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Report No: PAD4070

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED LOAN

IN THE AMOUNT OF US$ 500 MILLION

TO THE

REPUBLIC OF INDONESIA

FOR THE

INDONESIA DISASTER RISK FINANCE AND INSURANCE

December 21, 2020

Finance, Competitiveness And Innovation Global Practice
East Asia And Pacific Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of December 3, 2020)

Currency Unit =	Rupiah (IDR)
US$ 1.00 =	IDR 14,177

GOVERNMENT FISCAL YEAR
January 1 - December 31

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ABBREVIATIONS AND ACRONYMS

APBN	State Budget
ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
ASA	Advisory Services and Analytics
ASP	Adaptive Social Protection
APEC	Asia Pacific Economic Cooperation
ASEAD+3	Association of Southeast Asian Nations plus three
Bappenas	National Development Planning Agency
BCR	Benefit Cost Ratio
BKF	Fiscal Policy Agency - *Badan Kebijakan Fiskal*
BPKP	Financing and Development Supervision Agency - *Badan Pengawasan Keuangan dan Pembanguna*
BLU	Public Service Agency - *Badan Layanan Umum*
BNPB	National Disaster Management Authority - *Badan Nasional Penanggulangan Bencana*
BPBD	Local Disaster Management Agency - *Badan Penanggulangan Bencana Daerah*
BPS	Central Bureau of Statistics - *Biro Pusat Statistik*
Cat DDO	Catastrophe Deferred Drawdown Option
CCT	Conditional Cash Transfer
CG	Central Government
COVID-19	Coronavirus Disease 2019
CPF	Country Partnership Framework
CQS	Consultant's Qualifications-based Selection
DA	Designated Account
DG	Directorate General
DJKN	DG State Assets - *Direktorat Jenderal Kekayaan Negara*
DIPA	Ministerial Budget
DRFCU	Disaster Risk Finance Coordination Unit
DRFI	Disaster Risk Finance and Insurance
DRM	Disaster Risk Management
DJA	DG Budget - *Direktorat Jenderal Anggaran*
DPA	Agency Budget
DJPb	DG Treasury - *Direktorat Jenderal Perbendaharaan*
DJPK	DG Fiscal Balance - *Direktorat Jenderal Perminbangan Keuangan*
DJPPR	DG Budget Financing and Risk Management - *Direktorat Jenderal Pengelolaan Pembiayaan dan Risiko*
DPL	Development Policy Loan
DSP	On call funds
EA	Executing Agency
ESCP	Environmental and Social Commitment Plan
ESF	Environmental and Social Framework

ESMS	Environmental and Social Management System
ESRC	Environmental and Social Risk Classification
ESS	Environmental and Social Standards
FMA	Financial Management Assessment
FONDEN	Mexico's National Disaster Fund
GDP	Gross Domestic Product
GICS	Government Internal Control System
GRiF	Global Risk Financing Facility
GRS	Grievance Redressal Service
GOI	Government of Indonesia
FGRM	Feedback and Grievance Redress Mechanism
HSFAT	Health Security Financing Assessment Tool
IA	Implementation Agency
IBRD	International Bank of Reconstruction and Development
IFR	Interim Financial Report
IPF	Investment Project Finance
IsDB	Islamic Development Bank
ISR	Implementation Status Report
ISM	Implementation Support Mission
JICA	Japanese International Cooperation Agency
KEM-PPKF	Macro Economic Framework and Key Principles of Fiscal Policy - *Kerangka Ekonomi Makro dan Pokok-pokok Kebijakan Fiskal*
M&E	Monitoring and Evaluation
MFD	Maximizing Finance for Development
MoF	Ministry of Finance
NGO	Non-Governmental Organization
MoH	Ministry of Health
MoHA	Ministry of Home Affairs
MoSA	Ministry of Social Affairs
MoRA	Ministry of Religious Affairs
NAPHS	National Action Plan for Health Security
NPV	Net Present Value
OHS	Occupational Health and Safety
OM	Operations Manual
PBC	Performance based condition
PDO	Project Development Objective
PFB	Pooling Fund for Disasters - *Pooling Fund untuk Bencana*
PforR	Program for Results
PMK	Finance Ministry Ministerial Regulation
PPSD	Project Procurement Strategy for Development
QCBS	Quality-and Cost Based Selection
RKP	Government workplan - *Rencana Kerja Pemerintah*

RPJMN	National Medium-Term Development Plan - *Rencana Pembangunan Jangka Menengah Nasional*
RR	Rehabilitation and Reconstruction
SCD	Systematic Country Diagnostic
SNG	Sub-National Government
SEA	Sexual Exploitation and Abuse
SEP	Stakeholder Engagement Plan
SH	Sexual Harrasment
SPAN	Financial Management System – *Sistem Perbendaharaan dan Anggaran Negara*
PKH	Indonesia's Conditional Cash Transfer Program - *Program Keluarga Harapan*
SEP	Stakeholder Engagement Plan
SIMAN	State asset database system - *Sistem Informasi Manajemen Aset Negara*
SEADRIF	South East Asia Disaster Risk Insurance Facility
Sembako	Food Assistance Program
STEP	Systematic Tracking of Exchanges in Procurement
U.K.	United Kingdom
UKPBJ	Goods / Services Procurement Unit - *Pokja Unit Kerja Pengadaan Barang/Jasa*
UNDB	United Nations Development Business

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DATASHEET

BASIC INFORMATION

Country(ies)	Project Name	
Indonesia	Indonesia Disaster Risk Finance & Insurance	
Project ID	**Financing Instrument**	**Environmental and Social Risk Classification**
P173249	Investment Project Financing	High

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[ ] Contingent Emergency Response Component (CERC)
[ ] Series of Projects (SOP)	[ ] Fragile State(s)
[✓] Performance-Based Conditions (PBCs)	[ ] Small State(s)
[ ] Financial Intermediaries (FI)	[ ] Fragile within a non-fragile Country
[ ] Project-Based Guarantee	[ ] Conflict
[ ] Deferred Drawdown	[ ] Responding to Natural or Man-made Disaster
[ ] Alternate Procurement Arrangements (APA)	[ ] Hands-on Enhanced Implementation Support (HEIS)

Expected Approval Date	Expected Closing Date
21-Jan-2021	29-Mar-2024

Bank/IFC Collaboration
No

Proposed Development Objective(s)

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

Components

Component Name	Cost (US$, millions)
Establishing and operationalizing the PFB	280.00
Improving Preparedness for More Effective Disaster Response Across Government Agencies	220.00
Strengthening PFB capacity and systems to effectively support risk financing and disaster response	10.00

Organizations

Borrower:	Republic of Indonesia
Implementing Agency:	Fiscal Policy Agency, Ministry of Finance

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

Non-World Bank Group Financing

Trust Funds	10.00
Global Facility for Disaster Reduction and Recovery	10.00

INSTITUTIONAL DATA

Practice Area (Lead)

Finance, Competitiveness and Innovation

Contributing Practice Areas

Governance, Health, Nutrition & Population, Macroeconomics, Trade and Investment, Social Protection & Jobs

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	Substantial

6. Fiduciary	Substantial
7. Environment and Social	High
8. Stakeholders	Moderate
9. Other	
10. Overall	Substantial

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [√] No

Does the project require any waivers of Bank policies?

[ ] Yes [√] No

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Relevant
Community Health and Safety	Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Relevant
Cultural Heritage	Relevant
Financial Intermediaries	Relevant

NOTE: For further information regarding the World Bank's due diligence assessment of the Project's potential environmental and social risks and impacts, please refer to the Project's Appraisal Environmental and Social Review Summary (ESRS).

Legal Covenants

Sections and Description
- Steering Committee. Section I.A.1(a), Schedule 2 to the LA. The Borrower shall, by no later than three months after the Effective Date establish, and thereafter maintain and chair a Steering Committee comprised of representatives from the Ministry of Finance including, inter alia, Fiscal Policy Agency (BKF), DG State Assets (DJKN), DG Budget Finance and Risk Management (DJPPR), DG Budget (DJA), DG Fiscal Balance (DJPK) and Director General

Treasury (DJPb), which shall be responsible for providing strategic guidance and coordination support for the implementation of the Operation

Sections and Description
- Coordination Unit. Section I.A.1(b), Schedule 2 to the LA. The Borrower shall, by no later than three months after the Effective Date establish and thereafter maintain a DRF Coordination Unit ("DRFCU") under its Ministry of Finance, which shall be responsible for the day-to-day implementation, management and monitoring of the Operation, with mandate composition and terms of reference acceptable to the Bank as set out in the Operations Manual.

Sections and Description
- Operations Manual. Section I.B.1, Schedule 2 to the Loan Agreement (LA). The Borrower, through its Ministry of Finance, shall ensure that the Operation is carried out in accordance with the arrangements and procedures set out in the Operations Manual.

Sections and Description
- Verification Agent. Section I.E.1, Schedule 2 to the LA. By no later than one month after the Effective Date, the Borrower shall appoint BPKP to act as an independent verification agent to undertake the independent verification process in respect of PBC Targets1, 6, 7, 8 and 9, in accordance with the terms of reference acceptable to the Bank.

Conditions

Type	Description
Effectiveness	[For the Loan] The Grant Agreement has been signed by the parties and is effective.

Type	Description
Effectiveness	[For the Loan] The Borrower, through its Ministry of Finance, has issued a Minister of Finance regulation, satisfactory to the Bank, designating the BLU that shall be responsible for holding and administering the PFB.

Type	Description
Effectiveness	[For the Loan] The Borrower, through its Ministry of Finance, has finalized and adopted the Operations Manual in form and substance satisfactory to the Bank.

Type	Description
Effectiveness	[For the Grant] The Loan Agreement has been signed by the parties.

Type	Description
Effectiveness	[For the Grant] The Recipient, through its Ministry of Finance, has finalized and adopted the Operations Manual.

I. STRATEGIC CONTEXT

A. Country Context

1. **Indonesia has seen remarkable development progress over the last 20 years: proactively managing fiscal and financial shocks from disasters and crises to safeguard these gains is a priority going forward.** The world's largest island country, Indonesia has become an upper middle-income country in 2020 and aspires to become the 5th largest economy in the world by 2030**.** With approximately 265 million people living in over 6,000 islands, the country emerged as a middle-income economy with macroeconomic and political stability over the last two decades. Yet it's location along the Pacific "Ring of Fire" exposes its people and the economy to many natural hazards, including earthquakes and tsunamis, landslides, floods, and volcanos. Between 2007 and 2018, recorded disasters claimed 7,375 lives and displaced 55,000,000 people,[1] with annual economic losses of approximately US$2.2 to US$3 billion[2] (equivalent to 0.2-0.3% of 2018 Gross Domestic Product (GDP)). Strengthening the country's financial, physical, and social resilience is key to managing these risks and protect development progress.

2. **At the time of preparing this project, Indonesia has been reeling under the impacts of the Coronavirus Disease 2019 (COVID-19) pandemic, a twin supply and demand shock with financial, fiscal, and social ramifications.** As of end November 2020, the Government reported over 500,000 confirmed cases of COVID-19, with a death rate of 3.2 percent. 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. Growth is projected to contract by 1.6 percent in 2020 as mobility restrictions, health risks and weak global economic activity depress private consumption and investment. While Indonesia's poverty rate reached a record low of 9.4 percent in March 2019, about 20 percent of Indonesians who are not poor are at risk of falling into poverty because of an economic shock. Official statistics show that the poverty rate recorded a slight uptick in March 2020, up to 9.8 percent, which is 0.4 percentage points higher than the poverty rate for the previous year. World Bank simulations based on the latest growth forecast for the year 2020 suggest that without Government intervention, 2-3 percent of the population, or equivalently 5.5-8 million Indonesians could be in COVID-19 induced poverty in 2020.[3]

3. **Financial planning to provide efficient liquidity after disasters and climate shocks protects the budget and ultimately the population through more effective response.** Pre-arranged financing can appropriately retain or transfer risks to private markets to ensure the government is better equipped to effectively respond after disasters, protecting the fiscal balance, subnational governments (SNGs), households, and businesses. From 2014 to 2018, Indonesia's central government spent between US$90 million and US$500 million (0.012-

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[1] Based on EM-DAT 2018 and BNPB data.
[2] National Disaster Management Authority, Head of Data and Information, 2018; and World Bank/GFDRR 2012. ASEAN.
[3] World Bank (2020). "Macro-Poverty Outlook" October 2020, World Bank Indonesia.
http://pubdocs.worldbank.org/en/963481563917599502/mpo-idn.pdf

0.05 percent of GDP) annually on disaster response and recovery. SNGs spent an estimated additional US$250 million over the same period. In total, Central Government (CG) and SNG post-disaster spending was equivalent to 0.11% to 0.38% of total government expenditure.[4] This still severely underestimates spending on reconstruction which is often integrated in future capital investment projects or reallocated from budget items such as road construction and maintenance and not tracked. These costs can be much higher in severe disasters years such as 2018 when the country was struck by earthquakes in West Nusa Tenggara (July to August), an earthquake and tsunami in Central Sulawesi (September) and a tsunami along Sunda Strait (December) most of which is not yet captured in the 2018 figures. Total reconstruction needs for the West Nusa Tenggara and Central Sulawesi events were projected at about USD 3.4 billion (or 0.3 percent of GDP) between 2019 and 2021.[5]

4. **Prearranged financial solutions need to be linked to well-established disbursement channels to enable quick, targeted, and transparent flow of funds.** Without appropriate mechanisms and systems, delays in delivering available assistance can increase the human and economic cost. Well-defined delivery mechanisms ensure funds reach vulnerable populations, including men and women. Recent disasters in Indonesia have highlighted challenges in effectively supporting affected areas, even when financing is available, due to bottlenecks in the institutional responsibilities, preparedness plans, and processes for post-disaster spending.[6] This highlights the need to strengthen institutional coordination, preparedness, and pre-identified delivery channels and well-defined protocols through which post-disaster assistance can flow.

5. **The cost of disasters is expected to increase further with climate change and urban growth, increasing the burden on public spending.** Expected sea level rise, changing precipitation patterns, and more intense storms will increase disaster risks across Indonesia, with the risk of flooding projected to be high to very high in several areas of the country.[7] It is further estimated that 110 million across 60 Indonesian cities, or 42 percent of the population, are exposed to natural hazards.[8] This number is expected to increase with continued urban population growth, large-scale poorly planned urban infrastructure, and lack of or insufficient risk-informed planning. Compounding and disaster shocks occurring concurrently with the COVID-19 pandemic, could have an even worse impact on GDP and the economic and social well-being of the population**.**

[4] Analysis carried out by the team of government expenditure 2014-2018. Forthcoming. This does not assess the adequacy of spending.
[5] World Bank. 2019. Indonesia Economic Quarterly, June 2019: Oceans of Opportunity
[6] For example, the panel survey WelTrac and a qualitative study of 2018 Central Sulawesi earthquake/tsunami response found that the living support (Jadup) in three sub-districts (SIgi, Donggala and City of Palu) have not been distributed completely, partly due to difficulties in finding the exact new location of the victims even though they are registered in the social registry. This also happened for the delivery of the compensation for death, where about 1,300 beneficiaries have not received the assistance.
[7] Government of Indonesia. 2013. National Action Plan for Climate Change Adaptation (RAN API): Synthesis Report
[8] Gunawan et al. 2015. City Risk Diagnostic for Urban Resilience in Indonesia.

6. **This project strengthens Indonesia's fiscal and financial resilience to natural disasters and health shocks by establishing a Pooling Fund for Disasters (Pooling Fund untuk Bencana, PFB)**[9] **and strengthening systems for the transparent flow of these disaster funds.** This is the key reform of the country's National Disaster Risk Finance and Insurance (DRFI) Strategy,[10] adopted in 2018. The PFB will be a dedicated fiscal mechanism to (i) ensure effective access to sufficient resources for disaster response; and (ii) streamline execution and transparency of spending. The project establishes a new mechanism and provides seed funding to the PFB, it does not respond to specific disaster spending needs. The PFB will receive future contributions from other sources and instruments. The design builds on international experience including from Australia, Colombia, Japan, Mexico, New Zealand, and the Philippines. In particular, global experience shows that the most efficient response to disaster is by identifying contingent liabilities in advance, pre-arranging a combination of financial solutions including leveraging financial markets, setting clear public financial management rules for use of these resources, and linking these funds to clear disbursement channels so they reach beneficiaries efficiently.[11]

B. Sectoral and Institutional Context

7. **Since the Indian Ocean earthquake and tsunami in 2004, the Government of Indonesia has made important progress in institutional strengthening for disaster risk management and response.** Law Number 24 of 2007 on Disaster Management adopted a proactive approach to disaster risk management (DRM), refining the roles and responsibilities of line ministries, businesses, and international institutions for disaster management as well as risk financing. Presidential Regulation 8 of 2008 established the National Disaster Management Authority (BNPB) to coordinate relevant line ministries and agencies at all stages of the DRM cycle. This project expands on this process to further build and strengthen institutions for effective financial response to disasters, but it is not a disaster response or reconstruction. It does not seek to invest in or finance specific post-disaster expenditures.

8. **The cost from disasters continues to adversely impact central and subnational government finances.** From 2014-2018, between 1.4-1.9% of total spending by central government agencies and ministries was related to natural disasters - two to four times more than estimated by the Ministry of Finance in the development of

[9] The Pooling Fund will be a self-insurance mechanism for the Government of Indonesia. It will receive budget funding, develop a risk financing strategy to ensure it can meet all liabilities even in bad disaster years, and work with implementing agencies to strengthen channels through which its funding will be disbursed. This is a different model from existing World Bank supported regional risk pools which operate as insurance companies offering specific parametric insurance products, such as the Southeast Asia Disaster Risk Insurance Facility (SEADRIF), the Caribbean Catastrophe Risk Insurance Facility (CCRIF) or the Pacific Catastrophe Risk Insurance Company (PCRIC).
[10] The strategy was prepared over the course of 2018 with close technical support by the World Bank.
[11] World Bank Group. 2019. Boosting Financial Resilience to Disaster Shocks: Good Practices and New Frontiers. World Bank Technical Contribution to the 2019 G20 Finance Ministers' and Central Bank Governors' Meeting.

the National DRFI Strategy.[12] Consolidated information on disaster spending across the budget is not available. A budget line called 'disaster reserve fund' is the main explicit central and subnational disaster allocation for disasters, receiving approximately IDR 4 trillion (US$266 million) per year over the past five years. A World Bank review of government spending data, however, estimates total (central and subnational) government spending on disasters since 2014 at IDR10 trillion to IDR23 trillion per year or IDR84 trillion total over the period (US$670 million to US$1.5 billion per year or USD5.6 billion total over the period). Between 63%-79% of this comes from the central government. The economic impact of disasters can be much worse at the local level, with SNGs often lacking sufficient resources to respond. For example, the 2018 earthquake and tsunami in Central Sulawesi caused US$1.3 billion in economic losses[13] estimated at 13.7 percent of regional GDP.[14]

9. **Despite reforms, the institutional structure of disaster financing remains fragmented, and funds are often insufficient and delayed.** There are currently five different and overlapping budget procedures for disaster related expenditures. This includes two regular budget processes and three specific mechanisms for response and reconstruction. Such overlapping, and often unclear, processes make coordination between ministries as well as with SNGs complex. For example, in case studies reviewed, reconstruction grants from the central to subnational governments have taken more than a year to approve and another year to begin implementation. Delays in channeling funds for response and reconstruction increase the human cost to the population, the direct cost to the government (e.g. for maintaining shelter while housing reconstruction is delayed), loss in revenue (e.g. loss of tax revenue from economic disruption), and long term negative impacts (e.g. reduced human capital from disruptions to schools).[15] The current situation is further described in Annex 2.

10. **To address these challenges, Indonesia launched its National Disaster Risk Finance and Insurance (DRFI) Strategy in October 2018, under the leadership of the Minister of Finance and the Vice President.** The objective of the Strategy 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. The implementation plan sets out to: (i) protect the state budget, through a dedicated mechanism to efficiently manage central government disaster expenditures; (ii) strengthen central-regional fiscal coordination, through clear roles and responsibilities for financing disaster response; (iii) protect public assets, through an indemnity insurance program to cover all agencies and ministries; (iv) protect households and the poor, for example through adaptive social safety net programs; and (v) strengthen DRFI Coordination, through training and dissemination of the strategy.

11. **This project supports the Government to realize the first priority under the DRFI Strategy – protecting the state budget through the pooling fund, a dedicated fiscal mechanism, while helping to leverage private**

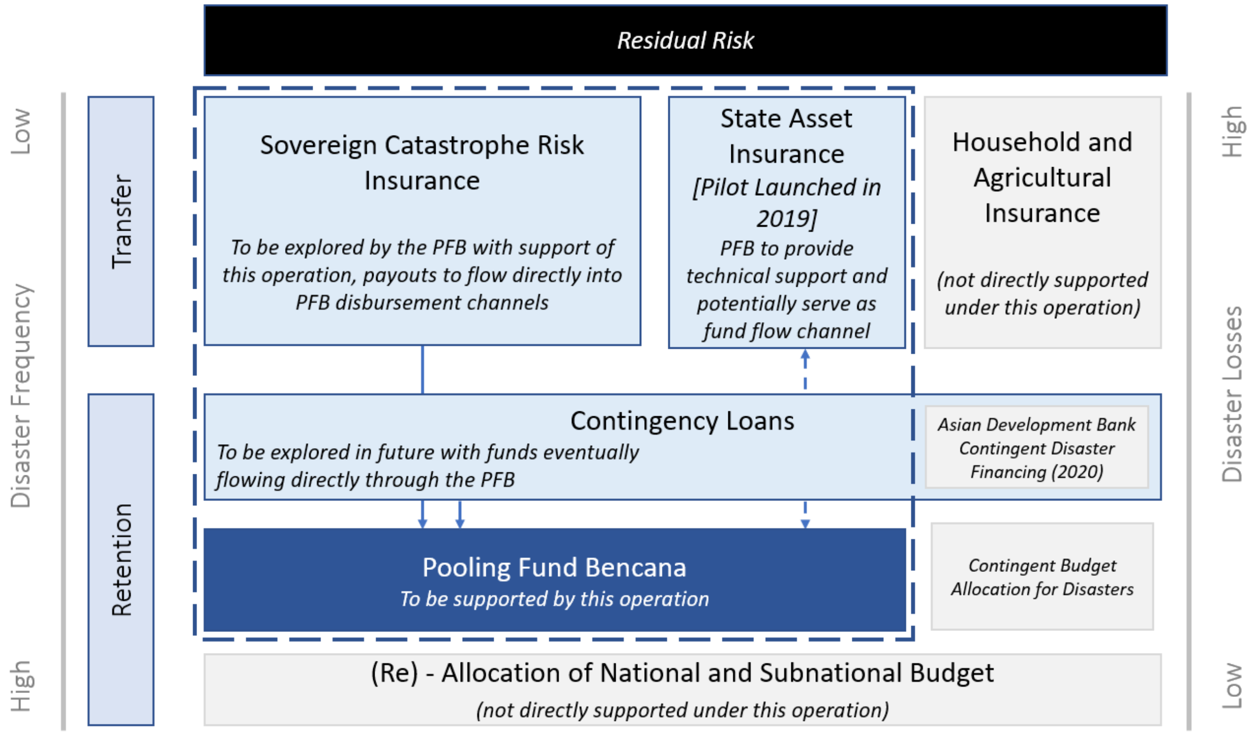
[12] A public expenditure study carried out for this operation quantified CG and SNG spending for each disaster management phase. However, the study could not assess the adequacy, accuracy, and effectiveness of the spending, which would require further investigation including through review of risk assessments of districts and post-disaster damage and needs assessments.
[13] Government of Indonesia. 2018. Master Plan for Central Sulawesi Rehabilitation and Reconstruction, draft version 5.0.
[14] Processed from estimated Central Sulawesi RGDP 2017 by National Statistical Bureau. 2018.
[15] World Bank (2015), *The Indirect Cost of Natural Disasters and an Economic Definition of Macroeconomic Resilience, Policy Research Working Paper no. WPS 7357*

markets to maximize finance for development (MFD). The PFB will be a mechanism under MOF to (i) reduce fragmented funding by providing a mechanism through which post-disaster financing can flow from different sources and actors; (ii) ensure reliable and predictable pre-arranged funding; (iii) streamline disbursement channels for quick and efficient "flow" of funds from the PFB to implementing agencies; and (iv) leverage domestic and international financial markets (MFD). The PFB will leverage domestic and international insurance and reinsurance markets to support more efficient disaster response through providing financial capacity to backstop the fund and by drawing on expertise and technology for managing payouts. The specific products and coverage size are unknown at this point until the PFB has been established and carried out appropriate technical work, but markets are expected to play a catalytic role in expanding protection coverage over time.

12. **The PFB will become the central mechanism for the government to manage its disaster related contingent liabilities in a cost-efficient manner**. It brings together different sources of funding to build an efficient risk layering strategy, allowing the government to decide how much risk (potential cost from disasters) to retain or transfer (see Figure 1). The PFB aims to become the central vehicle to facilitate coordination and flow of funds for these different risk retention and risk transfer instruments. In addition to direct budget contributions, the PFB allows additional domestic contributions, funds from international partners, or insurance payouts to flow through clear systems already established, instead of ad-hoc planning after a disaster. It will also invest in improved preparedness and streamlined procedures with implementing agencies. Budget contributions to the PFB will not accumulate indefinitely as a savings fund but will be used to finance disaster costs. The PFB would also support other risk financing instruments through technical and advocacy work, such as the scale up of the national State Asset Insurance program which was launched in 2019 by insuring over 1300 buildings owned by MOF and is being expanded to 10 ministries/agencies in 2020.

13. **In the context of the ongoing pandemic, the Government has decided to include expenditures for health shocks as eligible for PFB support**. Indonesia is currently conducting an assessment on its health security financing using the Health Security Financing Assessment Tool (HSFAT) developed by the World Bank, only the second country in the world after Vietnam. However, the complexity of the health security, such as the 19 technical areas of health security, multiple line ministries and agencies, and the availability and the structure of the public expenditure data has slowed down the analysis. Health security activities involve multiple sectors and players, and different level of governments that have added layers of complexity in its financing. The preliminary study findings at the Central level indicated increasing spending for prevention, detection, response, and strengthening of points of entry during the period of 2015 – 2018. Per capita expenditure on health security for 2015 - 2018 was quite small in comparison to the country's total government expenditure**.** The study is currently being finalized and will inform planning on how the PFB can best support health shocks.

Figure 1. Target risk layering arrangement as set out in the national DRFI Strategy, including the PFB



Source: Based on Indonesia's National Disaster Risk Finance and Insurance Strategy, 2018

C. Relevance to Higher Level Objectives

14. **The proposed Investment Project Financing with Performance-Based Conditions (IPF-PBC) operation is aligned with the proposed FY 21-25 Country Partnership Framework (CPF) for Indonesia.**[16] In line with the four pathways to overcome the constraints to poverty reduction and shared prosperity identified in the Systemic Country Diagnostic (SCD) Update, the new CPF is structured according to four proposed engagement areas: (i) strengthening economic competitiveness and resilience, (ii) improving supply of and access to sustainable infrastructure services, (iii) nurturing human capital and (iv) strengthening management of natural assets, natural resource-based livelihoods and disaster resilience, as well as one supporting beam: collecting more; spending and governing better. The proposed operation directly contributes to CPF engagement areas (i) on strengthening resilience and (iv) natural assets. It also contributes to the supporting beam ("spending better") by improving efficiency of post-disaster spending.

[16] Planned for Board approval in January 2021.

15. **The proposed operation will contribute toward the World Bank Group's twin goals of ending extreme poverty and boosting shared prosperity and its efforts to address climate change.** Evidence from around the globe shows that natural disasters and climate shocks keep or push people back into poverty.[17] Pre-arranged financial solutions linked to clear disbursement channels can protect such vulnerable populations, allowing them to recover faster and stay out of poverty. The operation will contribute to safeguarding progress on eliminating poverty and boosting shared prosperity. The WB Climate and Disaster risk screening tool was used to complete the project climate screening. To mitigate the risks associated with climate hazards for achieving the project development objective, the project supports institutionalizing climate and disaster risk management, emergency planning, capacity building, monitoring, and risk data management systems. The project will directly contribute to improved climate resilience.

16. **This operation builds on years of technical assistance and is aligned with ongoing lending operations[18], as well as the Bank's COVID response.** The operation directly builds on the *Indonesia Financial Sector Technical Assistance program* (P163296), an Advisory Services and Analytics (ASA) Program aimed at strengthening the efficiency and resilience of the financial sector to withstand financial and non-financial shocks. The establishment of the enabling legal framework and legal mandate for the pooling fund have been made possible by the *First Financial Sector Reform Development Policy Loan (DPL)* (P170940; FY20) and the *Second Financial Sector Reform DPL* (P173232; FY21) currently under preparation. The proposed operation follows a broader World Bank emergency package for COVID-19, which includes a US$ 250 million health-related operation, a US$ 100 million additional financing for social protection and a US$ 300 million supplemental financial sector reform DPL, all approved in May 2020. Complementary projects are included in Table 1.

17. **The Project is coordinated with new and ongoing financial preparedness activities of development partners.** AIIB has indicated interest to potentially co-finance the establishment of the PFB through parallel financing. Bilateral donors including Japan, Switzerland, and the United Kingdom (U.K.) have supported technical work on DRF in Indonesia for years (both directly and through the Bank), which has supported the design of the national DRFI strategy. A grant from the Global Risk Financing Facility (GRiF) financed by Germany and the U.K. is co-financing this project (component 3) and offers targeted technical assistance to support set up and implementation of the PFB. In September 2020, Asian Development Bank (ADB) approved the $500 million "Disaster Resilience Improvement Program", a policy-based loan that offers contingent disaster financing following disaster or health emergency declarations. As policy-based lending, this is budget support but it does not establish the institutional structure for improved financial management by the government or for channeling funds to ultimate beneficiaries. Any payouts from this loan could be channeled through the PFB once established.

[17] E.g. World Bank. 2016. Shock Waves: Managing the Impacts of Climate Change on Poverty.
[18] The recently completed Third Indonesia Fiscal Reform Development DPL (P167297; FY19) supported the establishment of the regulatory framework to enable the purchase of disaster risk insurance for state assets, and the adoption of the PP 12/2019 on public financial management of subnational governments which, among other things, provides more clarity to SNGs about disaster-related unbudgeted expenditure and funds received from the central government for post-disaster response.

Table 1: Relevant World Bank Projects

S. No.	Relevant WB projects
WB projects Directly linked to establishment establishing and operationalizing the Pooling Fund (Component 1)	
1.	First Financial Sector Reform DPL (P170940; FY20) • Establishment of the legal framework for the pooling fund by including it in the 2020 Budget Law
2.	Second Financial Sector Reform DPL (P173232; FY21) currently under preparation • Establishment of the legal mandate for the pooling fund
WB projects supporting the strengthening planning for disasters across sectors (Component 2)	
3.	Additional Finance for the Social Reform Program PforR (P160665; FY20) • Establishment of a disaster victim support information system and emergency top-up benefits via the conditional cash transfer program
4.	The Central Sulawesi Rehabilitation and Reconstruction Project (P169403; FY19) • Post-disaster recovery activities in Central Sulawesi and strengthen the preparedness of the central government for future natural disasters
5.	The Indonesia Disaster Resilience Initiatives Project (P170874; FY19) • Post-disaster recovery activities in Central Sulawesi and strengthen the preparedness of select local governments for future natural disasters
6.	Indonesia Emergency Response to COVID19 (P173843; FY20) • Strengthening the national systems for public health preparedness in Indonesia
7.	Indonesia Financial Sector Technical Assistance program (P163296) • A programmatic ASA aimed at increasing the depth, improving the efficiency and strengthening the resilience of the financial sector to withstand financial and non-financial shocks

II. PROJECT DESCRIPTION

A. Project Development Objective

PDO Statement

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

PDO Level Indicators

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

- Pre-arranged resources available for response and recovery to disasters, and climate and health shocks increased
- Financial disbursements made by the PFB within agreed timelines after an event
- Institutional capacity for efficient financing of disaster, climate risk, and health shock related expenditures increased

B. Project Components

20. **Components 1 and 2 will be fully implemented through the IPF-PBC modality financed by IBRD resources. Component 3 will be implemented through an IPF modality, financed by a grant from the Global Risk Financing Facility (GRiF).** Disbursing against key results, PBCs are effective to focus on outcomes and support coordination between MOF and line ministries involved in setting up pre-identified disbursement channels. The IPF-PBC approach helps secure country ownership and build sustainable systems that outlive this project. Component 1 will support the full establishment and operationalization of the pooling fund; Component 2 will strengthen preparedness and coordination with line Ministries receiving payouts from the fund; and Component 3 will invest in systems, start-up costs, technical assistance and capacity building for the government institutions involved in the establishment of the PFB, enhancing overall operational effectiveness and impact.

Component 1: Establishing and operationalizing the PFB

21. **Component 1 will support the establishment and operationalization of the pooling fund.** This includes actions to complete the legal and operational set up, resource allocation and developing a risk financing strategy, as well as strengthening the funds operational performance and transparency. Specifically, this will include the following results areas:

(i) **Complete the establishment and set up of the PFB. A Presidential Regulation is currently being drafted to provide the legal mandate for the PFB and is expected to be issued before the end of 2020.**[19] Completing the PFB's operational set up is then the first step. MOF has decided to establish the PFB in an existing public service agency (Badan Layanan Umum or BLU), under its direct supervision. The World Bank is providing technical assistance to MOF to help finalize the fund's scope, objectives, programs, and implementation modalities. Technical assistance is building on international experience from other governments as well as comparable private sector structures. The initial operational set up includes the nomination of key staff positions and the adoption of an Environmental and Social Management System. To ensure adequate financial controls, MOF and the PFB will also implement key recommendations from the annual audit. These activities are linked to the achievement of PBC1.

(ii) **Strengthen the PFB's funding structure and management.** To ensure a strong and sustainable funding structure for the PFB, the government will make annual budget allocations for the PFB. The 2020 and 2021 state budgets allocated IDR 1 trillion to the PFB with the stated intention of MOF to grow the PFB allocation to match at least the current annual allocation to the disaster reserve fund (IDR 4 trillion/ US$ 266 million per year). At least IDR1 trillion will be transferred from the budget to the BLU in 2021 after the PFB has been established. This will be continued with a minimum annual transfer of IDR1 trillion in 2022 and 2023. This allocation is expected to be exceeded already in these

[19] The issuance of the Presidential Regulation is supported under the parallel Indonesia Second Financial Sector Reform DPL (P173232).

first years and grow further in future years as the pooling fund becomes fully operational, showing strong country-buy in for the PFB. These activities are linked to PBC2.

(iii) **Adopt and implement a financing plan for the PFB.** The Annual Budget Plan for the PFB will be developed and adopted, including a risk financing strategy to support development of additional financial instruments that leverage budget resources to ensure the PFB can meet expenditures in bad disaster years. This risk financing strategy is updated annually as part of the annual budget plan. Its implementation could mean setting up new risk retention or risk transfer solutions, which would leverage insurance and reinsurance sectors and increase the country's financial capacity and payout into the fund, or receiving post-disaster donations directly into the fund (See Box 2 in Annex 2 on Mexico's experience). SNGs will also be expected to contribute. The legal mandate for this will be in the presidential regulation, while detailed co-financing rules will be worked out in the first year of implementation. These activities are linked to PBC3.

(iv) **Adopting measures to strengthen PFB operations.** The pooling fund will also have an important role to provide operational support to increase risk awareness and preparedness across all levels of government. A key step towards this is collecting and providing improved risk data and analysis to drive better financial decisions. To support risk informed decisions, the government will develop and adopt of a system for damage reporting, submitting funding requests, and track approvals, coordinated with the SIMAN database of state assets managed by Director General (DG) State Assets (DGKN). This system would inform the PFB itself as well as broader risk financing programs of the government, such as the state asset insurance program. These activities are linked to PBC4.

22. **Component 1 will also pay particular attention to increasing the representation of women in management positions of the PFB.** In Indonesia, women's representation in management positions in government sectors is low. Central Bureau of Statistics (BPS) (2019) data shows that female civil servants are clustered at lower levels of responsibility with women holding only 13.6 percent of Echelon 1 and Echelon 2 positions.[20] To address this gender gap, under PBC 1, the PFB strategic plan includes a target to achieve at least 20 percent of women in management staff appointed by the end of the project. To measure progress towards closing this gap, the results matrix includes the following intermediate results indicator: percentage of management staff appointed in the PFB that are female (baseline 0% and target 20%). The inclusion of this target will help ensure greater female representation in the management of PFB, which international evidence shows can bring about a range of benefits, such as good governance, effective leadership, and integrity.[21]

[20] BPS (2019). *Number of Civil Servants by Position and Gender, December 2019*. https://www.bps.go.id/indikator/indikator/view_data_pub/0000/api_pub/56/da_02/1

[21] McLaren, H., Star, C., and Widianingsih, I. (2019). "Indonesian Women in Public Service Leadership: A Rapid Review". *Soc. Sci.* 8(11): 308. https://doi.org/10.3390/socsci8110308

Performance Based Conditions (PBCs)	IBRD (US$ million)		
	Y1	Y2	Y3
PBC 1: Complete establishment and set up of the PFB			
Result (Y1) Operational set up completed with the governance structure in place, key staff appointed, the PFB Strategic Plan adopted and an initial draft Environmental and Social Management System adopted	40		
Result (Y2) PFB Annual Report published		20	
Result (Y3) MOF, through the BLU, has implemented recommendations made in the audit of the PFB operations in Year 1 and published Annual Report			20
Sub-Total			80.0
PBC 2: Strengthen the PFB's funding structure and management			
Result (Y1) At least IDR1 trillion allocated to the PFB in the Borrower's 2021 budget	30		
Result (Y2) At least IDR1 additional trillion allocated to the PFB in the Borrower's 2022 budget		25	
Result (Y3) At least IDR1 additional trillion allocated to the PFB in the Borrower's 2023 budget			25
Sub-Total			80.0
PBC 3: Adopt & implement a financing plan for the PFB			
Result (Y1) PFB Annual Budget Plan, including a risk financing strategy, adopted	30		
Result (Y2) (i) Risk Financing Strategy updated; and (ii) Co-financing rules for subnational government contribution adopted		20	
Result (Y3) (i) Risk Financing Strategy updated; and (ii) External financing options (including risk transfer) evaluated			20
Sub-Total			70.0
PBC 4: Adopt measures to strengthen PFB operations			
Result (Y1) MOF, through the BLU, and DJKN design a damage and loss reporting and claims management platform for state-owned assets linked to the upgrading of SIMAN	25		
Result (Y2): MOF, through the BLU, and DJKN design a damage and loss reporting and claims management platform for state-owned assets linked to the upgrading of SIMAN		25	
Sub-Total			50.0
Total by year *[Total Component 1: US$280 million]*	125	90	65

Component 2: Improving Preparedness for More Effective Disaster Response Across Government Agencies

23. **Component 2 will support MOF to build the disbursement channels for resources from the PFB to flow efficiently, effectively, and transparently.** This will be achieved through actions that streamline processes and set up programs to quickly allocate and disburse funds to relevant ministries and agencies to be used through

existing government systems for enhanced preparedness, response, and rehabilitation. Specifically, this will include the following results areas:

(i) **Budget tracking to strengthen disaster related fiscal effectiveness.** The Ministry of Finance currently has limited information on spending on disasters. This makes it difficult to conduct budget performance analysis of disaster related spending and take risk-informed decisions. Establishing and implementing a methodology for budget tracking will increase efficiency and transparency of disaster related expenditures. This should ideally provide information on which ministries, programs and activities (budget classification structure) and what objects of expenditure like salary, goods and services, capital expenditure, subsidies (economic classifications) the government is spending related to disasters. Such tracking will support both spending through the normal budget as well as the PFB. MOF will adopt criteria and guidelines for tracking, monitoring, and evaluating disaster expenditures and introduce this in the annual budget formulation through a Ministerial Regulation (PMK). Bappenas and MOF will jointly implement the new program and economic classifications throughout the full PFM application systems. This will institutionalize budget tracking of disaster expenditure in the PFM Systems. These activities are linked to PBC 5.

(ii) **Support the central government disaster preparedness and early action.** MoF will work with BNPB to develop a program to strengthen disaster preparedness, which could include improving risk data; improving standard operating procedures to fund preparedness, early or anticipatory action[22] and response; as well as direct funding for preparedness activities, such as contingency planning, training exercises, and drills. The program will also set up the appropriate disbursement channels for PFB to finance post-disaster activities implemented by BNPB. The details of the program will be developed during the first year of implementation, in collaboration with BNPB. Appropriate minimum service standards will be defined through the operating procedures for the program, in line with international good practice. The PFB will then measure performance of the program by ensuring it complies with its minimum service standards set out in advance. These activities are linked to PBC 6.

(iii) **Support subnational governments in disaster preparedness and response.** Supporting SNGs to strengthen their preparedness and response to disasters is a key objective of the PFB. The current mechanism for providing central government post-disaster support to the subnational level faces several bottlenecks: (i) overlapping and inconsistent regulation on disaster funding support to subnational governments; (ii) significant delay in channeling grants from the central to local governments due to an ad-hoc process for the assessment and approval of funds; (iii) rigidity in budget virement rules at the subnational level that reduce flexibility for budget reallocation; and (iv) inadequate information on post-disaster spending as the chart of account does not adequately accommodate and capture information on disaster related expenditures. To address these challenges, MoF and the PFB will develop a program in collaboration with MoHA to support SNGs for disaster preparedness and response. Appropriate minimum service standards will be defined through the operating procedures for the program, in line with international good practice. The PFB

[22] Early or anticipatory action means activities undertaken when a pending disaster is likely but before it has occurred, e.g. evacuations at the first signs of a potential volcanic eruption.

will then measure performance of the program by ensuring it complies with these minimum service standards. These activities are linked to PBC 7.

(iv) **Support faster social assistance payments for disaster victims through Adaptive Social Protection.** Recent experience in delivering assistance to those most in need during the COVID-19 pandemic has shown the importance of linking existing social protection programs to pre-arranged financial solutions, rather than creating new ad-hoc mechanisms for shock-response. This is aligned with the Adaptative Social Protection (ASP) Roadmap and should include triggers to utilize regular or pre-defined temporary social assistance programs for disaster responses. MoF and the PFB, in collaboration with the Ministry of Social Assistance (MoSA), will develop a program to support efficient and sufficient allocations to such programs that can adapt and expand for support to disaster victims. Systems could also be designed to improve identification of disaster victims, information collection processes required to determine eligibility, as well as designing appropriate benefit packages using digital technology. Appropriate minimum service standards will be defined through the operating procedures for the program, in line with international good practice. The PFB will then measure performance of the program by ensuring it complies with these minimum service standards. These activities are linked to PBC 8.

(v) **Strengthen planning to support health emergencies.** COVID-19 has highlighted the need for enhanced financial planning for health shocks in the country. The PFB will also seek to strengthen the country's preparedness to health-related emergencies. MOF and the PFB, in collaboration with the Ministry of Health (MOH), will adopt a program to support efficient health preparedness and response financing. This program will build on the country's medium-term national action plan for health security (NAPHS) for 2020 to 2024, launched in December 2019. A key challenge for implementation of the NAPHS is the absence of a clear funding mechanism, especially for response, complicating adequate health security functions. The PFB could encourage implementation of this Plan. The program to be could support greater coordination with the health sector and establishment of clear funding flow mechanisms that are transparent and accountable. The design of the program will draw on the lessons from the COVID-19 experience that are critical in strengthening preparedness of the country to health shocks. Appropriate minimum service standards will be defined through the operating procedures for the program, in line with international good practice. The PFB will then measure performance of the program by ensuring it complies with these minimum service standards. These activities are linked to PBC 9.

Performance Based Conditions (PBCs)	**IBRD (US$ million)**		
	Y1	Y2	Y3
PBC 5 Budget tracking to strengthen disaster related fiscal effectiveness			
Result (Y1) MOF has introduced criteria and guidelines for tracking, monitoring and evaluation of disaster expenditures	40		
(Result Y2) Budget tracking for the first Fiscal Year after the adoption of the criteria and guidelines for disaster related expenditures has been completed in accordance with the adopted methodology		10	

Result (Y3) Budget tracking for the second Fiscal Year after the adoption of the criteria and guidelines for disaster related expenditures has been completed in accordance with the adopted methodology			10
Sub-Total			60.0
PBC 6 Support the central government disaster preparedness and early action			
Result (Y2) MOF, through the BLU, has adopted a program in collaboration with BNPB to provide support for increased risk awareness and knowledge, strengthened emergency preparedness, and early response capacities, with appropriate operating protocols and minimum service standards		20	
Result (Y3) In the first 12-month period following the adoption of the program (referred to in PBC6 - Year 2), MOF, through the BLU, has approved and disbursed 80% of payments on time as set out in the adopted program			20
Sub-Total			40.0
PBC 7 Support SNGs in disaster preparedness and response			
Result (Y2) MOF, through the BLU, has adopted a program in collaboration with MOHA to support efficient flow of funds to SNGs for disaster preparedness and response, with appropriate operating protocols and minimum service standards		20	
Result (Y3) In the first 12-month period following the adoption of the program (referred to in PBC7 - Year 2), MOF, through the BLU, has approved and disbursed 80% of payments on time as set out in the adopted program			20
Sub-Total			40.0
PBC 8 Support faster social assistance payments for disaster victims through adaptive social protection			
Result (Y2) MOF, through the BLU, has adopted a program in collaboration with MOSA to support efficient and sufficient allocation of funds to social assistance programs for disaster victims, with appropriate operating protocols and minimum service standards		20	
Result (Y3) In the first 12-month period following the adoption of the program (referred to in PBC8 - Year 2), MOF, through the BLU, has approved and disbursed 80% of payments on time as set out in the adopted program			20
Sub-Total			40.0
PBC 9 Strengthen planning to support health emergencies			
Result (Y2) MOF, through the BLU, has adopted a program in collaboration with MOH to support efficient health preparedness and response financing, with appropriate operating protocols and minimum service standards		20	
Result (Y3) In the first 12-month period following the adoption of the program (referred to in PBC9 - Year 2), MOF, through the BLU, has approved and disbursed 80% of payments on time as set out in the adopted program			20
Sub-Total			40.0
Total by year *[Total Component 2: US$220 million]*	40	90	90

Component 3: Strengthening PFB capacity and systems to effectively support risk finance and disaster response

24. **This grant financed component will support MoF to achieve the PBCs and associated results under Component 1 and Component 2.** This component is financed by a recipient executed grant from the Global Risk Financing Facility (GRiF) and implemented through a traditional IPF modality. Initial activities are outlined below but this will be revisited and updated during implementation to meet the needs of the PFB.

25. **To support component 1, the grant will support the establishment and operations of the PFB.** This support will enable the government to draw on international best practices for the design and operational set up of the PFB by securing appropriate consulting services. To ensure the long-term efficiency and effectiveness of the fund, it will build transparent and well-functioning operating systems; a clear, targeted and sustainable risk financing strategy; a strong, nationally owned, environmental and social management system; effective fiduciary controls; as well as robust monitoring, evaluation, learning, and communication systems for the PFB. The component will finance targeted support to the PFB aimed at:

   (i) **Designing and implementing a risk financing strategy, a strong environmental and social management system (ESMS), as well as appropriate fiduciary controls.** The grant will support the PFB with technical expertise to develop a sustainable risk financing strategy that is reviewed and updated annually. This will ensure a regular assessment of the funding needs of the PFB and identify the appropriate instruments to meet those needs. The component will also support the development of an ESMS, in line with the World Bank environmental and social standards, linked to building capacity to encourage its applications for all PFB operations beyond this project, and eventually positively influence country systems. In order to strengthen fiduciary oversight and controls, this component will also support required consultants to set up audit and risk management systems in line with appropriate international standards.

   (ii) **Strengthening risk data and systems for implementing financial solutions.** This will include developing or improving risk data and analytics, including through investing in new technologies**.** It will explore investing in building a public catastrophe risk model for Indonesia to support financial and physical planning for climate and disaster risk management, in partnership with local technical agencies and academic institutions. This would learn from the experience of Mexico in developing R-FONDEN as a public risk model. This would also allow the PFB to provide risk information to ministries and subnational governments for improved resilience planning. A technical assessment is currently underway to assess existing risk data systems, identify gaps, and propose a customized system based on international good practice and lessons learned.

   (iii) **Developing and rolling-out a damage assessment and claims handling system, supporting the state asset indemnity insurance program.** The full functioning of the PFB, and other DRFI priorities such as the scale up of the national state asset insurance program, will require a digital damage reporting and leverage technology and expertise for compensation/claims handling systems, ideally directly linked to the government's state asset database system (SIMAN). Such a system for damage reporting, submitting funding requests, and tracking approvals will inform disaster risk financing decisions (e.g. the placement and operation of the state asset insurance program) but also help inform investments in resilience.

26. **To support component 2, activities financed will strengthen country systems and preparedness activities to work with the PFB.** Funds from component 3 will support the development of programs that MoF develops with relevant Ministries and agencies to develop appropriate standards and protocols for flow of funds from the PFB, integrated in the existing larger government framework for disaster resilience. The grant will also finance capacity building activities as well as activities to track and monitor the performance of the PFB. In particular, activities will include:

(i) **Technical support to strengthen design of collaborative programs being developed by MOF with BNPB, MOHA, MOH, and MOSA respectively**. To ensure the PFB has well-developed operating protocols with key agencies in disaster response, technical assistance will ensure service standards draw on international best-practice to ensure efficient and transparent flow of funds. Global evidence shows that women's overall lower access to assets, public services, and political voice often makes them more affected by disasters than men[23]. Technical support will draw on best practices so that the collaborative programs as well as associated disbursement mechanisms take into consideration gender differentiated access and impact of shocks.

(ii) **Specialized technical trainings and targeted capacity building for PFB staff and stakeholders.** Training will be provided not only for PFB staff directly but also for government agencies that will receive funds from the PFB to increase their awareness and understanding of disaster risk financing mechanisms and ensure the appropriate use of funds.

(iii) **Tracking performance of the PFB and capturing and communicating lessons learned to support the continuous evolution of the PFB and the broader risk financing system in the country.** This includes the development of a Monitoring, Evaluation and Learning Program to monitor and capture results, conduct evaluations to assess progress and lessons learned, and disseminate findings and results through strategic communications and outreach. Public outreach will ensure transparency in respect to key stakeholders (e.g. government entities, civilians, potential donors).

C. Project Beneficiaries

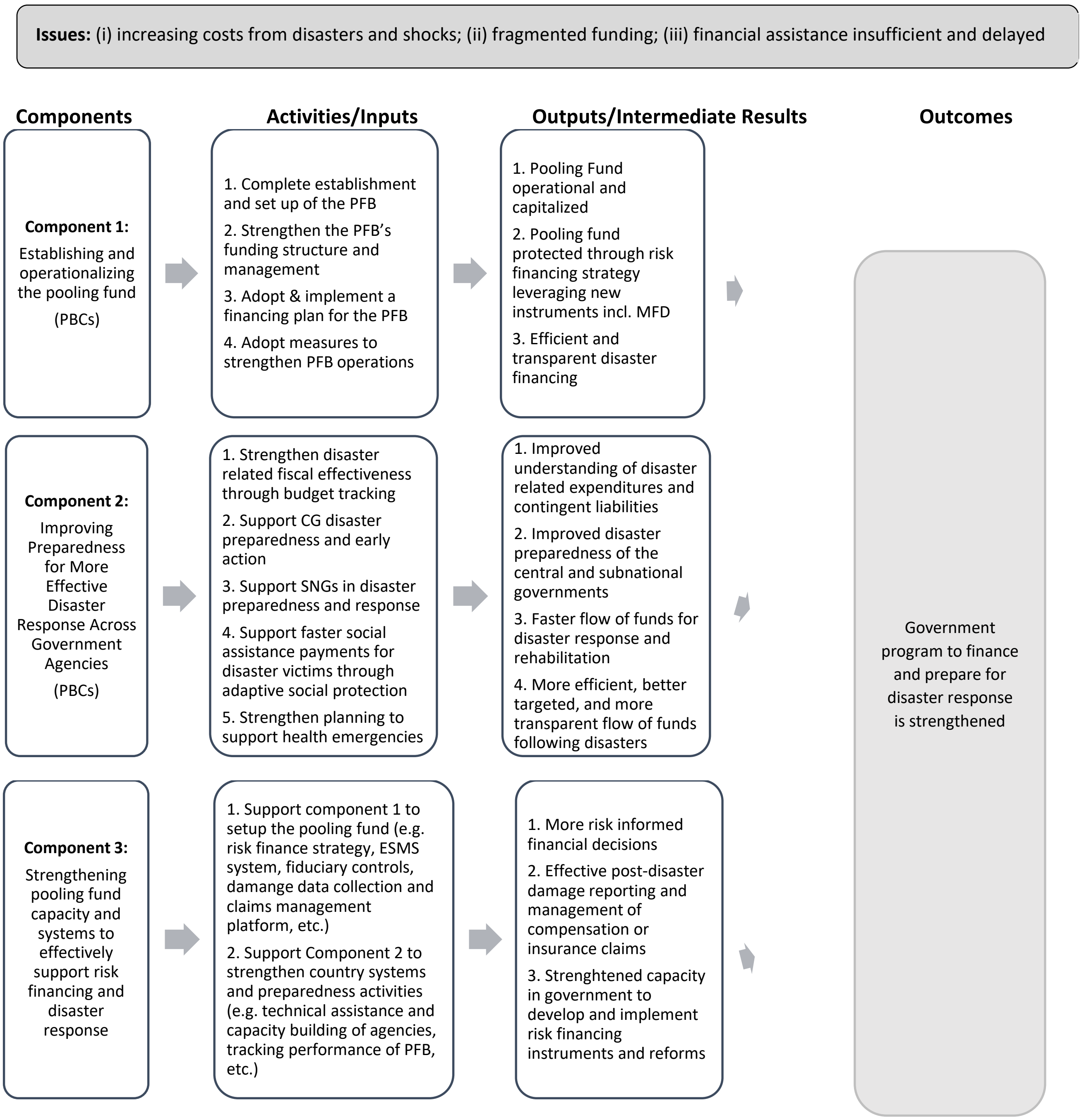
27. **The project includes both direct and indirect beneficiaries in the central and subnational governments.** The direct beneficiaries of the loan proceeds are MOF and the PFB. Indirect beneficiaries are recipients of funding from the PFB, including the BNPB, MOSA, MOH, MOHA, and SNGs. As the project builds a new mechanism there will be additional indirect beneficiaries across government that will receive additional, faster and more effective funds after a disaster, even if the resources do not come from the loan proceeds.

[23] Global Facility for Disaster Reduction and Recovery, 2015. Building Social Resilience: Protecting and empowering those most at risk.

28. **The ultimate beneficiaries will be the citizens of Indonesia impacted by natural disasters and health-related shocks.** The improved availability and flow of funds will ultimately support the population of Indonesia who will benefit from faster and better targeted response to disaster and health shocks. This will particularly benefit the poorest and most vulnerable, including men and women, who are most impacted by delayed disaster response because they lose their livelihoods and incomes, which often keeps them in poverty. The funds from the PFB will flow from the government to benefit vulnerable populations through improved targeting of pre-arranged mechanisms such as through adaptive social protection programs.

D. Results Chain

Figure 2. Theory of Change



E. Rationale for Bank Involvement and Role of Partners

29. **The proposed operation complements World Bank support to the Government of Indonesia to comprehensively strengthen resilience to climate change, disasters and health related emergencies.** This includes current and planned support on improved physical resilience and preparedness, reconstruction support from recent disasters in Sulawesi and Lombok, and active support to the establishment of shock responsive safety net programs to strengthen social resilience. This operation also complements ongoing technical assistance and policy lending to the government, by looking to tackle bottlenecks in post-disaster funding allocation and execution. Considering the Bank's involvement to date through significant upstream analytical and technical assistance work that culminated in the new DRFI Strategy, this operation is the next step in implementing the large-scale reforms prepared through analytical and advisory services.

30. **The engagement builds on close World Bank technical support to the Government in developing the National DRFI Strategy and draws on the World Bank's extensive international experience in this policy area**. In 2010-2013 the World Bank carried out initial technical and analytical work with the government to better understand the financial impact from disasters in Indonesia. This set the foundation for close technical support to MOF in the preparation of the national DRFI strategy in 2018, including through regional exchange under Asia Pacific Economic Cooperation (APEC). This builds on longstanding global expertise by the World Bank in supporting middle income countries to better manage the financial impact from disasters, including in Colombia, Mexico, Morocco, Pakistan, the Philippines, Peru, Serbia, and Vietnam. The World Bank's Disaster Risk Financing and Insurance Program also advised the 2019 Japan G20 Presidency with technical work on integrating disaster risk in core macro-fiscal planning and is supporting the APEC Finance Ministers track on a working group on disaster risk finance. [24] Last, the World Bank is supporting the Association of Southeast Asian Nations plus three (ASEAN+3)[25] in establishing a regional disaster insurance initiative, the Southeast Asia Disaster Risk Insurance Facility (SEADRIF). Indonesia is an active participant in all these regional and global engagements.

F. Lessons Learned and Reflected in the Project Design

31. **Experience shows that pre-arranged financing enables more efficient shock response.** This combines lessons from middle-income countries like Colombia, Mexico and the Philippines as well as high income countries such as Australia, New Zealand, and the UK.[26] The design of this operation benefited from inputs from many of these countries, including through targeted knowledge exchange and learning for government officials. For example, key officials from MOF joined a weeklong executive education course at the University of Cambridge

[24] World Bank Group. 2019. Boosting Financial Resilience to Disaster Shocks: Good Practices and New Frontiers. World Bank Technical Contribution to the 2019 G20 Finance Ministers' and Central Bank Governors' Meeting; World Bank, Washington, DC. © World Bank. https://openknowledge.worldbank.org/handle/10986/31887 License: CC BY 3.0 IGO.

[25] ASEAN+3 includes ASEAN Member States (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam) and China, Japan, and Korea.

[26] OECD; World Bank. 2019. Fiscal Resilience to Natural Disasters: Lessons from Country Experiences. OECD: Paris. © OECD and World Bank. https://openknowledge.worldbank.org/handle/10986/32341 License: CC BY-NC-ND 3.0 IGO.

on DRFI in 2018 with global participation and visited Mexico. The World Bank technical assistance supporting the design of this operation also brought in expertise through engagement of former senior officials managing comparable programs in Australia, Mexico, and New Zealand, as well as in the private sector.

32. Lessons from a decade of World Bank engagement on disaster risk finance have informed the technical discussions on the pooling fund, the design of this operation, and ongoing support to the government:

a. *Combining different financial instruments is a cost-effective way to ensure the government has enough resources to respond to events of different intensities and magnitudes.* For example, the Philippines has been refining its disaster risk financing strategy for many years, including combining budget allocations, World Bank contingency credits or grants (Cat DDO), and risk transfer instruments including parametric insurance and a Catastrophe Bond (both with technical and intermediation support by the World Bank). Mexico has also implemented a risk layering strategy for many years, directly tied to its natural disasters fund FONDEN. Morocco, with the support of a World Bank Program for Results operation more recently has established a solidarity fund for disaster affected poor households, backstopped with a risk transfer instrument.

b. *Pre-identifying disbursement channels and linking them to financial solutions helps funds reach the right beneficiaries efficiently.* A big challenge faced by countries while managing post-disaster response is balancing speed of disbursement with ensuring funds reach the right beneficiaries. There is growing experience for example with adaptive social protection (Ethiopia, Kenya, Sierra Leone, and the Philippines) linking financing to pre-arranged delivery channels in advance to ensure effective and rapid response. In the Philippines, a recently completed Public Expenditure Review on disaster related spending as well as an evaluations of a parametric sovereign insurance program (both forthcoming) highlighted the need for clear public financial management rules to ensure the efficient and transparent flow of funds after disasters.

c. *Strong data and analytics should underpin the design of financial solutions, complemented with long term technical support.* A big challenge for designing appropriate financial instruments in countries is data scarcity and lack of information to build the appropriate risk models and financial models, that will ultimately influence the design of the instrument and the appropriate level of risk it should cover. Innovative ways to bridge this gap e.g. through leveraging satellite information are showing signs of promise. Component 3 will support good risk data to inform financial decision. Creating and sharing risk information across government entities can facilitate collaboration in risk management and generate a culture of preparedness.

d. *Building transparency and accountability are fundamental for a well-functioning budget mechanism.* Appropriate fiduciary controls are necessary to ensure that funds are used for the purpose intended. This requires robust systems for planning and tracking use of funds. Examples including from Mexico, Morocco and Mozambique provide good practice on designing appropriate rules for when funds should be triggered and how they should flow to build in transparency and accountability.

33. **Indonesia's COVID-19 emergency response and experience from other countries suggest that an effective ASP system provides long term and flexible support to poor people and affected populations before, during, and after disaster and climate-related shocks**. This can help reduce exposure to both current and future climate shocks, address the structural root causes of poverty and vulnerability, whilst assisting households to sustain productive livelihoods after disasters, and adapting to climate change. Social assistance programs need to increase their capability to respond to shocks by introducing greater flexibility and scalability in program design. Such design adaptation, enables faster adjustment in response to post-disaster needs, by horizontally "scaling out" to nonregular program beneficiaries that have been affected by a shock (e.g., Mexico's PROSPERA in response to 2017 earthquake and Indonesia's Sembako in response to COVID-19) and/or by vertically "scaling up" to increase benefit amounts at an acute time of need to existing program beneficiaries (e.g., cash transfer programs in Philippine and Fiji in response to typhoon). Both forms of scaling programs require the links to additional funding to cover the increased cost.

34. **Guidance from the International Working Group on Financing Preparedness highlights the importance of prearranging finance for health security and pandemics.**[27] The preliminary results from the Health Security Financing Assessment indicate that there are urgent needs to have clear financing mechanism, and to improve resource allocations to ensure the country's preparedness. The experience from the COVID-19 pandemic response further emphasis these issues and the importance to have reliable and timely surveillance information to inform decisions. These lessons have been integrated into the design of this project since the PFB will respond to disaster and health shocks.

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

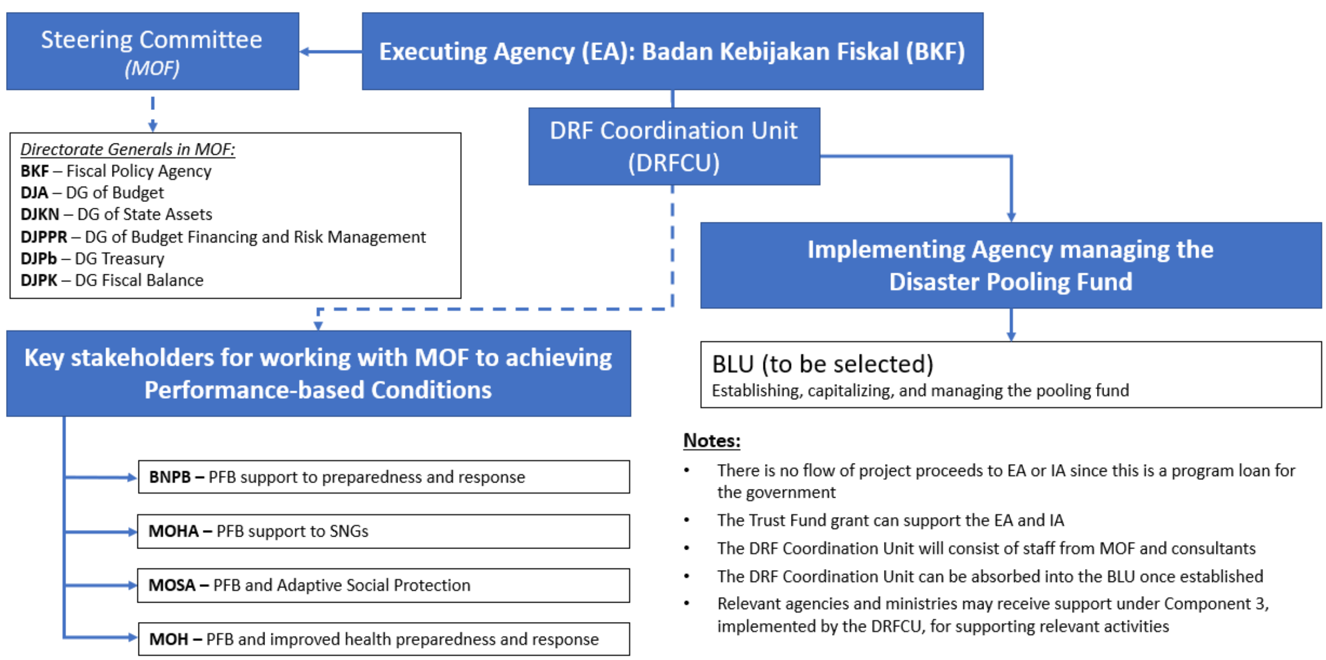
35. **The Borrower through the Ministry of Finance (MOF) will be the signatory of the IBRD loan and the Fiscal Policy Office (BKF) will act as Executing Agency**. A Disaster Risk Finance Coordination Unit (DRFCU) will be established within BKF and will have full fiduciary responsibility for project implementation (see Figure 3). The DRFCU's responsibilities will include implementation of all activities to achieve the PBCs under Component 1 and 2 (and where relevant coordination with other Ministries). Under Component 3 the DRFCU will be responsible for procurement of consultancy services and any goods (hardware, software) as needed. It will ensure M&E activities and financial reporting obligations associated with the project. DRFCU staff should always include during project implementation, at a minimum, a Project Coordinator, a financial officer, an accounting specialist, a procurement specialist, an M&E specialist and an environment and social standards focal point. The DRFCU will hire technical specialists and support staff as needed to perform its functions. The Project Coordinator will be responsible for management of the DRFCU and overall project coordination. The Procurement Specialist and Financial Management (FM) Specialist will provide regular support on all project procurements and financial management processes.

[27] 2017. *From panic and neglect to investing in health security: Financing pandemic preparedness at a national level*. International Working Group on Financial Preparedness. http://documents.worldbank.org/curated/en/979591495652724770/From-panic-and-neglect-to-investing-in-health-security-financing-pandemic-preparedness-at-a-national-level

36. **MOF will establish and chair a Steering Committee with all relevant DGs (in MOF) involved in the PFB and the achievement of PBCs under component 2.** MOF will establish and convene a Steering Committee for the project bringing together counterparts from relevant units in MoF. The Steering Committee will provide strategic guidance to the DRFCU that will handle the day-to-day coordination of activities. As the project is processed as a 'Program Loan' in the government system (due to the use of PBCs under components 1 and 2, while component 3 is grant-based) project proceeds will be disbursed to a Treasury account only. From there, the Government will make regular contributions to the PFB that will count as eligible expenditures for the project's disbursements. There will be no flow of funds of project proceeds to other line ministries. The DRFCU may procure consulting services funded by Component 3 to support other ministries and agencies involved in the establishment of the PFB.

37. **MOF will select an existing public service agency (Badan Layanan Umum or BLU) under the direct supervision of the MOF to host and manage the PFB.** Following approval of the presidential regulation providing the mandate for the establishment of the pooling fund**,** MOF will designate an existing BLU to host the PFB. Once the BLU is selected, the DRFCU could be absorbed into the BLU to ensure sustainable institutional capacity. The relevant DG in MOF overseeing the pooling fund will depend on the chosen BLU. Work is ongoing to define the governance and technical requirements for the pooling fund that the BLU will have to implement. The World Bank is supporting these steps through sharing of international experience, technical analysis, and capacity building.

Figure 3. Mapping of project's institutional and implementation arrangements



38. **Verification Protocols.** The Independent Verification Agency for the PBCs 1,6,7,8 and 9 will be the Financing and Development Supervision Agency (Badan Pengawasan Keuangan dan Pembanguna or BPKP), a government agency which already carries out the same role for World Bank financed Program for Results (PforR) operations in the country. This will be appointed before project effectiveness. For PBCs 2, 3, 4, and 5, MoF will verify results.

B. Results Monitoring and Evaluation Arrangements

39. **The program will be monitored through country-systems.** The Results Framework in section VII outlines the outcome and intermediate outcome indicators that will monitor progress regularly. The responsible BLU will develop an annual report in accordance with the standard mandate for BLUs through the Government's internal reporting mechanism. In addition, Component 3 of the project will help strengthen the BLU's monitoring and evaluation capacity, as well as a robust system for tracking and monitoring the achievement of results in line with the project objectives. Results documented as part of this will be published annually on the BLU's website. Resources from the project will also design a communications strategy with tools to disseminate the finding of results captured to increase understanding of the purpose and functioning of the PFB, as well as generate a culture of awareness for the need to financially plan for disasters. Finally, evaluations and/or beneficiary surveys will be carried out to enhance quality of design and implementation of the PFB over the lifetime of the project as indicated in the results framework.

C. Sustainability

40. **There is strong commitment from the government to institutionalize and capitalize the PFB well-beyond the lifetime of the project.** The PFB is the key reform in the government's national disaster risk financing strategy to improve the financing of post-disaster activities. This commitment is formalized through the presidential regulation under preparation, integration in the budget law, as well as in the national medium-term development plan. Furthermore, the Government has already allocated IDR 1 trillion to the PFB and will allocate at least IDR 1 trillion to the PFB every year over the duration of the project, which is expected to grow significantly. The PFB is a long-term institutional transformation, bringing together budget resources and additional financial instruments to ensure the government can efficiently respond to disasters of all severity. Having different sources of funds from different partners flow through the same country systems will be a key step towards further sustainable institutional reform.

41. **The project will facilitate long term coordination for response activities across different Ministries for future disasters and crises, as well as development of country systems for better disaster management and financial preparedness.** Component 2 supports a strong and collaborative approach for financing disaster response between MOF and key implementing Ministries. This will further formalize the roles played by the different stakeholders and how this will be coordinated through appropriate legal and regulatory instruments determining allocation of funding by the PFB. This is expected to improve institutional protocols for how response is financed not just during the lifetime of the project, but for all shocks and crises in the future. While

agreements will be put in place for Ministries/Agencies associated with the PBCs (i.e. MoF, MoH, MoSA, MoHA and BNPB) there will be broader stakeholder engagement to support further institutional strengthening. Component 3 supports systems building for efficient disaster risk finance and broader risk management which will increase longer terms financial preparedness.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis

42. **The Project's development impact is expected to be substantial and the benefits are likely to significantly outweigh the costs.** In terms of expected benefits, the Project is expected to deliver three key benefits over the status quo: i) greatly improve the availability of funds in case of disasters, ii) improve fiscal management of shocks, including protect development priorities against unplanned budget reallocations, and iii) significantly reduce the delays in expenditure, as currently there is a long lag after disasters hit before funds make it to the impacted areas. In terms of expected costs, these fall into three categories: i) the money put into the PFB by the Government of Indonesia; ii) the operational costs of running the PFB; and iii) the opportunity costs of the funds not disbursed by the PFB in years with benign disaster experience.

43. **The early intervention and rapid response to disasters facilitated through the PFB are expected to generate significant economic and social benefits for the Government and people of Indonesia.** For the Government, having rapid access to resources to meet surge demand for emergency assistance entails benefits due to reduced delay in response and minimized economic and social disruption. For households, early relief can reduce the need to resort to negative coping strategies which have been shown to have detrimental long-term consequences. Wider economic benefits are expected to result from other early intervention activities such as the clearing of debris from roads and restoring access to cut-off communities. Moreover, the pooling fund will not only provide an additional buffer to absorb disaster related expenditures, but also will provide an institutional framework to support disaster response through its operational regulations, with clear rules regarding the beneficiaries of disaster response funds, the access to such funds, the pre-arranged disbursement channels, and accounting for post-disaster expenditure. International evidence has shown the high economic value of such pre-arranged funding mechanism**.** Last, the pooling fund will also support improved preparedness and incentives for risk reduction.

44. **The results of the economic analysis indicate that the PFB will generate significant net benefits over a 25-year time horizon, under various scenarios.** Under *Scenario 1* (i.e. 50% disbursement every two years), the fund's discounted costs are estimated to be US$1.92 billion, and its discounted benefits are estimated to be US$2.91 billion. Overall, the fund would generate a positive net present value of US$993.0 million and a benefit-to-cost ratio of 1.52. Under *Scenario 2* (i.e. 50% disbursement every year), the fund's discounted costs are estimated to be US$3.21 billion, and its discounted benefits are estimated at US$5.23 billion. Under this scenario, the fund would generate a positive net present value of US$2.0 billion and a benefit-to-cost ratio of 1.63. Last, under *Scenario 3* (i.e. 100% disbursement every year), the fund's discounted costs are estimated to be US$3.72 billion, and its discounted benefits are estimated at US$6.32 billion. Under this scenario, the

fund would generate a positive net present value of US$2.60 billion and a benefit-to-cost ratio of 1.70. These results are summarized in the table below.

Table 2. Summary of the Economic Analysis

	Scenario 1: 50% Fund Disbursement Every Two Years	Scenario 2: 50% Fund Disbursement Every Year	Scenario 3: 100% Fund Disbursement Every Year
Cost ($ million)	$1,921	$3,213	$3,721
Benefit ($ million)	$2,914	$5,228	$6,320
NPV ($ million)	$993	$2,015	$2,599
Benefit to Cost Ratio (BCR)	1.52	1.63	1.70

Rationale for public sector provisioning/financing, if applicable

45. **Given the high risk of Indonesia and the growing disaster funding gap, public sector provisioning is needed.** Many disaster preparedness and response needs are inherently the role of the state, such as search and rescue, emergency assistance, and continuity of public services. Moreover, in the area of disaster risk finance, even where private sector capital can be mobilized there is often an inherent market failure. The private sector – through various insurance products – is not capable of covering the entire costs that arise from disasters, is not available to those most in need, and it is not financially efficient to transfer the full cost of shocks to insurance. The state also has a social and moral responsibility to support the most vulnerable and poorest groups in society. Therefore, public capital is needed to cover the difference, particularly when disasters also impact public goods such as public infrastructure, roads, bridges etc., the destruction of which has significant negative spillovers over the local economy.

Value added of the Bank's support

46. **The World Bank's support is bringing value added in at least four key ways.** First, it is providing capital to set up and operationalize the PFB, thus helping enhance the availability of disaster response funds in Indonesia and more efficiently manage fiscal risks. Second, through the reforms under the PBCs it supports the Government of Indonesia to reduce delays in disaster-related expenditures, thus ensuring that funds get to the disaster-hit areas when they are needed. Third, through the technical assistance and investment financing provided as part of Component 3, the World Bank is helping the Government build capacity in disaster risk finance and risk management, by sharing best practices from around the world. Last, the World Bank's support helps mitigate the growing fiscal risks faced by the Government by providing multilateral financing at lower costs than financing through capital markets.

B. Fiduciary

(i) Financial Management

47. This Financial Management Assessment (FMA) provides an assessment of the adequacy of the financial management system of the implementing agencies - Fiscal Policy Agency (Badan Kebijakan Fiskal/ BKF), in Ministry of Finance - to produce timely, relevant and reliable financial information on project activities. It also ensures that the accounting systems for project expenditures and underlying internal controls are adequate to meet fiduciary objectives and allow the World Bank to monitor compliance with agreed implementation procedures and progress towards its objectives. The financial management risk is assessed as being high before mitigation and substantial after mitigation.

48. Government of Indonesia (GOI) considers this project as a program loan, while for the World Bank, this project will be implemented as an IPF with PBCs (i.e. a project loan). As a consequence, the Bank eligible expenditures have to match with the government budget. Project risks are mainly due to the following: (i)BKF has no experience in implementing Bank financed projects; (ii) The BLU that will manage the PFB is yet to be selected; (iii) the independent verification for component 1 and 2 has not been appointed; and (iv) not all grant activities under component 3 has been defined.

49. To mitigate the associated risk, the following action plan is proposed for component 1 and 2. BKF will need to: (i) prepare DRFI Operation Manual (OM) to support project implementation; (ii) handover the project implementation to selected BLUs; (iii) have MoF formally appoint BPKP and provide sufficient budget for BPKP to conduct the independent verification for selected PBCs under the project; (iv) insert grant activities in FY 2021 BKF DIPA and further define the grant activities.

50. Disbursement Arrangements. Under Components 1 and 2, applications for withdrawal from the Loan Account will be based on the documentation of eligible expenditures incurred and achievement of PBCs. The eligible expenditures under components 1 and 2 are capital contributions to the PFB. Request for advance of the loan amount may be made based on 6-month forecast reflected in the project’s IFR. Advance funds can be transferred to a bank account proposed by the government and opened at the central bank. Under component 3, a separate segregated DA for the grant denominated in USD will also be opened in central bank. This DA will be used for financing eligible expenditures under component 3 of the project. The DAs will be segregated accounts with fluctuated ceiling based on 6-month forecast.

(ii) Procurement

51. The Procurement activities under the project’s IFP-PBC components (component 1 and 2) and IPF component (component 3) will be carried out under the World Bank’s Procurement Regulations for IPF Borrowers of July 2016, revised November 2017 and August 2018 (Bank’s Procurement Regulations), and the provisions of the Legal Agreement and approved procurement plan. Based on the assessment, even though overall the Ministry of Finance has previous experiences in handling the Bank’s financed project, the Executing Agency under this project, the Fiscal Policy Agency (Badan Kebijakan Fiskal, BKF) has no previous experience in handling Bank's financed projects. At appraisal stage, it is expected that there will be no procurable expenditures associated to component 1 and 2 instead some procurement activities will be undertaken by BKF under Component 3, which comprises of project management support, technical assistance and capacity building. The project procurement would include several packages of consulting services both firms and individual consultants and procurement of IT equipment.

52. The Project Procurement Strategy for Development (PPSD) and procurement plan have been prepared by BKF as the basis for the procurement arrangement including appropriate packaging and method. The procurement plan would be updated annually or as required to reflect the actual project implementation needs in agreement with the Bank. Further details of the procurement arrangements, procurement risks, mitigation and capacity building measures are provided in Annex 4 Fiduciary.

C. Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

D. Environmental and Social

53. **The environmental risk and the social risk are both rated as "high". The high Environmental and Social Risk Classification (ESRC) was determined based on the range of potential future activities financed by the PFB, which given the nature of the fund, may include high and substantial risk activities.** The PFB will finance both pre- and post-disaster activities. Potential environmental and social risks associated with disaster risk response activities may include equitable access to assistance; debris management; disposal of non-hazardous and hazardous wastes; deterioration of water bodies; temporary increased noise, fugitive dust and mobile emissions; soil erosion and runoff from excavations and disposal of spoils; use of excessive raw materials, water, and energy; loss of vegetation; traffic safety and mobility disruptions; the occupational health and safety (OHS) of first responders and reconstruction workers (i.e. search and rescue, debris removal, demolition of damaged structures, civil works for rehabilitation and reconstruction, etc.); risks related community health and safety (i.e. exposure to diseases, sexual exploitation and abuse/sexual harassment (SEA/SH); labor influx; the relocation of disaster displaced people (including pre-emptive relocation); land acquisition for building back better and potential impacts on vulnerable groups and Indigenous Peoples; etc. The scope and magnitude of these risks and impacts will vary depending on the nature, location and timing of the disaster event.

54. **This risk rating also reflects the high degree of uncertainty surrounding the institutional arrangements for the management of the fund**, including the management of environmental and social risks, where there is currrently no pre-existing environmental and social risk management unit, or Environmental and Social Management System (ESMS) in place. Additionally, within the disaster risk response space, there are varying levels of environmental and social risk management capacity across potential fund recipients.

55. **Project funds will be invested to capitalize the PFB, through Components 1 and 2 contributing to 280 million USD and 220 million USD respectively.** These investments will be administered by the PFB to finance future pre-and post-disaster activities, which will be triggered to respond to specific disaster events. The potential typology of activities to be financed by the PFB includes pre-disaster activities (e.g. preparedness, early warning system, management and storage of food supplies, aids, search and rescue equipment, etc., fire prevention, awareness raising and capacity building) and post-disaster activities (e.g. evacuation and rescue, fire suppression, cash transfer for social assistance program, provisions of health services equipment and management, cash for works in villages, land rehabilitation, emergency responses, rehabilitation and reconstruction of infrastructure, housing and settlement or resettlement). Typical substantial to high risk activities may include infrastructure rehabilitation and reconstruction following large-scale natural disasters (i.e. earthquake, tsunamis, volcanoes).

56. **While central ministries and agencies responsible for disaster management have demonstrated accumulated institutional capacities in environmental and social management for disaster response, institutional capacities at the sub-national government levels likely vary and are generally weaker compared to their central counterparts.** A preliminary institutional capacity assessment of potential fund recipients was undertaken during project preparation. As of 2019, the assessment indicates that only 50% of the districts and/or municipalities have implemented the minimum standards for disaster management and fire hazards. Common challenges include a) budget constraints; b) limited human resources; c) lack of disaster database and; d) lack and/or absence of disaster management plans. Recent post-disaster rehabilitation and reconstruction experience in Central Sulawesi also indicates that inter-government coordination and stakeholder engagement capacities, including on aspects related to information dissemination, community consultations, and grievance redress mechanisms, are generally strained in the context of major post-disaster response.

57. **The project requires the establishment of an Environmental and Social Management System (ESMS).** AllWorld Bank's Environmental and Social Standards (ESSs) are relevant to the operation, acknowledging the range of potential activities financed by the PFB. The ESMS will be established by the MOF for the PFB, with support from a consulting firm, in coordination with relevant institutions responsible for the establishment of

the PFB, including ministries and agencies responsible for proposal verification, i.e. MOHA, Bappenas and BNPB. As part of the ESMS establishment, organizational structure(s), specific roles and responsibilities, resource allocation, screening, assessment and supervision arrangements, and legal framework(s) for the adoption of the ESMS will be defined along with specific milestones for their accomplishments.

58. **The ESMS will apply to the PFB as a whole for the duration of the project, irrespective of funding sources.** As such, the World Bank's supervision responsibility cover the activities of the entire fund. The PFB will be required to apply the ESMS to fund activities. The ESMS will be designed in a phased manner with gradual implementation milestones (from low, to medium to higher risk activities, subject to ESMS readiness) with procedures built-in for extraordinary events in the initial years of PFB establishment where high and substantial activities may be called for. Such measures could include streamlining proposal verification procedures; use of "off-the-shelf" management tools; extended hands on support for environmental and social assessment; enhanced management and oversight to fund recipients; and other technical capacity support as needed.

59. **The final version of the ESMS will be cleared by the PFB's BLU and World Bank and regularly evaluated during project implementation to assess its performance.** Relevant ESMS development milestones have been sequenced in the ESMS ToR and reflected in the Environment and Social Commitment Plan (ESCP). Performance evaluation of the ESMS will be undertaken by the World Bank on a regular basis as part of Implementation Support Missions (ISM). It is expected that the ESMS will be calibrated to address high and substantial risk activities and is fully adopted by the PFB prior to project closure.

60. **Project consultations were undertaken on November 27th, 2020 as part of a continuing series of consultations since 2018.** The most recent consultation involved both government and non-government stakeholders, including sub-national government representatives and Non-Government Organizations (NGOs). Feedback and inquiries were obtained on aspects related to the PFB's design and have been documented in the project's Stakeholder Engagement Plan (SEP). Future consultations will be undertaken as part of the ESMS establishment as stipulated in the SEP as well as at the activity level by fund recipients. The ESCP, ESRS and SEP were publicly disclosed on December 6th, 2020.

V. GRIEVANCE REDRESS SERVICES

61. **Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

VI. KEY RISKS

62. **Overall, the risk of the Project is assessed to be substantial.** All risks below, except the Environment and Social risk are rated for residual risks after mitigation measures. Environment and social risk is rated as high. Substantial risks are: (i) the macroeconomic risk; (ii) technical design: (iii) institutional capacity for implementation and sustainability; and (iv) fiduciary risk. In addition, given that achievement of PBCs under Component 3 requires engagement and commitment of multiple stakeholders beyond MoF, stakeholder risk was identified as a key risk to manage during project implementation. Measures to mitigate these risks are outlined below. The potential benefits of the proposed operation outweigh the residual risks and warrant IBRD's assistance.

63. **Macroeconomic and fiscal risks are substantial with the negative economic effects of COVID and will increase with the duration of the outbreak, but the operation will partially mitigate the fiscal risks.** As with most other countries, the pandemic has unleashed an unprecedented economic impact on Indonesia through both domestic and external channels. Given the severity of the fallout, there is a risk that reforms are delayed as Government refocuses its efforts and resources to cushion the negative economic effects of the infection on the economy and the population. Because of the economic growth slowdown, tax revenue growth will also weaken while expenditures will temporarily balloon, posing some risks to fiscal sustainability. The financing of the wider deficit will weigh on fiscal debt sustainability in the medium term. These risks will increase with the duration of the outbreak which is still evolving locally and globally. With an array of technical assistance projects and capacity enhancement programs, the World Bank remains strongly engaged in policy dialogue with the Ministry of Finance and other central ministries, supporting continued fiscal reform momentum, further mitigating fiscal risk. This operation will contribute to strengthening the financial and fiscal resilience of the budget to natural disasters and health-related shocks, both through the performance-based conditions

and through the funds disbursed through the operation. These will reduce risk of the budget to sudden spending shocks.

64. **Technical design of project risk is substantial.** The PFB is going to be a new system to be established and its design requires careful assessment and balancing of different elements. While the Bank has already engaged in similar projects in other parts of the world (e.g. Morocco, Mozambique), this would be the first time for Indonesia and the risk will be mitigated by looking at the experience of other countries and supporting the implementation of the design through ongoing in-depth technical assistance. Achievement of PBCs under Component 2 of the project require MOF and PFB to develop programs in collaboration and engagement with four different agencies. This requires MOF and the PFB staff to be able to manage relationships with these agencies so that these results can be achieved, and allocations associated to the results can be triggered. This coordination is already ongoing under the cross-government consultations in drafting the presidential regulation that will establish the pooling fund. In order to incentivize and facilitate the achievement of these results, trust fund resources under component 3 will be allocated to support the design of these programs.

65. **Institutional capacity for implementation and sustainability risks are substantial.** Institutional capacity strengthening is important for the responsible BLU to manage potential challenges, including issues of working in silos, competing priorities, lack of centralized planning and lack of awareness of actual disaster spending. The primary objective of the project is to strengthen the institutional capacity of the government to be able to manage the fiscal and financial costs that disasters impose. Moreover, enabling an institutional environment that incentivizes annual budget allocations to the PFB will be necessary to lower risks associated with deprioritization of these allocations in the budgeting process. Strong institutional capacity will be built through the achievement of the PBCs, which are all targeted towards setting up the PFB - a state budget protection instrument - and enabling its effective use and performance. To ensure that best-practice expertise can inform this transformational change in the government's management of its contingent liabilities, technical assistance will be provided under component 3 to support the achievement of the PBCs.

66. **The fiduciary risk is rated as substantial after mitigation.** The financial management risk is assessed as being high before mitigation and substantial after mitigation. The FMA will be completed during the project approval. The expected conclusion from the FMA is that the risks described under paragraph 48 will be substantially mitigated with the implementation of the action plan. The proposed financial management arrangements will satisfy the Bank's minimum requirements under Bank Policy IPF and Bank Directive IPF effective October 1, 2018, and be adequate to provide, with reasonable assurance, accurate and timely information on the status of the loan as required by the Word Bank. Similarly, from the procurement side, the key procurement risks and the related mitigation measures identified in Annex 4, indicate that the procurement risk is determined to be substantial after mitigation. In addition to the Bank's prior review, it is proposed that the Bank will be carrying out joint fiduciary (procurement and financial management) project

implementation support missions to be conducted at least twice per year, including carrying out ex-post reviews of no less than 20 percent of the contracts subject to the Bank's post review.

67. **The overall environmental and social risk is rated as high.** The risk was determined on account of a potential risks of future activities financed by the PFB, which may include high and substantial risk activities, the mixed capacity of potential fund recipient in terms environmental and social risk management, as well as environmental and social risks common in disaster-related contexts. All World Bank's Environmental and Social Standards (ESSs) are relevant to the operation, acknowledging the range of potential activities financed by the PFB. To mitigate this risk, the ESMS will apply to the PFB as a whole for the duration of the project, irrespective of funding sources. As such, the World Bank's supervision responsibility would be extended to all PFB resources, beyond the World Bank-financed portion. The PFB will be required to ensure compliance with the ESMS across fund recipients, which will be designed to include a phased and gradual implementation (from low, to medium to higher risk activities, subject to ESMS maturity) with contingency measures built-in for extraordinary events in the initial years of PFB establishment where high and substantial activities may be called for.

68. **Stakeholder risk for the project was assessed as moderate**. While the PBCs under Component 1 are entirely managed by BKF, component 2 requires the collaboration of multiple line Ministries to achieve the identified PBCs. To reduce this risk, programs to be designed under Component 2 still remain within the responsibility and oversight of the Ministry of Finance, who will coordinate with the respective line Ministries. Furthermore, all PBCs for component 2 already have ongoing World Bank projects, which highlights adequate engagement and interest from the Government to improve disaster preparedness across these sectors. Finally, technical assistance from GRiF under component 3, will also support the necessary coordination and capacity building to achieve PBCs under Component 2.

VII. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY: Indonesia
Indonesia Disaster Risk Finance & Insurance

Project Development Objectives(s)

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

Project Development Objective Indicators

Indicator Name	PBC	Baseline	End Target
Strengthen the financial and fiscal resilience of GoI to natural disasters and health-related shocks			
Pre-arranged resources available for response and recovery to disasters, and climate and health shocks increased (Text)	PBC 2	IDR 4 trillion (2020 allocation to reserve fund)	100 % increase
Financial disbursements made by the pooling fund within agreed timelines after an event (Text)	PBC 7, 8, 9	0 (Pooling fund not established)	80% payments made on time
Institutional capacity for efficient financing of disaster, climate risk, and health shock related expenditures increased (Text)	PBC 5	No pre-arranged funding mechanism linked to pre-arranged disbursement programs established	A dedicated mechanism established with at least 4 programs in place to support disaster preparedness and

Indicator Name	PBC	Baseline	End Target
			response

Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	End Target
Establishing and Capitalizing the Pooling Fund Bencana			
Pooling Fund established and operational (Yes/No)	PBC 1	No	Yes
Risk financing strategy for pooling fund adopted and updated annually (Text)	PBC 3	No risk financing strategy	Risk financing strategy adopted
Sovereign risk financing instrument undergone external technical review and put in place in line with risk financing strategy (Text)		No instrument in place	At least one instrument reviewed.
Annual audits of pooling fund completed and recommendations implemented (Text)		No (PFB does not exist)	Audit completed every year and key recommendations implemented
Pooling fund annual reports prepared and published (Number)		0.00	3.00
Percentage of management staff appointed in the PFB that are female (Text)		No staff appointed.	20%
Improving Preparedness for More Effective Disaster Response Across Government Agencies			
Pooling Fund establishes agreements with government ministries/agencies to support more effective disaster		0.00	3.00

Indicator Name	PBC	Baseline	End Target
preparedness and response (Number)			
Pooling fund adopts rules for co-financing from subnational governments (Yes/No)		No	Yes
Strengthen pooling fund capacity and systems to effectively support risk financing and disaster resp			
Disaster damage and loss reporting system for state assets established (Yes/No)	PBC 4	No	Yes
Claims management system developed and used for post-disaster resource allocation (Yes/No)		No	Yes
PFB has appointed a broker or intermediary to support the placement of a a risk transfer product (Yes/No)		No	Yes
PFB has necessary resources in place as required by the ESMS (Yes/No)		No	Yes
Staff in ministries eligible to access funding from the PFB demonstrate increased capacity in making informed decisions on risk financing (Text)		No ministries have received training from the PFB	Staff in at least 3 ministries have been trained by the PFB and show increased understanding of DRFI
Evaluations and/or Beneficiary Surveys are carried out to enhance quality of design and implementation of the PFB over the lifetime of the project (Number)		0.00	3.00

Monitoring & Evaluation Plan: PDO Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
Pre-arranged resources available for response and recovery to disasters, and climate and health shocks increased	This will measure the total pre-arranged resources for disaster response and recovery, including current year budget allocation to the PFB, carried over cash in the PFB, budget allocation to the disaster reserve fund (budget line), and total coverage from any financial instrument backstopping the PFB.	Annual	ABMN, PFB	The state budget will be reviewed for total funding allocation to pre-arranged disaster risk financing instruments. In addition this will review documentation for any financial instruments put in place by the PFB.	PFB, MOF
Financial disbursements made by the pooling fund within agreed timelines after an event	This will measure that the PFB disburses funds efficiently in time with pre-agreed timelines of the various financing modalities	Annual	PFB	Annual report of the PFB. If this figure cannot be confirmed from the Annual report additional information will be reviewed from the BLUs FMIS	PFB, MOF
Institutional capacity for efficient financing of disaster, climate risk, and health shock related expenditures increased	This will measure the key institutional reform of establishing a dedicated mechanim for improved	Annual	MOF	Annual budget plan of the PFB adopted confirms the mechanism in place and	MOF, PFB

	financial planning for disaster financing			review of the adoption of programs to support disaster preparedness and response financing in collaboration with relevant ministries	

Monitoring & Evaluation Plan: Intermediate Results Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
Pooling Fund established and operational	The required government regulation to establish the pooling fund (PerPres, PMK) has been adopted and key staff appointed	One time	MOF	Review of the relevant government regulation (PMK) setting out the PFB governance arrangements as well as review of the appropriate documents to assign key staff to PFB functions.	MOF
Risk financing strategy for pooling fund adopted and updated annually	The pooling fund has prepared and adopted a risk financing strategy to protect	Annual	PFB	The annual budget plan is reviewed to validate that it includes a risk	MOF

	itself against severe events, and updates this strategy every year as part of the Annual Budget Plan.			financing strategy for the pooling fund.	
Sovereign risk financing instrument undergone external technical review and put in place in line with risk financing strategy	This indicator measures that the PFB has carried out technical preparation to put in place additional external risk financing instrument to leverage its budget allocation for more efficient post-disaster resource mobilization. As the PFB is exploring external risk financing instruments it is critical that it receives appropriate external technical advice on instruments under consideration.	Annual	PFB	Review of external evaluation of the proposed instrument (e.g. by broker or technical partner organization).	MOF
Annual audits of pooling fund completed and recommendations implemented	This indicator measures that the pooling fund is managed to highest fiduciary standards and implements the most important recommendations from the	Annual	PFB	The annual audit will be reviewed. BPKP will verify with the PFB that core audit recommendations (as agreed between MOF	MOF

	annual internal audit.			and World Bank) have been implemented.	
Pooling fund annual reports prepared and published	This indicator measures that the pooling is operating transparently making key information about its performance publicly available. The PFB should have published at least 3 annual reports by the end of the project.	Annual	PFB or MOF Website	Annual reports of the PFB will be posted either on the PFB or the MOF website.	MOF
Percentage of management staff appointed in the PFB that are female	This indicator measures how many women are appointed to PFB management positions to increase overall representation of women in the PFB management.	Annual	PFB	The staffing positions will be reviewed for total never of women in echelon positions.	MOF
Pooling Fund establishes agreements with government ministries/agencies to support more effective disaster preparedness and response	In order to support faster disaster response, the pooling fund has to agree on the appropriate operating procedures with beneficiary agencies. This indicator measures that the pooling fund is establishing agreements with at least 3	Annual	MOF	The relevant document that clarifies cooperation procedures between MOF (PFB) and line ministries are reviewed.	MOF

	beneficiary agencies by the end of the project implementation period.				
Pooling fund adopts rules for co-financing from subnational governments	This indicator measures finalization of the co-financing rules for subnational governments to set out how much different SNGs are required to contribute to the PFB as a key funding source. The mandate for this will be included in the presidential regulation. The required additional regulation will be completed during implementation.	One time	MOF	Review of the appropriate document adopting the co-financing rules.	MOF
Disaster damage and loss reporting system for state assets established	This indicator will verify that PFB has established a system to support more informed allocation of post-disaster financing through the establishment of a platform that supports damage and loss reporting.	One time	PFB	The implementation and use of a damage reporting system is validated through reports on data submited through the system, used for post-disaster funding allocation.	MOF

Claims management system developed and used for post-disaster resource allocation	This indicator will verify that PFB has established a system to support more informed disbursement of post-disaster financing through the establishment of a platform that supports management and tracking of allocations from the PFB.	One time	PFB	The implementation and use of a claims management system is validated through reports on financial data reconciled through the system.	MOF
PFB has appointed a broker or intermediary to support the placement of a a risk transfer product	The implementation and use of a claims management system is validated through reports on financial data reconciled through the system.	Annual	PFB	Review of any letter of engagement or procurement documentation.	MOF
PFB has necessary resources in place as required by the ESMS	A strong system to monitor and implement environmental and social standards is critical for the operation of the pooling fund, even beyond the World Bank funded expenditures. This indicator will measure that the PFB has appointed the necessary positions as set out in the ESMS to be prepared and adopted by the PFB.	Annual	PFB	Review of PFB staffing plan and validation against the ESMS requirements.	MOF

Staff in ministries eligible to access funding from the PFB demonstrate increased capacity in making informed decisions on risk financing	The PFB will invest in training and capacity building on DRF across the government. This indicator will track progress towards the implementation of an effective capacity building program to enhance understanding of DRF within line ministries eligible to receive PFB support. The target measures the number of ministries that have received and where staff show increased capacity.	Annual	PFB	As the pooling fund rolls out training programs, pre/post surveys of staff trained will be reviewed to verify increased understanding amongst training participants	MOF
Evaluations and/or Beneficiary Surveys are carried out to enhance quality of design and implementation of the PFB over the lifetime of the project	Monitoring and evaluations is critical to ensure the PFB learns from its early experiences and keeps improving over the years. This indicator verifies that the PFB will invest in and implement evaluations and learning activities.	Annual	PFB	PFB evaluations and lessons learned documents and beneficiary survey results will be verified.	MOF

Performance-Based Conditions Matrix				
PBC 1	Complete establishment and set up of the PFB			
Type of PBC	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Intermediate Outcome	No	Text	80,000,000.00	12.75
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	Not established			
year 1	Operational set up completed with the governance structure in place, key staff appointed, the PFB Strategic Plan adopted, and an initial draft Environmental and Social Management System adopted		40,000,000.00	
year 2	PFB Annual Report published		20,000,000.00	
year 3	MOF, through the BLU, has implemented recommendations made in the audit of the PFB operations in Year 1 and published Annual Report		20,000,000.00	

PBC 2	Strengthen the PFB’s funding structure and management			
Type of PBC	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Outcome	Yes	Text	80,000,000.00	11.76
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	No allocation made to the pooling fund.			
year 1	At least IDR1 trillion allocated to the PFB in the Borrower’s 2021 budget		30,000,000.00	
year 2	At least IDR1 additional trillion allocated to the PFB in the Borrower’s 2022 budget		25,000,000.00	
year 3	At least IDR1 additional trillion allocated to the PFB in the Borrower’s 2023 budget		25,000,000.00	

PBC 3	Adopt & implement a financing plan for the PFB			
Type of PBC	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Intermediate Outcome	No	Text	70,000,000.00	13.73
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	No financing plan.			

year 1	PFB Annual Budget Plan, including a risk financing strategy, adopted	30,000,000.00	
year 2	(i) Risk Financing Strategy updated; and (ii) Co-financing rules for subnational government contribution adopted	20,000,000.00	
year 3	(i) Risk Financing Strategy updated; and (ii) External financing options (including risk transfer) evaluated	20,000,000.00	

PBC 4	Adopt measures to strengthen PFB operations			
Type of PBC	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Intermediate Outcome	No	Text	50,000,000.00	9.80
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	PFB does not exist.			
year 1	MOF, through the BLU, and DJKN design a damage and loss reporting and claims management platform for state-owned assets linked to the upgrading of SIMAN		25,000,000.00	
year 2	MOF, through the BLU, and DJKN design a damage and loss reporting and claims		25,000,000.00	

	management platform for state-owned assets linked to the upgrading of SIMAN		
year 3		0.00	

PBC 5	Budget tracking to strengthen disaster related fiscal effectiveness			
Type of PBC	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Intermediate Outcome	No	Text	60,000,000.00	9.80
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	Budget tracking not in place.			
year 1	MOF has introduced criteria and guidelines for tracking, monitoring and evaluation of disaster expenditures		40,000,000.00	
year 2	Budget tracking for the first Fiscal Year after the adoption of the criteria and guidelines for disaster related expenditures has been completed in accordance with the adopted methodology		10,000,000.00	
year 3	Budget tracking for the second Fiscal Year after the adoption of the criteria and guidelines for disaster related expenditures has been		10,000,000.00	

	completed in accordance with the adopted methodology			

PBC 6	Support the central government disaster preparedness and early action			
Type of PBC	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Intermediate Outcome	No	Text	40,000,000.00	5.88
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	PFB Not established.			
year 1			0.00	
year 2	MOF, through the BLU, has adopted a program in collaboration with BNPB to provide support for increased risk awareness and knowledge, strengthened emergency preparedness, and early response capacities, with appropriate operating protocols and minimum service standards		20,000,000.00	
year 3	In the first 12-month period following the adoption of the program (referred to in PBC6 - Year 2), MOF, through the BLU, has approved and disbursed 80% of payments on time as set out in the adopted program		20,000,000.00	

PBC 7	Support SNGs in disaster preparedness and response			
Type of PBC	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Intermediate Outcome	No	Text	40,000,000.00	5.88
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	Significant delay (one to two fiscal year) in channeling and implementation of post-disaster rehabilitation and reconstruction assistance from central government to local government.			
year 1			0.00	
year 2	MOF, through the BLU, has adopted a program in collaboration with MOHA to support efficient flow of funds to SNGs for disaster preparedness and response, with appropriate operating protocols and minimum service standards		20,000,000.00	
year 3	In the first 12-month period following the adoption of the program (referred to in PBC7 - Year 2), MOF, through the BLU, has approved and disbursed 80% of payments on time as set out in the adopted program		20,000,000.00	

PBC 8	Support faster social assistance payments for disaster victims through adaptive social protection			
Type of PBC	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Outcome	No	Text	40,000,000.00	5.88
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	In 2018 and 2019, it took on average [6 – 12] months between the submission of additional budget request for disaster responses and the receipts of requested budget.			
year 1			0.00	
year 2	MOF, through the BLU, has adopted a program in collaboration with MOSA to support efficient and sufficient allocation of funds to social assistance programs for disaster victims, with appropriate operating protocols and minimum service standards		20,000,000.00	
year 3	In the first 12-month period following the adoption of the program (referred to in PBC8 - Year 2), MOF, through the BLU, has approved and disbursed 80% of payments on time as set out in the adopted program		20,000,000.00	

PBC 9	Strengthen planning to support health emergencies			
Type of PBC	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Intermediate Outcome	No	Text	40,000,000.00	5.88
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	No health emergency financing linked to preparedness plans.			
year 1			0.00	
year 2	MOF, through the BLU, has adopted a program in collaboration with MOH to support efficient health preparedness and response financing, with appropriate operating protocols and minimum service standards		20,000,000.00	
year 3	In the first 12-month period following the adoption of the program (referred to in PBC9 - Year 2), MOF, through the BLU, has approved and disbursed 80% of payments on time as set out in the adopted program		20,000,000.00	

Verification Protocol Table: Performance-Based Conditions

PBC 1	Complete establishment and set up of the PFB
Description	The BLU has been selected as the legal vehicle for the PFB and its operational set up is completed in the first year. This includes the adoptions of the appropriate Governance arrangement, the appointment of key staff, and the adoption of the Strategic Plan. In the adoption of key staff, MOF will pay particular attention to the representation of women in management position of the PFB, aiming to achieve at least 20% women in management staff appointed by end of the project. This target will also be embedded in the PFB strategic plan. The adoption of the key operational documents for the PFB will include the core financial management procedures to be followed, which can be assessed by the Bank. It also includes the development and adoption of an Environmental & Social management system by the PFB with support from the World Bank. To ensure transparency in the PFB operation this PBC also requires the pooling fund to prepare and publish an Annual Report from year 2 onwards. In year 3, the PBC will require that the PFB and MOF have implemented recommendations from the internal audit of the PFB, which Bank and the MOF agree are priority recommendations, in addition to publishing the Annual Report. The annual PBC targets are sequential and time bound.
Data source/ Agency	MOF, PFB
Verification Entity	BPKP
Procedure	BPKP confirms that (i) the PMK adopting the PFB governance arrangements has been officially adopted and published on the MOF website, (ii) the Director of the BLU has been appropriately appointed; and (iii) the PFB Strategic Plan has been adopted by the BLU through a regulation of the Director of the BLU (*Peraturan Direktur Utama*). The draft ESMS prepared by the PFB is reviewed and given the no objection by the Bank, its adoption through the appropriate governance procedure is verified by the BPKP. BPKP will review and confirm that relevant audit recommendations identified as priority by MOF and World Bank have been

	adopted. BPKP will confirm that the PFB has published an annual report and this has been posted on either the PFB or MOF website.

PBC 2	Strengthen the PFB's funding structure and management
Description	This indicator measures national budget allocations to the Pooling Fund to strengthen its capital base and allow it to implement financing modalities to support resilience. The target over 3 years is at least IDR 3 trillion total allocation.
Data source/ Agency	National Budget and PFB
Verification Entity	MOF
Procedure	MOF, as the implementing agency, will verify the result through review of the bank account statements from the PFB, showing that the budget resources have been transferred to the PFB's bank account, and submit these statements to the World Bank for validation. This is scalable and not time bound and the government can achieve the full PBC in less than three years through increased allocations

PBC 3	Adopt & implement a financing plan for the PFB
Description	This PBC measures that the PFB prepares and adopts the appropriate budget and financing plan to ensure it can meet its liabilities to be set out in the PFB Annual Budget Plan. The Annual Budget Plan will include a discussion on the combination of financial instruments that are most appropriate and cost effective for meeting the PFB liabilities. Where appropriate, funding allocations will be made for any additional financial instruments to be used by the PFB as part of it's risk management strategy, e.g. premium for risk transfer. This financing plan will be reviewed and improved every year. A

	second key focus of this PBC is to finalize the co-financing rules for subnational governments to set out how much different SNGs will to contribute to the PFB. Finally, the PBC will measure that the PFB has evaluated at least one external financing source in line with its risk financing strategy. The annual PBC targets are sequential but not time bound.
Data source/ Agency	PFB and MOF documentation
Verification Entity	MOF
Procedure	MOF will confirm that the PFB Annual Budget Plan is properly adopted and that it includes a risk financing strategy in line with good practice. For the adoption of the SNG co-financing rules the properly signed and adopted document will serve to verify achievement. For the evaluation of the external financing option, MOF will review the evaluation report submitted to the PFB by the external party engaged for this. MOF will submit this evidence to the Bank for validation.

PBC 4	Adopt measures to strengthen PFB operations
Description	This PBC measures the adoption of critical systems to enhance operational effectiveness of the PFB by putting in place the appropriate data collection system to make more risk informed decisions through collecting improved data on the loss experience of public entities, working closely with the DG State Assets (DJKN) by linking this to upgrades to the SIMAN database of state assets. The annual PBC targets are sequential but not time bound.
Data source/ Agency	PFB, DJKN
Verification Entity	MOF
Procedure	MOF will verify and confirm that a damage reporting and claims management platform, linked to SIMAN, is in place and functioning. MOF will submit this evidence to the Bank for validation.

PBC 5	Budget tracking to strengthen disaster related fiscal effectiveness
Description	This PBC will support the government to improve accountability and transparency in disaster related expenditures by institutionalizing budget tracking for disaster related expenditures. This will support necessary reforms at the MOF level (DG Budget and DG Treasury). The target for year 1 is not timebound. Targets for year 2 and year 3 are sequential and required 12 months and 24 months after adoption of year 1 target respectively.
Data source/ Agency	MOF
Verification Entity	MOF
Procedure	MOF will review the regulation adopting the budget tacking methodology to verify it has been appropriately adopted. MOF will also verify the budget tracking report after it has been implemented for each of the following two years after adoption. MOF will then submit this evidence to the Bank for validation.

PBC 6	Support the central government disaster preparedness and early action
Description	Supporting risk awareness and improved preparedness across all levels of government is a key role of the PFB. This PBC measures that the PFB has prepared and adopted a program to support strengthening emergency preparedness measures, response capacity, and early finance for response at first sign of pending disasters. The details of the program are to be developed during the first year of the implementation period, in collaboration with BNPB. The minimum service standards will be defined through the operating procedures for the program, in line with international good practice as agreed by the borrower and the World Bank. To measure operational effectiveness and timely processing, the result in year 3 sets a target rate for payments approved and disbursed after 12 months after adoption of the program, in line with the minimum service standards.

Data source/ Agency	MOF, PFB
Verification Entity	BPKP
Procedure	The appropriate regulation by the BLU Director (*Peraturan Direktur Utama*) adopting the operating procedures and minimum service standards for this program as well as the technical no objection by the World Bank are submitted to and reviewed by the verification agent. The PFB will submit an annual report to BPKP that contains, separated out for each financing modality / program, the total number of potential payouts (funding requests), the actual number of payouts made, the timing of each payout relative to the request or the disaster event that triggered the payout, the average time to payout following a disaster event across all approved payouts, and corresponding extracts from the PFB's financial information management system. BPKP will verify the report and compare the submitted information against the Pooling Fund's formally adopted minimum service standards for each financing modality, and submit the validated findings to the World Bank.

PBC 7	Support SNGs in disaster preparedness and response
Description	Currently subnational governments experience significant delay (one to two fiscal year) in the flow and implementation of post-disaster rehabilitation and reconstruction assistance from the central government to subnational governments. This PBC will support the design and adoption of a program to support efficient flow of funds to SNGs for disaster preparedness and response, with appropriate operating protocols and minimum service standards. The details of the program are to be developed during the first year of the implementation period, in collaboration with MOHA. The minimum service standards will be defined through the operating procedures for the program, in line with international good practice as agreed by the borrower and the World Bank. To measure operational effectiveness and timely processing the result in year 3 sets a target rate for payments approved and disbursed after 12 months after adoption of the program, in line with the minimum service standards.
Data source/ Agency	MOF, PFB

Verification Entity	BPKP
Procedure	The appropriate regulation by the BLU Director (*Peraturan Direktur Utama*) adopting the operating procedures and minimum service standards for this program as well as the technical no objection by the World Bank are submitted to and reviewed by the verification agent. The PFB will submit an annual report to BPKP that contains, separated out for each financing modality / program, the total number of potential payouts (funding requests), the actual number of payouts made, the timing of each payout relative to the request or the disaster event that triggered the payout, the average time to payout following a disaster event across all approved payouts, and corresponding extracts from the PFB's financial information management system. BPKP will verify the report and compare the submitted information against the Pooling Fund's formally adopted minimum service standards for each financing modality, and submit the validated findings to the World Bank.

PBC 8	Support faster social assistance payments for disaster victims through adaptive social protection
Description	Adaptive Social Protection (ASP) is considered a strategic direction by GoI (via RPJMN) to strengthen the country's social protection system better protect people that are negatively affected by natural disasters, pandemic, and other shocks, as well as build resilience of the poor and vulnerable population to disaster risks, particularly climate change induced ones. One challenge in the past for providing timely supports to the natural disaster victims has been the uncertainty related to how long it can take to receive additional budget requested for meeting the needs of disaster victims per GoI regulations beyond the annual budget allocation. This PBC will support the design and adoption of a program to support efficient and sufficient allocation of funds to social assistance programs for disaster victims, with appropriate operating protocols and minimum service standards. The details of the program are to be developed during the first year of the implementation period, in collaboration with MOSA. The minimum service standards will be defined through the operating procedures for the program, in line with international good practice as agreed by the borrower and the World Bank. To measure operational effectiveness and timely processing the result in year 3 sets a target rate for payments approved and disbursed after 12 months after adoption of the program, in line with the minimum service standards.

Data source/ Agency	MOF, PFB
Verification Entity	BPKP
Procedure	The appropriate regulation by the BLU Director (*Peraturan Direktur Utama*) adopting the operating procedures and minimum service standards for this program as well as the technical no objection by the World Bank are submitted to and reviewed by the verification agent. The PFB will submit an annual report to BPKP that contains, separated out for each financing modality / program, the total number of potential payouts (funding requests), the actual number of payouts made, the timing of each payout relative to the request or the disaster event that triggered the payout, the average time to payout following a disaster event across all approved payouts, and corresponding extracts from the PFB's financial information management system. BPKP will verify the report and compare the submitted information against the Pooling Fund's formally adopted minimum service standards for each financing modality, and submit the validated findings to the World Bank.

PBC 9	Strengthen planning to support health emergencies
Description	Updated and improved operational and financial preparedness for health security is a much-needed basis for the country's preparedness to health security threats, including pandemic. This PBC will support the design and adoption of a program to support efficient health preparedness and response financing, with appropriate operating protocols and minimum service standards. The details of the program are to be developed during the first year of the implementation period, in collaboration with MOH. The minimum service standards will be defined through the operating procedures for the program, in line with international good practice as agreed by the borrower and the World Bank. To measure operational effectiveness and timely processing the result in year 3 sets a target rate for payments approved and disbursed after 12 months after adoption of the program, in line with the minimum service standards.
Data source/ Agency	MOF, PFB

Verification Entity	BPKP
Procedure	The appropriate regulation by the BLU Director (*Peraturan Direktur Utama*) adopting the operating procedures and minimum service standards for this program as well as the technical no objection by the World Bank are submitted to and reviewed by the verification agent. The PFB will submit an annual report to BPKP that contains, separated out for each financing modality / program, the total number of potential payouts (funding requests), the actual number of payouts made, the timing of each payout relative to the request or the disaster event that triggered the payout, the average time to payout following a disaster event across all approved payouts, and corresponding extracts from the PFB's financial information management system. BPKP will verify the report and compare the submitted information against the Pooling Fund's formally adopted minimum service standards for each financing modality, and submit the validated findings to the World Bank.

ANNEX 1: Implementation Arrangements and Support Plan

COUNTRY: Indonesia
Indonesia Disaster Risk Finance & Insurance

The Borrower through its Ministry of Finance (MOF) will be the signatory of the IBRD loan and the Fiscal Policy Office (BKF) will act as Executing Agency. A Disaster Risk Finance Coordination Unit (DRFCU) will be established within BKF and will have full fiduciary responsibility for project implementation. The DRFCU's responsibilities will include implementation of all activities to achieve the PBCs under Component 1 and 2 (and where relevant coordination with other Ministries). Under Component 3 the DRFCU will be responsible for procurement of consultancy services and any goods (hardware, software) as needed. DRFCU staff will include at a minimum, a Project Coordinator, a financial officer, an accounting specialist, a procurement specialist, an M&E specialist and an environment and social standards focal point The Project Coordinator will be responsible for management of the DRFCU and overall project coordination. The Procurement Specialist and Financial Management (FM) Specialist will provide regular support on all project procurements and financial management processes.

MOF will establish and chair a Steering Committee with all relevant DGs (in MOF) and Ministries involved in the PFB and the achievement of PBCs under component 2. MOF will establish and convene a Steering Committee for the project bringing together relevant counterparts from key ministries at Director General level (including from other units in MOF). The Steering Committee will provide strategic guidance to the DRFCU that will handle the day-to-day coordination of activities.

MOF will select an existing public service agency (Badan Layanan Umum or BLU) under the direct supervision of the MOF to host and manage the PFB. Following approval of the presidential regulation providing the mandate for the establishment of the pooling fund**,** MOF will designate an existing BLU to host the PFB. Once the BLU is selected, the DRFCU could be absorbed into the BLU, to become the core technical staff of the PFB and ensure sustainable institutional capacity. The relevant DG in MOF overseeing the pooling fund will depend on the chosen BLU. Work is ongoing to define the governance and technical requirements for the pooling fund that the BLU will have to implement. The World Bank is supporting these steps through sharing of international experience, technical analysis, and capacity building.

Verification Protocols. The Independent Verification Agency for the PBCs still has to be officially appointed by MOF. This is proposed to be the Financing and Development Supervision Agency (Badan Pengawasan Keuangan dan Pembanguna or BPKP), a government agency which already carries out the same role for World Bank financed PforR operations in the country. This will be confirmed with MOF by appraisal and will be appointed officially no later than one month after project effectiveness. The verification timelines and protocol will be finalized with MOF by appraisal.

In order to support implementation, the below plan has been outlined to offer oversight for completion of the PBCs and to provide technical advice necessary to facilitate the achievement of the PDO. The Bank will provide implementation support to the PFB, strengthen preparedness and capacity of government agencies for disaster response, and enhance the capacity of the PFB to create systems for longer-term sustainable DRF in the country. Formal implementation support missions will be carried out twice per year. The focus of implementation support is summarized below.

Time	***Focus***	***Skills Needed***	***Resource Estimate (US$)***	***Partner Role***
First twelve months	Task Team Leadership and Program supervision	Project management	150,000 BB	Advisory and collaborative role in strengthening capacity of the responsible BLU to supervise implementation of the PFB; support capacity building activities for strengthening disaster preparedness of different line Ministries; and support for building longer term systems for risk management and financial preparedness.
	Technical support and capacity building	Risk financing		
	Technical support and capacity building	Financial Sector		
	Technical support and capacity building	Social Protection		
	Technical support and capacity building	Disaster Risk Management		
	Technical support and capacity building	Public Financial Management		
	Technical support and capacity building	Health Sector		
	Technical support and capacity building	Financial modeling and actuarial analysis		
	FM support and capacity building	FM		
	Social development support and capacity building	Social development		
	Environmental supervision	Environment		
	Local focal point	Financial Sector		
12-48 months	M&E support and capacity building	M&E		
	Task Team Leadership and Program supervision	Project management		
	Technical support and capacity building	Risk financing		
	Technical support and capacity building	Financial Sector		

	Technical support and capacity building	Disaster Risk Management	100,000 BB per year	Advisory and collaborative role in strengthening capacity of the responsible BLU to supervise implementation of the PFB; support capacity building activities for strengthening disaster preparedness of different line Ministries; and support for building longer term systems for risk management and financial preparedness.
	Technical support and capacity building	Social Protection		
	Technical support and capacity building	Public Financial Management		
	Technical support and capacity building	Health Sector		
	Technical support and capacity building	Financial modeling and actuarial analysis		
	FM support and capacity building	FM		
	Social development support and capacity building	Social development		
	Environmental supervision	Environment		
	Local focal point	Financial Sector		
	M&E support and capacity building	M&E		

Table 3. Task Team Skills Mix Requirements for Implementation Support (per year)

Skills Needed	***Number of Staff Weeks***	***Number of Trips***	***Comments***
Task Team Leaders	8	2	*TTL and Co-TTL based in EAP*
Risk Finance Specialist	4	2	*Based in HQ*
Financial Sector Specialist	4	2	*Based in HQ*
Public Financial Mgmt. Specialist	4	2	*Country based*
Disaster Risk Management Specialist	4	2	*Country based*

Social Protection Specialist	2	2	*Country based*
Health Sector Specialist	*2*	2	*Country based*
Financial modeling and actuarial analysis Specialist	2	1	*Country based*
FM Specialist	2	2	*Country based*
Procurement Specialist	2	2	*Country based*
Social development Specialist	3	2	*Country based*
Environment Specialist	3	2	*Country based*
Local Focal Point (Financial Sector Specialist)	8	2	*Country based*
M&E	3	1	*Country based*

ANNEX 2: Detailed Sectoral and Institutional Context

COUNTRY: Indonesia
Indonesia Disaster Risk Finance & Insurance

Fiscal Risks and Social Impact from Natural Disasters

The Government currently relies primarily on the national budget and international assistance to cover disaster losses. According to the National Disaster Risk Financing and Insurance Strategy, from 2005-2017 the government on average each year set aside IDR 3.1 trillion (US$219 million) in a contingent budget line for disasters. This has proven insufficient for the estimated average annual economic cost of IDR 22.8 trillion (US$1.6 billion), leading to an estimated post-disaster funding gap of IDR 19.75 trillion (US$1.4 billion). Major events significantly exceed this.

The central government budget allocates resources to disaster response through an annual budget line called "reserve fund for natural disasters". This is an annual allocation (a budget line, non-accumulating) which is spent through different mechanisms (see next paragraph). Any unspent resources go back to the budget at the end of the fiscal year. This is the only explicit disaster related funding source currently counted by MOF. Table 4 shows allocations and utilization of this budget line from 2014-2018 years.

Table 4. Budgeted and realized dedicated central government disaster funding

Year	Reserve fund for natural disasters (nominal, billion IDR)		
	Budget	Realized	Realized %
2014	3,300	1,211	36.70%
2015	4,000	3,350	83.75%
2016	4,000	3,250	81.25%
2017	4,387	4,272	97.38%
2018	4,000	7,035	175.88%

Source: Public Expenditure Study on Natural Disaster (October 2020 Draft)

In total, five budget processes are available to spend funds for disaster management. This includes two regular budget processes and three specific mechanisms for disaster response, rehabilitation, and reconstruction. These are described below and summarized by disaster management phase in Table 5:

a. The two **regular annual budget funding processes** are respectively DIPA for Central Government (CG) agencies and DPA for SNGs. They usually fund risk reduction or reconstruction and have to be part of the annual budget or of new activities in the revised annual budget usually enacted around the beginning of the last quarter of the fiscal year. DIPA funds are also used during the emergency phase through MOSA's regular budget for social assistance spending to disaster victims (daily allowance and death allowance).

b. The **'on-call funds' (DSP)** is the CG mechanism used to finance the emergency response phase after a disaster. This can be activated by a request from the head of BNPB. Funds flowing through the DSP are drawn from the reserve fund for natural disasters.

c. The SNG equivalent of the CG 'reserved funds' is a budget item called '**Unexpected Spending'** (BTT). This can be activated to finance unplanned expenditures if the head of the SNG (Governor/ Regent/ Mayor) declares a state of emergency. Every year the SNG budget includes an amount for BTT. Unused funds go into the annual budget surplus at the end of the fiscal year.

d. **Rehabilitation and reconstruction (RR)** grants provide CG support to SNGs to co-fund rehabilitation and reconstruction activities. This mechanism was introduced in 2015. Funds for RR grants are also drawn from the 'reserve fund for natural disasters'. Disbursement to a SNG requires a lengthy process of documentation and field verifications.

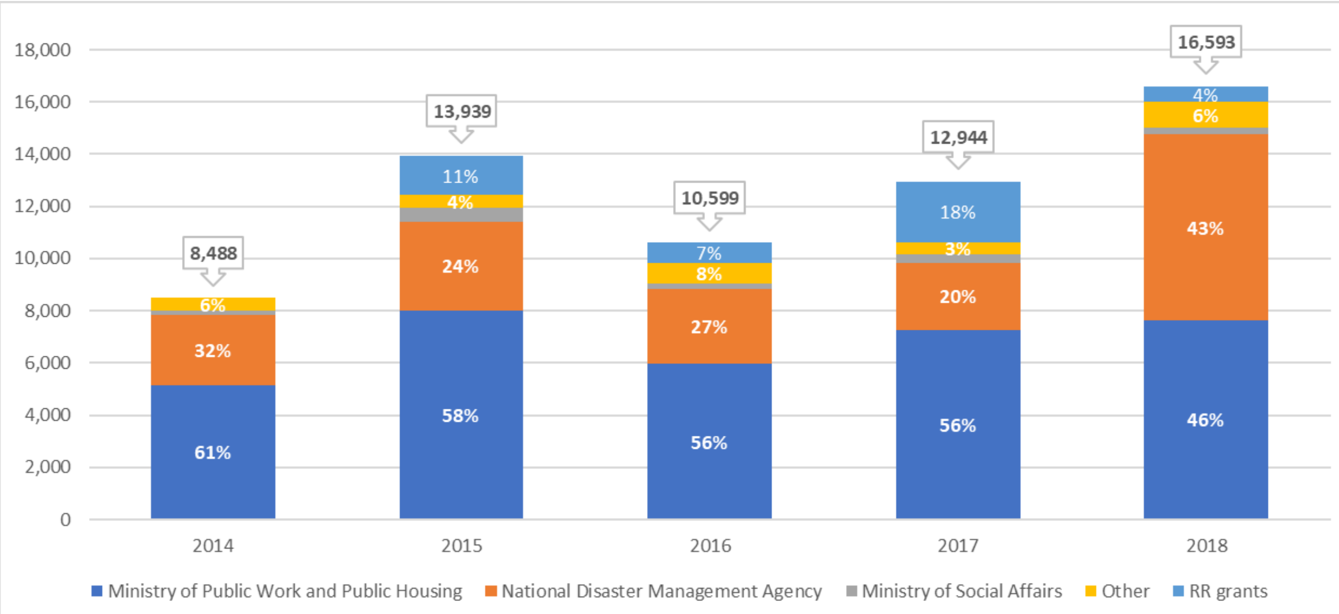
Table 5. Summary of available funding mechanisms for each disaster phase for CG and SNG

Disaster phase	CG budget		SNG budget	
	Funding mechanism	**Note**	**Funding mechanism**	**Note**
Pre-disaster: mitigation and readiness	Ministerial budget (DIPA)	In annual budget or revised budget	Agency budget (DPA)	Should be based on disaster risk assessment
Emergency response	On-call funds (DSP)	From the natural disaster reserve fund	Unexpected spending (BTT)	Transferred from DPA-PPKD to DPA-OPD
	Ministerial budget (DIPA)	Social assistance by MoSA		
Post-disaster: rehabilitation/ reconstruction (RR)	Ministerial budget (DIPA)	For CG assets	Agency budget (DPA)	
	RR grants for SNGs	From the natural disaster reserve fund	RR grants from CG	Budgeted as DPA - OPD/ DPA-PPKD

Despite important progress over the past decade, there is currently no centralized planning for disaster related spending and no consolidated information on national or subnational spending on disasters. To date, verified information on disaster related expenditures as reported by MOF has been limited to the annual allocations to the disaster reserve fund and the operational budget for BNPB. Consolidated information on disaster spending, as accomplished in education, health, and infrastructure sectors, has not been available. Similarly, there is no systematic information on SNG spending on disasters, as this information is spread across the 542 separate budgetary systems of the SNGs and oversight is split across MOF and MOHA.

A public expenditure study carried out for this operation shows that the central government has spent three to four times more on disasters during 2014-2018 than currently estimated by MOF in the National DRFI Strategy.[28] A review of all CG ministries and agencies spending data identified outputs related to disasters and the relevant phase (pre-disaster, emergency, or post disaster) where possible. Since 2014, CG spending on disasters has been exceeding 1.4% of total spending by ministries/ agencies.[29] About twelve ministries/ agencies consistently spent on disasters, with four of them accounting for more than 92% of the disaster spending (MOF, BNPB, Ministry of Public Work and Public Housing, and MOSA) in all years. Figure 1 provides an overview of total identified disaster related spending from 2014-2018 by main ministry (this includes all phases of disaster spending).

Figure 1. Natural disaster funding in CG budgets and financial reports (2014-2018, IDR billions)

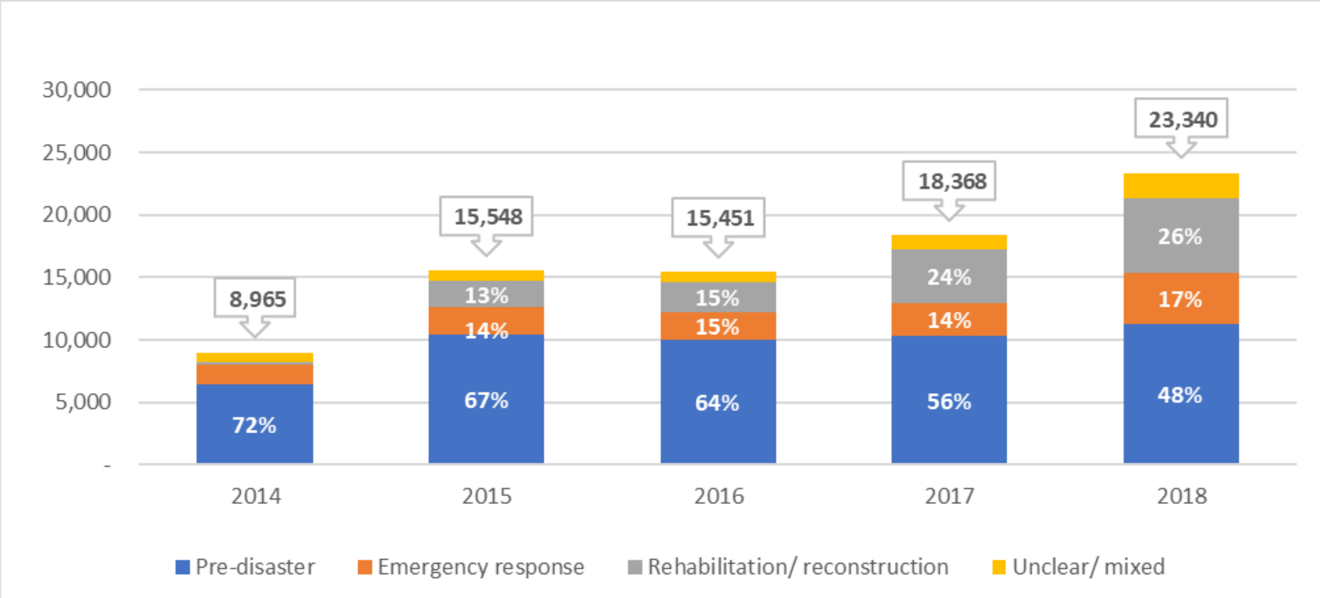


Source: Public Expenditure Study on Natural Disaster (October 2020 Draft); All figures in nominal terms

A similar analysis was carried out for sub-national spending. This was completed with detailed SNG spending data for fiscal years 2014-2016 from the World Bank's Governance team and for fiscal years 2017-2018 with data provided by MOF, covering all 542 SNGs. Table 5 provides a consolidated overview of CG and SNG spending. Figure 2 shows combined CG and SNG spending by disaster phase. Reconstruction spending is likely severely underestimated as this is often carried out through capital expenditure in future years.

[28] The study quantified CG and SNG spending, however, it could not assess the adequacy, accuracy, and effectiveness of spending, which would require a review of risk assessments and post-disaster damage and needs assessments.
[29] This was excluding rehabilitation and reconstruction grants to subnational governments, which come out of the national budget.

Figure 2. Combined CG and SNG funding by disaster phase (2014-2018, IDR billions)



Source: Public Expenditure Study on Natural Disaster (October 2020 Draft); All figures are nominal

Table 6. Total CG and SNG disaster funding (2014-2018, IDR billions)

	2014	2015	2016	2017	2018
Total-CG	7,822	13,111	9,750	12,215	15,714
Total SNG spending	2,163	3,503	5,712	6,152	7,626
Total-CG and SNG	9,985	16,615	15,462	18,368	23,340
Share CG (incl. RR grants)	78%	79%	63%	67%	67%
Total (USD million)	666	1,108	1,031	1,225	1,556

Source: Public Expenditure Study on Natural Disaster (October 2020 Draft); 1 USD = 15000 IDR

While Indonesia incurs high costs from disasters every year, sudden expenditures spikes from catastrophic events can far exceed financing requirements from average disaster shocks. In response to COVID-19, the Government announced a revised 2020 budget to accommodate three fiscal packages worth IDR 434 trillion (US$ 28.7 billion) leading to an increase in gross financing needs by IDR 600 trillion (US$ 39.7 billion, 3.8 percent of GDP) in 2020. Total reconstruction needs for the West Nusa Tenggara (Lombok) earthquakes and the Central Sulawesi (Palu) earthquake and tsunami are projected at about US$ 3.4 billion (0.3 percent of GDP) between

2019 and 2021.[30] In the 2019 budget alone the government allocated IDR 22 trillion (US$1.55 billion) for rehabilitation and reconstruction in Lombok and Palu.

The negative impact from disasters on the population and economy are amplified when the disbursement mechanisms for response and reconstruction are not well targeted, efficient, and transparent. Experience in Indonesia has also shown challenges with timely and adequate response, for example, due to delays in budget allocation, execution, and institutional coordination. This situation not only leads to increased human suffering, it can also increase the direct cost to the government (e.g. cost of maintaining shelters due to delayed reconstruction of damaged houses); loss in revenue (e.g. loss of tax revenue from prolonged disruption of economic activities); and long term economic impacts (e.g. reduced human capital due to disruption in schools).[31]

RR grants have become a key source for SNG post-disaster spending but with significant delays. SNG spending on post-disaster activities increased significantly after the introduction of RR grants in 2015. However, analysis shows a one-year gap between the disbursement of RR grants and their execution by SNGs. Despite disbursement of RR grants in 2015, SNG spending only picked up in 2016, possibly due to budgeting and execution process of the grants in SNGs, that must follow the DPA mechanism. Further bottlenecks occur in the approval of RR grants. A case study of a storm and flooding in 2017 in Yogyakarta shows that funding through RR grants was requested in December 2017 but not approved until December 2018, due to lengthy verification and approval procedures. Spending then only commenced in 2019 as it needed to be integrated in the next annual budget plan, with some activities still ongoing into 2020. In Central Sulawesi the CG allocated approximately IDR 820 billion (US$55 million) to SNGs for social assistance spending. This continues to face major obstacles in grant disbursement as beneficiary data needs to be re-verified and due to missing & inconsistent information in the national identity registry (NIK). As of May 2020, these grants had still not been disbursed (even though the disaster happened in September 2018).

ii. *Indonesia's Disaster Risk Financing and Insurance Program*

The government's reforms enhancing financial resilience to shocks are anchored in complementary reform areas of building fiscal, physical, and social resilience. Disaster risk management, including financing, is anchored in Law no. 24/2007. This Law specifies arrangements for the different stages of disaster management, including pre-disaster, the emergency phase, and post-disaster response. Implementation of disaster management under the law includes the provision of funding for and management of disaster relief during the three stages. Building resilience across society is further elaborated for fiscal, physical, and social resilience. The holistic approach to building resilience is 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).

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[30] See Government of Indonesia (2018c) and Government of Indonesia (2019) for estimates of reconstruction costs for public and private assets from preliminary post-disaster needs assessments.

[31] World Bank (2015), *The Indirect Cost of Natural Disasters and an Economic Definition of Macroeconomic Resilience, Policy Research Working Paper no. WPS 7357*

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. The strategy was prepared over the course of 2018 with close technical support by the World Bank. The overarching mission of the strategy 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*. Figure 1 in the main text shows the target risk layering as set out in the strategy that the country is working towards.

An implementation plan was developed based on this national DRFI Strategy with priorities as follows:

a. *Protecting the state budget*, through a dedicated budgetary mechanism ('Pooling Fund') to manage a budgetary allocation for disasters, leveraging financial instruments including from development partners and international financial markets, and linked to pre-arranged disbursement channels.
b. *Strengthening central-regional fiscal coordination*, through clear rules on co-financing of disaster related expenditures and fiscal or financial mechanisms linked to the pooling fund, e.g., contingent fiscal transfers or a subnational insurance pool.
c. *Protecting public assets*, through an indemnity insurance program to cover all agencies and ministries, and potentially retaining some risk through a self-insurance mechanism linked to the pooling fund.
d. *Protecting households and the poor*, for example through social safety net programs directly linked to the pooling fund for predictable post-disaster assistance and by promoting household, fishery, and agriculture insurance, either market-based or government supported.
e. *Strengthening DRF Coordination*, through education in DRFI and dissemination of the strategy, participating in international cooperation and initiatives, investing in risk data, and ensuring harmonization of the DRFI policy with the government's wider policy for disaster resilience.

iii. Current status of the Disaster Risk Financing Strategy

For frequent events that are less severe, the Government will continue to allocate national and sub-national budget resources level for disaster response. With the establishment of the "Pooling Fund for Disasters" (Pooling Fund untuk Bencana, PFB) (detailed below), funds in the PFB will also be disbursed in response to such events. Overtime however, instruments pre-arranged for more severe events could also flow through the PFB. For events that are more severe, the government is putting in place lines of contingent finance and for catastrophic events risk transfer solutions like household insurance, state asset insurance, and sovereign catastrophe risk insurance for the most severe events. The government has already secured a US$ 500 million contingent credit line from the ADB. The State Asset Insurance Program was launched in 2019 with a pilot insuring over 1300 Ministry of Finance buildings. Early conversations are ongoing to explore how the government can strengthen household and agricultural insurance. Sovereign risk transfer will be explored under the PFB, with technical work to be financed through component 3 of this project.

The PFB is the first and most critical component of the Strategy to efficiently manage budget shocks from disasters. This dedicated mechanism aims to improve overall coordination and governance of post-disaster expenditures (including international assistance). The pooling fund is expected to help improve disaster financing by (i) enabling the government to accrue unspent budget allocations for disaster response to save for future years; (ii) improving efficiency in the use of state budget funds for post-disaster expenditures through improved up front planning and budgeting; (iii) leveraging additional financial instruments by linking them directly to the pooling fund with clear and pre-agreed operating procedures (e.g. development partner contingent financing or market based risk transfer); (iv) connecting the pooling fund to clear pre-arranged disbursement channels and rules, thereby increasing speed and transparency of post-disaster spending and providing predictability to implementing agencies on the availability of funds; and (v) better linking risk financing to incentives and investment for all phases of disaster risk management, including preparedness and prevention. This builds on international good practices, e.g. from Mexico, Australia, and New Zealand (see Box 1).

Box 1: Benefits to the government of Australia from Comcover

Comcover, the Australian Government's self-managed insurance fund, has been providing insurance and risk management services to Australian Government entities that are classified to the General Government Sector (Fund Members) since 1998.[32] Reviews of Comcover (in 2003, 2011 and 2014) (re)considered the rationale for having a fund, the costs/benefits of establishing/maintaining a government fund, and/or where efficiencies may be leveraged. These reviews concluded that the fund should continue, that agency participation remain mandatory, and that existing gaps in coverage be closed.

From these reviews, the key benefits of maintaining the fund to the Government of Australia include:

a. the funds retained by government accumulated, building resilience for major future events
b. improved ministerial engagement on government risks, risk management strategies and claims management
c. government agencies obtained cover not otherwise available in the commercial market
d. the government was no longer at the mercy of private sector ‘cherry picking’ of low risk, high gain lines, leaving difficult or ‘uninsurable’ risks to the government, also mitigating the risk of hardening commercial markets
e. premium pricing better reflected the fund’s overall risk profile and at lower contribution rates than the private sector (by avoiding profit margins or capital requirements)
f. a whole of government approach to managing risk, with an enhanced ability to inform risk management practices due to increased data capture and centralized centers of excellence
g. more consistent government approaches to the types of cover, reporting, risk management and claims management processes, and
h. the development of more mature attitudes and approaches to risk management, through an increased focus on risk and liability, educational support for in-house expertise and through communities of practice.

Source: Prepared by the team with a former Head of Comcover

MOF will nominate a public service agency (Badan Layanan Umum or BLU) under its direct supervision to manage the pooling fund. At the request of the Minister of Finance, the World Bank carried out work with the

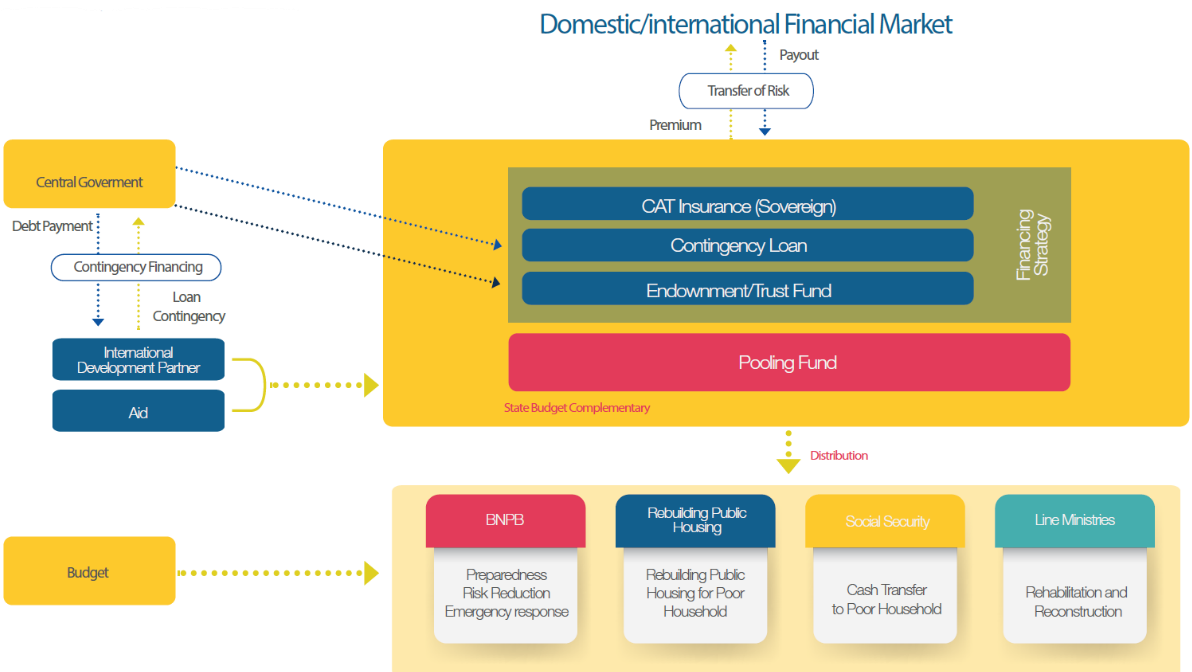
[32] *https://www.finance.gov.au/government/comcover*

help of a former senior government official to analyze various options for establishing the pooling fund.[33] There are several key advantages of managing the PFB through the structure of a BLU. It provides certain flexibility in its financial and non-financial management, allowing the PFB to: i) accumulate budget surpluses across multiple fiscal years; ii) implement its own governance structure to ensure the fund is managed according to international standards; iii) recruit staff and consultants with the required expertise to meet its needs; and iv) procure goods and services without being restricted by general government regulations, including the purchase of insurance / reinsurance protection for the fund as part of a broader risk financing strategy.

The pooling fund is being designed to address challenges in all phases of disaster-related expenditures, including health-related and natural disasters. The target design is further elaborated in the national DRFI Strategy (See Figure 3). The pooling fund should help ensure that Indonesia's disaster risk financing approach is able to secure sufficient and well-planned funding. Funds managed by the pooling fund could be distributed directly or through related ministries and agencies (e.g. BNPB, the Ministry of Public Works and Public Housing, MOSA, and other relevant line ministries as well as regional governments). Resources could also be linked directly to schemes that allow effective disbursement of funds, such as social safety nets or community driven development programs. The pooling fund will develop a risk financing strategy to leverage budget contributions and ensure it can always meet its liabilities, including considering contingent financing from development partners and risk transfer to financial markets (See Box 2). It can also serve as a transparent mechanism to receive post-disaster donations.

[33] WB Technical Note: Evaluating Institutional Options for the Establishment of the Pooling Fund. March 2020. Prepared for MOF.

Figure 3. Pooling fund scheme as set out in the National DRFI Strategy

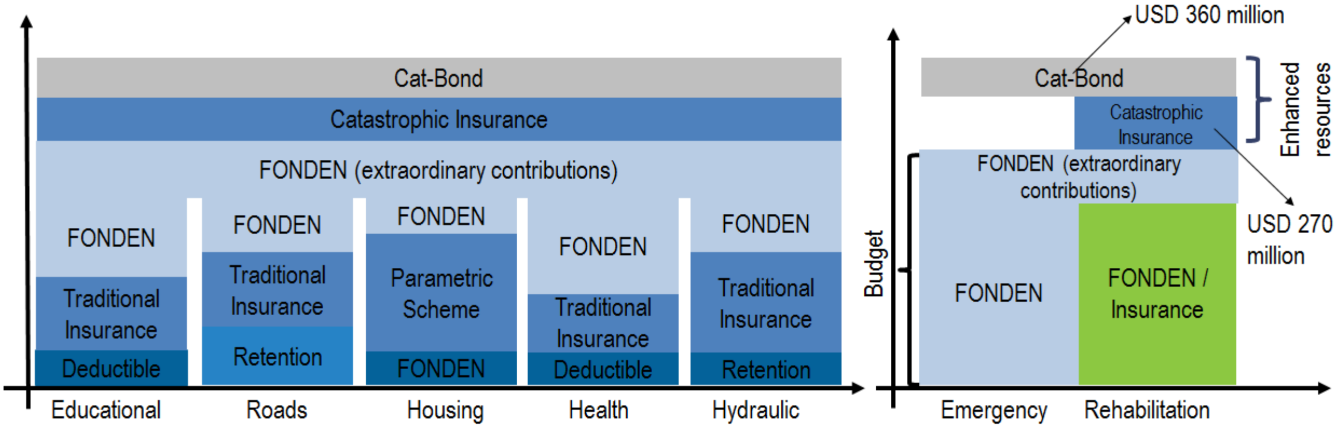


Source: Indonesia National Disaster Risk Finance and Insurance Strategy, 2018

Box 2: Risk Financing Strategy of Mexico's Natural Disaster Fund FONDEN

The government of Mexico established the Fund for Natural Disasters (Fondo de Desastres Naturales, FONDEN) to administer a comprehensive, layered approach to disaster risk financing, including provisions for sharing reconstruction costs across levels of government and early recovery funding made available during national emergencies. Under Mexico's Federal Budget and the Fiscal Responsibility Law a minimum of 0.4% of programmable federal spending (≈ USD $800 million) must be allocated to FONDEN and its sub-programs. This is used to pay for frequently occurring losses and for the purchase of risk financing instruments to protect itself against bad disaster years, ensuring it can meet all expenditures. This includes sector-specific catastrophe risk indemnity insurance, an 'excess-of-loss' indemnity insurance program to protect FONDEN against large aggregate losses, and parametric catastrophe bonds against the most severe earthquakes and hurricanes.

FONDEN's Risk Transfer Mechanisms



Through FONDEN, the central government of Mexico provides disaster assistance for the following purpose:

- Rehabilitation and reconstruction of damaged federal public infrastructure, (covering 100% of costs).
- Rehabilitation and reconstruction of damaged subnational public infrastructure (covering up to 50% of costs).
- Support to strengthen resilience of damaged infrastructure against future disasters.
- Financing the rehabilitation and reconstruction of low-income housing.

With FONDEN, the federal government established a clear cost-sharing agreement with states to limit the federal government's obligation to provide post-disaster support. FONDEN also integrates incentives for risk reduction. It covers up to 50% of the reconstruction cost the first time a subnationally owned asset is damaged, this reduces to 25% the second time if no insurance has been purchased, and it provides no funding for subsequent requests.

Source: OECD; World Bank. 2019. Fiscal Resilience to Natural Disasters: Lessons from Country Experiences. OECD: Paris. © OECD and World Bank. https://openknowledge.worldbank.org/handle/10986/32341

The PFB will also support other priority areas of the National DRF Strategy such as the state asset insurance program launched in 2019. In December 2019 the government of Indonesia for the first time ever insured assets of the central government against climate risks and disaster shocks, progressing on a second key reform under the DRFI Strategy. This first phase insured over 1300 buildings of MOF across the whole country against climate and disaster risks with the premium paid from the budget. The state asset insurance program has already been tested during severe floods in Jakarta in January 2020, with claims approved following damage to five buildings of MOF. This is the first step to develop and roll out an ambitious nation-wide program to eventually protect all state-owned buildings against climate and disaster risks. The Pooling Fund aims to support this program through both technical assistance and risk data provision, or eventually explore retaining a first layer of risk.

ANNEX 3: Economic and Financing Analysis

The Project's development impact is expected to be substantial and the benefits are likely to significantly outweigh the costs of the Project. In terms of expected benefits, the Project is expected to deliver three key benefits over the status quo: i) greatly improve the availability of funds in case of disasters, ii) improve fiscal management of shocks, including protect development priorities against unplanned budget reallocations, and iii) significantly reduce the delays in expenditure, as currently there is a long lag after disasters hit before funds make it to the impacted areas. In terms of expected costs, these fall into three categories: i) the money put into the PFB by the Government of Indonesia; ii) the operational costs of running the PFB; and iii) the opportunity costs of the funds not disbursed by the PFB in years with benign disaster experience.

The early intervention and rapid response to disasters facilitated through the PFB is expected to generate significant economic and social benefits for the Government and people of Indonesia. For the government, having rapid access to resources to meet surge demand for emergency assistance entails benefits due to reduced delay in response and minimized economic and social disruption. For households, early relief can reduce the resort to negative coping strategies which have been shown to have detrimental long-term consequences. Wider economic benefits are expected to result from other early intervention activities such as the clearing of debris from roads and restoring access to cut-off communities. Moreover, the pooling fund will not only provide an additional buffer to absorb disaster related expenditures, but also will provide an institutional framework to support disaster response through its operational regulations, with clear rules regarding the beneficiaries of disaster response funds, the access to such funds, the pre-arranged disbursement channels, and accounting for post-disaster expenditure. International evidence has shown the high economic value of such pre-arranged funding mechanism**.** International evidence has shown the high economic value of such pre-arranged funding mechanism. In Mexico, the National Disaster Fund (FONDEN) is estimated to have boosted local economic activity between 2 and 4 percent in the year following the disaster. The same analysis also found that that the positive impact of the disaster fund on local economic recovery can persist for as long as year and a half after the disaster. Furthermore, access to disaster funding was shown to lead to a large and sustained 76% increase in the growth of local construction employment. [34]

A cost-benefit analysis was conducted to estimate the expected benefits of the PFB to Indonesia under various scenarios. The economic analysis estimates a Net Present Value (NPV) of the fund over a 25-year time horizon. Costs and benefits are discounted using a 10 percent discount rate. The key assumptions of the economic model are included below.

[34] De Janvry, Alain F.; del Valle, Alejandro; Sadoulet, Elisabeth Marie L.. 2016. *Insuring growth : the impact of disaster funds on economic reconstruction in Mexico (English)*. Policy Research working paper; no. WPS 7714; Impact Evaluation series. Washington, D.C.: World Bank Group. https://elibrary.worldbank.org/doi/abs/10.1596/1813-9450-7714

a. **Costs.** The economic model includes fund capitalization costs of US$175 million in year 1, US$175 million in year 2, US$195 million in year 3, US$255 million in year 4[35] and up to a maximum of US$500 million per year in years 5 through 25. The analysis assumes an annual operating cost of $0.1m during the 4-year implementation phase for costs that are not eligible to be financed by the grant from the GRiF. From year 5 onwards operating costs are assumed to be 0.1 percent of the fund size, covering the salaries of staff, accountants, auditors and external consultants. The model also assumes the pooling fund will receive investment income on amounts undisbursed for disaster response less operating expenses – specifically, it assumes the unused balance of the fund will generate a flat and conservative rate of return of 4 percent – the current benchmark monetary policy rate in Indonesia. The total cost of the pooling fund per year is assumed to equal:

- The disbursed amount to cover emergency preparation/response costs ***plus***
- The operating cost of the fund ***plus***
- The opportunity cost of holding the unused balance of the fund as opposed to using these funds to finance other development projects. The opportunity cost is assumed to equal 4.0 percent, the current benchmark monetary policy rate in Indonesia.

b. **Benefits.** According to the relevant literature, the economic benefits of early response are typically estimated by considering cost efficiencies generated by early procurement of emergency items, as well as the avoided negative impacts on households that are typically associated with delays in disaster response, including income reduction, unemployment, malnutrition, diseases, and distressed sales of assets. A rich body of evidence on the benefits of early disaster response from countries such as Bangladesh[36], Ethiopia[37], Kenya[38], Mozambique[39], Niger[40] and Somalia[41] suggest that US$1 secured ahead of time for early drought or cyclone response generated benefits ranging from US$1.7 to more than US$55.9. Therefore, based on this evidence, the team has taken the most conservative approach, and the economic model assumes that US$1 disbursed in the immediate aftermath of a disaster, results into a US$1.7 benefit.

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[35] In the first four years, US$500 million come from the WB loan proceeds (US$175 million in year 1, US$175 million in year 2; US$95 million in year 3 and US$55 million in year 4). However, in years 3 and 4, we assume the Government of Indonesia will contribute US$100 million and US$200 million respectively, which makes for a smoother transition to the US$500 million yearly contribution starting in year 5.

[36] DFID. 2013. The Economics of Early Response and Resilience: Bangladesh Country Study.

[37] Hess, U., and W. Wiseman. 2007. Ethiopia: Integrated Risk Financing to Protect Livelihoods and Foster Development; USAID (U.S. Agency for International Development). 2018. Economics of Resilience to Drought: Ethiopia Analysis; Cabot V., and L. Sida. 2017. "The Value for Money of Multi-Year Humanitarian Funding: Emerging Findings Valid International." Oxford, 44p.

[38] USAID. 2018. Economics of Resilience to Drought: Kenya Analysis.

[39] DFID. 2013. The Economic of Early Response and Resilience: Summary of Findings; DFID. 2013. The Economic of Early Response and Resilience: Mozambique Country Study.

[40] DFID. 2013. *The Economic of Early Response and Resilience: Summary of Findings.*

[41] USAID. 2018. *Economics of Resilience to Drought: Somalia Analysis.*

c. **Scenarios and fund accumulation dynamics.** The team employed three difference scenarios to assess the costs and benefits resulting from the project. The first – and most conservative – scenario assumes a partial disbursement of 50% of the fund balance every two years. The second scenario assumes a partial disbursement of 50% of the fund balance every year. The third scenario assumes a full disbursement of 100% of the fund balance every year. In terms of the accumulation of resources in the fund, the model assumes annual allocations will be adjusted so that the fund balance cannot grow to more than US$900 million[42]

The results of the economic analysis indicate that the PBF will generate significant net benefits over the 25-year time horizon. Under *Scenario 1* (i.e. 50% disbursement every two years), the fund's discounted costs are estimated to be US$1.92 billion, and its discounted benefits are estimated to be US$2.91 billion. Overall, the fund would generate a positive net present value of US$993.0 million and a benefit-to-cost ratio of 1.52. Under *Scenario 2* (i.e. 50% disbursement every year), the fund's discounted costs are estimated to be US$3.21 billion, and its discounted benefits are estimated at US$5.23 billion. Under this scenario, the fund would generate a positive net present value of US$2.0 billion and a benefit-to-cost ratio of 1.63. Last, but not least, under *Scenario 3* (i.e. 100% disbursement every year), the fund's discounted costs are estimated to be US$3.72 billion, and its discounted benefits are estimated at US$6.32 billion. Under this scenario, the fund would generate a positive net present value of US$2.60 billion and a benefit-to-cost ratio of 1.70. These results are summarized in the table below.

Table 7. Summary of the Economic Analysis

	Scenario 1: 50% Fund Disbursement Every Two Years	Scenario 2: 50% Fund Disbursement Every Year	Scenario 3: 100% Fund Disbursement Every Year
Cost ($ million)	$1,921	$3,213	$3,721
Benefit ($ million)	$2,914	$5,228	$6,320
NPV ($ million)	$993	$2,015	$2,599
Benefit to Cost Ratio (BCR)	1.52	1.63	1.70

The PFB will further enable the government to leverage additional risk financing instruments, directly linked to existing institutional arrangements for implementation of funds. For example, the government could utilize contingent lines of financing from donors or risk transfer to international financial markets (e.g. reinsurance or cat bonds) to directly backstop the PFB for more severe events that exceed its funding capacity. This could ensure predictable resources to finance disaster response even when the country is impacted by large shocks such as those occurred in 2018, which exceed resources available in the PFB.

[42] This ceiling has been estimated for the purpose of the economic analysis and is not a legal ceiling on the fund. This is equivalent to 0.09 percent of GDP and represents the average yearly amount spent by the Central Government on disaster response and reconstruction between 2015 and 2018.

Sovereign risk-transfer products can play a key role to finance relief efforts, as part of a broader risk financing strategy. In the case of large shocks, international experience suggests that insurance can be a cost-effective financing instrument to provide rapid liquidity to the government.[43] Insurance can be combined with the PFB through a 'risk-layering' approach that would provide the government with a comprehensive financial package to finance relief efforts. This is the approach that Indonesia is currently implementing under its DRFI strategy, with the PFB as the key mechanism of such risk layering, building on successful examples from other countries including Colombia, Mexico, Peru, and the Philippines.

[43] World Bank Group (2017) Sovereign Catastrophe Risk Pools: World Bank Technical Contribution to the G20

ANNEX 4: Fiduciary

COUNTRY: Indonesia
Indonesia Disaster Risk Finance & Insurance

(i) Financial Management

The Loan amount is US$ 500 million, with a $10 million grant from the Global Risk Financing Facility (GRiF). The project will be implemented for 3 years. The project development objective (PDO) is to strengthen the financial and fiscal resilience of the Government of Indonesia to natural disasters and health-related shocks.

This Financial Management Assessment (FMA) was undertaken to assess the adequacy of the financial management system of the implementing agencies, Fiscal Policy Agency (Badan Kebijakan Fiskal/ BKF), in Ministry of Finance to produce timely, relevant and reliable financial information on project activities. The assessment ensures that accounting systems for project expenditures and underlying internal controls are adequate to meet fiduciary objectives and allow the Bank to monitor compliance with agreed implementation procedures and progress towards its objectives. The financial management risk is assessed as being high before mitigation and substantial after mitigation.

Government of Indonesia (GOI) considers this project as a program loan, while for the World Bank, this project will be implemented as an IPF with PBCs or a project loan, so as a consequence, the Bank eligible expenditures have to match with the government budget. Project risks are mainly due to the following: (i) BKF has no experience in implementing Bank financed projects; (ii) The BLU which will manage the PFB is yet to be selected; (iii) the independent verification for component 1 and 2 has not been appointed; and (iv) not all TF activities under component 3 has been defined. To mitigate the associated risk, following is the proposed action plan: For component 1 and 2, BKF will need to: (i) prepare DRFI Operation Manual (OM) to support project implementation; (ii) handover the project implementation to selected BLUs; (iii) have MoF formally appoint BPKP and provide sufficient budget for BPKP to conduct the independent verification task for the project; (iv) insert the grant activities in FY 2021 BKF DIPA and further define the grant activities.

<u>Budgeting</u>
In Indonesia, financing arrangements for Bank projects implemented by Central Government Agencies are governed by integrated budget or DIPA. Sources of financing for project activities, including financing percentage, are detailed in DIPA and strictly followed. As such, project activities identified to be financed by the Bank will be financed at 100%. The budget of the project will be included in the BKF, MoF’s DIPA.

<u>Component 1 and 2</u>
The expenditures of the project will be funding for establishment and strengthening PFB operations. BKF preparation team has confirmed that the FY 2020 and FY 2021 budget allocations for the project eligible expenditures is IDR 1 trillion annually. The amount represents pooling funds contributions to the BLU/ PFB.

Component 3
The activities financed under Component 3 will be primarily consultants. Procurement plan for the first 18 months has been prepared. BKF will need to insert the grant activities in FY 2021 DIPA and define further the grant activities.

This arrangement should be reflected in POM.

Internal controls

BKF and BLU are following government internal control system (GICS) in public sector which adopted COSO framework. The GICS is reflected in series of MoF regulations as the implementation guidelines of State Treasury Law no 1, FY 2004.

BKF is expected to prepare a POM which cover the following:

1. Organization structure of the project,
2. Guidelines for inclusion of project budget into BKF annual budget and Daftar Isian Pelaksanaan Anggaran (DIPA).
3. Supervision and payment verification mechanism.
4. Funds flow mechanism
5. IFR format, preparation and its submission to the Bank for all components
6. PBC verification arrangements and protocols for component 1 and 2
7. Disbursement mechanism and withdrawal application preparation process
8. Annual project financial statement preparation
9. Internal and external audit arrangement
10. Monitoring and evaluation of the project implementation.

Internal Audit Arrangements
Internal audit unit of Ministry of Finance (MoF) will do internal audit of each component of the project. The Bank will have access to the report of the IG MoF related to BKF.

Independent Verification Arrangement
Independent verification arrangement and the protocols for PBC under component 1 and 2 have been discussed. It has been agreed that BPKP will be the independent verification agent for the project, especially for PBCs 1,6,7,8 and 9. The rest of the PBCs 2,3,4 and 5 will be verified directly by MoF and validated by the Bank due to their simple/ straightforward nature, ie. budget allocation, issuance of guidelines, etc. MoF will formally appoint BPKP and provide sufficient budget to BPKP to conduct the independent verification task for the project.

Accounting and Reporting

The project implementation will follow the Government Accounting System. The accounting system records all project transaction in the Government Accounting System and produces monthly financial reports at MoF level.

Later, selected BLU will follow Government Regulation no 23 FY 2005 regarding BLU Financial Management and the related MOF MoF regulation for implementation:

1. PMK no 92/PMK.05/2011 regarding BLU business plan, budget and budget execution and;
2. PMK no 220/PMK.05/2016 regarding accounting system and financial reporting of BLU.

In addition, DRFCU in BKF and later in BLU will be responsible to prepare:

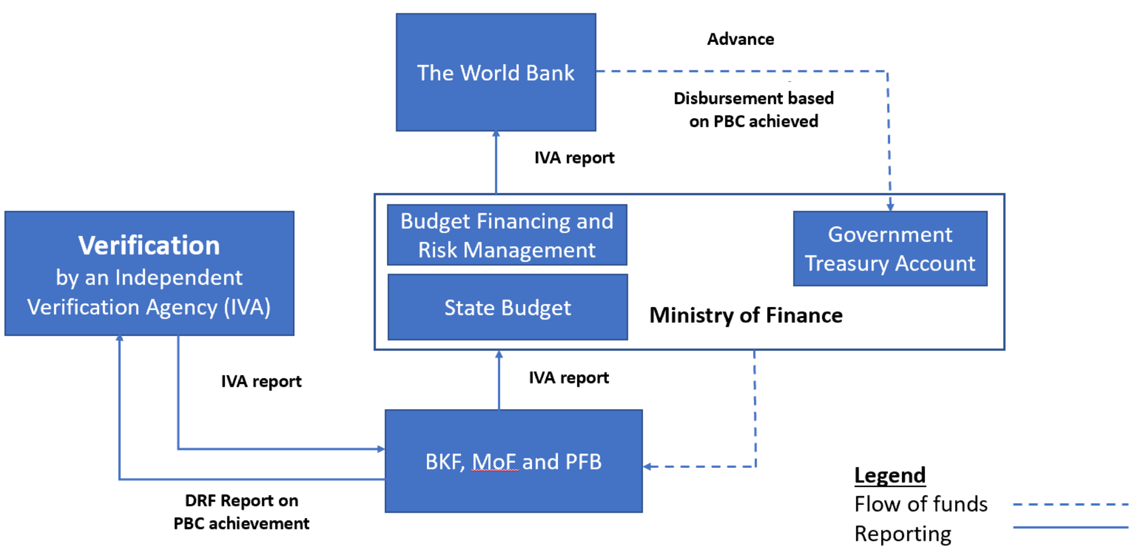
(i) Quarterly IFR in an agreed format for component 1 and 2 within 45 days after the end of the reporting period to the Bank through Ministry of Finance. The IFR will also be part of the documentation of report submitted as evidence of PBCs achievement.
(ii) Quarterly IFR should be prepared for Component 3 project for submission to the Bank. IFRs will be submitted in an agreed format on a quarterly basis within 45 days after the end of the reporting period to the Bank through Ministry of Finance.

IFR preparation guidelines will be part of POM of the project.

Flow of Funds

Component 1 and 2. The Bank funds will flow based on the documentation of eligible expenditures incurred and achievement of PBCs. The Bank may advance funds to a designated account of the Borrower to finance eligible expenditures as they are incurred based on 6 months forecast reflected in the project's IFR.

Following is the flow of funds for component 1 and 2:



Component 3

Related to the disbursement for component 3 financed by the grant, 2 options are available:

1. BKF or BLU will use the advance method; the flow of funds is as follows:
   a. DA will be established and managed by MoF
   b. BKF or BLU submits a request for an advance to the Bank through MoF
   c. The Bank will transfer initial deposit (advance) to DAs based on request (using IFR format which include projection of project needs for the 6 months period).
   d. Additional transfer can be made based on request (using IFR format which include projection of project needs for the 6 months period).
2. BKF or BLU may opt for the pre-financing method, where the Bank transfers the funds to Government's account as reimbursement for the pre-financing amount

The flow of funds arrangement will be described more detail in POM.

Disbursement Arrangements

Under Components 1 and 2 of the project, applications for withdrawal from the Loan Account will be based on the documentation of eligible expenditures incurred and achievement of PBCs. The eligible expenditures of the project will be funding for establishment and strengthening PFB operations. Budget allocations for the project eligible expenditures is IDR 1 trillion annually. The amount represents pooling funds contributions to the BLU.

Request for advance of the loan amount may be made, based on 6-month forecast reflected in the project's IFR. Advance funds will be transferred in USD to a segregated designated account (DA) proposed by the government and to be opened at the central bank. For reimbursements, Bank funds will be made to a bank account designated by the government.

Under component 3, a separate segregated DA in USD for the grant will also be opened in central bank. This DA will be used for financing eligible expenditures under component 3 of the project. The DA will be segregated accounts with fluctuated ceiling based on 6-month forecast.

Following is the disbursement category and allocation for the project:

Table 8: Allocation of the Loan Proceeds

For Component 1 and 2

Category	Amount of the IBRD Loan Allocated (expressed in USD)	% of Expenditures to be financed (inclusive of taxes)
PBC under Components 1 and 2 of the Project	500,000,000	100% of amounts transferred by the Borrower to the PFB
TOTAL AMOUNT	500,000,000	

Table 9: Allocation of the Grant Proceeds

For Component 3

Category	Amount of the GRiF Grant Allocated (expressed in USD)	% of Expenditures to be financed (inclusive of taxes)
Goods, training/ workshop, consulting services and non-consulting services, operating cost for Component 3 of the Project	10,000,000	100%
TOTAL AMOUNT	10,000,000	

Based on expected disbursements of IBRD loan under the project, cumulative disbursements for the first two (2) years from approval are expected to exceed 60% of the loan; therefore, this IBRD loan will be considered as a 'fast disbursing' loan and subject to the new IBRD loan pricing effective FY21 in respect of shorter maturity.

External Audit Arrangement

Both the Loan and the grant will be subject to external audit. Each audit will cover a period of one fiscal year of the recipient. Audit reports will be furnished to the Bank by not later than six months after the end of the fiscal year concerned and shall be made available to the public. The scope of the Bank's financial audit encompasses the sum of those expenditures necessary for the achievement of the PDO or covered by the financing plan, not merely the part financed by the Bank. These should thus reflect all project activities, financing, and expenditures, including counterpart funds and funds from other donors. The format of the project financial statements will be identified after the project expenditures clearly defined and agreed with the Bank.

The audit will be conducted in accordance with audit terms of reference acceptable to the Bank. Audit reports and audited financial statements will be furnished to the Bank by not later than six months after the end of the fiscal year concerned and shall be made available to the public.

Supervision Plan

Risk-based supervision of program financial management will be conducted. This will involve desk supervision, including review of IFRs and audit reports and field visit. Financial management supervision plan to be conducted every 6 months together with the task team as part of the program implementation support.

(ii) Procurement

Procurement Procedures

All procurements under the project (Component 1 and 2 through IPF-PBC, and Component 3 through IPF) shall be carried out under the World Bank's Procurement Framework in accordance with the Procurement Regulations for IPF Borrowers dated July 2016 revised November 2017 and August 2018, and by the provisions of the Legal Agreement and approved Procurement Plan. For procurement of goods, works and non-consultant services procured through Open National Competitive Procurement, the Government's procurement regulations may be used to the extent they do not conflict with the World Bank's Procurement Regulations and subject to the requirements listed in para. 5.4 of the World Bank's Procurement Regulations and which are also reflected in the Procurement Plan and incorporated in the harmonized model bidding documents acceptable to the World Bank for national open competitive procurement. During project implementation, the Bank's Systematic Tracking of Exchanges in Procurement (STEP) tool shall be used to record all procurement and contract implementation processing under the Project.

Scope of procurement activities under the project

At appraisal stage, it is envisaged that there are no procurable expenditures under component 1 and 2 instead procurement activities are expected under component 3 of the project. Consulting firms and several individual consultants will be hired to support BKF in implementing the project. Consulting firms for design and development a damage reporting and claims management system, and environment and social consultant will be hired using Quality-and Cost Based Selection (QCBS) while risk finance consultant will be hired through Consultant Qualifications Based Selection (CQS). Individual Consultants such as program coordinator, procurement specialist, financial management specialist and monitoring and evaluation specialist will be hired through competitive selection. Procurement of goods such as hardware and software will be procured either through national open competitive procurement or request for quotations. Procurement of works is not envisaged under the project.

Project Procurement Strategy for Development (PPSD) and Procurement Plan

BKF, with the Bank support, has prepared the PPSD which include the market analysis to arrive at the recommended procurement packages, method of procurement, assessment of procurement capacity of the Executing Agency and risk mitigation measures for smooth and efficient procurement under the project. Based on the PPSD, BKF prepared the Procurement Plan which include the brief description of goods, and consulting services with estimated cost, method of procurement and the Bank's prior review requirement which is consistent with the Bank's standard thresholds based on the project procurement risk. PPSD and Procurement Plan for the first 18 months have been finalized by appraisal and it will be updated in agreement with the Bank as required to reflect the actual project implementation needs and improvements in institutional capacity within the project, and published in the EA's website as well as in United Nations Development Business (UNDB) online.

Use of e-procurement system

The Government's SPSE e-procurement system may only be used for procurement of goods, works and non-consultant services under the national open competitive procurement and applying the harmonized national open competitive procurement standard bidding documents agreed by the Bank. Furthermore, the modified LPSE e-procurement system of MPWH may be used for selection of consultant firms under the Quality and Cost Based Selection method and applying the Bank's Standard Request for Proposal document, adjusted satisfactory to the Bank. LKPP and MPWH are yet to carry out the modifications in e-procurement system for procurement of goods, works and non-consultant services for use under international open competitive procurement and for selection of consultants under methods other than QCBS. Until such time that the modifications of these e-procurement systems have been completed by LKPP as acceptable to the Bank, procurement under the above-stated methods shall be carried out with manual issuance of invitation for bids and receipt of bids.

Procurement risk and proposed mitigation measures

BKF under MoF has no previous experience in carrying out procurement activities under Bank-financed projects as well as in applying the Bank's Procurement Regulations. The key procurement risks are due to the possibility of: (i) delays due to the limited experience of BKF with the World Bank's Procurement Regulations applied under the Project; (ii) inadequate procurement progress monitoring and weak contract management; (iii) procedural non-compliance due to insistence by BKF to use the Government's procurement procedures instead of the World Bank's Procurement Regulations. The proposed mitigation measures are i) The World Bank will deliver training to BKF on the Bank's Procurement Regulations including Systematic Tracking of Exchange in Procurement (STEP), and also provide hands-on guidance; ii) Requiring use of the Bank's online procurement planning and tracking tools (STEP) with regular reporting of procurement performance to ensure compliance with the Bank's Procurement Regulations; iii) Include an explicit provision in the Operations Manual and Procurement Plan to highlight that the World Bank's Procurement Regulations shall govern all procurement under the Project and take precedence over Government procurement regulations. In addition to the Bank's prior review, it is proposed that the Bank will be carrying out joint fiduciary (procurement and financial management) project implementation support missions to be conducted at least twice per year, including carrying out ex-post reviews of no less than 20 percent of the contracts subject to the Bank's post review.

ANNEX 5: Adjustments to the Country Program in response to COVID-19
Impact of the COVID-19 pandemic on the country and government response

COUNTRY: Indonesia
Indonesia Disaster Risk Finance & Insurance

At the time of project preparation, Indonesia has been reeling from the impacts of the COVID-19 pandemic, a twin supply and demand shock with financial, fiscal, and social ramifications. As of end November 2020, the Government reported over 500,000 confirmed cases of COVID-19, with a death rate of 3.2 percent. 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.

The pandemic has made it harder for those who have escaped poverty to cement their economic position. While Indonesia's poverty rate reached a record low of 9.4 percent in March 2019, about 20 percent of Indonesians who are not poor remain at risk of falling into poverty because of an economic shock. The World Bank simulations based on the latest growth forecast for the year 2020 suggest that without Government's intervention, 2-3 percent of the population could be in COVID-19 induced poverty in 2020.[1] Moreover, the simulations also highlight that many people not initially covered by the social assistance system have likely fallen into poverty, particularly those who lost their jobs or work in highly affected contact-intensive services sectors. The resulting labor income losses could increase challenges of food affordability and food security, particularly among the bottom 40 percent who allocate between 50 to 60 percent of their spending to food.

Growth is projected to contract by 1.6 percent in 2020 as mobility restrictions, health risks and weak global economic activity depress private consumption and investment (see Table 10).

Table 10. Summary macro table (April 2020)

	2019*	2020	2021	2022	2020	2021	2022	2023
	Actual	Pre-COVID Projections			Current baseline projections			
Real economy								
Real GDP (% change)	5.0	5.1	5.2	5.2	0.0	5.4	5.5	5.2
Private Consumption (% change)	5.2	5.1	5.2	5.2	0.0	6.0	5.4	5.2
Gross Fixed Investment (% change)	4.4	5.0	5.3	5.5	-3.0	5.0	5.7	5.0
Exports (% change)	-0.9	1.5	2.5	3.5	-12.5	-3.0	4.5	5.0
Imports (% change)	-7.7	0.5	1.8	3.0	-16.0	-5.0	3.0	4.0
CPI (year-average, %)	2.8	3.5	3.5	3.0	2.9	3.0	2.7	2.7
Fiscal accounts of Central Government, percent of GDP								

[1] World Bank (2020). "Macro-Poverty Outlook" October 2020, World Bank Indonesia.
http://pubdocs.worldbank.org/en/963481563917599502/mpo-idn.pdf

Revenues	12.4	12.8	13.2	13.3	10.5	11.1	11.6	12.3
of which tax revenue	9.8	10.4	10.8	11.0	8.7	9.0	9.5	10.2
Expenditures	14.6	14.8	15.2	15.4	15.6	15.1	14.9	15.0
Fiscal Balance	-2.2	-2.1	-2.0	-2.0	-5.1	-4.0	-3.3	-2.7
Net Financing	2.2	2.1	2.0	2.0	5.1	4.0	3.3	2.7
Use of financial assets (if positive)	-0.3	0.0	0.0	0.0	-0.7	0.3	0.2	0.0
Net Borrowing	2.6	2.1	2.0	2.0	5.8	3.7	3.1	2.7
Net local currency borrowing		1.8	1.8	1.7	5.3	3.1	2.6	2.1
Net foreign currency borrowing		0.2	0.2	0.3	0.4	0.7	0.5	0.7
Central Government Debt	30.2	30.2	30.1	30.2	36.6	37.5	37.8	38.2
Balance of Payments, percent of GDP unless indicated otherwise								
Balance of Payments	0.4	0.2	0.3	0.5	-1.6	1.1	1.1	1.2
Current account balance, of which	-2.7	-2.7	-2.6	-2.4	-2.6	-2.4	-2.2	-2.3
Goods trade balance	0.3	-0.1	-0.3	-0.3	1.0	1.1	0.8	0.1
Service trade balance	-0.7	-0.4	-0.3	-0.3	-1.1	-1.2	-0.9	-0.3
Income balance	-2.3	-2.1	-2.0	-1.8	-2.5	-2.3	-2.1	-2.0
Financial account, of which	3.3	2.9	2.9	2.9	1.0	3.5	3.3	3.5
Net FDI inflows	1.8	1.8	1.9	1.9	1.0	1.6	1.7	1.7
Net portfolio inflows	1.9	0.8	0.7	0.6	0.3	2.0	1.8	1.9
Net other investment inflows (incl loans)	-0.5	0.2	0.3	0.4	-0.2	-0.2	-0.2	-0.1
FX reserves (months of imports)	8.7	…	…	…	…	…	…	…
Exchange rate	14148.0	…	…	…	…	…	…	…
GDP nominal in US$ (billions)	1,119	1,208	1,308	1,415	1,059	1,181	1,306	1,391

(1) Includes projected securities repayments from 2020-22. These are not included in the historical data from 2017-19, as these data are not published. (2) capital account, derivatives and errors and omissions. *The 2019 Figures are actuals; The Parent DPL had Q3 figures projections for 2019. Current baseline projections refers to current projections as of late March 2020, keeping in mind that the crisis is still unfolding. Source: Ministry of Finance, Bank Indonesia, World Bank staff projections for 2020-2023.

The COVID shock has led to a sharp contraction in private consumption and investment output has fallen in many sectors particularly manufacturing, trade, transport and hotels and restaurants. Overall, substantial labor income loss and business revenue loss have occurred. The pace of credit growth fell sharply despite the significant policy support as economic activity collapsed. Banks have drawn down a significant part of their statutory reserves between January and May in extending credit, and the interest rate spread of bank lending has hovered steadily between 4 and 4.2 percent. Total credit to firms by commercial banks stood at IDR 5,520 trillion in August, a mere 1 percent year on year growth rate as opposed to the 6-8 percent pace registered between February and April. As of August, Micro, Small, and Medium Enterprises received only around 18 percent of total bank lending to firms.[44] Yet, many MSMEs are facing reduced cashflow and financial difficulties.

Indonesia is dependent on portfolio capital to fully finance its current account deficit and the recent capital outflows from emerging markets due to flight-to-safety effects will exert pressure on the financial account balance. Although the gross external financing needs are not expected to change significantly, the key financing sources are expected to be different. Given portfolio investment outflows and expected declines in FDI inflows, the Central Bank should play a larger role in financing the external account (Table 2).[45]

Table 11. BoP gross external financing needs (US$ millions) (April 2020)

	2019	2020	2021	2022	2020	2021	2022	2023
	Actual	**Pre-COVID projections**			**Current baseline projections**			
Current account deficit	30,415	32,010	33,195	33,045	27,075	28,081	28,871	31,706
Scheduled government debt amortization	6,075	9,372	10,909	10,933	9,391	10,871	11,971	11,573
Total financing needs	**36,490**	**41,381**	**44,104**	**43,979**	**36,466**	**38,952**	**40,842**	**43,279**
Total financing sources	**36,490**	**41,381**	**44,104**	**43,979**	**36,466**	**38,952**	**40,842**	**43,279**
FDI inflows (net)	20,049	21,969	24,072	25,963	10,139	19,258	19,258	21,758
Portfolio inflows (net)*	21,630	5,127	5,359	5,537	-1,527	16,985	18,569	19,658
Other investment (net) excl government	-3,136	3,355	3,603	3,794	-2,974	-3,316	-3,666	-3,907
Government borrowing (gross)	3,692	13,631	14,893	14,956	14,014	19,052	18,337	20,686
Loans		5,592	5,804	5,759	6,594	6,698	6,447	7,273
Baseline loan projection		5,592	5,804	5,759	4,582	6,698	6,447	7,273
FX bonds		8,039	10,706	10,622	7,420	12,354	11,890	13,413
Other items (net)	-1,069	39	42	44	-469	-355	-240	-132
Use of reserves	-4,676	-2,739	-3,864	-6,315	17,283	-12,672	-13,915	-16,501

Note:* Inc net purchases by non-residents. [#] The US$ 650 million emergency financing from WB includes this supplemental DPL, the Health PforR and Social Protection additional financing. Other emergency loans include US$ 2 billion from the ADB and JICA. Source: World Bank staff calculations based on GoI statistics

While the impact of and the response to the COVID-19 crisis is projected to increase central government debt to 39-40 percentage points over 2020-2023, debt remains sustainable even under a deep recession scenario. In the pre-COVID scenario, the central government's debt-to-GDP ratio was projected to remain stable around 30 percent during the projection period. The current baseline projects that the debt-to-GDP ratio will stabilize at around 40 percent due mainly to the widened primary deficit, the national economic recovery program (below-the-line), and the shock to the exchange rate. A medium-term fiscal consolidation program with a focus on increasing revenue will narrow the primary deficit. Even in the event of the deep recession scenario, where GDP

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[44] Source: Financial Service Authority (OJK) Banking Statistics.

[45] Table 2 includes projections as of April 2020. Since then the BoP has improved thanks to the narrowing of the CAD, reduction in capital outflows, and continued access to international capital markets.

contracts by 3.5 percent in 2020 with a corresponding decline in revenue, debt-to-GDP ratio would increase above 40 percent of GDP already in 2020 but would still remain below the legal limit of 60 percent. With a higher, but stable level of debt, Indonesia can retain a fiscal credible framework.

There is no IMF program in place.

Broad elements of government response

The country's macroeconomic policy mix in response to the COVID-19 crisis has been consistent with macroeconomic stability and the management of risks that may arise. Strong economic management has helped improve Indonesia's economic fundamentals (see Table 1). Monetary policy continues to be credible and responsive to the shock within its limited space. The suspension of the 3 percent of GDP fiscal deficit rule to support the health, social and economic measures to mitigate the negative effects of the COVID-19 crisis is legally time-bound and will return in place in 2023, which will contain Indonesia's still low level of debt. In addition, structural reforms, including those supported by this operation, will lay a conducive framework for the post-COVID recovery and medium-term growth.[46]

The government's monetary response to the crisis has been strong but involves macro-financial risks that should be managed. Ambitious and bold central bank responses in advanced economies and emerging markets have eased global financial conditions and stabilized capital flows. This in turn has allowed the Rupiah to recover and inflation to remain low amid weak domestic demand and energy prices. Under this backdrop Bank Indonesia (BI) loosened monetary policy and deployed a large local currency government bond purchase program to further stabilize the economy and finance the fiscal deficit. BI bond purchases have helped maintain financial stability amid high capital flight to safety during the second quarter and contributed to lowering long-end local currency government bond yields. But the program involves macro-financial tradeoffs and may heighten concerns on the credibility and effectiveness of monetary policy, if not kept time-bound, well calibrated and communicated.

Together with central banks, financial authorities have responded to the pandemic. Bank Indonesia has lowered interest rates and provided substantial liquidity. As of end October 2020, a total of 47 COVID-related financial sector policy measures for banks and non-bank financial institutions have been introduced by different authorities.[47] These policy measures are aimed at supporting financial institutions and business players experiencing difficulties due to the ongoing pandemic, in order to promote economic recovery while maintaining financial stability.

[46] While the macro tables refer to April 2020, and the fiscal situation has slightly deteriorated since then, this does not change the overall assessment that the macro framework remains adequate.

[47] According to the COVID-19 financial policy compendium maintained by the Finance, Competitiveness and Innovation Global Practice, World Bank, these include: (i) 14 banking sector measures, mainly prudential/regulatory forbearance measures and borrower support measures, (ii) 11 liquidity and funding measures, including liquidity relief measures, asset purchases and policy rate cuts, (iii) 11 measures related to financial market functioning and NBFIs and (iv) 5 payment system measures.

Simulations show that the government's sizable social assistance (SA) response has the potential to cushion the poverty impact of the crisis this year. However, improved effectiveness is critical to meeting the full impact of the response. The World Bank simulations show that without any of the GOI response, as many as 8.5 million Indonesians could have been pushed into COVID-induced poverty in 2020. Full implementation and perfect targeting of the SA package the government has introduced in response could have significantly mitigated this. However, initial delays and difficulties in reaching some affected groups, particularly in the informal sector, has likely reduced the full potential impact of the SA package. The coverage, adequacy and responsiveness of the social assistance package should therefore be continuously monitored and improved to protect the poor and vulnerable.

<u>WBG support for responding to the crisis</u>

Portfolio actions

Portfolio adjustments have been made where needed to support Indonesia's response to the pandemic. Restructuring is ongoing in the **Indonesia National Slum Upgrading Project** to reallocate funds to anticipate impact during post-pandemic period. The team is actively engaged in discussions to support the Ministry of Religious Affairs's (MoRA) COVID-19 response to ensure continuation of teaching and learning in MoRA schools. Technical assistance to the Ministry of Education and Culture is being provided in parallel to support coordinated response between the two ministries for Educational TV and other equity-focused approaches. The team is also working with MoRA to plan for and assure financing for re-opening and return to school. The team is in discussion with the Ministry of Research and Technology to identify ways to utilize project budget to support the COVID-19 response through grants or other support to project beneficiaries (recipients of post-graduate degrees and certificates) in COVID-relevant response areas, for example those in medical technology or IT who may be able to support Indonesia's government-wide response. In addition, the proposed multi-hazard early warning system platform (supported by the **Indonesia Disaster Resilience Initiatives Project**) is exploring how to build on existing early warning systems for natural hazards by integrating alerts for health-related emergencies.

The Indonesia team is conducting extensive policy dialogue and providing technical assistance on economic recovery measures of government, including reforms in trade and investment, financial sector, SOEs, food security, education and skills. The Indonesia Economic Prospects report on resilience and COVID-19 recovery was launched online in July 2020. The World Bank Group continues to monitor and analyze the economic, health and social impact of the pandemic in Indonesia and provide policy advice to shape the government's response.

New or additional financing

<u>Pillar 1 - Saving Lives</u>

In response to the pandemic, the Indonesia Country Team delivered three emergency operations totaling US$950m, which were approved by the Board in May 2020. These include the US$250m *Indonesia Emergency Response to COVID-19 project*, which aims to prevent, detect and respond to the threat posed by COVID-19, and strengthen national systems for public health preparedness in Indonesia. At the request of the Government of

Indonesia, the project uses the PforR instrument, and is the only COVID-19 response project globally to use this instrument under the World Bank's Fast Track COVID-19 Facility. The PforR supports the immediate needs for response to address the surging need for diagnostic capabilities, quarantine capacity and intensive care facilities during the pandemic, and the longer term strengthening of pandemic preparedness and of the surveillance information system.

Pillar 2 - Protecting Poor and Vulnerable People

Additional Financing in the amount of $400m was approved in May 2020 for an existing PforR and became effective on July 7th, 2020. The PforR supports the Ministry of Social Affairs to further strengthen Indonesia's Conditional Cash Transfer (CCT) program's delivery system, building on the successfully implemented parent PforR operation since 2017. In addition, it supports two additional strategic areas to enhance the impact of the country's overall social assistance spending: (i) strengthening the delivery systems of the new Social Entrepreneurship program as a pathway to sustainable poverty reduction of CCT beneficiaries; and (ii) supporting inclusion of poor and vulnerable households in the social registry and expanding the use of the social registry for disaster response. To support the government's emergency responses to COVID-19, this Additional Financing supports a temporary emergency cash benefit on top of the regular CCT benefit to quickly reach 10 million poor and vulnerable beneficiary families, leveraging the CCT program's delivery system in place. The COVID-19 crisis also highlights the critical role of the social registry in protecting people in the time of crisis. The government has decided to expand the coverage of the social registry from the bottom 40% of population at present to the bottom 60% in 2021 and to nearly 100% by 2023.

Pillar 3 - Ensuring Sustainable Business Growth and Job Creation

Supplemental financing totaling US$300m was approved for the First Indonesia Financial Sector Reform DPF to provide overall support to financial stimulus measures. This has helped the government of Indonesia to diversify its financing sources to meet the unanticipated financing gap caused by the impact of the COVID-19 outbreak. In line with the parent operation (approved in March 2020), the development objective of the supplemental operation aimed at supporting financial sector reforms that will assist the GoI in achieving a deep, efficient and resilient financial sector. The program includes key areas which are of direct relevance for the COVID emergency and recovery phases (i.e. banking resolution, firms' insolvency regime, deepening of financial markets; promotion of digital payments).

Sequencing of pipeline operations

In response the pandemic, the World Bank is processing Additional Financing for the Emergency Response to COVID-19 (P175759) with an objective to prevent, detect and respond to COVID-19 and strengthen national systems for public health preparedness, in particular through support for the procurement of COVID-19 vaccines.

__Selectivity, Complementarity, Partnerships__

The *Indonesia Emergency Response* PforR has leveraged partner resources for greater impact and efficiency, nearly tripling the US$ 250m IBRD resources, with the AIIB contributing US$250m in co-financing and US$200m in parallel financing from the Islamic Development Bank. The World closely collaborates with several other development providers, including United States Agency for International Development, Department of Foreign Affairs and Trade, United Nations Children's Fund and World Health Organization, in providing technical assistance to the Government of Indonesia to help achieve the results areas of this PforR. Contributions from other development partners in co-financing or parallel financing for vaccine