Indonesia Country Report 2015
WAVES – Global Partnership for Wealth Accounting and Valuation of Ecosystem Services

Wealth Accounting and Valuation of Ecosystem Services (WAVES) is a global partnership led by the World Bank that aims to promote sustainable development by mainstreaming natural capital in development planning and national economic accounting systems, based on the System of Environmental-Economic Accounting (SEEA). The WAVES global partnership (www.wavespartnership.org) brings together a broad coalition of governments, UN agencies, nongovernment organizations and academics for this purpose. WAVES core implementing countries include developing countries—Botswana, Colombia, Costa Rica, Guatemala, Indonesia, Madagascar, the Philippines and Rwanda—all working to establish natural capital accounts. WAVES also partners with UN agencies—UNEP, UNDP, and the UN Statistical Commission—that are helping to implement natural capital accounting. WAVES is funded by a multi-donor trust fund and is overseen by a steering committee. WAVES donors include—Denmark, the European Commission, France, Germany, Japan, The Netherlands, Norway, Switzerland, and the United Kingdom.
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Background and Rationale

The Government of Indonesia (GoI) recognizes that natural resources and environmental issues are key development challenges, and that failure to address sustainability risks will threaten economic growth, development outcomes and poverty reduction. Among these environmental issues, climate change, rapid depletion of natural resource stocks, and degradation of environmental quality are key threats to Indonesia’s sustainable development.

As a contributor to climate change and a country likely to significantly experience its impacts, Indonesia has high stakes in climate change issues. The country is highly vulnerable to climate change, including from sea level rise, changing weather patterns, and increased uncertainties, especially around agricultural prospects—all of which disproportionately impact the poor. At the same time, Indonesia’s contributions to global greenhouse gas (GHG) emissions are non-trivial, resulting primarily from land use change, deforestation, peat lands conversion, and fires. Rapid growth in fossil fuel based energy use is also contributing to rapid growth in emissions (faster than growth in output), especially from power generation, manufacturing and transport—although there are also increasing investments in renewable energy sources.

Since hosting UNFCCC COP 13 in Bali, the GoI has prioritized its climate change actions. In 2009, the GoI committed to reducing its carbon dioxide (CO₂) emissions by 26 percent from the business as usual trajectory by 2020, and further committed to emissions reductions of 41 percent if international financial support was made available. Emissions from deforestation and degradation represent 87% of Indonesia’s total emissions. The GoI has codified its commitments in Presidential Regulation No. 61/2011—the National Action Plan for Green House Gas Emission Reduction (RAN-GRK)—which provides a solid basis for development planning and budgeting, to take advantage of key climate mitigation opportunities. Following the declaration on emission reductions, in May 2010 the GoI and the Government of Norway (GoN) signed a Letter of Intent (LoI) to establish a partnership on reducing emissions from deforestation and forest degradation (REDD+) while enhancing forest carbon stock and managing forests in a sustainable manner (including peat lands). The REDD+ partnership aims to cut emissions in the land-based sector. The GOI has now launched a ground-breaking national program for REDD+ and established the REDD+ Agency in charge of coordinating the implementation of the National REDD+ Strategy.

The commitment to reduce GHG emissions marked a significant beginning of the shift toward an overall green economy. Since then, a set of central government policies and programs to implement this commitment has been adopted and budgeted through ministries and central government agencies. By 2014, all 33 provinces of Indonesia had their climate change mitigation programs and investments budgeted and under implementation. In early 2014, the GoI also launched the National Action Plan for Climate Adaptation (RAN-API).

With climate change preparation advancing, the GOI sees ‘greening’ the overall development path as the next milestone toward sustainable development. Green development is an emerging idea designed to reverse unsustainable environmental trends, reduce resource and pollution constraints that undermine growth, and shift investment toward sectors with long term sustainability potential. Indonesia also recognizes that many of its regional trading partners and important markets are ‘going green,’ so green development is also an issue of competitiveness. Green development is an inclusive approach that encompasses not just low emissions development and adaptation to climate change, but also issues related to energy, natural resource management, urbanization and quality of life, as well as connectivity, trade and
competitiveness. Green development approaches also need to consider inclusiveness and potential effects on marginalized groups. Green development issues need to be dealt with in the planning and resource allocation sphere where political-economic tradeoffs are explicitly considered and transparently communicated.

Furthermore, the new GoI’s Nine Priorities Agenda (Nawa Cita) includes the goal of “strengthening the rural areas within the framework of a unitary state of Indonesia”. Land issues are high on the GoI’s agenda, as most recently signaled by the formation of a Ministry of Agrarian Affairs and Spatial Planning (MoASP), and the Ministry of Environment and Forestry (MoEF), and by ongoing reforms that are manifested in key government processes and constitutional court decisions dealing with tenure and spatial issues. This is also consistent with the GoI’s commitment to reducing greenhouse gases by 26 percent by 2020.

The GoI is now preparing the analytical foundation and main directions for the next National Medium Term Development Plan (known by its Indonesian acronym: RPJMN) for the period 2015–2019, which is being designed with the theme of sustainable development. To inform the next RPJMN, the GoI seeks to build a strong rationale for a strategic green development agenda—for legislators, line ministries, the private sector and the public.

In 2012, both the National Development Planning Agency (Bappenas) and the Ministry of Finance (MoF) requested World Bank (WB) support to plan for greener growth. This particular request focused on Green development planning and budgeting in the context of the next RPJMN. To accommodate the request, a green Development Program Concept Note was developed as the umbrella for green programs by the World Bank in Indonesia.

The WB, in collaboration with other donors, is supporting Indonesia to enhance water security for agriculture through institutional reforms, improvements in infrastructure, and modernization of irrigation management. The WB also supports the implementation of Indonesia’s REDD+ strategy and forest decentralization strategies. The move toward green economy thinking creates a strategic opportunity to develop and deliver more integrated policy advice, technical assistance, and capacity building to key government agencies. A landscape approach will help the Government to deliver high quality and unified analytical products, in support of Indonesia’s reform agenda. Supporting Indonesia’s program of reform will require inputs from experts in the fields of land administration, agriculture, forestry, energy, water, environment, and economic management. A cross-sectoral landscape approach in delivering analytical and advisory services on policies, data and international best practices, will foster collaboration and will help to identify the synergies across the landscapes.

As requested by Bappenas, a just-in-time analytical work was provided by the World Bank under the Green Development Support Program, to inform planning of a broad range of green development initiatives in the RPJMN 2015–2019, in line with the plan’s three major themes: (i) food security; (ii) energy security; and (iii) water security. This discrete set of inputs aims to strengthen the analytical basis for alternative investment patterns, and to align incentives across priority sectors to promote green development. The work includes preparation of a framework for greening the overall macro-economic policy narrative on the challenges, opportunities and trade-offs in integrating the triple sustainability objectives into the RPJMN. It also includes preparation of five sector policy briefs that outline the nature of trade-offs and key policy opportunities, to facilitate implementation of green development in those priority sectors. Sectors identified for this analytical work include: Agriculture, Forestry, Energy, Industry and Transport. The overall work is expected to provide the rationale and economic justification for a significant
policy shift toward more green and inclusive growth, based on a thorough understanding of the current trends, future risks, and trade-offs. The output of the analytical work was delivered to the GoI in August 2014, before the new government administration took place.

The macro-economic policy analysis, produced under the Green Development work, has shown that the Indonesian economy has been growing on a ‘brown path’. The significant amount of GDP generated from the exploitation of the country’s natural resources has yet to be invested wisely to improve the quality of the environment, maintain sustainability of natural capital, or increase human capital. The trend of Indonesia’s Adjusted Net Saving (ANS) has invited a lot of attention and questions about its representativeness and validity in the absence of a well-established and officially used natural capital accounting system to gauge and the sustainability of economic growth.

Project Context and Rationales

As a continuation of the Green Development analytical work, the GoI, led by Bappenas, officially expressed its interest in joining the Wealth Accounting and Valuation of Ecosystem Services (WAVES) Global Partnership, managed and administered by the World Bank at the global level. The Deputy for Natural Resources and Environment of Bappenas submitted the Letter of Interest (LoI) in October 2013. Shortly afterwards, Indonesia became one of the partner countries in the Global Partnership Program (GPP) for WAVES. The WAVES GPP promotes implementation of Natural Capital accounting (NCA) in 6–10 developing and developed countries over a five year period. The objective of the WAVES GPP is to promote sustainable development by ensuring that natural resources are mainstreamed in development planning and national economic accounts.

The World Bank has since committed to supporting the GoI in the implementation of Indonesia’s WAVES Program (INDO-WAVES), under the framework of the Green Development Support Program. The first year of the program, or the initial stage, consisted of scoping studies and stakeholder consultations aimed at identifying the natural capital and ecosystem accounts linked to the GoI’s policy priorities. In addition, a feasibility assessment was conducted to confirm the scope, institutional arrangements, work plan, and resources needed for program implementation over the next four years.

Indonesia was identified as one of the WAVES pilot countries based on the following reasons:

i. Indonesia is in a good position to embrace the WAVES Program. It launched a series of attempts to implement NCA in the early 1980s and has consistently made efforts to increase its importance (albeit with slow progress). This ultimately culminated in the 1997 release of the annual series ‘Indonesia’s Integrated System of Environment and Economic Accounting (SEEA),’ known as SISNERLING, and based on the SEEA 1993 standard;

ii. The GoI has committed to shifting its economic development trend onto a greener or more sustainable development pathway, in line with the key theme of the next RPJMN;

iii. The WAVES Program investment in Indonesia will complement the planned investment by the GoI to strengthen its SEEA as part of its System of National Accounts (SNA), during the course of the next five years and beyond. Bappenas has explicitly included the strengthening of SEEA into the design of the next RPJMN in support of green growth and better monitoring of environmental quality. The Program will provide important data, indicators and policy analyses, to inform the planning process and policy decision making, and to help monitor their implementation.

The proposed INDO-WAVES Program contributes to the World Bank Country Partnership Strategy (CPS) for Indonesia for FY 2013–2015, as well as the one of 2015–2019, which is currently
being developed. It seeks to accelerate Indonesia’s sustainable development efforts through the pro-growth, pro-jobs, pro-poor, and pro-green development priorities established in the CPS. The Project also addresses the pro-green agenda for enhanced sustainability in natural resource management by developing and institutionalizing indicators to inform sustainable development policy and planning.

The Indonesia WAVES Program is designed to complement and strengthen the ongoing Green Development Analytical Work and the policy dialogues on the green development agenda. This leads to the proposed scope of strengthening the existing environmental economic accounting system and the development of more robust macroeconomic sustainability indicators.

The development of the WAVES Program components is also done consistently with the World Bank’s new Landscape Strategy that is being developed to support the National Development priorities of the new government administration. The main areas covered in the Landscape Program are:

i. Significant improvements in integrated land-based information systems, including all information related to spatial planning, tenure, land use, and cadaster systems;

ii. Improvement in spatial planning processes and accelerated of completion of sub-national spatial plans, including for all peat and coastal low lands;

iii. Improvement in the tenure system and the integration of indigenous people’s lands into the national One Map and One Data systems;

iv. Improvement in forest and non-forest land management, which includes better rationalization and efficiency of overall land use across all land-based sectors (forest, agriculture, conservation, mining);

v. Review of existing land use licenses and the licensing system, to ensure better coordination and use of a common reference map;

vi. Resolution of existing land conflicts (use, rights, allocations, etc).

Furthermore, the WAVES Program aims to provide a platform for addressing water security issues (in terms of quantity and quality), in line with the national priorities identified in the RPJMN 2015–2019. Under the RPJMN framework, the GoI also expects to links issues of water security more directly with renewable energy contributions to the country’s overall energy portfolio. This serves as a basis for developing water accounts with the support of WAVES.

The implementation of the Indonesia WAVES Program will be coordinated with other WB ongoing works on REDD+ and Forestry (REDD+ Support Facility, FIP – FMU Project, and Bio-CF and FCPF Carbon Fund), land governance and administration, water, agriculture and irrigation, as well as the marine and fisheries program.

The Program will also be linked and coordinated with other relevant WB projects across the practices. Particular components of the program will also provide cross support and use the results of work on calculations of Indonesia’s Adjusted Net Saving (ANS) conducted by the Macro Fiscal Policy team. Other relevant WB projects related to natural capital and environmental accounting would be the Extractive Industries Transparencies Initiative (EITI), which focuses on extractive industry data gathering and economic analyses; and the Capturing Coral Reef and Related Ecosystem Services (CCRES) project—funded by the GEF program—that includes a marine resource accounting experiment in CTI-COREMAP sites. The WAVES
Program will strengthen and complete the non-mineral and energy accounts as they have been covered by the National Statistics Agency’s (BPS) Program and WB-managed EITI Program.

Furthermore, the Program will be coordinated with related work by other international organizations, most notably the newly launched initiative for advancing the System of Environmental-Economic Accounting (SEEA) – Experimental Ecosystem Accounting (EEA). The project is supported by the Government of Norway and carried out by the United Nations Statistical Division (UNSD), the United Nations Environment Programme (UNEP) TEEB Office, and the Secretariat of the Convention on Biological Diversity (CBD). The project will review data availability and measurement practices and develop plans for advancing Ecosystem Accounting in pilot countries. The pilot countries include Bhutan, Chile, Indonesia, Mauritius, Mexico, South Africa, and Vietnam. WAVES-Indonesia will coordinate closely with this project to see that the combined work plan supports the GoI in the best way possible, and allocates resources in an efficient way. To this end, WAVES and the UNSD/UNEP/CBD team coordinated missions in the middle of April 2015.

1| Project Development Objectives and Expected Outcomes

At the global level, the goal of WAVES is to promote sustainable development worldwide through the development of natural and ecosystem accounts and the establishment of clear links between valuations of these natural assets with national wealth and income. The Program also promotes the implementation of the UN’s 2012 SEEA, and the use of natural and ecosystem accounts in development policy analysis and planning.

1.1| Development Objectives

The Indonesia WAVES Program will support the GoI to strengthen and expand the existing system of natural capital and environmental accounting, and to institutionalize its use to inform development planning and policy analyses. The key Program Development Objectives (PDOs) are to enable the GoI to regularly and systematically:

i. Implement natural capital accounting

ii. Use the developed accounts in policy analysis and development planning

The WAVES Program also aims to provide tools for development planning (i.e. spatial, sector, resource utilization) and to support implementation of the National Development Priorities as designed in the RPJMN 2015-2019 under coordination of Bappenas. In order to achieve the objective, the program will build on the GoI’s existing program of Integrated Accounts for Environment and Economy (SISNERLING), which currently focuses on the mineral, energy and forest sectors, implemented by the BPS. The work also aims to support and thus be linked to the implementation of the One Data Program, coordinated by the Presidential Delivery Unit (aka UKP4/Presidential Working Unit for Supervision of Development Implementation). The WAVES Program will provide support to:

i. Strengthen and improve the existing SISNERLING data system and the institutionalization of its use;

ii. Apply economic valuation techniques to natural capital accounts to inform policy aimed at strengthening fiscal regulations, government revenue, and re-investment planning, as well as policy analysis on the sustainable use of key natural resources;
iii. Establish/strengthen Adjusted Net Saving (ANS) calculations as key macroeconomic indicators for measuring and monitoring growth resilience;

iv. Establish SEEA-based land accounts;

v. Adopt an SEEA-based framework for establishing national water accounts by piloting a provincial level water account.

1.2| Expected Key Outcomes

The successful implementation of the WAVES program is expected to enable the GoI to:

i. Increase the regularity, completeness and quality of ANS and the valuation of natural capital, which can feed into macroeconomic, sector development, and revenue and investment planning by Bappenas and MoF as well as improve environmental management by the former Ministry of Environment (now Ministry of Environment and Forestry or MoEF);

ii. Implement policy recommendations for the optimization of natural resource utilization to sustain government revenue flows, and for transitioning income generating capacity from non-renewable resources to more sustainable forms of productive capital;

iii. Institutionalize and sustain the implementation and adoption of SEEA into Indonesia’s statistical and development planning system.

Specific expected outcomes from each of the program components are listed and explained within the scope of work.

1.3| Program Beneficiaries

The key government counterparts or the main beneficiaries of the INDO-WAVES Program are Bappenas, BPS, MoEF, and MoF, which will receive support for the compilation of natural capital accounts and policy analyses in priority sectors.

2| Scope and Timing of Work

The design of the Indonesia WAVES Program is based on the three overarching goals of WAVES country programs: (i) institutionalization of Natural Capital Accounting (NCA); (ii) incorporation of NCA into policy analysis and development planning; and (iii) some cross-cutting outcomes in the integration, dissemination and coherent uses of NCA among government agencies. More importantly, the scope of work is built around Indonesia’s development priorities under the sustainable development agenda. The program will provide support for developing tools and capacity needed for generating economic valuation of natural capital, to analyze sustainability of economic growth.

The scope of work of this Program is organized around three key components, and one cross cutting component necessary for institutionalizing NCA. Each of the components will start at a different time during the course of the program. Component 1, which is the prioritized area of support, will start when the Indonesia WAVES Program begins implementation. This component will serve as a strong base for components 2 and 3 to start at a later stage. The summary of the proposed key components can be found in Table 1 below. These components were identified
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<th>No.</th>
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<th>Policy questions</th>
<th>Gov Policy Priorities</th>
<th>Expected Output</th>
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| 1.  | Improvement of Indonesia’s SEEA-based SISNERLING and Development of Macroeconomic Sustainability Indicators | 1. At which rate is Indonesia’s natural assets being depleted?  
2. Does Indonesia have a sufficiently credible and integrated data system to show the stock and depletions of natural assets for development planning?  
3. Does Indonesia has a common reference data system to be used for planning natural resources revenue (to be used by the MoF, Bappenas, Ministry of Energy and Mineral Resources)?  
4. Is GoI capturing the right level of economic rents from its natural resources?  
5. How long can the GoI expect the revenue stream from each of the natural assets?  
6. How can the MoF influence the utilization rate and reinvestment plan to ensure sustainability of revenue stream? | • One Data Program: this is part of GOI on-going priority effort since 2011 to improve economic governance, coordination and decision making through data integration across technical ministries/ institutions.  
• The MoF initiatives on strengthening fiscal regulation for revenue planning from natural capital and re-investment to ensure non-declining income generating capacity | 1. Improved quality of SISNERLING data base  
2. Upgraded SISNERLING into 2012 SEEA standard  
3. Capacity building and technical assistance for Application on economic valuation of natural capital  
4. Institutionalization of the improved SISNERLING for national NCA statistics, economic valuation, and policy analyses |

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| 1.2 | Development of macroeconomic sustainability indicators | 1. How sustainable is Indonesia’s growth?  
2. Is GoI investing enough to sustain its revenue from natural resources?  
3. Is Indonesia investing enough to maintain positive growth?  
4. How is the income generating capacity being transformed from renewable and non-renewable resources into other form of productive capital? | • Sustainable Development Priorities in the RPJMN 2015-2019:  
• The GoI’s Commitment in RPJMN to strengthen Environmental Quality Index towards a better system for environmental quality monitoring  
• Ensuring the sustainability of growth by monitoring ANS | 5. Establishment of macro-economic sustainability indicators  
6. The institutionalization of the macroeconomic indicators as the official tool to inform development policy and monitor the sustainability of growth and government revenue stream  
7. Policy study focusing on optimizing natural capital extraction to improve the revenue and on strategies to transition productive capital from non-renewable natural resources capital to more sustainable form of productive capital in order to ensure sustainable economic growth |
| 2   | Development of Land Accounts (new) *(To start preparation the second semester after implementation starts)* | 1. How can Indonesia better utilize its land-based resources to make it feasible to grow by 8% p.a. until 2030 while ensuring food, water and energy security?  
2. Is there an integrated and credible data system on land-based bio-physical information for land use planning? | • Improving overall Land Governance, Land use licensing and Administration through:  
   i. One map program  
   ii. Spatial planning completion  
   iii. Reform of land use licensing system | 8. National Land Account established  
9. Capacity Building and institutionalization of Land Account  
10. Policy analysis to inform the land use policy and management policies |

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### Table 1. Proposed Key Components and Linkage to National Development Priorities (continued)

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| 3.  | Development of Framework for Water Account to address water security issues (to start not earlier than third semester of WAVES implementation): | 1. Will Indonesia have enough supply of water to support food security and contribute to energy security within the next 5–25 years?  
2. What are the proportion of Indonesia’s food production areas that is now under ‘water stress’ condition?  
3. What are the investments needed to reduce the risk of water insecurity? | v. Recognition of indigenous community’s land rights  
vi. Increase coverage of cadastral maps  
vii. Transparency in land value appraisal  
**GoI’s commitment** on achieving the targeted GHG emissions reduction through REDD+ and other land and forestry programs | Water Security as one of the National Priority Issues in the RPMN 2015–2019.  
11. Analytical Work on Strategic Framework for National Water Account (adoption of SEEA framework and guidelines for Indonesia’s context)  
12. Preliminary Provincial Water Account for selected pilot province |

- Policy studies, e.g. (to be prioritized through feasibility assessment) for (i) land use planning, (ii) agriculture and infrastructure expansion planning, (iii) mitigating and managing land-based conflicts; (iv) managing land cover for carbon sequestration purposes; (v) managing/monitoring land transactions and pricing information; (vi) land taxation [Note: best case example: South Korean land information and administration system.]

3. Given the need of lands for agriculture, infrastructures and other production sectors, what is the balance of (and how to plan for) ‘development space’ vis-à-vis ‘conservation space’ under the reality of biophysical condition of land resources (mineral, alluvial, peat, upland, lowland)?

4. Given government infrastructure investment that raises land values, is government appropriating the right level of land rent/tax?

- Recognition of indigenous community’s land rights
- Increase coverage of cadastral maps
- Transparency in land value appraisal

- GoI’s commitment on achieving the targeted GHG emissions reduction through REDD+ and other land and forestry programs

Lead Agency: BAPPENAS

Steering Committee: BAPPENAS, BPS, MINISTRY OF FINANCE, and MINISTRY OF ENVIRONMENT AND FORESTRY
through consultations with the GoI and various Ministries. Further elaborations on each component can be found below.

2.1| Key Components

Component 1: Improvement of SEEA-based SISNERLING and Development of Macroeconomic Sustainability Indicators (to start when program implementation begins).

The WAVES Program will support the production of macroeconomic sustainability indicators, thus improving and extending the existing estimated of ANS at the national level. This information will be critical for policy analysis on the sustainability of current and predicted growth patterns, and will will help to inform sector development strategies.

This component builds on the key recommendations of the Macroeconomic Narrative produced under the Green Development Support Program with Bappenas and the NCA/ANS work of the World Bank Economic Team. One of the key recommendations cutting across the different sector briefs is the need for improvements in the collection and availability of environmental indicators in Indonesia. The macro narrative argues that such indicators can then feed into the monitoring and evaluation (M&E) of policies in support of a Green Development Agenda, as part of the broader M&E systems put in place to inform performance assessment and results-based management of the RPJMN implementation.

The macroeconomic narrative further emphasizes that, although a range of environmental and natural resource indicators are currently collected by different institutions in Indonesia, their quality and coverage lag behind the economic and social indicators of the other two pillars of sustainable development. Since 1997, BPS has been developing annual asset accounts for forest resources, minerals and energy (the SISNERLING), using the SEEA 1993 framework. Adjusted net savings statistics were adopted in 2000. In addition to the range of environmental and sustainable development indicators produced by BPS, other institutions, such as the MoEF (for example, for the Environmental Quality Index) and UKP4 (on One Map and One Data), produce their own statistics and data. Therefore, there is a need for a holistic macroeconomic sustainability indicator for Indonesia.

Based on these key recommendations, this particular component will provide Technical Assistance (TA) to: (i) improve the current SISNERLING and strengthen it to become the main NCA reference; (ii) develop/strengthen macroeconomic sustainability indicators; and (iii) apply economic resource valuation for better revenue and economic growth planning. It is necessary to prioritize component 1 at the beginning of the program as a way to create a strong basis for the other two components. At this stage, it is necessary to thoroughly assess the existing SISNERLING system from the SEEA 2012 perspective and to recommend the necessary steps and ways to improve the data collection and processing systems. Existing data collection and processing systems may need to be improved for consistency and comparability across time and usage. A strengthened and updated SISNERLING that is following the SEEA 2012 standard will add to the appeal of making it an integrated data system and a common reference for uses by related government offices. Support for this component aims at improving the existing NCA data collection and processing system, not to finance the data collection process.

The more specific items under this component will be subsequently delivered through the following sub-activities:

Component 1.1. Improvement of SEEA-based SISNERLING and Application of Economic Valuation of Natural Capital – The initial phase of this work will use the existing SEEA-based SISNERLING that was developed by BPS in 1997. Since then, the BPS has been developing
annual asset accounts for timber resources, minerals and energy by using the SEEA 1993 framework. Building on this work, the WAVES program will help strengthen the current asset accounts through the following activities that will be implemented in sequence:

- Improving of data collection systems, focusing on the quality and consistency of resource stocks and depletion numbers, for the economic valuation of natural capital
- Upgrading the existing SISNERLING (1993 SEEA standard) to the 2012 SEEA standard
- Institutionalizing the SISNERLING as an integrated data system for national NCA and as the main official reference for all NCA statistics and valuation
- Supporting the application of Economic Valuation of Natural Capital.

The support for application of economic valuation of natural capital will focus on: (i) Application of natural capital valuation based on the standardized SEEA methods and natural capital data that will be consolidated and accessed through the BPS data collection system; (ii) Analytical input to government revenue and re-investment planning; and (iii) development of policy that links fiscal rules to natural capital utilization. The support will be provided in the form of technical assistance.

The expected outputs of this component are:

i. Improved quality of SISNERLING data base
ii. Upgraded SISNERLING into the 2012 SEEA standard
iii. Capacity building and technical assistance for applying the economic valuation of natural capital
iv. Institutionalization of the improved SISNERLING for national NCA statistics, economic valuation, and policy analyses.

Component 1.2 – Development of macroeconomic sustainability indicators: The improved data system will then be used to develop/strengthen macroeconomic sustainability indicators namely the Adjusted Net Saving (ANS). This work will be linked with the work of the Macroeconomic and Fiscal Policy (MFP) Team at the World Bank, on ANS estimation based on resource depletion, saving and investments in Indonesia.

The expected outputs under this sub-component include:

i. Establishment of macroeconomic sustainability indicators;
ii. The institutionalization of the macroeconomic indicators as the official tool to inform development policy and monitor the sustainability of growth and government revenue streams;
iii. Policy study focusing on optimizing natural capital extraction to improve revenue, and recommending strategies to transition productive capital from non-renewable natural resources capital to more sustainable forms of productive capital, in order to ensure sustainable economic growth.

Component 2: Support to development of Land Accounts to inform land use planning and policy: With regards to the land-based sector, the proposed assistance under the WAVES Program is to support the improvement of overall land and forestry governance, land use licensing and administration, which includes the development of land cover and use accounts at the national level. This information could be used to identify trends in land use changes and to predict the development impacts of potential future land use changes. Time wise, it is practical
to start this component after component 1 has been implemented and reached the point when ways to improve data collection and processing systems have been identified. The focus of this component is to support the development of land accounts—as a new natural capital account—following the SEEA 2012 standard as closely as possible from the very beginning of its construction, as this will be a new addition to the existing SISNERLING.

The support to develop the Land Account is consistent with the WB’s new Landscape Strategy, which is being developed to support the new government administration. The Landscape Strategy, if adopted, will enable the GoI to better coordinate and consolidate all aspects of land governance, management and administration. The Landscape Program aims to support the Government with the development of a suite of policy, advisory, financing, and investment solutions, in order to accelerate ongoing reforms of the regulatory framework for overall land governance, and land-based policies within the land, spatial planning, agriculture and forestry sectors, as well as cross cutting policies linked to water, irrigation, peat land and fire management, and ultimately also to energy and mining activities. Improving overall land governance, land use licensing and administration have been high on the GoI’s list of policy priorities since 2010, with the beginning of preparation for REDD+ (Reducing Emission from Deforestation and Forest Degradation) implementation.

Therefore, the development of Land Accounts under this work will be structured under the Landscape Programmatic Approach within the World Bank Indonesia. The land-based sector will then be linked to water resources work under the Landscape coordination. The work will also be closely coordinated with the ongoing One Map and One Data programs as well as the policy dialogue on REDD+ and other relevant WB projects. The latter will be linked with the work under the REDD+ Support Facility (RSF) Program supporting the REDD+ Agency in its function to coordinate the National REDD+ Efforts related to Land governance issues; and work under the Forest Investment Program and Forest Carbon Partnership Facility Carbon Fund (FCPF-CF), which directly support the MoEF on Land use and management efforts.

Based on identification processes and consultations with government counterparts, activities under component 2 will include:

- Development of Land Accounts (using the SEEA 2012 standard) to measure the extent of land use—in terms of quantity and quality—to optimize land use and to inform policies on land governance
- Capacity building on the maintenance and institutionalization of Land Accounts
- Policy studies (to be prioritized through feasibility assessment) for (i) land use planning; (ii) agriculture and infrastructure expansion planning; (iii) mitigating and managing land-based conflicts; (iv) managing land cover for carbon sequestration purposes; (v) managing/monitoring land transactions and pricing information; (vi) land taxation.

These activities may be changed or modified based on the result of the Feasibility Assessment.

Therefore, this particular component aims to produce the following outputs:

i. Establishment of National Land Accounts
ii. Capacity Building and institutionalization of Land Accounts
iii. Policy analysis to inform land use and management policies

It is important to note that the development of the Land Account will be done in close coordination with the joint UNSD—BPS initiative to support development of a pilot ecosystem
account. The ecosystem account development will help ensure the credibility and quality of the land account upon which it will be based. Coordination and consultation will be done at the country level by the Indonesia WAVES Country Team and the BPS, and at the global level by the Washington-based WAVES HQ Team and central UNSD Team.

**Component 3: Support developing a Framework for the construction of Water Accounts to address water security.** This component aims to adopt the standardized SEEA Water Account framework and develop it into a tailor-made framework that will serve as the basis for developing Indonesia’s Water Account—which will be developed by the GoI beyond the WAVES Program. Development of a pilot account for a selected province on the island of Java is envisaged as a mechanism to test the application of the framework within Indonesia’s context and issues. Within the WB’s Landscape Strategy, water security issue are strongly linked with forest land and agriculture sector management.

The framework will examine resource use efficiency and pollution controls, in line with the priority of creating water supply and use accounts. It will identify data and gaps that hinder the development of comprehensive water accounts, to facilitate water resource management in the agricultural and industrial sectors, and for household consumption. At the account construction stage, given the data limitation, the compilation of the proposed water accounts may only cover the 53 main river basins. Physical Supply and Use Tables (PSUT) for Water—where natural inputs of water flows from the environment to the economy and flows of wastewater from the economy to the environment can be identified—is also proposed to be compiled with the aim to develop a headline water pollution indicator. This information could then be used for policy analysis on improving water use efficiency as well as for development of policy instruments to reduce water pollution. Further decisions on the water account and its components in the Indonesia WAVES Program will be made based on the result of the feasibility assessment that will look into data and institutional issues.

This work is envisioned to start after one year of implementation at the earliest, to ensure that the first two components are running and to take advantage of the land related information that will have been reviewed during components 1 and 2.

The expected output under component 3 will be:

i. A Strategic Framework for National Water Accounts (adopting the SEEA framework and guidelines for Indonesia's context)

ii. Preliminary Provincial Water Accounts for a selected pilot province.

**Capacity Building.** WAVES will provide capacity building to support the process of adoption of SEEA at the national level and for institutionalization of sustainability measures and indicators through technical capacity building.

The capacity building will be provided for relevant government officials. The work will provide considerable technical assistance through international and local experts as well as selected training activities. The GoI will develop and lead SEEA socialization and training programs with support from WAVES. The capacity building activities will be conducted in coordination with the Australian Bureau of Statistics (ABS) under the WAVES global partnership, and will include opportunities for officials and country teams to participate in overseas training, workshops and South-South exchange among WAVES participating countries.
Communication Strategy for Institutionalization. The program will support the development of a communications strategy. It has been agreed that the work will be provided with help from the International Institute for Environment and Development (IIED). A consultant from IIED will work with Indonesian communication experts to produce the following outputs:

i. A communication strategy to promote project implementation, gain stakeholder support, and institutionalize NCA.

ii. A series of communication products for outreach materials.

iii. A series of general socialization events and executive workshops to develop understanding on the importance of SEEA. The main focus will be to discuss the policy issues and to get buy in for institutionalizing sustainability measures and indicators using the SEEA framework, by referring to examples of best practices relevant to Indonesia’s context.

Feasibility Assessment. Prior to the implementation of these components, a series of feasibility assessments will be conducted to confirm the scope of the program and implementation arrangements, and to develop a detailed work plan and budget. The feasibility assessment will be carried out to determine which accounts can be developed over the next four years (April 2015–June 2018). This study will focus on:

i. Confirming the suitability of the proposed components with the government priorities and the World Bank related programs

ii. Assessing the readiness and availability of background data and information that will serve as the main inputs for the proposed deliverables. This will include reviewing the existing information on SISNERLING design and data quality, opportunities to strengthen the data base system, and the commitment of potential users.

iii. Analyze the capacity within each of the concerned Government agencies to make sure they will provide the necessary leadership and directions, and will allocate sufficient staff and resources to lead the compilation of accounts or analysis of the data. The latter will build on existing institutional arrangements, where possible, to promote institutionalization.

iv. Assessment of timing and phasing for each of the components to go with the GoI priorities and resources available.

v. Assessment of the program budget with reference to local costs and international comparisons among the WAVES countries, to recommend realistic budgeting and coverage of program needs.

A detailed work plan, budget and training schedule will be the primary outputs of the analysis as well as a proposed implementation arrangement. Detailed draft terms of reference (TOR) for the feasibility assessment will be developed by the World Bank and will be shared with the Government for review. The assessment will be conducted by a small consultant team with the following expected output at the end of the assignment: (i) Report of the Feasibility Assessment; (ii) Detailed Workplan and Budget for the confirmed components to be implemented.

The result of the assessment will be discussed with the Steering Committee, chaired by Bappenas, to decide on the key priorities for program implementation. The assessment of identified priorities and needs, as well as institutional capacity and data availability, may change the current scope of work of the Program.
3| Governance Structure and Implementation Arrangement

The government counterparts will guide the program through a Steering Committee and Technical Committee, with membership and responsibilities defined below. A Thematic Working Group, managed under the Technical Committee, will be established for day-to-day activity implementation. Further coordination arrangements and options for Indo-WAVES governance are still open and will be further discussed with government counterparts.

To ensure smooth implementation, alignment and adoption of results, the Indo-WAVES program will be governed by a Government-led Steering Committee (SC) comprised of representatives from the responsible Government Agencies (echelon 1 level), with the World Bank as the Administrator. The SC membership will consist of representatives from the following government institutions:

i. Chair: Bappenas
ii. Members: BPS, MoF, MoEF

The SC will be hosted by Bappenas, which will be responsible for: i) reviewing overall program strategies and policy priorities; ii) reviewing work plans and progress of program implementation; iii) providing policy and strategy recommendations; and iv) approving annual work plans and activities. The SC will meet at least twice a year. The Indonesia WAVES Country Team will prepare an annual progress report of the activities and a discussion of the work program for the year ahead. It is envisaged that the roles, functions and arrangements for calling, conducting and recording SC meetings will be set out in a framework document approved by the SC at its first meeting. The SC may agree to form working groups to manage the implementation of parts of the program.

For efficiency and timeliness, the SC should be a focused, high-level, decision-making body. However, there will also need to be efforts to involve relevant agencies and stakeholders, e.g. sector ministries or particular working units in a government agency beyond the key agencies represented in the SC. To share information more widely to build support, there can be regular workshops and national seminars, as well as an advisory or information exchange body that allows for a broader level of representation, inclusion, discussion, and buy-in. The SC and broader consultation forum can also be a platform for presenting challenges and joint problem solving by all partners, for example when studies or policy options are discussed.

The Indonesia WAVES Country Team will be formed based on the result of a feasibility assessment reflecting the capacities of the professional needed to implement the program. It envisaged that the WAVES Country Team will consist of:

a. Team Leader
b. Assistant Team Leader
c. Leaders for each of the three components
d. International and domestic technical consultants relevant for the program components

**Technical Committee.** A Technical Committee (TC), at the Director level, will provide regular technical oversight of activities under the Program. The TC will meet periodically and the members will consist of appointed representatives from the four key government agencies, led
by Bappenas. The TC will be responsible for: coordinating programs of activities, synchronizing work plans across components, providing technical feedback on proposed activities, monitoring progress toward deliverables and results, and convening technical discussions around specific work products. The TC will create a thematic working group, and a technical working group for day-to-day work implementation that may meet as-needed to review work progress or discuss managerial or administrative issues.

**Thematic Working Group(s)/TWG(s)** are proposed in order to support program implementation in specific fields, as needed. TWG(s) will serve as exchange and consolidating platforms among agencies working on specific themes but from different angles. One example is that the establishment of land accounts will require strong support from TWG that will consist of land mapping experts from the Geospatial Information Agency (BIG), spatial planning experts from Bappenas and the Ministry of Public Works (MoPW), MoEF, Ministry of Agriculture (MoAg), Ministry of Energy and Mineral Resources (MoEMR or the ESDM), and staff of the BPS assigned to lead the development of SEEA Land Accounts.

The **Indonesia WAVES Forum**, led by Bappenas, has been established as platform to exchange/collaborate and consolidate statistical information from relevant government institutions: Bappenas, MoF, MoEF, BPS, MoEMR, MoPW, MoAg, Ministry of Agrarian and Spatial Planning (previously the Land Administration Agency or BPN), and the BIG. The forum has agreed—with the support of the WAVES Program—to:

- Consolidate natural resources and environmental statistics currently available in various ministries and make it accessible for depository and/or linkage with BPS;
- Meet from time to time to share and review results of the WAVES Program

### 4| Monitoring and Evaluation

Overall program objectives, outcomes and intermediate indicators for assessing performance will be discussed at the first Steering Committee meeting and finalized within an agreed upon time frame. A preliminary illustrative result-based framework (RBF) is provided in Annex 2. Appropriate baselines will be prepared in each thematic area. Given the nature of the program, the majority of the monitoring and evaluation will be based on qualitative evidence, e.g. activity outputs.

The World Bank will monitor and track the implementation of activities and will monitor progress against the results-based framework and implementation timeframe. Performance and implementation challenges will be discussed at Semi Annual Steering Committee meetings based on the progress reports prepared by the Country Team, in order to make any necessary adjustments. The results framework will be kept simple so as to maintain flexibility to respond to client needs throughout the process. Results of monitoring and evaluation activities and lessons learned from experience will be used to improve on-going program activities.

The results framework, including the program development objectives, outcomes, and key intermediate outcomes indicators for assessing the performance of the Indonesia WAVES Program, builds on the global results-based monitoring matrix of the WAVES GPP for country level reporting. These indicators have been modified for the Indonesia country context. The Results-based monitoring matrix can be found in Annex 1 of this Concept Note.
### Global Results-Based Monitoring Matrix – PDO 1

<table>
<thead>
<tr>
<th>Objectives &amp; Outcome (Results) Indicators</th>
<th>Base-Line June 2014</th>
<th>Prep year June 2014</th>
<th>Yr 1 Jun-15</th>
<th>Yr 2 Jun-16</th>
<th>Yr 3 Jun-17</th>
<th>Yr 4 Jun-18</th>
<th>Yr 5 Jun-19 (proposed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PDO 1. To implement natural capital accounting in partner developing and developed countries</td>
<td></td>
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</tbody>
</table>

**Outcome Indicators:**

a. Country has committed to institutionalize natural capital accounting based on lessons learned from the WAVES program  
   None  
   Steering Committee established (4 Ministries), Technical Team established consisting of representatives of 4 key ministries  
   Feasibility assessment to be completed June 20  
   Implementation phase start July 1, including establishment of country coordinator and TWG  
   Updated SISNERLING for energy, forest and minerals institutionalized  
   SISNERLING main official reference for data on natural capital  
   Land accounts integrated into SISNERLING  
   Water accounts integrated into SISNERLING  
   Macroeconomic indicators officially adopted as national sustainability indicators  
   TBD

**Intermediate Outcomes Indicators**

<table>
<thead>
<tr>
<th>11.1 Country has completed the milestones for the WAVES Preparation Phase*</th>
<th>None</th>
<th>Preparation phase partly completed</th>
<th>Preparation phase completed by June 30.*</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
</table>

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### Global Results-Based Monitoring Matrix - PDO 1

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<tr>
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<th>Yr 4 Jun-18</th>
<th>Yr 5 Jun-19 (proposed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.2 Country has asset accounts for selected natural assets</td>
<td></td>
<td></td>
<td>Review of physical and monetary accounts for natural assets within existing SEEA-based SISNERLING completed by June 20</td>
<td>Improved stock accounts of selected natural assets in SISNERLING; Preliminary land account; initial development of framework and data assessment for water account</td>
<td>Migrating/upgrading SEEA-based SISNERLING to 2012 SEEA standard; Land account completed;</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td>1.3 Country has flow accounts for selected natural resources</td>
<td></td>
<td></td>
<td>Achieved: Flow accounts for natural resources within the existing SEEA/SISNERLING assessed</td>
<td>Flow accounts for natural resources within the existing SEEA/SISNERLING updated to SEEA 2012; Preliminary monetary account for Land</td>
<td>Flow accounts for selected NCA: minerals, energy, forest and land</td>
<td>Fine-tuning and updating established flow accounts for land and other commodities in SISNERLING</td>
<td></td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Year</th>
<th>Objectives &amp; Outcome (Results) Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.4 Country has experimental ecosystem accounts (if intended in country work-plan)</td>
</tr>
<tr>
<td>Prep</td>
<td>None</td>
</tr>
<tr>
<td>Yr1</td>
<td>None</td>
</tr>
<tr>
<td>Yr2</td>
<td>None</td>
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<tr>
<td>Yr3</td>
<td>None</td>
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<td>Yr4</td>
<td>None</td>
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<tr>
<td>Yr5</td>
<td>None</td>
</tr>
<tr>
<td>Yr6</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>1.5 Country has macro-economic indicators derived from the SEEA accounts (if intended in country work-plan)</td>
</tr>
<tr>
<td>Prep</td>
<td>None</td>
</tr>
<tr>
<td>Yr1</td>
<td>None</td>
</tr>
<tr>
<td>Yr2</td>
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<td>Yr3</td>
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<td>None</td>
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<td>Yr5</td>
<td>None</td>
</tr>
<tr>
<td>Yr6</td>
<td>None</td>
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<tr>
<td></td>
<td>1.6 Country has capacity for maintaining NCA (evidenced by dedicated government staff for NCA and regular reporting mechanism for production of natural capital accounts)</td>
</tr>
<tr>
<td>Prep</td>
<td>None</td>
</tr>
<tr>
<td>Yr1</td>
<td>None</td>
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<td>Yr2</td>
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<td>Yr4</td>
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<td>None</td>
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<tr>
<td>Yr6</td>
<td>None</td>
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</tbody>
</table>

None

Preliminary macroeconomic indicators available through Macroeconomics Unit with support from WAVES.

Macroeconomic indicators developed

Enhanced NCA data integrated into macroeconomic indicator compilation

Macroeconomic indicators officially adopted as national sustainability indicators

SEEA Training by ABS (Australia) for technical staff of the 4 key ministries

Advanced SEEA Training

National SEEA Training; SEEA Land Account Training; Economic Resources Valuation Training; ANS Training

National SEEA Training; SEEA Land Account Training;

Advanced SEEA Training

National SEEA Training; SEEA Land Account Training;

Advanced SEEA Training

National SEEA Training; SEEA Land Account Training;

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National SEEA Training; SEEA Land Account Training;
### PDO 1. To incorporate natural capital accounting in policy analysis and development planning in core implementing countries

#### Outcome Indicators:

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<tr>
<td>PDO 2. To incorporate natural capital accounting in policy analysis and development planning in core implementing countries</td>
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- **a. NCA informs policy dialogue on growth, environment and poverty reduction, evidenced by citing NCA or using NCA indicators and data in, development plans, sector strategies and plans, executive orders, legislative documents, and the broader policy analysis literature (may include World Bank ESW, AAA and project formulation documents)**

  - **Achieved:** Policy input on strengthening sustainability indicators in the new National Medium-term Development Plan or the 5 year plan (RPJMN)
  - **Proposed:** NCA is officially acknowledged by GoI as key indicators for monitoring economic sustainability (tbd with the new government—pending to the issuance of new RPJMN)

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<tr>
<td><strong>Intermediate Outcomes Indicators</strong></td>
<td></td>
<td></td>
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<tr>
<td>2.1 Country has policy notes and analytical work based on NCA.</td>
<td>Achieved: Green Growth macro-economic policy narrative (input to RPJMN) developed.</td>
<td>AAA on Economic Rent Extraction (based on NCA utilization) to inform Fiscal Policy; Development of reinvestment policy to maintain positive ANS growth</td>
<td></td>
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<tr>
<td>2.2 Country has capacity for using NCA in policy dialogue (evidenced by government staff trained in using NCA)</td>
<td>None</td>
<td>Training for relevant government staff on the policy use of NCA (number of staff tbd with the SC)</td>
<td></td>
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</tbody>
</table>

* Concept Note approved, Feasibility Assessment ToR approved, work plan developed and ready for implementation.
Annex 2: WB Letter Regarding Confirmation of Indonesia’s Participation in Waves

THE WORLD BANK | BANK DUNIA
Sharing Development Solutions for an Emerging Indonesia

Rodrigo A. Chaves
Country Director, Indonesia

Letter No. CD-417/WB/XII/2013

December 12, 2013

Ms. Endah Murniningtyas
Deputy Minister for Natural Resources and Environment
National Development Planning Agency (BAPPENAS)
Jl. Taman Suropati No. 2, Jakarta

Dear Ms. Murniningtyas,

Re: Participation in the Wealth Accounting and Valuation of Ecosystem Services Global Partnership

With reference to your kind letter dated October 9, 2013 expressing the Government of Indonesia’s interest in joining the Wealth Accounting and Valuation of Ecosystem Services (WAVES) Global Partnership, I am pleased to confirm Indonesia’s inclusion in the WAVES Program.

Indonesia’s keen interest in strengthening national environment and natural resources accounting as an integral part of its medium term planning process will strengthen Indonesia’s ability to establish a green economy. Participating in the WAVES Global Partnership also positions Indonesia to provide critical leadership on Natural Capital Accounting (NCA) across Southeast Asia.

As a WAVES country, Indonesia will be part of a Global NCA Community if Practice comprised of more than 60 countries, private sector companies and international organizations. By joining the WAVES Global Partnership, Indonesia will now have access to a number of learning opportunities, training sessions and analytical work in environmental and natural resources accounting. As indicated in the Government’s formal Expression of Interest, close cooperation with the Central Statistical Agency will be part and parcel of this effort from the outset.

To support the Government of Indonesia in launching the WAVES Program, the World Bank has assigned Bp. Mubariq Ahmad as the program focal point in Jakarta. Bp. Mubariq is available to support you in preparing and implementing the Program going forward. Immediate next steps would include identifying a Government of Indonesia focal point for the Program with whom the Bank may liaise and establishing a National Steering Committee to oversee Program preparation and delivery.

I am very pleased to welcome Indonesia to the WAVES Global Partnership and look forward to a long and productive WAVES Program with the Government of Indonesia.

Sincerely yours,

[Signature]


23
Sustainable, equitable and productive use of water through water accounting

The Government of Botswana has developed water accounts for 2010/11 and 2011/12 that show what is happening with water stocks and flows in the country.

The main messages that emerge are:

Water use efficiency — make sure population and economic growth are not tightly linked to growth in water abstraction

• The policy emphasis on water supply — ‘keep water flowing’ — now needs to be complemented by demand management and integrated water resource management

• There is an urgent need for wastewater strategies to improve reuse and recycling within sectors.

Water allocation — provide water to sectors and users that add most value through, for example:

• Economic development — support economic growth and diversification

• Social protection — secure basic water needs and keep water bills affordable

• Environmental protection — secure ecological water requirements.

Wealth Accounting and the Valuation of Ecosystem Services

Wealth Accounting and the Valuation of Ecosystem Services (WAVES) is a global partnership led by the World Bank that aims to promote sustainable development by ensuring that natural resources are mainstreamed in development planning and national economic accounts.

www.wavespartnership.org