

**PROJECT INFORMATION DOCUMENT (PID)
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC35572

Project Name	Indonesia EITI Post-Compliance - NR4D
Region	EAST ASIA AND PACIFIC
Country	Indonesia
Sector(s)	Public administration- Energy and mining (50%), Oil and gas (25%), Other Mining and Extractive Industries (25%)
Theme(s)	Other public sector governance (100%)
Lending Instrument	Lending Instrument
Project ID	P157761
Borrower Name	Ministry of Finance
Implementing Agency	Coordinating Ministry of Economic Affairs
Environment Category	C - Not Required
Date PID Prepared	11-Dec-2015
Estimated Date of Approval	01-Jan-2016
Initiation Note Review Decision	The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Indonesia has abundant natural resource wealth with the potential to be a major driver of economic growth and development. The country is rich in both hydrocarbons and minerals, being one of the top ten countries in the world for bauxite, tin, copper, gold and nickel reserves. On the back of a decade long boom in commodity prices, natural resource sector constituted 11% of GDP, over 50% of exports (mining: 22%; oil and gas: 17%) and close to 28.5% of state revenues in 2012. Although at the national level Indonesia is not as resource dependent as other countries, many provinces (outside of Java and Bali, and including but certainly not limited to Papua, East Kalimantan and Riau) are dominated by natural resource activities.

As in many resource-rich countries, public perceptions of the oil/gas/mining sectors in Indonesia are mixed. Most Indonesians are aware that their country possesses huge natural resource potential, and a number of civil society organizations (CSOs) have been active over the past decade in advocating for proper management of this wealth to contribute to broad-based economic development. Despite these efforts, the industry remains largely opaque to the average Indonesian, and long-standing perceptions around corruption and mismanagement plaguing the extractive industries are often reinforced by a deteriorating investment climate, regulatory uncertainty and delayed overhauls of high-level sector policies. These obstacles are more pressing in light of the recent downturn in global commodity prices, which are beginning to put pressure on the government's fiscal balance as well as the medium-term sustainability of current investments.

Despite the challenging medium-term outlook for commodities, the natural resources sector will remain economically significant in Indonesia. With the end of the boom, putting in place good strategies, reducing policy uncertainty, and enhancing transparency (to reduce the space for rent-seeking and corruption) within the natural resource sector will be even more crucial to help convert natural resource wealth into actual investment, collect revenues from the investments, and translate natural resource activities and revenues into desirable sustainable development outcomes.

Sectoral and Institutional Context

The benefits of Indonesia's participation in the EITI are wide-ranging, particularly given the significant role that the extractive industries play in Indonesia's economy. For the government, the EITI can help to identify leakages in revenue collection, and as well as reinforce the government's commitment to anti-corruption efforts and maintaining a stable and transparent environment for future investments in the sector. For companies, participation in the EITI can help improve the often negative public perceptions of the extractives industry, and build trust between companies and the communities in which they operate. For civil society (NGOs, media, academic institutions, etc.), participation in the EITI can help deepen citizens' understanding of the sector, and stimulate meaningful dialogue on how the country's natural resources are being managed for the benefit of all Indonesian people. In addition to the technical expertise required for this undertaking, a strong public outreach strategy for this effort is critical.

EITI-Indonesia has made significant gains in achieving transparency in its oil, gas and mining sectors over the past five years, and the publication of two EITI Reports covering three fiscal years' worth of extractives data (2009-2011) has benefited citizens, governments and companies alike. These achievements are all the more impressive given the deeply complex makeup of Indonesia's extractives sector and the vast number of stakeholders involved.

Relationship to CAS/CPS/CPF

At the country level, support for EITI-Indonesia contributes to several of the World Bank's broader goals outlined in the Country Partnership Framework for FY16-FY20.

Under Engagement Area 2: Energy for All, the CPF identifies "strengthening sector governance and sustainability" as one of four focus areas for the energy sector, as well as "enabling policy formation and investment planning in the gas sector" in particular. Beyond financial and revenue data, EITI Reports provide (often for the first time) policymakers across relevant ministries with a consistent and detailed overview of the oil/gas/mining value chain and highlights gaps and weaknesses in sector management, which can in turn inform subsequent technical support programs by the World Bank (and/or other donors) to address them.

EITI-Indonesia will also contribute to Engagement Area 6: Collecting More and Spending Better through its potential impact on strengthening budget monitoring and oversight at both the national and sub-national levels. In particular, EITI-Indonesia will support WBG's aims of "(i) supporting the revision of selective tax policies (ii) greater effectiveness and efficiency of tax compliance management through a move to a risk-based approach to compliance management; (iii) strengthening and mainstreaming non-tax revenue administration (e.g. mining non-tax)."

II. Project Development Objective(s)

Proposed Development Objective(s)

The objective of the Project is to support the Government of Indonesia's efforts to increase transparency in the oil, gas, and mining sectors, particularly through maintenance of its EITI compliant status.

Key Results

The key results of the proposed grant will be a well-functioning and fully capacitated National Secretariat and Multi-Stakeholder Group capable of meeting the minimum standards for compliance with the EITI Standard, and an expanded ability of stakeholders (within government and civil society) to understand and use the findings of future EITI Reports.

These results will be measured in terms of the following:

- a) Production and publication of the 2014 EITI Report (fourth report) by the end of 2016;
- b) Transition to full, sustainable GOI financing, management and execution of EITI starting 2018;
- c) Outreach and capacity building activities for relevant stakeholders to understand and use findings and recommendations from the 2014 and 2015 EITI Reports.

III. Preliminary Description**Concept Description**

Two previous grants to support EITI implementation were provided to the Coordinating Ministry for Economic Affairs (CMEA) from the Global EITI MDTF (managed by SEGOM/E&E) for a total of \$2,100,000 since 2011. The grants have been financing core requirements for EITI implementation in Indonesia, i.e. staffing and operations of the National Secretariat, production of the annual EITI Report by Reconciler/ Independent Administrator, and communication and outreach activities to publicize findings and recommendations from the Reports. Current grant (TF014993) implementation status is Moderately Satisfactory and is scheduled to be closed at the end of this year. It cannot be extended as its parent TF, the Global EITI MDTF (TF053509) is also closing.

Under the support of the MDTF grants, Indonesia successfully established EITI implementation mechanism as defined per the 2010 Presidential Regulation and published two EITI Reports covering the fiscal years 2009-2011. While Indonesia was declared EITI compliant in October 2014, the EITI Board subsequently suspended Indonesia in February 2015, due to delays in publishing the 2012 Report by end-2014. Currently, work is underway to produce the third EITI Report covering 2012-2013 by end-2015, implementing the expanded EITI Standard for the first time. The Implementation schedule is on track to deliver the Report on time, and the temporary suspension status is expected to be lifted. Going forward, EITI Reports will be published annually.

In response to the GOI request, a third and final grant is proposed to support the transition to pure government financing, management and execution of EITI. Such a transition grant was part of the original DFATD contribution to the ID-EITI Trust Fund (TF072080), while the original proposal had been for the ID-EITI TF to finance the transition year in 2015, with full government management expected to start in 2016. Grant funds were allocated for this purpose, but this had been postponed as previous grants had not been disbursed fully and could finance EITI implementation activities through 2015, such as production of the 2012-2013 Report (third report). The government is not ready to take over the full financing of EITI in 2016, and the new grant is proposed to bridge the transition period. Continued Bank support in 2016 is also recommended, as Indonesia will be undergoing second validation in 2017, and timeliness and quality of the 2014 EITI Report (fourth

report) are critical. The grant is proposed at a reduced amount than previous grants (\$440,000 for two-years) to ensure increased government financing already starts in 2016.

The grant will finance the following activities:

Activity 1) Implementation of the Extractive Industries Transparency Initiative in Indonesia -- measured by the publication of the 2014 EITI Report in 2016, and a successful re-validation of EITI-Indonesia in 2017;

Activity 2) Complete the transition to full Government of Indonesia management, financing and execution of EITI -- measured by training of key staff and MSG members to fulfill their duties, and percentage total funding from Government (currently 15%);

Activity 3) Support the outreach activities of EITI to Indonesia to increase information available to stakeholders and their capacity to understand and use the information -- measured by # of public socialization/training events around EITI and natural resources governance-related themes, and quantitative measures of media exposure.

IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		x	
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	0.44	Total Bank Financing:	0
Financing Gap:	0		
Financing Source			Amount
Indonesia Natural Resources for Development Program			0.44

VI. Contact point

World Bank

Contact: Noriko Toyoda
 Title: Senior Governance Specialist
 Tel: 5781+3293 /
 Email: ntoyoda@worldbank.org

Borrower/Client/Recipient

Name: Ministry of Finance
Contact: Robert Pakpahan
Title: Director General of Budget Financing and Risk
Tel: 62213500841
Email: rpakpah@yahoo.com

Implementing Agencies

Name: Coordinating Ministry of Economic Affairs
Contact: Montty Girianna
Title: Deputy for Energy and Mineral Resources
Tel:
Email: girianna@ekon.go.id

VII. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: <http://www.worldbank.org/infoshop>