ministry of Tourism and Creative Economy (MOTCE) have recently set forth a “New Tourism Agenda” which focuses on improving connectivity, local infrastructure, and skills development in the tourism sector, among other factors. It has also identified 15 “prime tourism destinations” where it plans to support sustainable tourism development through an integrated destination management approach.

The Ministry’s approach is also closely aligned with the ASEAN Tourism Strategic Plan: 2011 – 2015. The plan aims to provide an increasing number of visitors to the region with diverse products, enhanced connectivity, a safe and secure environment, and increased quality of services. At the same time, it aims to ensure an increased quality of life and opportunities for residents through responsible and sustainable tourism development by working effectively with a wide range of stakeholders.

Indonesia’s recently published, Masterplan for Acceleration and Expansion of Indonesia’s Economic Development (MP3EI) identifies tourism as one of the main sectors expected to drive Indonesia’s growth into a high income country by 2025. Under the Masterplan, the Bali-Nusa Tenggara economic corridor is expected to become a “gateway for tourism” in Indonesia. Further, the plan identifies Lombok as a hub for tourism activities and aims to improve capacity and results in the following areas: (i) marketing, (ii) development of tourism destinations beyond Bali, (iii) upgrading of infrastructure services and facilities including, water, electricity, transport and
communication services, (iv) human resource development and (v) promotion of tourism awareness among local communities as beneficial to poverty reduction and sustainable economic development.

Within Lombok, the Ministry of Tourism and Creative Economy (MOTCE), the Ministry of State-owned Enterprise (BUMN) and the Bali Tourism Development Corporation (BTDC) have initiated plans to develop Mandalika resort on the south eastern coast for tourism. Given Indonesia’s growth agenda and the tourism potential in Lombok, the Mandalika development has the opportunity to optimize potential social and economic benefits from tourism for the wider Lombok community.

Tourism competitiveness. According the World Economic Forum, Indonesia ranks 74 out 139 countries. While this is an improvement from a ranking of 81 in 2009, the country still lags behind many of its regional competitors such as Malaysia (35), Thailand (41), and Vietnam (80).

Relationship to CAS
The new Country Partnership Strategy for Indonesia for the period FY13-15 calls for the World Bank Group (WBG) to support Indonesia’s development agenda by enabling local capacity to implement and deliver and by strengthening economic competitiveness of the private sector. The strategy is aligned with the country’s Masterplan, mentioned above, which aims to transform Indonesia into one of the world’s ten largest economies by 2025. Under the plan the Government will take a strong position not only as the regulator, but also as the facilitator and function as "a catalyst for growth" for the private sector.

The proposed project is well aligned with the CPS in its emphasis on building institutions, sectors, systems and programs that focus on private sector development, infrastructure, inclusive growth, and environmental sustainability. As a prime service sector in the Indonesian economy, a competitive tourism sector can serve as a driver for sustainable growth consist with the Government’s goals.

The project also directly supports the Government’s goal of promoting equity. The CPS emphasizes equity remains a basic principle for the Government in its efforts to balance economic growth and development amongst large cities and smaller cities and more isolated parts of the country. The CPS also highlights the goal of reaching Indonesia’s poorest. The Government concentrates on thirteen programs, which include education, health, poverty reduction, employment creation, infrastructure development, food security, energy, good governance, electoral reform, anti-corruption enforcement, inclusive and equitable development, climate change and environmental protection, and cultural development. Collaboration with the private sector to complement Government’s efforts through investments, job creation and innovation is prioritized.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)
The Project Development Objective is to promote the sustainable development of and reduce poverty in Lombok through the creation of a competitive tourism-based economy. The project will focus on three key aspects: integrated tourism masterplanning, private sector development, and the creation of basic tourism infrastructure.

Through this intervention, the project is expected to help build the foundation for the Bali-Nusa Tenggara (NTB) corridor to become the “gateway to tourism” as outlined in Indonesia’s Masterplan
for Acceleration of Economic Development (MP3EI). The project is expected to create jobs in the
sector and contribute to preservation and management of Indonesia’s prime tourism assets.

In the longer term, the project is expected to develop a mechanism for replicating integrated tourism
planning and development throughout Indonesia as a driver for sustainable and inclusive growth.
This would help the GOI reach its goal of promoting equity across regions and reduce poverty in
some of its poorest provinces such as NTB.

**Key Results (From PCN)**

Project level results
- Increased number of jobs in the tourism sector in Lombok
- Reduction of poverty rates in Lombok

Component 1: Institutional Capacity
- Increased knowledge of tourism master planning for community involvement.
- Established replication mechanism and enabled policy framework for sustainable tourism
  management

Component 2: Tourism Economy
- Increased annual number of visitors tourist arrivals to Lombok
- Increased number of MSMEs providing tourism products and services
- Increase in the number of qualified tourism service sector professionals from Lombok (ie.,
  achieving certification through MOTCE Certification Program).

Component 3: Tourism Infrastructure
- Creation of basic infrastructure and utility services in Mandalika (roads, water, harbor, and
electricity).
- Creation of public facilities, spaces, and services in the Mandalika region (visitors center,
parks, internet, etc)

**III. Preliminary Description**

**Concept Description**
The proposed project would be a loan of an estimated USD 100 million to the Government of
Indonesia. The main implementing agencies are the Ministry of Tourism and Creative Economy and
the Bali Tourism Development Corporation (BTDC)—a state-owned enterprise that has acquired
the rights to develop the Mandalika region of Lombok. Through a comprehensive and integrated
approach, this project aims to address the set of drivers of tourism competitiveness in the NTB
region: institutional development for tourism planning and management, human capital and SME
development to serve the tourism-based economy and improved infrastructure services. While the
project will focus on the Mandalika resort, as the entry point, the project is expected to benefit the
wider set of communities in Lombok and spur sustainable development and poverty reduction
throughout the island.

Components. The three components proposed are:

(i) Tourism development policy, planning and management. This component would provide
technical assistance to local governments, private sector and communities in Lombok to develop,
implement, and monitor integrated master plans for sustainable tourism-based economic development. At present, there exists weak institutional capacity for integrated destination planning and management. Further, community understanding on the long term benefits of tourism for poverty reduction and sustainable income creation is low.

This component would build upon the approaches and methodologies developed under the United Nations World Tourism Organization (UNWTO) Pangandaran Sustainable Tourism pilot project. The tourism master planning model involves stakeholder engagement and community involvement and promotion of sustainable tourism development models. The plans would be prepared through a participatory process and would seek to build consensus on strategies for managing and preserving the destination’s tourism assets, including both natural and cultural. Building on existing plans, the TA would aim to further improve quality of detailed technical master plans and provide assistance for implementation readiness, especially with regard to social and environmental aspects. Specific activities to be supported include:

- Developing a sustainable tourism management plan, with a common vision, endorsed by a broad set of stakeholders.
- Building the image of the destinations and developing domestic and international marketing campaigns.
- Building capacities of tourism stakeholder groups for effective skills for tourism development.

(ii) Skills development and promotion of SMEs. The objective of this component would be to improve skills to support the growing tourism-based economic sector in Lombok and promote the growth of micro and small enterprises (MSMEs) working in tourism and related creative industries. Special efforts would be made to ensure that women and poor communities in particular can share in the opportunities provided by tourism development. The project will explore linkages with the existing PNPM program which already supports several “tourism villages” in Lombok and provides support to SMEs to produce handicrafts and other products. Specific activities would include:

- Tourism industry skills development through establishment or support of a training center or other human resource development programs.
- Technical assistance programs to support SMEs to identify tourism products, improve skills related to financial management, marketing and business development.
- Establishment of partnerships with vocational training programs.

(iii) Infrastructure development. The objective of this component would be to provide financing and technical assistance to establish the critical infrastructure investments in Lombok. The project would consider an initial focus on the infrastructure planned under Mandalika resort in partnership with the BTDC. Basic infrastructure necessary prerequisite to further site development and investor interest. It is important for the region’s long-term development that the Mandalika site be developed in a manner that preserves the tourism assets and promotes socially inclusive and environmentally sustainable development.

Implementation. This component would potentially finance infrastructure such as: (i) surface infrastructure – local roads into the area and within the area; (ii) utility networks – potable water; electricity; communication & data; (iii) landscaping – soft landscape; public space; and (iv) public facilities and services.
IV. Safeguard Policies that might apply

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V. Financing (in USD Million)

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VI. Contact point

World Bank

Contact: Alexandra L. Drees-Gross
Title: Senior Financial Specialist
Tel: 5781+3129 /
Email: agross@worldbank.org

Borrower/Client/Recipient

Name: Ministry of Finance
Contact: Robert Pakpahan
Title: Expert Staff on State Revenue, with full mandate as DG DM
Tel: 
Email: rpapkah@yahoo.com

Implementing Agencies

Name: Ministry of Tourism and Creative Economy
Contact: Mari E. Pangestu
Title: Minister
Tel: 
Email: mpangestu@pacific.net.id

VII. For more information contact:
The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop