



Concept Environmental and Social Review Summary

Concept Stage

(ESRS Concept Stage)

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BASIC INFORMATION

A. Basic Project Data

Country	Region	Project ID	Parent Project ID (if any)
Indonesia	EAST ASIA AND PACIFIC	P173429	
Project Name	The PFM MDTF III Support to Government of Indonesia		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Governance	Investment Project Financing		11/30/2020
Borrower(s)	Implementing Agency(ies)		
Ministry of Finance	Project Support and Secretariat Unit		

Proposed Development Objective

Inform government policy and regulations and improve capacity of government for better quality of revenue and expenditure policy and management at the central and sub-national levels, including through adoption of digital technology.

Financing (in USD Million)

Amount

Total Project Cost

3.42

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]

Economic fundamentals underlying the Indonesian economy have increasingly gained strength over recent years. Economic growth has been averaging around 5 percent year-on-year since 2016 and the country continues to make progress on reducing poverty and has begun to reverse inequality. The ongoing outbreak of the novel corona virus (“COVID-19”) as of today could unravel some of this progress and increase the challenges faced by the economy and society to unprecedented levels. Both before and during the COVID -19 crisis, Indonesia’s public spending on priority areas in support of growth and shared prosperity objectives remains low. Finding fiscal space to finance important



priorities cannot be achieved without mobilizing more public revenue, given that Indonesia has one of the lowest and falling revenue-to-GDP ratios which stood at 14.89 percent in 2018.

Indonesia has made commendable progress in many aspects of public financial management (PFM) in the last decade. The span and depth of reforms successfully implemented in the past decade are significant: modernization of the budget preparation and budget execution processes, integration of routine and development budgets, inclusion in the fiscal budgets of various activities that were previously off-budget; computerization of budget and treasury operations through Government Financial Management Information System or Sistem Perbendaharaan dan Anggaran Negara (SPAN), introduction of a Treasury Single Account (TSA), adoption of government accounting standards that are substantially aligned with international standards, improvement of public procurement policies and practices to enhance transparency and competition, a performance and medium term orientation in budgeting and modernization of customs and tax administration and processes. With this in view, the Ministry of Finance has recently prepared a strategic Roadmap for PFM Reform for the next 5 years. This Roadmap was prepared with support from the PFM MDTF and provides a comprehensive framework for planning, implementing and monitoring progress of PFM reforms.

The proposed Project Development Objective of this project is to inform government policy and regulations and improve capacity of government for better quality of revenue and expenditure policy and management at the central and sub-national levels, including through adoption of digital technology. The proposed project will support the government in following areas: improving revenue policy and administration, improving the expenditure policy and management, improving the subnational public resource management, and facilitating the digital transformation vision of Ministry of Finance.

The proposed project is aligned with the World Bank Group Group’s Country Partnership Framework (CPF) for FY121-FY25 , and will contribute to the implementation of its Supporting Beam of “Collecting more; spending and governing better” with objectives of improving policies and administration to support higher revenue collections and fiscal/debt sustainability and improve policies and institutions to increase the efficiency, equity and effectiveness of public spending.

The proposed activities under this task are part of the PFM MDTF Phase III and provide support to the Government's medium-term public finance management reform agenda. The project will address issues across a broad range of public financial management areas that emerge from on-going PFM reform dialog in Indonesia and the ones that are reflected in the Medium-Term Strategy Note (MTSN) and Government’s PFM Reform Roadmap. It provides continued support to Government of Indonesia (GoI) through improved accountability, collection, allocation, usage and transparency of public resources, with a focus on supporting reforms at the central and sub-national level.

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 proposed operation is part of the Public Financial Management Multi Donors Trust Fund Phase III (PFM MDTF III) which seeks to support the Government of Indonesia in improving its capacity for quality revenue and expenditure policy and management at the national and sub-national levels by enhancing their performance orientation, including



through adoption of digital technology. The project will provide continued support to GOI to improve accountability, collection, allocation, usage and transparency of public resources, with a focus on supporting relevant reforms at both national and sub-national levels.

The project will be structured around upstream regulatory support through policy advisory and analytics led by the Ministry of Finance (MoF), adoption of digital technology complemented by requisite institutional capacity building with a view of improving public revenue and expenditure policy and management. The project will consist of four main components: (i) revenue policy and management which include capacity building support through implementation of workshop and trainings as well as establishment of an internal control mechanism and compliance unit; (ii) expenditure policy and management which include capacity building support across the complete budget cycle for state expenditures; (iii) subnational resource management which include strengthening of policy formulation capacity through establishment of task force team, implementation of seminars/workshops for peer-to-peer learning, benchmarking studies of selected international best practices, establishment of various information systems; support on subnational tax administration reforms, and support for revision of central regulations; and (iv) digital technology foundations & platform which include capacity building support for the current MOF's digital transformation working group.

The project is not expected to involve any civil works nor purchase of equipment. In line with the OESRC Advisory Note on Technical Assistance and the Environmental and Social Framework (May 21st, 2019), the project is classified as a Technical Assistance (TA), involving activities categorized as Type 2 (supporting the formulation of policies, programs, plans, strategies or legal frameworks) and Type 3 (strengthening borrower capacity). Project activities will build upon the progress made through implementation of on-going reforms over the last decade, including those supported by the PFM MDTF phase I and II, as well as technical assistance through BETF financing.

Most of the upstream TA activities on policy and regulatory support and advisory will be implemented and coordinated by MOF and hence, will have a national coverage. Capacity strengthening activities related to Component III (Sub-national PFM) may target select provincial and district and/or municipal government stakeholders, which are currently not pre-determined. No physical footprints are envisaged as a result of project activities and no context-specific information pertaining to the salient geographic, environmental and social characteristics is available during project preparation. Overall environmental and social impacts will likely be low to negligible.

D. 2. Borrower's Institutional Capacity

The RETF activities will be coordinated by a Project Support and Services Unit (PSSU) under the office of MOF Secretary General. PSSU will be responsible to coordinate activities executed by participating government offices and agencies receiving funds from the project, including Project Implementing Units (PIUs). PSSU will have an expanded role to support PIUs in implementing the project, including coordinating selection, due-diligence, and approval of activity proposals and budget allocation.

Familiarity with the World Bank's Safeguards Policies and/or ESSs across MOF agencies is likely limited since previous operations are low risk in nature, with environmental and social risk requirements are minimal. Therefore, similar to Phases I and II (which were EA category C under OP 4.10), no adverse environmental and social risks and impacts are expected from project activities and there is no additional environmental and social assessment necessary after this screening. This means the focus will be on enhancing stakeholder engagement across project activities.



Taking stock of lessons-learned from implementing similar operations through previous PFM MDTF phases (Phase I and II), MOF seeks to expand the role of PSSU as a central project management office to improve inter-agency coordination and minimize fragmentation through this RETF. PSSU will be responsible for the overall coordination and oversight across PIUs. Hence, its role is to ensure proper implementation of stakeholder engagement, which is embedded in the project design, becomes critical. MOF will prepare a Stakeholder Engagement Plan (SEP), which will guide relevant engagement activities for this operation, along with their modality, institutional roles and responsibilities, and capacity building requirements for PSSU and PIUs, once defined, factoring into alternative engagement approaches in the time of COVID-19.

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

A. Environmental and Social Risk Classification (ESRC)

Low

Environmental Risk Rating

Low

The environmental risk rating is low given that the project aims to strengthen national PFM policy and regulations and improve capacity of the government for better quality revenue and expenditure policy and management through adoption of digital technology. The project is classified as a Technical Assistance (TA) and expected not to have any direct environmental risk. The project will not involve any physical works nor procure any substances that may have serious adverse effect to human health and/or harmful for the environment. The typical potential capacity building activities to improve public revenue and expenditure policy and management will be in the form of workshops and trainings, range between in-class learning as well as e-learning activities. Additionally, the project may also involve in-country field surveys and benchmarking visits to strengthen government expenditure policy and management. The outcomes of the capacity building activities will not have important environmental implications going forward for the project. The potential adverse risks and impacts to the environment are likely to be minimal or negligible as the project seeks to support the Government of Indonesia in improving the quality of revenue and expenditure policy and management at both central and subnational level by enhancing their performance orientation including through adoption of digital technology. No downstream implications are expected from this type of support. The environmental impacts of carrying out the capacity building activities, discussions, and writing reports are minimal. Considering the low risk, no additional measures will need to be prepared for managing environmental risk related to the project.

Social Risk Rating

Low

The overall social risk rating is low. The project seeks to strengthen public revenue and expenditure policy and management in line with international standards, promote government capacity as well as adoption of digital technology to improve efficiency and service delivery. Downstream implications as a result of policy and regulatory advisory are expected to be positive. Hence, the project is expected to benefit the broader public through enhanced PFM systems across government levels. Financing under the RETF is limited to policy and regulatory advisory services and capacity building. No physical investments, nor direct community engagement, including with vulnerable groups are envisaged under the operation. The project does not finance feasibility or design of any future investments in



specific footprints with potential downstream adverse impacts. On the basis of this assessment, social risks are rated low. Public participation will be sought through stakeholder engagement to promote transparency, citizen feedback, and equitable access to participation for activities related to government capacity building. Relevant measures to promote public participation will be addressed as part of project design and implementation, guided by a SEP to be prepared by MOF.

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:

ESS1 is applicable for the operation. Application of ESS1 is to set out relevant roles and responsibilities for environmental and social management, particularly concerning to labor management and stakeholder engagement as further elaborated in ESS2 and ESS10 sections.

The project is classified as Type 2 and Type 3 Technical Assistance (TA) focusing on institutional capacity building to strengthening public revenue and expenditure policy and management and adoption of digital technology thus the potential environmental and social impacts of project activities are assessed to be negligible. No physical investments, nor activities requiring direct engagement with communities are envisaged under the operation. The project does not finance any feasibility and design studies which may lead to future investments. Both environmental and social risk ratings are low. An SEP will serve as the main instrument to promote public participation, transparency and equitable access to project benefits, particularly related to capacity building activities.

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

Not applicable

ESS10 Stakeholder Engagement and Information Disclosure

Stakeholder engagement represents the backbone of the whole project design since it seeks to support relevant reforms and capacity building to enhance PFM in Indonesia across government agencies, both at the national and sub-national levels. Project implementation will be guided by the governance structure of the Trust Fund, including a Partnership Council (PC)/Policy Advisory Committee (PAC) and a Management Committee (MC), consisting of relevant technical experts from MOF, relevant ministries and agencies (i.e. Ministry of Home Affairs, National Planning Agency (Bappenas) and the National Government Internal Auditor (BPKP)), the World Bank, and MDTF donors.

Stakeholder engagement for the purpose of this operation will be in the form of inter-government coordination, relevant capacity building, production of supporting analytics, and creation of a system to solicit public participation in policy and regulatory reform activities. No direct engagement with communities is envisaged for the purpose of the operation and specific localities for government capacity building will be determined during project



implementation. Hence, the SEP to be prepared prior to project appraisal will include a high-level framework for stakeholder engagement along with its institutional arrangement, budget and capacity building requirements

Relevant risks associated with COVID-19 circumstances, which may likely result in travel restrictions and application of requisite Infection Prevention and Control (IPC) measures, will be fully considered as part of the SEP. MOF will be required to implement good practices to minimize COVID-19 transmission for stakeholder engagement activities, in line with GOI and World Health Organization's (WHO) health protocols.

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

ESS2 is relevant given the project will involve staffing and hiring of consultants and trainers, all of whom are considered as project workers. Capacity building activities will be delivered by certified third-party trainers, including those from Forensic Investigations. Potential risks related to project workers may include discrimination on the basis of gender, status, disability and/or other during the hiring process; health and safety risks during travels to the project locations (air and land travel); and other risks related to working conditions such as no mechanism for raising concerns at the workplace. A Labor Management Procedure (LMP) will be prepared by PSSU/MOF to guide management of labor, including personal safety measures and other provisions in compliance with ESS2 provisions and the national law where relevant and/or equivalent, such as fair and equal opportunity for hiring process and pay, grievance redress mechanisms at the workplace, codes of conduct pertaining to Gender Based Violence (GBV)/Sexual Exploitation and Abuse/Violence Against Children (GBV/SEA/VAC).

ESS3 Resource Efficiency and Pollution Prevention and Management

ESS3 is currently not relevant as the project activities will not contribute to new or current natural resources use or energy use which will not contribute to potential pollution.

ESS4 Community Health and Safety

ESS4 is not applicable as the project activities will not present health and safety risks to communities. No direct community engagement is envisaged for the purpose of project implementation.

ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

ESS5 is not applicable as the project activities will not require land and result in any access restrictions. No physical investments are envisaged under the project.



ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

ESS6 is currently not relevant given the project does not involve any activities that would potentially affect biodiversity or habitats, either positively or negatively, directly or indirectly, or depend on biodiversity to achieve the project objectives.

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

ESS7 is not relevant as the project activities will not involve any activities, nor engagement with communities, including Indigenous Peoples. Public participation will be sought through implementation of a SEP in line with ESS10.

ESS8 Cultural Heritage

ESS8 is not applicable since the project does not finance any physical investments which may affect cultural heritage, both tangible and intangible. Similarly, the project will not finance feasibility and design studies with downstream impacts on cultural heritage.

ESS9 Financial Intermediaries

ESS9 is not applicable since the project does not finance and/or involve financial intermediation activities.

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

N/A

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

Public Disclosure



Actions to be completed prior to Bank Board Approval:

- a) Preparation of an Environmental and Social Commitment Plan (ESCP) for the proposed operation;
- b) A Stakeholder Engagement Plan (SEP), which includes measures to promote public participation, transparency and equitable access to project benefits;

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

- a) A Labor Management Plan (LMP) prior to recruitment of project personnel (i.e. consultants and expert staff);
- b) SEP implementation reports during project implementation

IV. CONTACT POINTS

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Borrower/Client/Recipient

Borrower: Ministry of Finance

Implementing Agency(ies)

Implementing Agency: Project Support and Secretariat Unit

V. FOR MORE INFORMATION CONTACT

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VI. APPROVAL

Task Team Leader(s): Romawaty Sinaga, Arun Arya
 Practice Manager (ENR/Social) Janamejay Singh Recommended on 21-Oct-2020 at 11:16:57 GMT-04:00

Public Disclosure