

INTEGRATED SAFEGUARDS DATA SHEET

IDENTIFICATION / CONCEPT STAGE

Report No.: ISDSC12429

Date ISDS Prepared/Updated: 13-Oct-2015

I. BASIC INFORMATION

A. Basic Project Data

| | | | |
|---|---|-----------------------|--------------------|
| Country: | Indonesia | Project ID: | P152551 |
| Project Name: | PFM MDTF II Support to Government of Indonesia RETF | | |
| Team Leader(s): | C. Bernard Myers | | |
| Estimated Date of Approval: | 23-Oct-2015 | | |
| Managing Unit: | GGO14 | Lending Instrument: | Lending Instrument |
| Sector(s): | Central government administration (80%), Sub-national government administration (20%) | | |
| Theme(s): | Decentralization (20%), Public expenditure, financial management and procurement (50%), Tax policy and administration (15%), e-Government (15%) | | |
| Financing (in USD Million) | | | |
| Total Project Cost: | 2.7 | Total Bank Financing: | 0 |
| Financing Gap: | 0 | | |
| Financing Source | | Amount | |
| Borrower | | 0 | |
| Indonesia - Support Public Financial Management | | 2.7 | |
| Environment Category: | C - Not Required | | |

B. Project Development Objective(s)

To support the Ministry of Finance to improve its capacity for more efficient, timely, and transparent public financial management in order to contribute to improved public service delivery.

C. Project Description

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

The PFM MDTF II includes BETF and RETF through which PFM activities are executed across eight components. The proposed RETF part of the MDTF covers most components under the proposed Strengthening Revenue and Budget Management PA of BETF program. The proposed RETF would initially receive \$2.7 million or about 15% of total MDTF resources, a figure extrapolated from the actual level of demand expressed during the 2014 Management Committee meeting. Though the overwhelming majority of MDTF activities are Bank-executed, the establishment of the RETF is an important step to enhance government ownership and ultimately to improve the quality of the program implementation. It also functions to support the implementation of activities that are mandatory implemented by the RETF. The proposed RETF builds on the experience MOF gained from implementing an RETF during MDTF Phase I.

In line with the evolution of the Government's reform strategies and the findings of the 2011 repeat PEFA, the MTSN reflects a transition away from the control and compliance framework and systems, and greater focus on improving the technical efficiency of spending and the performance orientation of the budget process. There is also increasing interest among donors to give priority to activities that will strengthen PFM at the subnational level. Enhancing tax administration remains an issue of importance to both donors and Government, despite the absence of an investment project in the sector. Substantial progress made in the past year in the implementation of the Government's financial management information system (SPAN) will enable some reallocations away from budget execution activities during the life of the trust fund. On the other hand, institutional transformation and bureaucracy reform will become a relatively small share of the MDTF activities. Prioritization among activities is reflected in the indicative resource allocations to the eight MDTF components, as agreed by the Policy Advisory Committee of the MDTF. The proposed RETF will be focused on activities that World Bank Trust Fund guidelines describe as best suited for recipient execution, in particular training activities, workshops, and studies or consultancies for which the beneficiary will assume primary responsibility for the quality and supervision of the work. All eight components of the MDTF will be eligible for funding under the RETF, but it is anticipated that in practice the RETF will be focused toward support for components related to budget execution (IV), subnational PFM (VII), and institutional transformation (VIII). This will enable the government implementation of accrual accounting, refinements in the implementation of the financial management information system (SPAN), ICT governance within the institutional transformation program, and improving effectiveness of inter-governmental fiscal transfers. In addition to the above, the RETF may also support smaller engagements in components I, III, V, and VI. MOF is interested to improve the capacity to monitor progress on PFM reforms (I), continue progress in implementing budget reforms such as PBB and MTEF (III), enhancing capacity of the Inspectorate General (V), and improving capacity in revenue forecasting and analysis (VI). The RETF will initially begin the activities under Component I, III, IV and VIII. New proposals are immediately anticipated for the fifth component on Support to Revenue Administration.

The RETF program would be implementing over three years, coinciding with the end-date for the MDTF as a whole. First year activities - under Components I, III, IV and VIII - have already been drafted and endorsed by the previous Management Committee totaling an amount of approximately \$1,100,000. Any future RETF activities will follow the same review process as those for the BETF, with endorsement by the Management Committee upon presentation of an activity proposal prior to the Meeting. The MOF will assume responsibility for prioritizing activities across directorates and related components before they are submitted to the Management Committee. As many of the activities will likely pertain to training and consulting studies, the results indicators have been designed to reflect this.

D. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The project will be located in Jakarta, mostly at central government offices, but occasionally at local government offices.

E. Borrower's Institutional Capacity for Safeguard Policies

The proposed activities will be focused on improving efficiency, governance, integrity, and transparency of the public financial management system. It will not include any civil works such as construction or infrastructure activities that are linked to the Bank's Safeguard Policies (i.g Environmental Assessment, Natural Habitats , Involuntary Resettlement). Hence, the Client may not need to establish or develop the required Institutional Capacity.

F. Environmental and Social Safeguards Specialists on the Team

Isono Sadoko (GSURR)

II. SAFEGUARD POLICIES THAT MIGHT APPLY

| Safeguard Policies | Triggered? | Explanation (Optional) |
|--|-------------------|---|
| Environmental Assessment OP/ BP 4.01 | No | The project is to support the GOI to improve efficiency, governance, integrity, and transparency of the public financial management system, it will not finance any civil work, therefore impact to environment is unlikely |
| Natural Habitats OP/BP 4.04 | No | |
| Forests OP/BP 4.36 | No | |
| Pest Management OP 4.09 | No | |
| Physical Cultural Resources OP/ BP 4.11 | No | |
| Indigenous Peoples OP/BP 4.10 | No | This RETF will not include implementation of Village Law. Instead, the Bank may provide a limited assistance through the BETF to village governments to strengthen budget execution. Hence, no impact on IP is anticipated. |
| Involuntary Resettlement OP/BP 4.12 | No | |
| Safety of Dams OP/BP 4.37 | No | |
| Projects on International Waterways OP/BP 7.50 | No | |
| Projects in Disputed Areas OP/BP 7.60 | No | |

III. SAFEGUARD PREPARATION PLAN

Appraisal stage ISDS required?: No

IV. APPROVALS

| | | |
|-------------------------------|----------------------------------|-------------------|
| Team Leader(s): | Name: C. Bernard Myers | |
| <i>Approved By:</i> | | |
| Safeguards Advisor: | Name: Surhid P. Gautam (SA) | Date: 20-Apr-2015 |
| Practice Manager/ Manager: | Name: Robert R. Taliercio (PMGR) | Date: 13-May-2015 |

¹ Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.