

## SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Indonesia	Program Title:	Stepping Up Investments for Growth Acceleration Program, Subprogram 3
Lending/Financing Modality:	Policy-based loan	Department/Division:	Southeast Asia Department Public Management, Financial Sector, and Trade Division

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY
Poverty targeting: General intervention
<p><b>A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy</b></p> <p>One of the key agenda items of the National Medium-Term Development Plan (RPJMN), 2015–2019 is poverty reduction. The RPJMN focuses on aiming to reduce poverty through (i) achieving higher, sustainable, and inclusive economic growth, (ii) improving the quality of the public sector, (iii) fostering democratic development, and (iv) strengthening the rule of law. The program supports the national poverty reduction strategy by providing more productive employment for the poor through more public and private investments. An improved business environment and better infrastructure will facilitate more investments. The program will also indirectly empower the poor to break the poverty cycle by providing more opportunities to become entrepreneurs in micro and small enterprises as a result of more investment.</p>
<p><b>B. Results from the Poverty and Social Analysis during Project Preparatory Technical Assistance or Due Diligence</b></p> <p>1. <b>Key poverty and social issues.</b> The program is classified as a general intervention because its proposed outputs will benefit all citizens, including the poor. The main poverty issues addressed by the program are how to promote equitable and inclusive growth while providing opportunities for entrepreneurs to start a business. While the poverty level declined from 17.8% in 2006 to 11.0% in 2014 and 10.1% in September 2017 (partly because of economic growth and job creation in the services sector in urban areas), income inequality rose during a similar period, with the consumption Gini coefficient increasing from 0.30 in 2000 to 0.39 in 2017.<sup>1</sup> Disparities also have a regional dimension, with acute infrastructure deficiencies occurring especially in Indonesia's eastern provinces. More inclusive sources of economic growth need to be fostered urgently to reverse this trend in rising inequality. The RPJMN focuses on poverty reduction to make the growth process more inclusive. It targets closing the growing gap in consumption per capita between different income groups and reducing the poverty rate from 11% in March 2014 to 7%–8% in 2019.</p> <p>2. <b>Beneficiaries.</b> The program's proposed outputs will benefit all citizens, including the poor, by improving the business and investment climate, encouraging more infrastructure investment, and improving the governance framework for more public investment.</p> <p>3. <b>Impact channels.</b> A study on Indonesia's binding constraints to growth showed that improvements to the investment climate and infrastructure directly relate to poverty reduction.<sup>a</sup> A positive correlation exists between improvements in doing business and the poverty rate, and a direct causal relationship is present between an improved, more conducive investment climate and poverty reduction. In a similar vein, a 2013 International Monetary Fund (IMF) working paper showed that more and better infrastructure improves income distribution.<sup>b</sup> A recent study by the Asian Development Bank (ADB) found that faster-growing middle-income countries have significantly higher levels of infrastructure investment relative to their peers.<sup>c</sup> These findings, along with the proven role of infrastructure in enhancing productivity and growth, suggest that infrastructure development can affect both poverty reduction and inclusive growth. The RPJMN has articulated a reform agenda to address income inequality through several channels. To create more job opportunities, the RPJMN will improve the investment climate for labor-intensive industries and small businesses. The RPJMN will also improve connectivity and accelerate the development of basic infrastructure to support economic activity and sustainable livelihoods in rural and border areas. By putting more resources in the hands of local governments, and by steadily boosting social spending, Government of Indonesia is attempting to improve the delivery of basic social services such as education and health to the poor and vulnerable. The government will also roll out more comprehensive and better targeted social protection and social security programs, including greater use of conditional cash transfers and pension systems.</p> <p>4. <b>Other social and poverty issues.</b> The government has a comprehensive poverty reduction strategy, with a number of large social assistance programs that are delivered in both rural and urban areas. Key social assistance programs include the Raskin rice subsidy,<sup>2</sup> the national health insurance program, a conditional cash transfer program for the extremely poor, and a cash for poor students' program. The overall package of programs aimed at</p>

<sup>1</sup> Government of Indonesia. 2018 Central Statistics Bureau database(<https://www.bps.go.id/linkTableDinamis/view/id/1116>) accessed 28 April 2018.

<sup>2</sup> The Raskin rice subsidy was introduced as an emergency food subsidy in 1998 and delivered rice to be purchased at subsidized prices, targeting poor households.

the urban poor covers most basic needs, although there are substantial issues related to program design, efficiency, and the quality of services being delivered that have emerged from various studies.

**5. Design features.** The program aims to create (i) a more predictable and open business environment to attract more foreign and domestic direct investment, (ii) an efficient market for infrastructure, and (iii) faster and more transparent procurement to accelerate infrastructure delivery. Program interventions target (i) reducing the cost of doing business, (ii) promoting good regulatory practices, (iii) diversifying modalities for infrastructure financing by pilot testing new public sector modalities for infrastructure financing, (iv) creating a conducive environment for private financing of infrastructure projects, (v) improving transparency, efficiency, and fairness in land acquisition, and (vi) expediting and improving the transparency of the public procurement process to increase available budget through more efficient and automated public procurement. The program affects poverty reduction through providing more opportunities for people to work as more direct investments occur, and via improved infrastructure. The program's impact is high, leading to economic growth that is expected to occur over a 4–10-year period. However, more immediate reforms (e.g., the easing of restrictions on foreign investment and on starting businesses, improvements in the organizational structure of public–private partnerships, and the introduction of new financing modalities for infrastructure financing) should have a 1–3-year impact.

### **C. Poverty Impact Analysis for Policy-Based Lending**

**1. Impact channels of the policy reform(s).** Opportunities are limited for the inclusion of specific pro-poor elements in the program design. The key anticipated impacts on poverty will be through (i) enhanced investment levels and growth, (ii) greater affordability of high-quality infrastructure, (iii) enhanced infrastructure that will provide business opportunities, create employment opportunities for unskilled urban and rural labor, and support income generation, (iv) an improved enabling environment for more private and public-sector investment, and (v) improved competitiveness.

**2. Impacts of policy reforms on vulnerable groups.** There are no adverse impacts on vulnerable groups.

**3. Systemic changes expected from policy reforms.** The program will have a positive effect on reducing poverty and attaining inclusive growth by providing more job opportunities through increased investments, more opportunities for entrepreneurs, improved public service delivery through better infrastructure, and improved budget efficiency through more transparency in the public procurement process.

## **II. PARTICIPATION AND EMPOWERING THE POOR**

**1. Participatory approaches project activities.** The program intends to work with academia and the private nonprofit sector (such as the Monitoring Committee for Implementation of Regional Autonomy) to conduct studies or surveys that will increase the capacity of the government in cost–benefit analysis and deepen ADB's dialogue with the government.

2. Civil society (i.e., academia and the private nonprofit sector) will conduct surveys and studies.

**3. Civil society organizations.** Studies or surveys conducted by civil society organizations will influence ADB's policy and implementation discussions.

4. The following forms of participation by civil society are envisaged during project implementation, rated as high (H), medium (M), low (L), or not applicable (NA):

(L) Information gathering and sharing (L) Consultation (N/A) Collaboration (N/A) Partnership

### **5. Participation plan.**

Yes.  No. No safeguard issues are considered significant.

## **III. GENDER AND DEVELOPMENT**

Gender mainstreaming category: no gender elements.<sup>3</sup>

**A. Key issues.** No key gender issues are relevant to the program.

**B. Key actions.** Given the characteristics of the program, it does not include gender related measures.

Gender action plan  Other actions or measures  No action or measure

<sup>3</sup> Drawing a comprehensive conclusion on issues related to gender and income poverty in Indonesia is difficult, as consistent sex-disaggregated data are not available throughout the country. Despite the progress, the Gender Development Index in Indonesia only improved slightly from 0.923 in 2010 to 0.926 in 2015, with a high unemployment rate and low participation in the labor force (48.9%) compared with men (82.7%). The school dropout rates are still higher among women, and the percentage of the female population with at least some secondary education is 44.47%, compared with 53.21% of the male population. Though no gender elements apply to the program, it will contribute to narrowing gender disparities in the country.

<b>IV. ADDRESSING SOCIAL SAFEGUARD ISSUES</b>	
<b>A. Involuntary Resettlement</b> 1. <b>Key impacts.</b> Not applicable. 2. <b>Strategy to address the impacts.</b> Not applicable. 3. Plan or other Actions. <input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> No action	<b>Safeguard Category:</b> <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI  <input type="checkbox"/> Combined resettlement and indigenous peoples plan <input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework <input type="checkbox"/> Social impact matrix
<b>B. Indigenous Peoples</b> 1. <b>Key impacts.</b> None. Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No 2. <b>Strategy to address the impacts.</b> None. 3. Plan or other actions. <input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Environmental and social management system arrangement <input type="checkbox"/> Social impact matrix <input checked="" type="checkbox"/> No action	<b>Safeguard Category:</b> <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI  <input type="checkbox"/> Combined resettlement plan and indigenous peoples plan <input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework <input type="checkbox"/> Indigenous peoples plan elements integrated in project with a summary
<b>V. ADDRESSING OTHER SOCIAL RISKS</b>	
<b>A. Risks in the Labor Market</b> 1. Relevance of the project for the country's or region's or sector's labor market. Indicate the impact as high (H), medium (M), and low or not significant (L). (L) unemployment (L) underemployment (L) retrenchment (L) core labor standards 2. <b>Labor market impact.</b> No labor market impact or risks are envisaged.	
<b>B. Affordability</b> Not applicable.	
<b>C. Communicable Diseases and Other Social Risks</b> 1. The impact of the following risks are rated as high (H), medium (M), low (L), or not applicable (NA): <input type="checkbox"/> Communicable diseases <input type="checkbox"/> Human trafficking <input type="checkbox"/> Others (please specify) N/A 2. <b>Risks to people in project area.</b> Not applicable.	
<b>VI. MONITORING AND EVALUATION</b>	
1. <b>Targets and indicators.</b> Not required for this program. 2. <b>Required human resources.</b> Not required for this program. 3. <b>Information in the project administration manual.</b> Not applicable. 4. <b>Monitoring tools.</b> A steering committee, headed by the executing agency, will meet on quarterly basis to review the progress of the program.	

<sup>a</sup> Asian Development Bank (ADB), International Labour Organization, and Islamic Development Bank. 2010. *Indonesia: Critical Development Constraints*. Manila.

<sup>b</sup> D. Seneviratne and Y. Sun. 2013. Infrastructure and Income Distribution in ASEAN-5: What are the Links? *International Monetary Fund (IMF) Working Paper*. No. WP/13/41. Washington, DC: IMF.

<sup>c</sup> A. Abiad, M. Debuque-Gonzales, and A.L. Sy. 2017. The Role and Impact of Infrastructure in Middle-Income Countries: Anything Special? *ADB Economics Working Paper Series*. No. 518. Manila: ADB.

<sup>d</sup> ADB. 2016. *Country Partnership Strategy: Indonesia, 2016–2019—Towards a Higher, More Inclusive and Sustainable Growth Path*. Manila.

Source: ADB.