

**ASIAN DEVELOPMENT BANK**

**TAR:INO 35151**

**TECHNICAL ASSISTANCE**  
(Financed from the Asian Currency Crisis Support Facility)

**TO THE**

**REPUBLIC OF INDONESIA**

**FOR**

**DEVELOPING PROXY INDICATORS OF POVERTY**

**March 2002**

## **CURRENCY EQUIVALENTS**

(as of 20 February)

Currency Unit	–	Rupiah (Rp)
Rp1.00	–	\$0.000098
\$1.00	–	Rp10,245

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
BPS	–	Badan Pusat Statistik (Central Agency of Statistics)
CPI	–	consumer price index
TA	–	technical assistance

## **NOTES**

- (i) The fiscal year (FY) of the Government ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

## I. INTRODUCTION

1. The poverty assessment<sup>1</sup> and ADB's country strategy<sup>2</sup> for Indonesia identified the need to improve the statistical information system for poverty analysis and monitoring. In 1999, the Government of Indonesia asked Asian Development Bank (ADB) for technical assistance (TA) to strengthen the capacity of the Central Agency of Statistics (Badan Pusat Statistik, [BPS]) to supply statistical information enabling the Government to carry out social protection measures in a timely and targeted manner to prevent a worsening of poverty. A TA<sup>3</sup> was granted to support the development of model for national early warning system. In 2001, the Government requested further assistance to enable the model to be applied at the local level. This measure is considered a critical input to the successful implementation of the Poverty Partnership Agreement between ADB and the Government. Accordingly, this TA is included in the 2002 TA program for Indonesia. The ADB Fact-Finding Mission fielded in February 2002 reached an understanding with the Government on the objectives, scope, financing, and implementation arrangements of the TA.<sup>4</sup> The TA framework is included in Appendix 1.

## II. ISSUES OR PROBLEMS

2. The financial crisis, which started in June 1997, has evolved along numerous dimensions and had several enduring effects. Initial impacts on the poor in Indonesia were multifaceted and heterogeneous, benefiting some in lucky sectors, while imposing wage, price, and employment shocks on those in others. Hindered by the moribund financial sector, reluctant foreign investment, and the hurdles of poor governance, many sectors remain slow to recover. Other impacts have resulted indirectly from the crisis. Due to decentralization and reduced central Government involvement, transportation infrastructure in many areas has deteriorated, and some local governments, exercising their increased autonomy and need for local revenues, have increased commodity transport levies, increasing consumer costs and reducing producer revenues. Yet another new and important force is Indonesia's increasingly liberalized trade strategies, which, while enabling greater long-term gains from trade, expose many sectors to the costs of volatile exchange rates and international price shocks. The effects of these and other disparate impacts and their differing rates of subsequent regional adjustment are influencing the regional distribution of poverty both through impacts on incomes and on consumer prices.<sup>5</sup>

3. The 2001 TA-3710 developed leading indicators of poverty based on data already collected by or reported to BPS, developed a consumer price index (CPI) that reflects the goods and services purchased by the poor, and tracked wages received by the poor. A CPI for the poor and wages received by the poor are proxy indicators of changes in welfare for poor and low-income households. However, data collection for the CPI is carried out in a limited number of urban markets.

4. How well a CPI based on a limited number of urban markets represents the price of goods and services in rural areas has not been examined. Furthermore, outside of Java, especially in Eastern Indonesia, local markets are under-represented. Because of transportation

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<sup>1</sup> ADB. 2000. *Assessment of Poverty in Indonesia*. Manila.

<sup>2</sup> ADB. 2001. *Country Strategy for Indonesia*. Manila.

<sup>3</sup> TA 3710-INO: *Developing Leading Indicators of Poverty*, for \$ 300,000, approved on 28 August 2001.

<sup>4</sup> The TA first appeared in ADB *Business Opportunities* in February 2002.

<sup>5</sup> The ADB assessment of poverty (footnote 1) made use of existing wage data as an indicator of changes in poverty levels after the onset of the crisis.

and other communication barriers, markets are not well-integrated and impacts of changes in the external economic environment on local markets cannot be captured by the current information systems. Knowing when and where a downturn to the local economy is occurring is a prerequisite for a responsive and well-targeted social safety net. The rapidly changing relative commodity and regional prices now require frequent district CPIs and alternative indicators to provide an early warning system of changes in poverty.

5. With decentralization, heads of local government and local parliaments require timely and high quality information about changes in the welfare in their area. Furthermore, the formula to calculate budget allocation to districts is based on district revenue generation, expenditures, and relative cost of living. Thus district CPIs have become an important element in calculating central Government fiscal transfers. Previously, demand for information about district price and poverty trends was low; however, due to the heightened focus of Government and other stakeholders such as civil society and development partners on poverty reduction, demand is increasing for useful, high quality, and timely information. The poverty reduction partnership agreement signed by the Government and ADB also calls for improved poverty monitoring, a prerequisite to undertaking measures to improve social protection and therefore arrest increases in poverty.

6. BPS is the principal source of information regarding money metric measures of poverty as well as other measures of well-being. It has a number of provincial and district statistical offices. Although BPS has been collecting information about wages and prices in various economic sectors, the data have not been intended to be representative at the district level. As decentralization is now being promoted, the district statistical offices need to be strengthened to provide timely, regular, and reliable statistical information, in particular on prices and wages for the poorer section of the population. The TA was therefore requested to develop the capacity of the local BPS offices to generate and disseminate local proxy indicators of poverty based on the methodology demonstrated under the earlier TA 3710 for national statistics.

### **III. THE TECHNICAL ASSISTANCE**

#### **A. Purpose and Output**

7. The overall objective is to help strengthen the capacity of provincial and district BPS offices to produce and disseminate relevant and reliable proxy indicators of poverty regularly and on a timely basis to enable relevant governments to take necessary action to arrest any undesirable trends. Specifically, the TA will (i) examine the degree to which markets are integrated and where additional effort is required to produce district proxy indicators based on price and wages; (ii) develop the capacity of several BPS provincial and district offices to produce and routinely report on these proxy indicators to the local government and other poverty stakeholders; and (iii) train data users such as local government officials, members of the local people's consultative body (Dewan Perwakilan Rakyat Daerah, DPRD), local journalists and researchers, and civil society in the uses of proxy indicators to formulate policy and programs, and for development planning and targeting of social safety nets.

## **B. Methodology and Key Activities**

8. District systems for collation of data regarding the price of goods and services will be developed to create timely, regular, relevant, and quality proxy indicators of poverty. The TA will review the existing system for collecting the local prices of goods and services, and recommend a system for collecting local data that will enable construction of poverty proxy indicators that can be reported on a monthly basis with a one-month lag. Pilot studies will be carried out in selected districts in four to seven provinces to test the new data collection mechanisms and the types of data required. With the availability of a new system of data collection, processing, and reporting of proxy indicators, local and central government authorities will have current information about seasonal changes in welfare to improve policy planning and timely action.

9. Potential data users such as local development planning offices, local governments, local people's consultative body, and civil society groups will be involved in (i) reviewing the data to enhance the relevance of the indicators constructed, and (ii) developing an easy to understand reporting format for proxy indicators. A program will be developed for local policymakers and civil society to increase their understanding of the importance and the use of price statistics for policymaking and monitoring.

10. Advisory services will be provided to BPS to support these activities. These will cover (i) designing the sampling framework: (i) improving the content, coverage, instruments, and the flow of data collection to increase timeliness and quality; and (iii) providing in-country training for instituting the improvements required.

11. Training courses will be offered for provincial, district, and subdistrict BPS staff to improve their capacity to implement the new data collection mechanism, to produce the new types of proxy indicators of poverty, and to write a monthly report. This training is required to institute the improvements required and to ensure the sustainability of the activity after TA completion. In total, about 300 BPS staff will be trained under the TA. A training program will also be developed to train provincial and district policymakers, the local DPRD, local researchers and journalists, and civil society in the use of proxy indicators. Socialization and dissemination seminars for about 450 participants will be held to demonstrate the potential of the indicators for poverty monitoring to policymakers and other poverty stakeholders, and to ensure future demand.

12. Limited equipment will be required to support implementation of the TA activities. Data processing and communication equipment such as computer and peripherals, servers, software, and facsimiles to speed up communication from the districts will be procured.

## **C. Cost and Financing**

13. The total cost of the TA is estimated at \$500,000 equivalent, comprising \$161,000 in foreign exchange costs and \$339,000 equivalent in local currency costs. ADB will provide \$400,000 equivalent on a grant basis from the Asian Currency Crisis Support Facility, funded by the Government of Japan, to finance the entire foreign exchange cost and \$239,000 equivalent of local currency costs. The Government will finance the remaining \$100,000 equivalent of the local currency costs through the provision of office accommodation, transport, and remuneration and per diem of counterpart staff (Appendix 2).

#### **D. Implementation Arrangements**

14. BPS will be the Executing Agency for the TA. A TA team will be set up in BPS to serve as the contact point for ADB and implement the TA. The Ministry of Home Affairs will facilitate access and communication with local governments including the local government planning offices. The ministry will play a key role in supporting the dissemination of the piloted proxy indicators to other districts.

15. The TA will be implemented over two years, with activities expected to commence in September 2002 and be completed in August 2004. BPS will provide counterpart staff, office accommodation, miscellaneous administration and support services, and local transport. It will also undertake and process the pilot surveys as recommended by the consultants; and will be responsible for mobilizing resources, especially its staff, to ensure the timely processing of the TA-supported pilot surveys and to conduct dissemination seminars/workshops.

16. The TA will be monitored and reviewed by ADB missions, regular communications with BPS, and the interim and completion reports of the consultants. The interim and completion reports will be submitted to ADB and BPS within one month after completion of the activity. BPS will prepare semestral progress reports for submission to ADB. It will also submit a completion report to ADB within three months of the TA completion.

17. BPS will nominate and ADB will approve the candidates for the in-country training activities under the TA. The consultants will be the lecturers in the training activities. BPS will select its staff who are and will be in charge of the implementation of poverty monitoring after the TA completion.

18. ADB will engage individual consultants in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB for the selection of domestic consultants. Three international and 5 domestic consultants will provide a total of 30 person-months of consulting services (6 person-months of international and 24 of domestic consulting). International consulting services will be required in the following areas: price statistics, sampling, and wages. Domestic expertise will be required for prices, wages, local government communications, media communication, and information systems. The outline terms of reference are in Appendix 3. The BPS Rural Prices and Wages divisions will carry out most training activities in the provinces and districts. The BPS Statistical Analysis Bureau will be responsible for implementation of the special survey and for all dissemination activities under the TA. BPS will purchase equipment following ADB's *Guidelines for Procurement*. The equipment will be turned over to BPS upon completion of the TA.

#### **IV. THE PRESIDENT'S DECISION**

19. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance, on a grant basis, to the Government of the Republic of Indonesia in an amount not exceeding the equivalent of \$400,000 for Developing Proxy Indicators of Poverty, and hereby reports such action to the Board.

### TECHNICAL ASSISTANCE FRAMEWORK

<b>Design Summary</b>	<b>Performance Targets</b>	<b>Monitoring Mechanisms</b>	<b>Assumptions and Risks</b>
<p><b>Goal</b> To enable local governments to implement social protection measures in a timely and targeted manner to prevent a worsening of poverty.</p>	<p>Improved data flow of proxy indicators of poverty</p>	<p>Local government publications</p>	<p>Local government's Commitment</p>
<p><b>Objectives</b></p> <p><b>Overall</b></p> <p>Strengthen the capacity of Badan Pusat Statistik (BPS) to produce and disseminate district poverty (local) welfare indicators regularly and on a timely basis.</p> <p>Strengthen the capacity of key stakeholders in the use of local poverty indicators for social safety net targeting and poverty-related policymaking and programming.</p> <p><b>Specific</b></p> <p>Develop an efficient survey system for the price of goods and services at the district level to track local changes in urban and rural poverty.</p> <p>Develop the district capacity of district BPS offices to produce and routinely report on these proxy indicators to local government and other stakeholders.</p>	<p>Regular and timely production of proxy indicators of poverty</p> <p>Routine use of proxy indicators of poverty</p> <p>Piloted system for efficient and timely collection, processing, and dissemination of district proxy indicators</p> <p>Improved capacity of BPS district staff to produce, process, and disseminate leading indicators of poverty</p>	<p>Routine BPS publications</p> <p>Routine Government reports</p> <p>Consultant report Monitoring review mission</p> <p>Training reports</p>	<p>Local government commitment to support data collection and reporting system</p> <p>Willingness of stakeholders to use quantitative information</p> <p>Cooperation of local government staff</p> <p>Cooperation of local BPS managers to institute new procedures</p>

(Reference in text: page 1, para. 1)

<p>Train policymakers and other stakeholders in using proxy indicators of poverty for targeting and for policy and programs related to poverty</p> <p><b>Activities</b></p> <ol style="list-style-type: none"> <li>1. Review the existing data collection and dissemination procedures for the price of goods and services.</li> <li>2. Develop a sampling framework for collecting an appropriate number of goods in an appropriate location to reflect the consumption basket of low income households.</li> <li>3. Review options and cost implication of changes to data content and survey coverage with key stakeholders, and agree on proposed option for piloting.</li> <li>4. Develop training kit for the proposed option.</li> <li>5. Pilot proposed option and assess and finalize sampling framework design and survey procedures.</li> </ol>	<p>Better understanding of poverty issues</p> <p>Better analysis of the factors behind changes in poverty</p> <p>Understanding of elements of existing system</p> <p>New sampling design for collection of district prices of goods and services</p> <p>Agreed survey content and coverage</p> <p>Training kit</p> <p>Finalized sampling design, data collection procedures, and training kit</p>	<p>Reports of seminars and workshops</p> <p>Technical reports</p> <p>Technical reports</p> <p>Workshop report</p> <p>Training kit</p> <p>Consultants report</p>	<p>Concern about poverty</p> <p>Sufficient budget for data collection of agreed option</p>
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## COST ESTIMATES AND FINANCING PLAN

(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
<b>A. Asian Development Bank Financing <sup>a</sup></b>			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	110,000	0	110,000
ii. Domestic Consultants	0	86,000	86,000
b. International and Local Travel	20,000	0	20,000
c. Reports and Communications	1,000	0	1,000
2. Equipment (Computer, Printer, etc.)	10,000	0	10,000
3. Workshops, Training/Seminars, and Conferences			
a. Facilitators	0	5,000	5,000
b. Training Program	0	62,000	62,000
4. Study Tour	0	8,000	8,000
5. Surveys	0	36,000	36,000
6. Miscellaneous Administration and Support Costs	0	2,000	2,000
7. Contingencies	20,000	40,000	60,000
<b>Subtotal (A)</b>	<b>161,000</b>	<b>239,000</b>	<b>400,000</b>
<b>B. Government Financing</b>			
1. Office Accommodation and Transport	0	70,000	70,000
2. Remuneration and Per Diem of Counterpart Staff	0	30,000	30,000
3. Others	0	0	0
<b>Subtotal (B)</b>	<b>0</b>	<b>100,000</b>	<b>100,000</b>
<b>Total</b>	<b>161,000</b>	<b>339,000</b>	<b>500,000</b>

<sup>a</sup>Financed from the Asian Currency Crisis Support Facility funded by the Government of Japan.

Source: Asian Development Bank estimates.

(Reference in text: page 3, para.

## OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

### A. International Consultants

#### 1. Price Statistics Consultant and Team Leader (3.5 person-months)

1. The consultant will have the following responsibilities:
  - (i) Evaluate the current survey design and the overall system of price data collection, data processing, and data dissemination including the calculation of the rural producer and consumer prices indexes for the purpose of developing an improved system for collecting district urban and rural price data and price indexes.
  - (ii) Together with the domestic consultant for price statistics, derive the materials for the first socialization seminar.
  - (iii) Together with the sampling specialist, review and make recommendations regarding coverage and content of price data now collected, survey design, processing, and presentation.
  - (iv) Propose an improved system and procedure for collecting price data and calculating district price indexes.
  - (v) Produce manuals and questionnaires for piloting the proposed price data collection system and procedure.
  - (vi) Help Badan Pusat Statistik (BPS) derive district price indexes using appropriate weights and price information.
  - (vii) Work with the local government communications specialist and media communications specialist to develop a format for presenting price statistics and price indexes.
  - (viii) Conduct in-service seminars for BPS managers and staff in collecting, processing, and analyzing price statistics.
  - (ix) As team leader, be responsible for reviewing the outputs of the domestic and international specialists for submission to Asian Development Bank (ADB).
  - (x) Prepare inception, midterm, and final review reports within one month after each period.
2. Each output will be in the form of a working paper.

#### 2. Wages Statistics Consultant (1.5 person-months)

3. The consultant will undertake the following:
  - (i) Review the existing wage data collection procedure, and the coverage and quality of the wage data currently collected at the district level.
  - (ii) Recommend types of data for collection at the local level that will reflect labor earnings of low income and poor households.

- (iii) Develop an appropriate way of deriving the estimate of real wages and wage index.
  - (iv) Develop survey materials for an improved wage data collection (questionnaires and manuals).
  - (v) Conduct in-house seminars on wage indexes and materials.
  - (vi) Work with the local government communications specialist and media communications consultants to develop a format for presenting wage data/statistics.
  - (vii) Write a report to BPS and ADB within one month after the consulting period.
4. Each output will be in the form of a working paper

### **3. Sampling Consultant (1 person-month)**

5. The consultant will undertake the following:
- (i) Review the current sampling mechanism used in the price data collection.
  - (ii) Recommend a sampling frame to improve representativeness (urban and rural) of the sampling points and items covered.
  - (iii) Prepare a technical paper.
  - (iv) Recommend a preferred method in terms of cost and other factors.
  - (v) Help BPS update the sampling frame.
  - (vi) Conduct in house seminars.
  - (vii) Write a report to BPS and ADB within one month after the consulting period.

## **B. Domestic consultants**

### **1. Price Statistics Consultant (10 person-months)**

6. The consultant will have the following responsibilities:
- (i) Work together with and under the guidance of the international price statistics consultant.
  - (ii) Assist the team leader (the price statistics international consultant) to prepare materials for the first socialization seminar.
  - (iii) Work closely with BPS and the international price statistics consultant to review the existing price data collection system and price index calculation.
  - (iv) Assist BPS in implementing all technical assistance (TA) activities related to the improvement of price data collection, processing and dissemination.
  - (v) Help BPS carry out the pilot of the proposed price data collection system, including deriving the price indexes.
  - (vi) Help BPS make all the necessary preparations for the seminar, workshop and/or training activities related to the TA.
  - (vii) Write a report to BPS and ADB within one month after the completion of overall activity.

## **2. Wage Statistics Consultant (4 person-months)**

7. The consultant will have the following responsibilities:
- (ii) Work together with and under the guidance of the international wage statistics consultant.
  - (iii) Assist the team leader to prepare the materials for the first socialization seminar.
  - (iv) Work closely with BPS and the international wage statistics consultant to review the existing wage data collection system, wage index and real wage calculation.
  - (v) Assist BPS to implement all TA activities related to the improvement of wage data collection, processing and dissemination.
  - (vi) Assist BPS to carry out the pilot of the proposed wage data collection system, including deriving the price indexes.
  - (vii) Assist BPS to make all the necessary preparations for the seminar/workshops/training activities related to the TA.
  - (viii) Write a consultancy report to BPS and ADB within one month after the completion of overall activity.

## **3. Local Government Communication Consultant (5 person-months)**

8. The consultant will undertake the following:
- (i) With BPS carry out initial socialization workshops to disseminate information about the TA and elicit interest by local government stakeholders in participating in the TA.
  - (ii) Based on the socialization workshops, help BPS identify participating provinces and districts, and draft a memorandum of understanding between BPS and local governments on the terms of their participation. Local government contributions are to be reflected by a line item in their proposed development budget.
  - (iii) Over the course of implementation, liaise with local government stakeholders (including local parliaments, government, journalist, civil society organizations, and local researchers).
  - (iv) Identify needs and organize seminars and training to develop stakeholder appreciation of the meaning and use of local proxy indicators of poverty. These seminars and trainings may be carried out by BPS or local universities based on materials provided by the TA.
  - (v) Assist BPS to strengthen the cooperation between the data users and data producers.

## **4. Media Communication Consultant (2 person-months)**

9. The consultant will undertake the following:
- (i) Assist BPS to design and develop materials for the first socialization seminar.
  - (ii) Propose various dissemination forms of the statistical materials, in particular the graphical presentation.
  - (iii) Assist BPS to produce the dissemination documents for presenting the improved wage and price statistics.
  - (iv) Conduct in-house training for BPS staff.

**5. Information Systems Consultant (3 person-months)**

10. The consultant will undertake the following:
  - (i) Review the existing data updating, processing and dissemination system.
  - (ii) Working with wage and price statistics consultants, recommend measures to improve data timeliness.
  - (iii) Work with local communication consultant to prepare user dissemination system
  - (iv) Prepare user manual and training materials.
  - (v) Develop, test, and install necessary software systems at the district level.
  - (vi) Conduct in-house training activities for the staff of the BPS provincial and district statistical offices.