

Indonesia: Mandalika Urban and Tourism Infrastructure Project (the Project)

AIIB's response to the article posted by Just Finance International

“Ahead of AIIB Annual Meeting, Indonesian Civil Society Demands Bank Ends Reprisals & Intimidation of Indigenous Communities in Mandalika” – October 25, 2022

“Official Statement: Indonesian Coalition for Monitoring Infrastructure Development” – October 25, 2022

November 14, 2022

The Asian Infrastructure Investment Bank (AIIB) takes allegations of human rights violations related to the projects it finances extremely seriously. In this regard, AIIB always remains open to dialogue and to continuous improvement of its operational practices. We note that the concerns raised in the article is a reposting of the previous article posted by Just Finance International and to which AIIB responded in September 2022. The AIIB response can be found here: <https://www.business-humanrights.org/en/latest-news/aiibs-response/>. The concerns raised are related to alleged human rights violations in connection with the Project, though most of the concerns appear to involve the nearby MotoGP Circuit race track that is not part of the AIIB-supported Project. While AIIB has not, to date, found evidence of coercion or use of force or intimidation relating to land acquisition and resettlement under the Project itself, it continues to engage in enhanced monitoring of this Project. The concerns were also discussed with the concerned CSO in the CSO dialogue with AIIB Management on October 27, 2022 during AIIB Annual Meeting.

Project Overview. Despite Indonesia's strong comparative advantage in tourism given its rich cultural and natural resources, this sector is not living up to its full potential (contributing only 6% of GDP in Indonesia in 2019, compared to over 10% globally). Tourism growth has been spatially uneven, and is heavily concentrated in Bali. The Government of Indonesia (GoI) launched a national program, known as the Indonesia Tourism Development Priority Program (Program Prioritas Nasional Pembangunan Pariwisata Indonesia, PPNPPI) which aims to develop 10 priority tourism destinations beyond Bali. The Project, which is a part of the national program, is expected to generate numerous benefits including increased tourist spending, local employment, government tax revenues, foreign exchange earnings, and improved quality of life for local communities.

The Project, estimated to cost USD316.5 million, is being financed by a sovereign-backed loan of USD248.4 million from AIIB to Indonesia Tourism Development Corporation (ITDC), a company wholly owned by the GoI that has a mandate to plan and develop the Mandalika Special Economic Zone (SEZ) on Lombok Island. The remaining Project costs of USD68.1 million are being financed by ITDC and GoI counterpart funds. The Project focuses on implementation of the initial phase of an integrated masterplan prepared by the GoI to guide development of Mandalika as a tourism destination.

The Project aims to provide sustainable core infrastructure for the development of the new tourism destination in the Mandalika SEZ, including infrastructure improvements in surrounding communities. By facilitating private sector investment, the Project is expected to create significant direct, indirect, and induced employment in tourism as well as related businesses, boosting Indonesia's tourism competitiveness and sustainable economic growth. In addition, the Project includes improvements to

basic infrastructure and services in adjacent communities that would serve both visitors and residents. It aims to protect and enhance the unique cultural life and scenic attractions of the Project area, which are its major tourism assets.

The Project consists of the following components:

- Component 1: Provision of Basic Services and Infrastructure. This includes new construction, rehabilitation, and reconstruction of infrastructure in the Mandalika SEZ as well as in selected surrounding communities, as follows:

- Sub-component 1.1. Construction of core infrastructure in the Mandalika SEZ, including 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. The infrastructure implementation phases are based on the location of already leased-out or in-demand lots, thereby facilitating optimal take up by investors, and efficient integration of site infrastructure into the adjacent public utility network. Accommodation, retail, and other tourist facilities are being financed by private investors through long-term lease arrangements.

- Sub-component 1.2. 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. The objective is for an equitable share of the benefits of the Project to reach local communities and mitigate possible negative externalities from an increased volume of tourists and associated businesses.

- Component 2: Technical Assistance (TA) and Capacity Building. This includes:

- Sub-component 2.1. Project management support, including procurement, financial management, monitoring and evaluation, environmental and social safeguards, and stakeholders' collaboration at the destination level.

- Sub-component 2.2. 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.

- Sub-component 2.3. Training and skills development for selected nearby villages to maximize economic and social benefits for local communities.

- Sub-component 2.4. Sustainable tourism destination management and monitoring system, through developing monitoring tools for the Mandalika tourism destination and extended areas, including the coastal environment, and conducting preparatory studies for a second phase of the Mandalika master plan and future tourism destinations.

Other Project features include: (i) development and adoption of sustainable land use planning and building regulations; (ii) development and implementation of sustainable infrastructure solutions; (iii) development of a destination management system for the extended area of the Mandalika SEZ, including: (a) tools and guidance on how tourism development could optimally benefit local communities; (b) consideration of measures to encourage local employment in the Mandalika SEZ; and (c) measures to sustain and protect the Mandalika SEZ ecosystem and integrate local customs and cultures into

Mandalika's development; and (iv) development and application of monitoring tools for spatial expansion and land use changes, as well as coastal environments, using drones and innovative analytical tools, and construction supervision using technology.

Status of Project Implementation. AIIB's financing was approved on December 7, 2018 and the financing agreement with ITDC became effective on March 22, 2019. Since loan effectiveness, good progress has been made in implementation of the Project components. As of October 31, 2022, the disbursement stands at USD107 million (43.0% of the total AIIB loan amount). The Project Management and Construction Management consultants have been hired and are on board. Two works contracts for Sub-component 1.1 were awarded in March 2021. Other contracts for works and consulting services are under preparation. More specifically:

- Sub-component 1.1. The major civil works contracts for construction of core infrastructure, i.e., Package 1 (West side) and Package 2 (East side), were awarded in March 2021 and show good physical progress with adequate quality assurance. The remaining works contracts, i.e., Package 3 (Wastewater Treatment Plant), Package 4 (Electrical Facilities), and Package 5 (Solid Waste Treatment Plant), are expected to be awarded in 2023.
- Sub-component 1.2. The infrastructure investment program for nearby villages has been finalized, based on a participatory planning process and a series of consultations with local communities, and is expected to be implemented from Q1 2023.
- Sub-component 2.1 and 2.2. Project Management and Construction Management Consultants are on board.
- Sub-component 2.3. ITDC is implementing an annual community development program for 2022 (including skill development and trainings for local communities and SMEs to help strengthen economic linkages).
- Sub-component 2.4. ITDC is implementing several activities including development of: spatial monitoring and reporting tool for spatial expansion and land use changes for the Mandalika SEZ and surrounding areas as well as construction supervision; a long-term sustainable tourism destination system; and a longer-term monitoring tool using hydrodynamic/water quality models for ground and surface water (upstream watershed), drainage, and coastal marine areas.

Project Benefits to Local Communities. The economic benefits of the Project focus on the impacts on the local economy from tourism development through tourist spending. The Project, when fully operational by 2035, is expected to generate a significant number of jobs in direct hotel employment and in indirect and induced employment in related businesses, for example, food and beverages, agriculture, wholesale and retail, and transport.

The main Project benefit, i.e., the impact of tourist spending on the local economy is yet to materialize at this early stage of foundational infrastructure construction. The COVID-19 pandemic has also slowed the Project's overall implementation as well as the development of tourism activities in Mandalika.

During its June 2022 site visit, AIIB received generally positive feedback from Project stakeholders, including local communities, with regard to the Project's benefits and anticipated positive impacts (e.g., local street vendors – their increased income due to growing local tourism and presence of Project

contractors/workers, particularly, during the COVID-19 pandemic; and local community – better general access including to the markets, due to paving of roads and increased safety at night due to provision of street lighting under the Project). In addition, a first hotel in Mandalika, which was constructed and started operation in August 2022, has generated 150 jobs, over 70 percent of which have been filled by local inhabitants.

The Project also provides programs and necessary technical support to ITDC to update Land Utilization and Development Agreements with private investors and operators to promote local employment and strengthen economic linkages of hotels and other businesses with the local economy, e.g., a provision to encourage private operators to engage local suppliers/service providers and employ a certain percentage of local inhabitants.

In addition, under the Project, community development programs for nearby local villages have been developed, based on a participatory planning process and a series of consultations with local people, to maximize economic and social benefits for locals through infrastructure improvements as well as skill development and trainings. AIIB has been also proactively discussing with ITDC viable options to further support local communities and businesses affected by the COVID-19 pandemic.

Based on the feedback from the local community and local NGOs, AIIB acknowledges that there continues to be room for improvement in stakeholder engagement by all parties concerned, including Project-affected people, village heads, local government officials and more widely with the population of neighboring villages in Lombok, so that everyone can participate in and reap the benefits that this Project is anticipated to bring.

Allegation of Use of Force and Intimidation. AIIB takes allegations of human rights violations related to the projects it finances extremely seriously. AIIB has not, to date, found evidence of use of force or intimidation relating to land acquisition and resettlement under the Project itself. This was reconfirmed during the Bank’s site visit in June 2022. At the same time, AIIB recognizes the complex nature of the Project and the difficulties that have occurred with respect to other nearby investments undertaken by ITDC, such as the MotoGP circuit race track. AIIB also notes the extraordinary challenges posed by the ongoing COVID-19 pandemic, with respect not only to implementation, but also to supervision of the Project.

The Bank team is aware of the use by ITDC of security personnel for the purpose of protection and security of the Mandalika SEZ, in particular individual properties such as the MotoGP circuit race track particularly during events and hotels for their day-to-day security (not related to the Project). ITDC has developed, as part of its detailed Action Plan agreed with AIIB, a Standard Operating Procedure (SOP) to provide for the orderly and appropriate use of police and security personnel by ITDC, its contractors and sub-contractors. The SOP outlines a process for the approval of the use of police and/or the army based on risk, which requires approval by the Managing Director of ITDC. The SOP has been reviewed/cleared and its implementation is being regularly monitored by the Bank team. To date the SOP has not needed to be activated in the Project area.

While the land acquisition for the Project has been completed, the Client has confirmed that the acquisition of any additional land for the Project or beyond the Project area but within the Mandalika SEZ will be undertaken in accordance with the SOP and Resettlement Planning Framework and without any

intimidation or use of force. It has reiterated to the Client most recently during the June site visit that in line with its ESP, AIIB does not tolerate the use of force to intimidate or harm Project-affected people.

AIIB believes that underlying many of these concerns may have been the limited nature of the stakeholder engagement with Village Chiefs and other key members of the local communities during the COVID-19 pandemic. Under ITDC's Action Plan agreed with AIIB in January 2021, ITDC has, with support from AIIB, conducted enhanced stakeholder engagement through, for example, more frequent meetings with Village Chiefs, Sub-village Chiefs, members of civil society and Project-affected people. Information about the GRM has also been made more widely available with the use of banners and the placement of more suggestion boxes. These meetings occur on a weekly basis.

Retaliation. The Bank team takes seriously risks of retaliation to stakeholders, and recognizes that it can take many forms, including threats, harassment, violence or punitive actions taken against an individual, group or organization that have lodged a complaint or voiced criticism about the Project. The Bank team therefore took stock during its June 2022 site visit of the AIIB Consultant's earlier findings during his site visits in November 2020, January-February 2021, May 2021, and April 2022, and reconfirmed that the Project Grievance Redressal Mechanism (GRM) is currently functioning and is designed to address fear of retaliation. The Bank team will continue to be attentive to and work with ITDC, including providing relevant guidance and capacity building, during its oversight of Project implementation, to avoid or minimize risks of retaliation. The Consultant's next field visit is expected to start from the last week of November 2022 to provide continued support to ITDC.

Land Acquisition and Involuntary Resettlement, Livelihood Restoration. Rights to most of the land within the Mandalika SEZ were acquired over time by ITDC as evidenced by official certificates (known as HPL certificates) granting it the right to manage the concerned land. There are ongoing claims on ITDC's land. These are addressed either by negotiation and/or through the legal process.

The Resettlement Action Plan (RAP) prepared for those living informally on ITDC-owned land provides for restoring and/or improving the livelihoods of those who have been resettled, and is currently under implementation. The RAP provides a comprehensive set of compensation measures for families informally occupying ITDC's land, including provision of land and permanent housing (after an interim period of temporary housing until the permanent site is prepared), relocation assistance, cash compensation, provision of training and jobs to address any loss of income, and other support for livelihood restoration.

In accordance with the entitlements of the RAP, each household has been allocated a 100 m² plot in the Ngolang permanent resettlement site. Construction of 120 new houses in Ngolang has largely been completed by the Ministry of Public Works and Housing and Local Government. The relocation of households from the temporary resettlement site (HPL 94) to permanent houses is planned to be completed by December 2022.

Each resettled household will receive land title and house certificates indicating their ownership. Houses will be provided free for Project-affected households without a down payment. The new houses have been designed in such a way that they can serve as guest houses for tourists and therefore provide an additional source of income. Furthermore, ITDC has committed to providing at least one job per Project-affected household once tourism activities get underway. Socialization meetings were held with community members and no specific issues or concerns were raised. ITDC and relevant authorities will

consult with Project-affected people about the house distribution mechanism and the process in order to be inclusive and transparent.

A RAP compensation tracking system has been developed to record outstanding issues, including whether and to what extent affected people need non-financial assistance and how the issues are resolved. To confirm the adequacy of compensation for informal settlers occupying ITDC land, ITDC has: (i) conducted field verification to record names, employment and livelihood details, and number of family members; and to obtain a copy of identification and a facial photograph; (ii) crosschecked the results of verification data with previous data, working with Village Chiefs; (iii) reviewed the list so as to compare the complaints received and determine the number of informal settlers who are still living in the Project area; and (iv) shared this data with Heads of Villages/Sub Village, Sub District of Pujut, and Central Lombok District.

Any disputes relating to compensation can be brought to the Task Force for the Acceleration of Settlement of Land Disputes (known as the SATGAS), a task force established by the Regional Government of West Nusa Tenggara to address concerns and/or disputes between local communities and ITDC with a view to identifying mutually agreeable solutions related to grievances about Enclave Land and claimed land, and grievances of informal settlers. The composition of SATGAS includes representatives of: Mataram University; Provincial offices responsible for: police, social services, legal aid, public relations, and law; the Land Office; the Provincial High Court; and the Provincial army.

Once the resettlement process is completed, ITDC will prepare a RAP implementation completion report and provide all supporting documents. The report will be publicly disclosed and shared with the AIIB by ITDC.

AIIB's Project Implementation Monitoring and Next Steps. Given the complex nature of the Project and the difficulties that have occurred with respect to other nearby investments undertaken by ITDC, such as the MotoGP Circuit, the AIIB Project team carried out frequent implementation support and monitoring activities prior to the COVID-19 pandemic. Prior to the pandemic, field visits were carried out every quarter, with a focus on the environmental and social aspects of the Project. In addition to these visits, the Project team conducted more targeted technical visits/meetings (by videoconference during the pandemic) to review progress and address specific issues.

AIIB also notes the extraordinary challenges posed by the COVID-19 pandemic, with respect not only to implementation, but also to monitoring and oversight of the Project. Once the COVID-19 pandemic began and travel restrictions prevented the AIIB team from undertaking site visits to the Project area, the Bank engaged a national environmental and social expert (AIIB Consultant) to monitor the Project's implementation and provide necessary support to ITDC, focusing on stakeholder engagement and resettlement.

As part of its enhanced approach to Project monitoring, the AIIB Project team continues to monitor implementation of the ITDC's Action Plan, which is regularly updated based on progress achieved in carrying out the measures specified, and as new issues are identified involving environmental and social aspects of the Project.

The AIIB Project team continues to conduct weekly Project-level meetings with the Client on environmental and social aspects, in addition to the AIIB Consultant's regular site visits. These weekly meetings focus on: (a) grievance redress management; (b) resettlement-related issues such as

compensation, progress in developing the permanent resettlement site, and conditions of the temporary resettlement site; (c) reports by the AIIB Local Consultant and ITDC of meetings held with local stakeholders; and (d) employment generation for Project-affected people.

AIIB's next full regular monitoring field visit is planned for December 2022.

AIIB reiterates that the MotoGP Circuit is not part of the Project supported by AIIB, and that it therefore has no legal basis on which to require ITDC or the GoI to take actions regarding concerns raised in connection with the MotoGP Circuit. However, AIIB has agreed, during its June 2022 field visit, with ITDC and the GoI on the engagement of an experienced facilitator independent from any of ITDC, GoI and AIIB to facilitate a better understanding of overall Mandalika development including nearby investments and Project-related issues. The process of engaging the facilitator is currently underway.

AIIB remains open to dialogue with all concerned parties, including Project stakeholders and civil society groups to continuously improve its Project monitoring.