



# Concept Environmental and Social Review Summary

## Concept Stage

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

Date Prepared/Updated: 12/21/2021 | Report No: ESRSC02507



**BASIC INFORMATION**

**A. Basic Project Data**

|   |   |                          |                            |
|---|---|--------------------------|----------------------------|
| Country   | Region  | Project ID               | Parent Project ID (if any) |
| Indonesia   | EAST ASIA AND PACIFIC   | P177773                  |                            |
| Project Name  | Indonesia Implementation Support for Carbon Pricing Instruments |                          |                            |
| Practice Area (Lead)  | Financing Instrument  | Estimated Appraisal Date | Estimated Board Date       |
| Environment, Natural Resources & the Blue Economy                                       | Investment Project Financing                                    |                          | 6/24/2022                  |
| Borrower(s)   | Implementing Agency(ies)  |                          |                            |
| Coordinating Ministry for Economic Affairs, Ministry of Environment and Forestry (MOEF) | Coordinating Ministry for Maritime and Investment (CMMAI)       |                          |                            |

Proposed Development Objective

To assist the Government of Indonesia's in the development, piloting and implementation of domestic carbon pricing instruments.

| Financing (in USD Million) | Amount      |
|----------------------------|-------------|
| <b>Total Project Cost</b>  | <b>5.00</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]**

Partnership for Market Implementation (PMI): Country Implementation Support for Carbon Pricing. The project will provide technical assistance to the Government of Indonesia in designing carbon pricing instruments, particularly an emissions trading system (ETS) with potential linkages to offsets in other sectors. The main counterparts are the Coordinating Ministry of Maritime Affairs and Investments, the Coordinating Ministry of Economic Coordination, and the Ministry of Environment and Forestry.



**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 does not directly finance any physical activity on the ground but rather consists solely of technical assistance (TA) activities, which include development of national policies, regulations, rules, guidelines, design, carbon market infrastructure analysis and GHG emissions registry system, and stakeholder consultations for supporting design, piloting and implementation of an Emission Trading System (ETS), Greenhouse Gas Crediting Instrument (Domestic Carbon Offset Program), and analytical work to support the review of Indonesia’s carbon pricing policy mix, including the interaction with the planned Carbon Tax scheme. This project will not involve any physical footprint nor TAs that support preparation of feasibility studies or engineering design for future infrastructure development. The scope of the TA will be defined during project implementation, which will target specific sectors such as the energy, forestry, automotive, textile, ceramic and other key industries deemed relevant to apply carbon pricing instruments. The geographic locations of such sector specific industries will be located nationwide across Indonesia.

The envisaged work streams for PMI technical assistance, as identified in Indonesia’s PMI Expression of Interest (EOI, endorsed by the PMI governing body in July 2021) includes the following areas: i) Support design and implementation of a domestic cap-and-trade program (domestic emissions trading system/ETS); ii) Support development and implementation of the domestic GHG offset program; iii) Review of Indonesia’s carbon pricing policy mix: interaction with the (planned) national carbon tax; iv) Cross-cutting activities: enabling environment for carbon pricing and markets.

Direct environmental and social risks and impacts as result of the TA itself are minimal given the activities do not include preparation of engineering or siting studies intended to be used in future investments. However, there may be potential downstream implications on the environment and social aspects of the TA in designing the national carbon pricing instrument mix (ETS and carbon offset program) which will be defined during project implementation.

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

The Coordinating Ministry for Maritime and Investment (CMMAI) is the implementing agency supported by several technical ministries. The Ministry of Energy and Mineral Resources (MEMR) will lead implementation of ETS, Ministry of Finance (MOF) leading tax efforts, and Ministry of Environment and Forestry (MOEF) leading development of GHG crediting instruments. Each of the leading technical ministries will work in collaboration with other relevant ministries/agencies, and these activities will be monitored and coordinated by the CMMAI with assistance from the Coordinating Ministry for Economic Affairs (CMEA).

The CMMAI has experience working with various international financial institutions including the World Bank especially on the blue economy and the Indonesia Sustainable Oceans Program (ISOP) and has demonstrated its commitment to apply the World Bank Environmental and Social Framework (ESF). Similarly, the MEMR, MOF and MOEF also have past experiences on implementing safeguards policies and ongoing operations applying the World Bank ESF policies such as the transitioning and mainstreaming the Extractives Industries Transparency Initiative (ongoing), strengthening forestry management and emission reduction programs (ongoing five projects), and the Indonesia Infrastructure Development Facility (ongoing) and have demonstrated commitments in applying the ESF into project activities.

Public Disclosure



Representatives of the ministries have participated in various ESF capacity building sessions arranged by the Country Management Unit and the ESF ISU as well as project specific ES clinics supported by the the World Bank task teams. Given the ESF is relatively new to the ministries and in its early stages of implementation, the World Bank will continue building the ministries’ capacity in applying the ESF. A capacity building plan on ESF and appointment of an ES Focal Point will be agreed with the CMMAI, and incorporated into the Environmental and Social Commitment Plan (ESCP). Terms of Reference (TOR) for the ES Focal Point will be developed to define the responsibilities for the overall environmental and social management oversight and ES risk screening of TAs, satisfactory to the World Bank. At the current stage, the ES focal point is planned to be appointed at the CMMAI as the coordinating implementing agency.

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

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

Moderate

**Environmental Risk Rating**

Moderate

The Environmental Risk Rating is moderate. The project will comprise solely of TA activities which do not include any physical works nor TAs that support preparation of engineering studies for future infrastructure development. Hence the potential direct adverse environmental impacts are minimal, and there are no significant adverse risks and issues which are complex, diverse, sensitive and unprecedented. Instead, the project intends to support achievement of long term positive impacts to the environment particularly on reducing GHG emissions and energy consumption, which support sustainable development. The project support for the development of the ETS, carbon offsets and carbon tax schemes will enable the government to set a clear emissions target capping the maximum amount of allowable emissions level. This support will provide the signals and market incentives for GHG emitters to reduce emissions and energy consumption which leads to positive environmental impacts of mitigating climate change and maintaining and/or enhancing carbon sinks. Although the potential direct environmental impacts of carrying out the TA activities themselves are minimal, downstream (positive/negative) environmental impacts are likely when the carbon pricing instruments assessed and delivered by the TA are implemented in the future and stimulate GHG emissions reductions actions/projects carried out in the sectors covered by these instruments (ETS; offset program). These potential downstream risks and impacts are not known at this stage and will be further assessed by the ES Focal Point through preparation of the Terms of References (TORs) for the TAs prior to TA implementation. The TORs for all TA works, to be prepared during project implementation and prior to executing the TA, will emphasize that activities will be carried out in line with applicable ESSs and will identify the risks and describe the required mitigation actions for implementation. Key TORs will be reviewed by the Bank ES specialists. It is also noted that these activities will support the development of the first generation of domestic carbon pricing instruments in Indonesia, hence the potential downstream impacts cannot be easily determined as it involves many underlying factors including the specific sectors involved, although, the project will be able to leverage on lessons learned from the experience of other countries in implementing similar carbon pricing instruments. As such, taking into account of these potential downstream impacts, the environmental risk is rated as moderate.

**Social Risk Rating**

Moderate

The social risk rating is moderate. The PMI support package includes capacity development, policy review and development, technical assessment as well as assistance on knowledge management on national level. The support will be focused solely on TA which does not include physical investment. The project is likely to have minimal or no negative immediate social impacts at this stage. While the planned carbon pricing policy instruments (emissions

Public Disclosure



trading system, domestic offset program, carbon tax) are overall aimed at achieving national decarbonization targets, increasing modernization and competitiveness of industry, sustaining economic growth, and foster green investments, jobs and technologies, the introduction of an (explicit) carbon price in the covered sectors would result in higher prices for carbon-intensive goods and services, with possible unequal distributional consequences between high-income and low-income to poor households. Appropriate instrument design and measures that enable compensation for vulnerable households as well as sustainable use of the carbon revenues and fair distribution of the benefits from the expected environmental quality improvements must be devised to minimize such impacts. Hence, with the potential downstream impacts are taken into consideration, the social risk rating is classified as moderate. Assessment of these potential downstream risks and impacts will be conducted by the ES Focal Point through preparation of TORs for the TAs prior to TA implementation. The TORs for all TA works will emphasize that activities will be carried out in line with applicable ESSs. Key TORs will be reviewed by the Bank ES specialists.

## **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:***

The TA will support the design of a national carbon emissions trading scheme, and enhance the country's carbon market readiness in terms of domestic capacity and institutional architecture to build on the existing government policies and move to the next level of implementation. The support package will focus on design and implementation of a domestic cap-and-trade program, including the national ETS design options and domestic offset policy development. The project will support policy assessment work to facilitate coherent and sound development of GHG offset policy frameworks, in a manner that optimizes domestic offset demand and supports long-term decarbonization objectives in Indonesia. Identification and assessment of interactions with other existing policies and instruments affecting climate policy objectives will also be conducted to prepare the introduction of fuel-based carbon tax code reform. Simultaneously, communication, stakeholder engagement, and capacity building will be carried out to support cross-cutting activities intended to create enabling environment for domestic carbon pricing and markets. The project does not include any physical works, engineering designs, nor will it result in any immediate direct physical investments. The project is likely to have minimal or no adverse direct impacts and intends to achieve long term positive impacts to the environment, particularly on reducing GHG emissions and energy consumption.

The TA may involve potential environmental and social downstream risks and impacts. ETS, carbon offsets and carbon tax schemes may induce increased efforts in the development of environmental friendly or cleaner technologies to improve and/or replace existing technologies initiated by private sector and/or government, which may include fuel type conversion of power engines, energy recovery process, improving energy use efficiency of equipment etc. These downstream development and improvements may potentially generate specific wastes and other emissions, which if not managed appropriately may lead to environmental and social risks and impacts. The potential for these relevant foreseeable downstream risks and impacts should be assessed by the ES Focal Point during the preparation of the TORs. The key TORs for the TAs will be assessed and screened against the applicable ESS requirements.

At the current stage, given the scope and boundaries of the TA will be defined during project implementation, no specific environmental and social risk assessment are required to be conducted. However, the preparation of the



TORs for the key TA activities at project implementation should include a process to screen and incorporate ESS1 requirements commensurate to the foreseeable potential downstream risks and impacts of the activities. The World Bank team will review and clear the TORs to ensure they achieve material consistency with the ESF. The ES risk management of screening and mitigating risks through preparation of the TORs and ES operational oversight will be described in the Project Operations Manual (POM).

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

Not applicable.

**ESS10 Stakeholder Engagement and Information Disclosure**

The implementation of ETS will be led by the MEMR, while the Carbon Tax efforts will be led by the MOF, and the GHG Crediting instruments will be led by MOEF. Each of the leading technical ministries will work in collaboration with other relevant ministries/agencies, and these activities will be monitored and coordinated by the CMMAI with support from the CMEA. According to these institutional arrangements, the development of the project plans will be conducted in consultation with various stakeholders from government and private sectors. Several stakeholders’ consultations workshops, dialogue, roundtables, etc. were conducted during the project preparation and will be continued throughout implementation phase to ensure that all parties fully understand the planned project activities and appropriately benefit from the capacity building and/or technical assistance provided by the project.

For this purpose, a Stakeholder Engagement Plan (SEP) will be prepared as early as possible during project preparation and will continue to be enhanced as the project is being designed. The SEP is expected to serve as a living document and disclosed prior to appraisal. The content of the SEP should be developed in accordance with the ESS 10 requirements which includes (i) description of the project and its environmental and social risks (ii) a list of identified stakeholder groups (iii) the proposed stakeholder engagement program (iv) indication of resources required and the responsibilities for implementing stakeholders for engagement activities (v) summary description of grievance mechanism and (vi) contact information. The SEP will describe the timing and methods of engagement of stakeholders throughout the life cycle of the project. In addition, information disclosure regarding the project should be made accessible to the stakeholders before the appraisal. The SEP will be designed so it will promote broad stakeholder engagement and participation in the design and implementation of the ETS, domestic GHG offset program as well as policy level discussions on environment for carbon pricing and markets overall through meaningful consultation.

**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. The project will involve direct workers (government civil servants) under the CMMAI, MEMR, MOF, MOEF, and CMEA, as well as workers contracted by the PIU. Community workers are not involved in the project. Hired government staff under the project will adhere to the national civil servant codes and practices by which the Government of Indonesia labor laws have been ratified against the principles of the International Labor Organization. Risks of labor on contracted workers are considered low given that the consultants engaged by the project activities will be hired using the implementing agencies’ procurement policies and procedures that will be assessed by the



Bank to meet requirements of ESS2 as part of its due diligence. There are no vulnerable workers such as migrant workers or low-wage workers who may face discrimination on the basis of gender or disability. No physical works will be financed under the project to which there would be no labor risks related to construction works.

The relatively low risks associated with the labor and working conditions of project workers will be addressed through preparation of fit-for-purpose Labor Management Procedures (LMP) complying with requirements of ESS2 (including with regards to prevention of child and forced labor, management of Occupational Health and Safety (OHS), fair and equal opportunity for hiring process and pay, and workers grievance mechanisms). The fit-for-purpose LMP will be prepared by the CMMAI and cleared by the World Bank prior to the hiring of project workers.

Potential health risks to project workers due to exposure to COVID-19 will be mitigated through employing virtual meeting formats to the extent possible. Relevant precautionary health measures when commuting to and working in office spaces will include the provisions of and use of Personal Protective Equipment, where necessary, consistent with the protocols assigned by the government and good available practice guidelines on prevention of COVID-19 transmission. COVID-19 protocols will be specified in the relevant instrument prior to appraisal.

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

ESS3 is currently relevant. The project intends to achieve long term positive impacts to the environment particularly on reducing GHG emissions and promoting efficient use of energy and resources. There are minimal or negligible direct impacts of the TA activities. The potential for downstream impacts in relation to pollution, emissions, and risks of reversals, will be defined during project implementation through preparation of TORs for key TA activities. Screening and incorporation of relevant ESS requirements will be performed during preparation of the TORs. The TORs will be reviewed and cleared by the World Bank to ensure they achieves material consistency with the ESF.

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

ESS4 is not relevant. The TA activities do not involve preparation of engineering design studies intended for use in future physical investments (construction works). Also, the TA activities will not involve any interaction between communities and project workers. Hence, the activities are not anticipated to cause any direct impacts on community health and safety.

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

ESS5 is not relevant. As the project does not involve any physical activities, the project will not finance activities that would require land acquisition or access rights such as for easement (short -term or long-term), or lead to physical or economic displacement.

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

ESS6 is not relevant. There are no civil works planned under the project. The TA activities do not involve preparation of engineering design or siting studies intended for future physical investment (construction works). Hence, the



project activities are not anticipated to cause direct risks and/or impacts on natural or critical habitats, forests or other areas of biodiversity importance.

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

ESS7 is not relevant. The TA activities do not involve engineering design or siting studies, will not require the deployment of project workers to indigenous communities, and are not anticipated to have any adverse impacts on indigenous people.

**ESS8 Cultural Heritage**

ESS8 is not relevant. The project does not involve civil works or physical activities, hence will not affect physical cultural heritage resources.

**ESS9 Financial Intermediaries**

ESS9 is not relevant. The project does not involve financial intermediaries.

**C. Legal Operational Policies that Apply**

**OP 7.50 Projects on International Waterways**

No

The project is not located in any international waterways, and does not finance any activities that may impact such waterways.

**OP 7.60 Projects in Disputed Areas**

No

This project is not located in disputed areas (as per definition of OP 7.60)

**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)**

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

- Environmental and Social Commitment Plan (ESCP)
- Stakeholder Engagement Plan (SEP)
- Fit-for-purpose Labor Management Procedures (LMP)
- Terms of Reference (TOR) for Environmental and Social Focal Point, defining responsibilities for the overall environmental and social management oversight, including ES risk screening of TAs and supporting preparation of TORs for the TAs, satisfactory to the World Bank

Public Disclosure





All the above documents will be prepared, consulted and disclosed by CMMAI prior to end of appraisal.

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

- Appointment of Environmental and Social Focal Point for the project by CMMAI to undertake ES risk screening of TAs and supporting preparation of TORs for the TAs as per the ES Focal Point TOR agreeable to the Bank
- Environmental and social monitoring and oversight by CMMAI consistent with relevant ESSs
- Training and capacity building on ESF requirements for the Focal Point, and other relevant ministerial staff

**IV. CONTACT POINTS**

**World Bank**

Contact: Andre Rodrigues de Aquino Title: Senior Environmental Specialist

Telephone No: 5781+3218 / 62-21-52993218 Email: adeaquino@worldbank.org

Contact: Habib Nasser Rab Title: Lead Economist

Telephone No: 5781+3077 / 62-21-52993077 Email: hrab@worldbank.org

Contact: Marcos Xavier Castro Rodriguez Title: Senior Environmental Specialist

Telephone No: +1-202-473-2238 Email: mcastrorodriguez@worldbank.org

**Borrower/Client/Recipient**

Borrower: Coordinating Ministry for Economic Affairs

Borrower: Ministry of Environment and Forestry (MOEF)

**Implementing Agency(ies)**

Implementing Agency: Coordinating Ministry for Maritime and Investment (CMMAI)

**V. FOR MORE INFORMATION CONTACT**

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 473-1000

Web: <http://www.worldbank.org/projects>

**VI. APPROVAL**

Task Team Leader(s): Habib Nasser Rab, Andre Rodrigues de Aquino, Marcos Xavier Castro Rodriguez

Public Disclosure



Practice Manager (ENR/Social)    Janamejay Singh Recommended on 15-Dec-2021 at 02:07:42 GMT-05:00