



Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 03-Jun-2020 | Report No: PIDC29187



BASIC INFORMATION

A. Basic Project Data

Country Indonesia	Project ID P173249	Parent Project ID (if any)	Project Name Indonesia Disaster Risk Finance & Insurance (P173249)
Region EAST ASIA AND PACIFIC	Estimated Appraisal Date Sep 28, 2020	Estimated Board Date Dec 15, 2020	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing	Borrower(s) Republic of Indonesia	Implementing Agency Fiscal Policy Agency, Ministry of Finance	

Proposed Development Objective(s)

The Project Development Objective is to strengthen the financial and fiscal resilience of the Government of Indonesia to natural disasters and health-related shocks.

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	510.00
Total Financing	510.00
of which IBRD/IDA	500.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	500.00
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Non-World Bank Group Financing

Trust Funds	10.00
Global Facility for Disaster Reduction and Recovery	10.00



Environmental and Social Risk Classification

Substantial

Concept Review Decision

Track II-The review did authorize the preparation to continue

B. Introduction and Context

Country Context

Indonesia, the world's largest island country located between the Indian and the Pacific Ocean, aspires to become an upper middle-income country by 2025 and the 5th largest economy in the world by 2030. A country with a diverse population and a complex landscape, Indonesia is the world's fourth most populous nation with approximately 265 million people living in over 6,000 inhabited islands. Indonesia has made remarkable development progress over the last 20 years and has emerged as a middle-income economy with macroeconomic and political stability. As the largest economy in South East Asia and 16th largest in the world, Indonesia has maintained an average GDP growth of 5% p.a. in the last 5 years. Growth has been sustained primarily by private consumption, thanks to a large and growing domestic market with a middle class estimated to account for 20 percent of the Indonesia's population and for 43 percent of total household consumption.

The ongoing COVID-19 pandemic has severely impacted Indonesia through a twin supply and demand shock with financial, fiscal, and social ramifications whose full magnitude and duration remain unclear. Indonesia declared its first official cases on March 2, 2020. Since then, the daily rate of contagion has increased rapidly. Like many other East Asian countries, Indonesia entered 2020 and the COVID-19 crisis on the back of slowed 2019 growth due to unfavorable external demand conditions. In 2020 the Indonesian economy is expected to plunge to zero percent growth on account of COVID-19 effects. Reflecting significantly weaker private consumption and investment growth due to the COVID-19 outbreak, real GDP is now expected to be flat in 2020, despite expansionary monetary and fiscal policy. At the same time, frequent climate related shocks, disasters and other risks pose an additional threat to progress in poverty reduction and growth. Located in the Pacific Ring of Fire with 127 active volcanoes, Indonesia experiences frequent earthquakes and tsunamis, as well as floods. Between 2007 and 2018, recorded disaster events caused the loss of 7,375 lives and displaced 55,000,000 people, with annual economic losses of approximately US\$2.2 to US\$3 billion (equivalent to 0.2-0.3% of 2018 GDP). Subnational impacts can be much more severe, with damages from past events reaching up to 50% of provincial GDP. Earthquake risk is particularly high, with around 80 percent of the country located in earthquake prone areas. The poor and vulnerable often bear the brunt of disaster impacts as they tend to live in hazard areas, lack access to basic services, and have limited access to financial resources and assets to cope with the aftermath.

Financial preparedness for disasters, climate shocks, and other crises such as health shocks is increasingly important to protect Indonesia's development gains and economy. Disaster response and reconstruction costs include spending on emergency response, social support, housing reconstruction, and rehabilitating or reconstructing public infrastructure. This cost is likely to increase further with climate change and more frequent disasters, placing an increasing burden on public expenditure. Recent disasters have further highlighted challenges in effectively and quickly supporting affected areas, even when financing was available, highlighting bottlenecks in the institutional responsibilities, preparedness plans, and processes for post-disaster spending.

Disasters will not stop during the pandemic and its aftermath, leaving Indonesia and its most vulnerable population at



high risk of compounding shocks. The fiscal, economic and health shock of COVID, could amplify the impacts of natural disasters. With lower capacity to respond this could mean much larger impacts on households and firms. A disaster may force actions that risk a drastic increase in contagion cases (e.g. evacuations), which could further overload health and civil protection systems. As the economy is recovering from the impact of the pandemic and associated measures, it is especially vulnerable to further economic shocks, e.g. SMEs with severe revenue drops may suffer physical damage; poor households that have lost income as a result of the pandemic, face additional loss of assets and livelihoods; while the central and local government have limited resources to respond as significant financing was already mobilized for the COVID-19 response. Integrating financial resilience as part of economic recovery will be critical to reduce the impacts of compounding shocks on households and firms and safeguard investments in economic recovery from COVID.

Sectoral and Institutional Context

Despite important reforms, the current institutional structure of funding disaster response, rehabilitation, and reconstruction remains fragmented and insufficient to meet the growing challenge. There are multiple overlapping mechanisms for funding the emergency response and reconstruction. Overlapping and unclear regulation and procedures create further coordination complexity between the national and subnational governments. Failure to channel funds for response and reconstruction in a well targeted, efficient, and transparent manner leads to increased human suffering; increased direct cost to the government (e.g. cost of maintaining shelter due to delayed reconstruction of damaged houses); loss in revenue (e.g. loss of tax revenue from continued disruption of economic activities); and long term negative growth impacts (e.g. reduced human capital due to disruption in schools).

To strengthen financial resilience, Indonesia formally launched its National Disaster Risk Finance and Insurance (DRFI) Strategy during the WB-IMF Annual Meetings in October 2018, under the leadership of the Minister of Finance and the Vice President. Its overarching mission is to protect state finances and the population through sustainable and efficient risk financing mechanisms that meet disaster-related expenditures in a planned and timely manner, and that deliver well-targeted and transparent assistance following shocks. This Strategy is well embedded in the overarching government reforms on building fiscal, physical, and social resilience, which are outlined in the recently approved National Medium-Term Development Plan (RPJMN) for 2020–2024, to be implemented through the government workplan (RKP) and the state budget (APBN).

Protecting the state budget through a “Pooling Fund for Disasters” (Pooling Fund untuk Bencana, PFB) is the first and most critical component of the Strategy Implementation Plan. The pooling fund will be designed to ensure that the government is able to secure sufficient and well-planned funding for disaster shocks. Funds managed by this pooling fund could be distributed directly to schemes that allow for the effective disbursement of funds (such as subnational grants with streamlined standard operating procedures or social assistance programs) or through relevant ministries and agencies (e.g. BNPB, the Ministry of Public Works and Public Housing, the Ministry of Social Affairs, and other line ministries as well as regional governments). The pooling fund will develop a risk financing strategy to leverage budget contributions and ensure it can meet all response costs even in bad disaster years, including potentially through contingent financing from development partners and risk transfer to financial markets. Importantly, it can also serve as an efficient channel to receive post-disaster donations through an already established and transparent mechanism.

Relationship to CPF

The proposed Investment Project Financing with Performance-Based Conditions (IPF-PBC) operation is aligned with the FY 16-20 Country Partnership Framework (CPF) for Indonesia. It contributes to the “Collecting More and Spending Better” Engagement Area by supporting the Government in establishing and financing a pooling fund to protect the state budget



against disaster shocks and strengthening pre-arranged disbursement channels to provide targeted and timely disaster response following disaster shocks, thus, improving the quality of spending. As the project also supports the implementation of all priority areas under the government's DRFI strategy linked to the pooling fund including pre-arranged disbursement channels for household reconstruction and support the public asset insurance, it also contributes to other CPF Engagement Areas such as "Delivery of local services and infrastructure", "Leveraging the private sector: investment, business climate and functioning of markets" and "Sustainable Landscape Management". Moreover, an SCD Update is currently being finalized and will provide the analytical underpinnings for the new FY21-25 WBG CPF. The SCD Update posits four pathways to overcome the constraints to poverty reduction and shared prosperity: (i) strengthening the competitiveness and resilience of the economy; (ii) building more quality infrastructure, faster; (iii) nurturing world-class human capital; and (iv) managing natural assets. The proposed DRFI Project is well aligned with the "strengthening competitiveness and resilience of the economy" pathway of the SCD Update.

The proposed operation will also contribute toward the World Bank Group's twin goals of ending extreme poverty and boosting shared prosperity in a sustainable manner. By improving preparedness and response that can reduce the impact of disasters, the Program will contribute to the elimination of extreme poverty and boosting shared prosperity given that the poor are often affected the most by natural disasters exacerbated by the impact of climate change. In line with the WBG's plan to enhance action towards resilience to climate change that does not leave anyone behind (Climate Change Action Plan, Priority III, high-impact area vi), the Program will pay special attention to people living in extremely vulnerable areas, including women and children. It will also contribute to the Climate Change Action Plan's goal of increasing the number of countries covered by financial protection instruments, including sovereign disaster risk financing.

This operation is part of a package of dedicated fast disbursing operations that the World Bank has planned for supporting the Government of Indonesia in the post pandemic economic recovery and it is also part of the World Bank Group's effort to address challenges from climate change through an active portfolio of climate-relevant activities. With climate change as a thematic focus across all engagement areas of the current CPF (2016-2020), the World Bank has set a target of at least 31 percent of lending commitments with climate co-benefits. This program complements this target as it is expected to support the implementation of a disaster risk financing policy for strengthening resilience to climate and disaster risks, including setting up the necessary institutions and financing facility. These reforms help the Government in becoming a proactive risk manager rather than emergency responder to natural disaster shocks. Building higher financial (as well as social and physical) resilience to shocks would protect the national fiscal balance, support local governments, and protect the most vulnerable against falling back into poverty, in line with the government's objective of more inclusive growth.

C. Proposed Development Objective(s)

The Project Development Objective is to strengthen the financial and fiscal resilience of the Government of Indonesia to natural disasters and health-related shocks.

Key Results (From PCN)

Tentative PDO-level results indicators for the IPF-PBC operation would be:

- Increased government access to rapid finance through an operational pooling fund for emergency response and recovery (including for disaster and health-related shocks)
- Reduced reliance on ad-hoc budget mobilization after disasters
- [yoy decline in number of days] for assistance to be delivered to beneficiaries after the occurrence of an event

D. Concept Description



This IPF-PBC Project (the “Project”) aims to support the establishment of the pooling fund and associated activities as a key component under Indonesia’s DRFI program as constituted by its National DRFI Strategy and Implementation Plan 2018-2023. It will consist of IPF-PBC financing in the amount of US\$500 million from IBRD, complemented by a small grant-based IPF component to support capacity strengthening and provide technical assistance for successful implementation of the Program. For this, the team will seek financing in the amount of US\$ 10 million from the Global Risk Financing Facility (GRiF).

Component 1 (“Establishing and capitalizing the pooling fund”) of the project will focus on operationalizing and capitalizing the pooling fund. This will be achieved through: (i) the full establishment and set up of the BLU, including its governance arrangements; (ii) strengthening the BLU’s funding structure and reserves; (iii) adopting and implementing a risk financing strategy for the BLU; and (iv) strengthening operational performance of the BLU, including procedures on the allocation of funds. A key priority for the operationalization of the pooling fund will be to provide incentives for better preparedness and risk reduction tied to all its support to strengthen long term resilience.

This Component would be fully implemented through the IPF-PBC modality. Under this component, the government will draft and adopt the relevant regulations to establish and govern the operation of the BLU, with technical assistance from the World Bank. These will include institutional steps to establish a new BLU; establishing the business plan and first programs to be managed by the pooling fund; financial management procedures and resource access procedures, outlining operational rules for activating the pooling fund; allocating resources; execution (including the social and environmental procedures to be followed); and accounting for them; as well as the standard operating procedures for each of the relevant line ministries involved in the use of the pooling fund. The regulations will also include provision for replenishment of the fund, should its resources be exhausted in any given year due to unexpectedly high needs. It is expected that the majority of funding would be linked to PBCs under this results area, in particular linked to the allocation of funds to the pooling fund from the budget, the adoption of a sustainable risk financing strategy for the pooling fund, the adoption of the relevant regulations, and the timely payout of funds from the pooling fund to pre-arranged disbursement channels.

Component 2 (“Improving Preparedness for More Effective Disaster Response Across Government Agencies”) of the project will support the government to build the channels to ensure the resources from the pooling fund enable faster, more efficient, more effective, and more transparent shock response. This will be achieved through actions that streamline processes and preparedness systems to quickly allocate and disburse funds into implementing agencies to be used through existing, government systems for response and rehabilitation. Moreover, this component will further support improved understanding of the fiscal impact and economic impact of disasters. The implementation of the National DRFI strategy and the pooling fund will require significant efforts in joint planning and strengthening collaboration across institutions, national ministries, regional governments, and other stakeholders, which will be further supported by this component. Budget tracking will provide the evidence base for more informed planning and collaboration.

This Component would be fully implemented through the IPF-PBC modality. PBCs will include actions that require the collaboration between MOF and implementing agencies (ministries and local governments). While PBCs here will mostly be at the input or intermediate outcome level, this is the right instrument to support the alignment of multiple ministries behind the required reforms and actions and ensure a focus on results.

Component 3 (“Strengthen pooling fund capacity and systems to effectively support risk financing and disaster response”) will support investments and technical assistance to build the capacity and systems of the BLU to manage disasters and respond to shocks more effectively. This component will seek financing of US\$ 10 million from the Global Risk Financing



Facility (GRiF). It aims to strengthen the capacity of key entities involved in the implementation of the pooling fund and related programs under the national DRFI Strategy, including related to technical, fiduciary, and socio-environmental matters. It will mainly provide specialized technical assistance and targeted capacity building required to support the achievement of anticipated results. It could also finance targeted risk assessment and data management systems for the BLU to enable the full operations of the pooling fund.

Specific activities to be supported under this Component will be defined in more detail based on technical, fiduciary, and socio-environmental preparatory work. Proposed activities discussed with government include upgrading of IT Systems for the pooling fund including asset information tracking and damage reporting, public building risk information for Indonesia, training and capacity building of BLU Staff and provision of training to government agencies, strengthening of fiduciary oversight and controls, including internal audit and risk management, and M&E and communications support.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No
Summary of Screening of Environmental and Social Risks and Impacts	

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APPROVAL

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