



# Concept Environmental and Social Review Summary

## Concept Stage

### **(ESRS Concept Stage)**

Date Prepared/Updated: 07/09/2020 | Report No: ESRSC01420



**BASIC INFORMATION**

**A. Basic Project Data**

Country	Region	Project ID	Parent Project ID (if any)
Indonesia	EAST ASIA AND PACIFIC	P173249	
Project Name	Indonesia Disaster Risk Finance & Insurance		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Finance, Competitiveness and Innovation	Investment Project Financing	9/28/2020	12/15/2020
Borrower(s)	Implementing Agency(ies)		
Republic of Indonesia	Fiscal Policy Agency, Ministry of Finance		

Proposed Development Objective(s)

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

Financing (in USD Million)	Amount
<b>Total Project Cost</b>	<b>510.00</b>

**B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?**

No

**C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]**

The Project Development Objective is to strengthen the financial and fiscal resilience of the Government of Indonesia to natural disasters and health-related shocks. This will be achieved by establishing a pooling fund to protect the budget against disaster shocks; linking this to pre-arranged disbursement channels to provide targeted and timely response following disaster shocks; and building capacity in the government for the implementation of the National Disaster Risk Financing and Insurance (DRFI) Strategy. This Project aims at supporting the establishment of the pooling fund and associated activities as a key component under the Indonesia’s DRFI program as constituted by its National DRFI Strategy and Implementation Plan 2018-2023. It will consist of IPF-PBC financing in the amount of US\$500 million from IBRD, complemented by a small grant-based IPF component to support capacity strengthening and provide



technical assistance for successful implementation of the Program. The Project’s theory of change brings together activities to ensure sufficient access to financing following shocks and the efficient flow of these resources to the key implementing agencies. The Project has three components: (i) the first component will strengthen fiscal resilience by establishing and capitalizing a pooling fund to ensure efficient access to resources following shocks through a combination of financial instruments; (ii) the second component will improve post-disaster expenditure by building the pipes linking this new pooling fund to the key ministries for disaster response; and (iii) the third component will enhance the capacity and systems of the pooling fund.

**D. Environmental and Social Overview**

D.1. Detailed project location(s) and salient physical characteristics relevant to the E&S assessment [geographic, environmental, social]

The Project is national in scope. Indonesia is located in a highly tectonically unstable region; the country is situated between two continental plates and between two oceanic plates. The subduction of the Indian oceanic plate beneath the Eurasian continental plate formed the volcanic arc in western Indonesia, one of the most seismically active areas on the planet with a long history of powerful eruptions, strong earthquakes and tsunami. This chain of active volcanoes which is part of Pacific Ring of Fire formed Sumatra, Java, Bali, and Nusa Tenggara islands that are the home to about 80% of the country population. Other major natural disasters are related to the weather. In typical condition, the wet season for most of Indonesia is from September to March and the dry season is from March to September. Nonetheless, the country is also highly affected by El Nino and La Nina weather phenomena, predicted to be more frequent in the future. During El Nino, a significant prolonged dry season, causing drought and wildfire. On the other hand, La Niña is associated with heavy rainfall in Indonesia, causing severe flooding and landslides across the country.

The Project has three components as described Section C of the ESRS. The first two components will be disbursed against Performance Based Conditions (PBCs), while Component 3 is technical assistance that aims to enhance the capacity and system of the pooling fund. Project aims to protect the state budget through a “Pooling Fund for Disasters” (Pooling Fund untuk Bencana, PFB) as an efficient way of managing budget shocks from disasters. Besides improving overall coordination and governance of post-disaster expenditures, the pooling fund is also 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 funds from the state budget for post-disaster expenditures; (iii) leveraging additional financial instruments by linking them directly to the pooling fund with clear and pre-agreed operating procedures; (iv) connecting the pooling fund to clear pre-arranged disbursement channels and rules, thereby increased speed and transparency of post-disaster spending and providing predictability to implementing agencies on the availability of funds; and (v) increasing the ability to link risk financing to incentives and investment for all phases of disaster risk management, including preparedness and prevention.

The pooling fund will be designed to address challenges in all phases of disaster-related expenditures. As per the Minutes of PCN Review Meeting, the Project will focus on natural disasters and health-related shocks with scope is to be limited to building the pooling fund and the related channels (“setting up the pipes”) for connecting the pooling fund to selected ministries. The government may decide that the pooling fund will cover additional risks in a phased manner but these would not be part of the operation’s scope. Later in the Project preparation, the team will clarify in the PAD what the IBRD funds will specifically support vis-à-vis the rest of the pooling fund. This will likely



require the ability to trace IBRD funds in the pooling fund (a precedent for this approach was identified in a World Bank project in Shanghai). The PFB could be distributed directly or through the Ministry of Social Affairs (MoSA), Ministry of Health (MoH) or Ministry of Home Affairs (MoHA) and other related ministries and institutions as well as regional governments. Resources could also be linked directly to schemes that allow effective disbursement of funds especially on existing the Bank;s finance program, i.e. MoSA on conditional cash transfer program (PKH); MoH on COVID-19 Emergency Loan & MoHA on various projects.

#### D. 2. Borrower’s Institutional Capacity

The Badan Layanan Umum (BLU), a new public service agency is proposed to be established at the Ministry of Finance (MoF) as a new public service agency to manage the “Pooling Fund for Disasters” (Pooling Fund untuk Bencana, PFB). The proposed Project is to help the BLU set up specific disbursement channels with a couple of key ministries that already have their own programs for using funds for disaster response and social protection such as the Ministry of Social Affairs (MoSA), Ministry of Health (MoH) and Ministry of Home Affairs (MoHA) for instance. The BLU will ensure that orientation and capacity building programs are organized for all relevant functionaries both at the Central and sub national government levels for effective management of this facility.

For managing environmental and social dimensions of the operation, the BLU will establish, implement and maintain the Environmental and Social Management System (ESMS). The BLU will recruit experienced environmental and social specialists to set up an E&S unit and to build in house capacity for assessing and providing required social and environmental risk management support to implementing agencies (i.e. MoSA, MoH, MoHA). The E&S unit responsibility will be defined in more details when the boundaries of the Project are established. Should the Project finance complex reconstruction activities, an enhanced E&S organizational unit will need to be set up and filled with qualified E&S staffs. And the ESMS will set out how the staffs and management of the BLU will take responsibilities for carrying out required review and oversight in accordance with the Environmental and Social Management Framework (ESMF) in the process of allocating budgets and grants and post allocation reviews

The E&S unit will be responsible for screening, scoping, risk management and implementation and compliance monitoring in accordance to the ESSs. It is expected that in the early stage of the Project implementation this will include Bank’s ex ante reviews of E&S instruments, however the aim would be to shift to post reviews and monitoring as capacity increases. Ministry of Finance (MOF) has experience in applying the Bank’s safeguards policies when handling RETF Projects in their Public Private Partnership unit under Canadian Trust Fund. The MoSA and MOH have experience with the World Bank environmental and social procedures. MoSA is executing agency for the Bank PforR project that provides conditional cash transfer to the pre-identified household (Program Keluarga Harapan-PKH) and MoH just completed the negotiation on emergency loan due to COVID-19 using PforR, and this is the second PforR with MoH. More details assessment of each of the three main government agencies involved will be undertaken to identify gaps and design a capacity development plan to strengthen and embed the Project ESF requirements within their respective ESMS as a key feature and measure to ensure that the Project meets ESF requirements

The team is aiming to secure US\$ 10 million grant from the Global Risk Financing Facility (GRiF) to finance the Project Component 3, in which part the grant will be an dedicated TA on building E&S capacity of implementing agencies to implement ESF. Noting that the MOF still needs to take an internal decision on which directorate general (DG) will host the pooling fund and establish the BLU. Considering its ongoing role in risk management, the DG Budget Financing and Risk Management (DJPPR) could be a natural home for this. Additional units currently considered by MOF include DG Budget (DJA) and DG Treasury (DJPB). The World Bank is supporting these steps through sharing of international experience, technical analysis, and capacity building



## II. SCREENING OF POTENTIAL ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS

### A. Environmental and Social Risk Classification (ESRC)

High

#### Environmental Risk Rating

High

The proposed operation will benefit nationwide; it will allow the government to rapidly access to post-disaster finance through an operational pooling fund, ensuring the disaster effected people will receive needed assistance through pre-arranged disbursement channels. This is to be achieved through three Project components. The Project Component 1 aims for establishing and capitalizing the pooling fund, Component 2 is to improve financial preparedness for more effective disaster response across the government agencies and finally the Component 3 works in strengthening capacity and systems of the new pooling fund.

Given that the typology of investments / eligible expenditures is still yet to be defined and is not in any way limited at this stage, as precautionary approach, at this stage the Project preparation will proceed with "High" risk. As the Project preparation advances, and typology of projects is better understood, the task team will reconsider the risk jointly with RSS/ESSA before the Project Appraisal. The Project that will disburse against performance-based conditions (PBCs) should ensure a mechanism to trace WB fund utilization to the final beneficiary; in case tracking of funds would not be feasible, project scope, and application of ESF would become much larger. In addition the unknown typology of investments, the Project boundaries are also not definite at this stage as the three ministries to which disbursement channels will be built are yet to be confirmed. Historically, the investments supported by three potential ministries do not involve complex and high risk type of investments. However, high E&S risk activities can also be financed by the PFB (Pooling Fund untuk Bencana), because excluding such activities could affect the effectiveness of disaster preparedness and response activities, in times when large scale government response is necessary

On the capacity and commitment of the Borrower to manage risks and impacts in a manner consistent with the ESSs. The BLU as a new public service agency to manage the PFB will host the Project ESMS. The Project institutional arrangement that is to be set up will include E&S unit (within the BLU) for managing environmental and social dimensions of the operation; the E&S unit will be responsible implementation of the ESMS . Among the TA under the Project Component 3, there will be a dedicated TA on building E&S capacity and systems for the implementing agencies, proportionate to the project risks.

#### Social Risk Rating

High

The Social Risk is currently rated as High based on a precautionary approach and given the potential for inclusion of disaster risk response and rehabilitation activities that are potentially high risk. Also, since GBV risks on Disaster Risk Response projects are determined to be High.

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The proposed operation would involve disaster risk response and rehabilitation activities with the Ministry of Social Affairs (MoSA), Ministry of Health (MoH) and Ministry of Home Affairs (MoHA). Based on the experience of similar disaster risk finance projects, the expected categories of expenditures with the identified counterparts would include:

Ministry of Social Affairs: Scaling up existing disaster compensation mechanisms for households, and ensuring MOSA has sufficient resources available to fully implement these existing programs, this could also work towards scalable safety nets by working with programs such as the conditional cash transfer program (PKH).

Ministry of Health: Scaling up of activities that have been identified and strengthened under the COVID-19 response for future health shocks.

Ministry of Home Affairs: Providing quick support to sub-national governments, for pre-agreed critical emergency response activities. Priority attention would need to be paid to the weak, vulnerable, women, indigenous communities, voiceless and the disabled and each of these disenfranchised sections of the community helped to realize their rights. Considerable efforts at community mobilization and social inclusion would be called for and the agencies involved such as MoSA, MoH and MoHA and their sub-national counterparts would need to have required human resource capacity to ensure effective inclusion of the disadvantaged affected communities.

## B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered

### B.1. General Assessment

#### ESS1 Assessment and Management of Environmental and Social Risks and Impacts

##### **Overview of the relevance of the Standard for the Project:**

With a view to address the increasing frequency and magnitude of earthquakes, floods, tropical storms, volcanic eruptions, droughts, and tsunamis causing severe physical, economic and human impacts in the Indonesian archipelago, securing access to timely and cost-efficient financing for emergency response to disasters and climate events has become a recurrent demand coming from national and sub national entities as also local governments productive sectors and the general public. Environmental and social risks and impacts will be commensurate with the type of disaster and related response measure.

The BLU which will host the E&S unit will work in coordination with the MoSA, MoH or MoHA depending on the type of disaster response and put in place Environmental and Social Management System (ESMS) and procedures to address Environmental and Social Framework (ESF) requirements as detailed in the proposed Environmental and Social Framework (ESMF). The ESMF will be prepared by Appraisal while the ESMS is to be established in the Project implementation. The ESMS will include E&S organization structure, mechanism, staffing and resources to implement the ESMF and other E&S instruments (as required) and carry out monitoring and evaluation.

Based on the experience of similar disaster risk finance projects, the expected categories of expenditures with the identified counterparts would include:



Ministry of Social Affairs: Scaling up existing disaster compensation mechanisms for households, and ensuring MOSA has sufficient resources available to fully implement these existing programs, this could also work towards scalable safety nets by working with programs such as the conditional cash transfer program (Program Keluarga Harapan)

Ministry of Health: Scaling up of activities that have been identified and strengthened under the COVID-19 response for future health shocks.

Ministry of Home Affairs: Providing quick support to subnational governments, for pre-agreed critical emergency response activities.

As part of the ESMS strengthening, the BLU will establish and maintain an organizational structure with qualified staff, including an Environmental focal point & a Social focal point, and adequate resources to support management of E&S risks to meet the requirements of the project's Environmental and Social Commitment Plan (ESCP).

BLU with E&S unit will coordinate with the concerned MoSA, MoH or MoHA entities (still to be confirmed) to prepare the ESMF that will provide overall guidance on management of E&S risks for the Project implementation. The ESMF will describe clear principles and rules and provide robust guidelines and procedures for environmental and social screening (e.g., a negative list, ineligible/eligible expenditures) and assessing the environmental and social risks and impacts. Activities that would require AMDAL (full assessment) as per the GOI Ministry of Environment and Forestry decree No 38/2019 may still be considered for financing if they are not in the exclusion list or by excluding financing such activities would affect the effectiveness of disaster preparedness and response activities, in times when large scale government response is necessary

The ESMF would include roles and responsibilities, schedule, costs and implementation procedures as well plans for strengthening the institutions capacity to implement ESMS. The ESMF will describe how will it be integrated into the project's transactional framework, who will be responsible for its implementation, for M&E and for reporting, and how the chain of command would work to bring the key provisions to specific activities / investments financed through Disaster Risk Financing and Insurance operation.

The ESMF will include Environmental and Social Management System (ESMS) to comply with the ESF. As part of the ESMS, roles and responsibilities will be established to maintain an organizational capacity and competency for implementing the ESMS before its full commencement. A senior management representative will be assigned as part of the ESMS to established by the BLU. The person will have overall accountability for environmental and social performance and compliance. Assigning a senior management representative will ensure adequate attention of E&S aspect in decision making process. This role of a senior management will be further defined as part of the project preparation.

The ESMF will define ESMS for the BLU and key guidance for ESMS to be established for participating ministries all based on capacity assessment. The ESMF will also include general provisions for Labor-Management Procedures (under ESS2), Pollution management and use of resources (under ESS3), Community Health and Safety (under ESS4), Labor influx and Gender Based Violence (under ESS4), Land Acquisition, Restrictions on Land Use and Involuntary Resettlement (under ESS 5), Biodiversity conservation and sustainable management of living natural resources (under ESS 6), Indigenous Peoples (under ESS7) and Cultural Heritage (under ESS8).



**Areas where “Use of Borrower Framework” is being considered:**

None.

**ESS10 Stakeholder Engagement and Information Disclosure**

With the Ministry of Social Affairs (MoSA), Ministry of Health (MoH) and Ministry of Home Affairs (MoHA) identified as partner Ministries with whom BLU will partner for providing targeted disaster response support, it would be possible to prepare Stakeholder Engagement Plans (SEP) for each agency in anticipation of potential disaster response efforts involving all the stakeholders at the National and Sub National levels. The inclusion of local level stakeholders in the SEP will be based on information on specific disasters that BLU will be partnering with MoSA, MoH or MoHA on response initiatives.

The BLU and its partner Ministries i.e. MoSA, MoH and MoHA would ensure that all public sector, private sector, civil society, academia and other stakeholders at the National, sub-national and local levels are clearly identified and provided all relevant information on the Disaster Risk Financing and Insurance operation. As soon as a specific project is identified for support all relevant project-affected and other interested stakeholders will be identified and engaged as part of the first project preparation steps and during Project implementation. The Stakeholder Engagement Plan will include focused consultations with IP communities in disaster prone areas and seek to document instances of IP exclusion in past disasters and the proposals for proactively ensuring their inclusion in this operation.

In addition, BLU, with support from MoSA, MoH and MoHA counterparts (as appropriate) will prepare, adopt, maintain and operate a responsive grievance redress mechanism to address concerns coming from both Project-affected peoples and other interested parties. The grievance mechanism will be available to the public through the BLU website.

**B.2. Specific Risks and Impacts**

**A brief description of the potential environmental and social risks and impacts relevant to the Project.**

**ESS2 Labor and Working Conditions**

Project workers would include the management functionaries of BLU, its own staff and consultants who would be classified as direct workers. MoSA, MoH and/or MoHA functionaries who are involved along with consultants, contractors and professional service providers engaged by BLU for ongoing operations and management would be classified as contract workers. Depending on the specifics of the disaster response sub project of either MoSA, MoH or MoHA that uses project resources, this operation could be expected to include primary supply workers and community workers.

A Labor Management Procedure (LMP) would be prepared to summarize the key labor related systems and procedures in Indonesia that would be applicable to the project including addressing gaps where these procedures are inconsistent with ESS2 requirements. It would also include provisions on non-discrimination, freedom of association, Occupational Health and Safety (OHS) and dispute resolution. The LMP for the Project will be established before full commencement of the Project and throughout Project implementation.



A responsive grievance redress mechanism for Project workers will be available as part of the LMP, and consistent with ESS2. In addition, as part of the project's ESMF, Occupational Health and Safety (OHS) and dispute resolution will be included as well as emergency preparedness and response measures.

### **ESS3 Resource Efficiency and Pollution Prevention and Management**

The proposed operation will support institutional and capacity building. There is no pre-identified type of sub-project; therefore, at this stage there will be no materials to be sourced, neither waste generated from project's proposed activities. Once the typology of activities and project boundaries are defined, the ESMS will integrate specific good international industry practice and WBG EHS guidelines in addition to national requirements and benchmarks.

### **ESS4 Community Health and Safety**

Community health and safety risks during scaling up of activities that have been identified and strengthened under the COVID-19 response with MoH for future health shocks and providing quick support to sub-national governments, for pre-agreed critical emergency response activities with MoHA would be assessed and suitable measures designed to address them. Post-disaster Gender Based Violence (GBV) and Sexual Exploitation and Abuse (SEA) risks are considered high. As part of preparation the GBV risk rating tool would be administered and based on rating arrived at, mitigation measures put in place in close consultation with the counterparts who would be oriented and trained as required on these issues. Women, children, elderly and people with disabilities are particularly vulnerable. The Community Health and Safety measures and plan would address needs for safeguarding the needs particularly of these vulnerable sections of the community.

### **ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement**

If the three ministries, i.e. MoSA, MoH and MoHA have been decided to be the users of PFB, the project does not envisage any major construction activities that require major land taking. Nonetheless, disaster response activities undertaken by sub national government entities could require some land acquisition and related impacts. Therefore this, standard on Land Acquisition and Restrictions on Land Use and Involuntary Resettlement is relevant and to address its requirements a Resettlement Policy Framework (RPF) would be included as part of the ESMF to be prepared. Specific sub projects if any that require land taking will require preparation of Land Acquisition and Resettlement Action Plans (LARAPs). A responsive Grievance Redress Mechanism (GRM) to address concerns of those who are affected by land acquisition, resettlement and rehabilitation will be set up to ensure timely action on grievances if any.

### **ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources**

Depending on the project boundaries and typology of activities, If the PFB is to address disaster response and rehabilitation involving of the Ministry of Public Works and Housing (MoPWH) and it allied sub-national agencies, the ESS6 may apply to the project. As the project preparation advances, users of the PFB are confirmed and institutional setup is established, the relevance of ESS6 will be clearer. Screening criteria as part of the environmental and social management system will be applied and the project will strive to exclude works in sensitive areas.



**ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities**

The pooling fund could be used for response to disasters across the country including in areas where indigenous communities live and therefore in anticipation an indigenous people’s policy framework (IPPF) would be prepared as an integral part of the ESMF. The IPPF would outline systems and procedures for actively involving indigenous communities in the disaster response and disaster risk management activities and ensure that the vulnerable poor get included with all interventions. Free Prior Informed Consent (FPIC) if required will be included as part of the IPPF. Modalities of land acquisition if any would be detailed as part of the Resettlement Policy Framework (RPF). The framework would be the basis for specific plans depending on where the pooling fund is used to support responses on the ground. A screening process will be included in the IPPF, which forms part of the project’s ESMF.

**ESS8 Cultural Heritage**

Depending on the nature of the project, there could be some cultural heritage that are affected by the disaster, thus restoring work may be considered to be financed and this Standard will be relevant.

**ESS9 Financial Intermediaries**

The ESS 9 is marked relevant at this stage. Later in the Project preparation, the task team will clarify if BLU will be the serving as financial intermediary in managing the PBF. Taking an example of the MoF’s State-Owned Enterprise (SOE) PT Sarana Multi Infrastruktur (Persero) (PT SMI) that uses development partners funds in engaging in infrastructure project financing.

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**C. Legal Operational Policies that Apply**

**OP 7.50 Projects on International Waterways** No

**OP 7.60 Projects in Disputed Areas** No

**III. WORLD BANK ENVIRONMENTAL AND SOCIAL DUE DILIGENCE**

**A. Is a common approach being considered?** No

**Financing Partners**

None

**B. Proposed Measures, Actions and Timing (Borrower’s commitments)**



**Actions to be completed prior to Bank Board Approval:**

Upon identifying eligible typology of activities, confirming implementing agencies, risk rating will be revisited and instruments prepared proportionate to the risks.

Preparation of ESMF providing overview of relevant ESSs and their application to the operations including brief Resettlement Policy Framework (RPF) and Indigenous Peoples Policy Framework (IPPF). Stakeholder Engagement Plan (SEP) and Strategy with establishment of responsive Grievance Redress Mechanism (GRM).

Labour Management Procedures with GRM.

Preparation of ESCP with specifics of the SEP and LMP including respective GRM.

**Possible issues to be addressed in the Borrower Environmental and Social Commitment Plan (ESCP):**

Mechanism of application of ESMF, ESMS, SEP, LMP with each Ministry/entity through whom the disaster response funds are channeled from the pooled fund by BLU.

**C. Timing**

**Tentative target date for preparing the Appraisal Stage ESRS**

30-Sep-2020

**IV. CONTACT POINTS**

**World Bank**

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**Borrower/Client/Recipient**

Borrower: Republic of Indonesia

**Implementing Agency(ies)**

Implementing Agency: Fiscal Policy Agency, Ministry of Finance

**V. FOR MORE INFORMATION CONTACT**

Public Disclosure



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**VI. APPROVAL**

Task Team Leader(s):	Francesco Strobbe
Practice Manager (ENR/Social)	Ann Jeannette Glauber Recommended on 09-Jun-2020 at 10:39:32 EDT
Safeguards Advisor ESSA	Peter Leonard (SAESSA) Cleared on 09-Jul-2020 at 09:50:21 EDT