



Project Information Document/ Identification/Concept Stage (PID)

Concept Stage | Date Prepared/Updated: 02-Nov-2020 | Report No: PIDC232300



BASIC INFORMATION

A. Basic Project Data

Project ID	Parent Project ID (if any)	Environmental and Social Risk Classification	Project Name
P175025		Substantial	Indonesia Environmental Fund TA Project
Region	Country	Date PID Prepared	Estimated Date of Approval
EAST ASIA AND PACIFIC	Indonesia	02-Nov-2020	
Financing Instrument	Borrower(s)	Implementing Agency	
Investment Project Financing	Indonesia Environmental Fund Management Agency (BPD LH)	Indonesia Environmental Fund Management Agency (BPD LH)	

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PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	2.00
Total Financing	2.00
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing

Trust Funds	2.00
Sustainable Landscapes MDTF	2.00

B. Introduction and Context

Country Context

1. As the fourth most populous country and the tenth largest economy in purchasing power parity terms, the Government of Indonesia (GoI) aspires to become one of the top five global economies by 2045. The real gross domestic product (GDP) expanded by an average of 5.5 percent annually between 2010 and 2019 and the economy[1] nearly doubled from IDR 5,478 trillion in 2006 to IDR 10,949 trillion (US\$1.1 trillion in current prices) in 2019. Strong growth contributed to a decline in poverty from 19.1 percent of the population in



2000 to 9.4 percent by March 2019—lifting 13.6 million people out of poverty.[2] The economy is based largely on extraction of non-renewable resources (16 percent of GDP and 40 percent of exports), as well as agriculture and forestry (34 percent of GDP). However, given the COVID-19 pandemic and associated containment measures, economic activity tumbled, with real GDP growth down to between 2.1 and -3.5 percent for 2020 following the onset of the pandemic.[3] Furthermore, preliminary estimates suggest that the pandemic would also increase poverty rates by 3.15 percentage points, translating to 8.5 million additional people living in poverty[4].

2. Indonesia has been a major exporter and producer of palm oil and timber products, which has contributed significantly to the country’s economic growth, but at the expense of the environment (deforestation, forest degradation and greenhouse gas (GHG) emissions). Indonesia had annual net loss of forest area equivalent to 0.68 million hectares or 0.7 percent per year in 2010-2015 (the second highest in the world after Brazil), due mainly to the intensification in the felling of natural forests in timber concession, illegal logging, encroachment, and conversion of forest area for other uses (e.g., agriculture expansion for estate crops, plantation, transmigration and mining activities). There was improvement in 2015-2017 with the annual net loss declining to 0.63 million hectares in 2015-2016 and 0.48 million hectares in 2016-2017[5].

3. Indonesia is the fifth largest GHG emitter globally[6], with emissions from land use, land use change, and forestry (LULUCF, including peat fires) constituting the majority share (48 percent) of national GHG emissions[7]. The GoI has made ambitious international commitments to reduce its emissions. At the Conference of Parties meeting in Paris in 2015, the GoI pledged through its Nationally Determined Contribution (NDC) to reduce GHG emissions by 41 percent by 2030 with international assistance (29 percent with its own resources) relative to a business-as-usual scenario. Indonesia’s commitment to transition towards a low carbon development pathway has been integrated into its National Medium-Term Development Plan (RPJMN) for 2020-2024, which aims to reduce emissions by 27.3 percent by 2024 toward the NDC targets. Furthermore, the GoI has pioneered the Low Carbon Development Initiative (LCDI), which identifies a set of policies and interventions in key sectors, including forest protection and transition towards renewable energy sources. Achieving these policy goals requires closing a climate financing gap of USD 247 billion between 2018-2030 (with forestry sector costs estimated at US\$5.56 billion)[8], including preparing and implementing green financing mechanisms.

[1] Measured in GDP at constant prices.

[2] Statistics Indonesia (Badan Pusat Statistik, BPS) Data.

[3] World Bank (2020). World Bank East Asia and Pacific Economic Update, April 2020. Washington, D.C.

[4] Based on Government reported data. National Development Planning Agency (Bappenas) 2020.

[5] MoEF, the State of Indonesia Forests 2018.

[6] WRI 2017.



[7] Republic of Indonesia 2015: Indonesia First Biennial Update Report (BUR) under the United National Framework Convention on Climate Change.

[8] MoF (2019), Public finance for Indonesia climate change management 2016-2018.

Sectoral and Institutional Context

4. To deliver against the Gol's ambitious and long-standing sustainable development and green finance commitments, the Gol launched the Environmental Fund Management Agency (*Badan Pengelola Dana Lingkungan Hidup*, BPD LH) in October 2019. BPD LH is a public service agency (*Badan Layanan Umum* or BLU) under and responsible to the Ministry of Finance through the Director General of Treasury, and will become the country's official mechanism to manage and coordinate environmental and climate funds including from international sources. BPD LH has been anticipated by stakeholders since the enactment of Government Regulation No. 44 in 2014 on Non-Tax Revenue from the environment sector, which stipulated the need for a mechanism to manage environment funds. Based on Presidential Regulation Number 77 of 2018 and Minister of Finance Regulation Number 137 of 2019, BPD LH shall be able to channel funds to finance environmental pollution prevention and climate change mitigation and adaptation. It is expected to work with at least ten line-ministries with mandates related to environment issues, subnational governments, civil society organizations, and local communities. In her speech at the launch of the BDPLH, Finance Minister Sri Mulyani Indrawati emphasized the important role of BDPLH in mobilizing and disbursing climate finance in a way that complements the government budget and promotes green investment in Indonesia.

5. BPD LH has the potential to blend domestic and international funds and to provide a vehicle to coordinate and manage Indonesia's efforts to meet its NDC through multiple different financial instruments (grants, loans and carbon trading). There is currently no other nationally-managed institution or mechanism available to direct funding in this way across sectors and to bring together national and provincial government efforts to address climate change. The regulatory basis of BPD LH as a public service agency (BLU) is well-established in Indonesia and backed by strong legislation and regulations. BPD LH is the first BLU that will receive and disburse international funds and there are capacity gaps with respect to international requirements such as on Monitoring and Evaluation (M&E) and information management including on safeguards that will need to be closed in order to ensure BPD LH meets its ultimate goal of being internationally accredited to receive funds.

6. There are several sources of funding already pledged to BPD LH – namely for reducing emissions from deforestation and forest degradation, conservation, enhancement of forest carbon stock, and sustainable forest management (REDD+) – including Indonesia's IDR 1.2 trillion Reforestation Fund, the Government of Norway which signed a Letter of Intent in 2010 to contribute up to US\$1 billion toward Indonesia's REDD+ efforts based on performance, the Green Climate Fund (GCF) which has approved a further US\$104 million in results-based payments, and the World Bank through GHG emissions reduction operations such as Jambi Sustainable Landscape Management Project (J-SLMP, P166672, under the BioCarbon Fund Initiative for Sustainable Landscapes) and East Kalimantan Project for Emissions Reduction Results (P166244, under the



Forest Carbon Partnership Facility). A critical output of the partnership with Norway, which is also a requirement for Norway's disbursement and key for other partners' financing as well, is the design of a specialized national funding instrument to manage the funds – namely, BPD LH. As such, once BPD LH is operational, funds (first tranche confirmed from Norway at USD 56 million) are available to be channeled through BPD LH to GoI climate priorities.

7. In a letter dated October 15, 2019, the Coordinating Ministry of Economic Affairs (CMEA) requested the World Bank to provide technical assistance (TA) on the operationalization of BPD LH. The Government of Norway provided additional funds to the SLMP MDTF to enable the Bank to respond to this request. As part of the package of TA to BPD LH, provided under the Sustainable Landscape Management Program Multi-Donor Trust Fund (see *Relationship to CPF* below), the Bank is providing Bank-executed TA and proposes this Recipient-executed grant. With the support of Bank-executed TA, BPD LH is currently finalizing its operational handbook/regulations and clarifying its governance structure, and will develop a project/program pipeline. The proposed Recipient-executed activity will finance technical assistance to strengthen the operational systems and capacity of BPD LH to receive and manage climate finance.

8. The ultimate goal of the Bank's engagement is to support BPD LH to become a credible and internationally recognized mechanism to channel international and domestic climate and environmental funds. Having robust systems in place will make BPD LH a body that meets international best practices, which will enable it to effectively manage funds and, in turn, provide the confidence needed to attract and blend financing from other partners. UNDP conducted a Harmonized Approach to Cash Transfers (HACT) assessment in July 2020 which appraised BPD LH as an agency that has moderate qualification, and the Government of Norway is currently assessing BPD LH. The Bank is providing close support to BPD LH to strengthen its systems based on the outcomes of the assessments.

Relationship to CPF

9. The proposed activity is fully aligned with the World Bank's Country Partnership Framework (CPF) 2016-2020 for Indonesia discussed by the Board in December 2015, Report No.99172, specifically engagement area 5 - Sustainable Landscape Management (SLM) - which supports the design and implementation of a landscape program on improving management of, and benefit from, terrestrial natural assets. The SLM engagement calls, through investments and support, for a policy reform agenda including improved land and forest governance and administration, aimed to reduce poverty, create a better investment climate for infrastructure investment, establish a cooperation framework for sustainable livelihoods and agricultural development, and increase jobs and income while maintaining the natural asset base. The proposed activity is also aligned with the heightened emphasis on climate change in the draft CPF (2021-2025), particularly Engagement Area IV: Sustaining management of natural assets, natural resources-based livelihoods and disaster resilience, and its Objective 4.1: Strengthen management of natural assets and environment, which emphasizes SLM.



10. Specifically, the proposed activity is part of the Sustainable Landscape Management Program (SLMP) in Indonesia, supported by a Multi-Donor Trust Fund (MDTF) which was established to support the Gol's ambitious program in addressing deforestation and forest degradation, improve lowland management, reduce GHG emissions and alleviate poverty particularly in rural and forested areas, through a coordinated landscape approach. Under the SLMP MDTF, the Bank has provided analytics, technical assistance (TA) and advisory services in support of investment projects, aimed at better resource management and more sustainable development practices, including in the agriculture, water, environment and natural resources management, social development, and land sectors. The investment projects include Acceleration of Agrarian Reform/OneMap, Social Forestry with the Global Environmental Facility funds, Climate Investment Funds supported projects (Forest Investment Program (FIP) and Dedicated Grant Mechanism (DGM) for Indigenous Peoples and Local Communities), as well as the afore-mentioned Emission Reduction Programs supported by the BioCarbon Fund Initiative for Sustainable Forests Landscape and the Forest Carbon Partnership Facility.

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C. Project Development Objective(s)

Proposed Development Objective(s)

11. The project's development objective is to strengthen the operational systems and capacity of Indonesia's Environmental Fund Management Agency (BPD LH) to receive and manage funds.

Key Results

12. The following results are expected from the project:

- A Monitoring and Evaluation (M&E) system is designed and operational.
- A Management Information System (MIS) is designed and operational.
- A communications and stakeholder engagement strategy is developed and operational.

D. Preliminary Description

Activities/Components

13. The grant will support the strengthening of BPD LH's operational systems and capacity to meet international standards, specifically:

a. **Monitoring and Evaluation (M&E) system.** The grant will support the development of an M&E system for BPD LH, to enable data collection, information management and results reporting at multiple results levels and from multiple beneficiaries on funds being received and disbursed by BPD LH. As typical BLUs do not manage funds from international sources, it is critical that a robust and globally recognized M&E system that can follow the use of such funds be developed and put in place before such funds are disbursed. A theory of change, performance indicators, and an M&E reporting process and templates will be developed to enable



monitoring of fund flows, project/program performance, safeguards performance, etc. The M&E system will be integrated into a broader BPDH MIS (see below).

b. **Management Information System (MIS).** The grant will support the development of a modular management information system, including making information publicly available, easily accessible, timely and in a centralized location. Information to be captured will include, for example, beneficiary eligibility criteria determined by Gol, requests for proposal, terms of reference, project proposals, information on approved projects and safeguards, and agreements between funding instruments. It will also incorporate results management and M&E. In addition, it will be a platform to share experience and lessons learned from multiple projects.

c. **Communications and Stakeholder Engagement Strategy.** The grant will support the development of a communications and stakeholder engagement strategy, including how to engage line ministries, stakeholders, and beneficiaries of environment funds and projects/programs. This is a requirement for international funders to ensure that BPDH has robust tools to ensure wide consultation on its programs and reach beneficiaries and a capacity building program in place to support stakeholders to access BPDH funding. Activities will include:

- Mapping of key stakeholders;
- Development of a multi-level communications and stakeholder engagement strategy, including local, national, international and private sector stakeholders;
- Planning and execution of stakeholder engagement events;
- Development of a capacity building program and modules to support stakeholders (e.g., line ministries, provincial governments, civil society organizations, etc.) to access BPDH funding;
- Development of a website and communications materials.

14. The proposed activity is also an opportunity to integrate capacity to address environmental and social risk management – a key element of a robust funding mechanism and for building credibility – into the above systems, existing systems, and capacity building of BPDH staff, thereby mainstreaming E&S risk management in BPDH’s operations.

15. Grant activities will include consulting and non-consulting services from individuals and firms (e.g., for technical expertise to support BPDH’s initial organization and development of systems, for example on MIS, M&E, communications, safeguards, etc.) and procurement of goods.

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Environmental and Social Standards Relevance

E. Relevant Standards

ESS Standards

Relevance



ESS 1	Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10	Stakeholder Engagement and Information Disclosure	Relevant
ESS 2	Labor and Working Conditions	Relevant
ESS 3	Resource Efficiency and Pollution Prevention and Management	Relevant
ESS 4	Community Health and Safety	Relevant
ESS 5	Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Relevant
ESS 6	Biodiversity Conservation and Sustainable Management of Living Natural Resources	Relevant
ESS 7	Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Relevant
ESS 8	Cultural Heritage	Relevant
ESS 9	Financial Intermediaries	Relevant

Legal Operational Policies

Safeguard Policies	Triggered	Explanation (Optional)
Projects on International Waterways OP 7.50	No	
Projects in Disputed Areas OP 7.60	No	

Summary of Screening of Environmental and Social Risks and Impacts

The project will provide technical assistance to establish operational systems for Indonesia's Environmental Fund Management Agency (BPD LH) to receive and manage financing. This management system will receive and disburse funds associated with new activities as well as those under existing World Bank financed ER programs in Jambi and East Kalimantan provinces. Future fund disbursement arrangements are currently undecided and could be for projects to improve environmental outcomes in a diverse range of sectors such as forestry, energy and mineral resources, industry, transportation, agriculture, marine affairs and fisheries. The project will also finance initial pre-feasibility studies for future preparation of a provincial-level landscape management program. Financing under the RETF for establishment of the BPD LH is limited to management systems, and therefore Bank responsibility is limited to ensuring that these systems require the recipient and implementing agencies under the Fund to use grants for capital and operating expenses for their intended purpose and to manage ES risk. Future grants that are not prepared or approved during the RETF project life cycle may be prepared and managed under new World Bank operational arrangements or independently. While an overall Fund monitoring and evaluation system is included as a project development objective, the capacity to manage large scale climate investments at provincial level is likely uneven and availability of resources at preparation and prior to grant approval is extremely limited. A transparent system will be required for management and monitoring of environmental and social risks and inputs.



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Borrower/Client/Recipient

Borrower : Indonesia Environmental Fund Management Agency (BPD LH)

Implementing Agencies

Implementing Agency :	Indonesia Environmental Fund Management Agency (BPD LH)		
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