

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Indonesia	Project Title:	Accelerating Infrastructure Delivery through Better Engineering Services Project
Lending/Financing Modality:	Technical Assistance Loan	Department/Division:	Southeast Asia Department Indonesia Resident Mission

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

Poverty targeting: General intervention

A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy

The Government of Indonesia's National Medium-Term Development Plan (RPJMN), 2015–2019 aims at attaining economic growth of 6%–7% of gross domestic product (GDP) growth annually and reducing the poverty rate from 11.3% in 2014 to 7%–8% by 2019 by fostering inclusive growth. The RPJMN intends to reduce inequality and poverty through (i) increased investment in the labor-intensive sectors, provision of decent jobs to the poor and the vulnerable, more assistance to micro and small businesses, improved basic infrastructure to support economic activity, education and health services, and more targeted social assistance; (ii) implementation of more comprehensive social protection; (iii) wider and improved basic social services to the poor and the vulnerable; and (iv) development of sustainable livelihoods. To achieve its economic growth and poverty reduction targets, the RPJMN identifies total infrastructure requirements of Rp4,800 trillion during 2015–2019: overall infrastructure investments are expected to increase from 3%–4% of GDP during 2005–2014 to 8%–9% of GDP by 2019. Major investments are planned in the transport and electricity sectors to improve connectivity, reduce logistics costs, and raise electricity production per capita. The public sector (central government, local governments, and state-owned enterprises) is expected to lead infrastructure investments during 2015–2019, accounting for 70% of the total infrastructure investment. The government infrastructure investment is expected to increase from 3.1% of GDP in 2014 to 6.2% in 2019.

The Country Partnership Strategy, 2016–2019 (CPS) is closely aligned with RPJMN. CPS focuses on three high-priority areas: (i) improved infrastructure services, (ii) better economic governance, and (iii) enhanced human resource development. In delivering Asian Development Bank's (ADB) support during the RPJMN period, special importance will be paid to programmatic engagement to (i) support government-led policy reform (such as acceleration of infrastructure delivery), and (ii) assist in the design and delivery of government infrastructure programs.

The Accelerating Infrastructure Delivery through Better Engineering Services Project (ESP) is fully aligned with the RPJMN and the CPS, 2016–2019 as it will help the government raise the quality of, and accelerate preparation and implementation of, public infrastructure projects and programs in the road, water supply, sanitation, and water resources sectors. The ESP will help the Ministry of Public Works and Housing (MPWH)—one of the major infrastructure agencies of the government—to improve its systems for a better quality design and expeditious delivery of its infrastructure investment program.

B. Results from the Poverty and Social Analysis during Project Preparatory Technical Assistance or Due Diligence

1. **Key poverty and social issues.** Economic growth averaging 5.8% during 2010–2014 has helped lift 3.3 million people out of poverty. In 2014, 27.7 million Indonesians (11.0% of the population), were below the government's poverty line, down from 13.3% in 2010. In 2015, there was no further decline in poverty, which was mainly due to a continued slowdown of economic growth: 11.1% of the population (28.5 million people) was below the government's poverty line. Overall, some 68 million persons are classified as near-poor, or vulnerable, and many of these individuals move in and out of poverty during their lifetime. Poverty in Indonesia is primarily a rural phenomenon: in 2014–2015, some 14.2% of the rural population was classified as poor, compared to 8.2% of the urban population. The Gini coefficient, a key measure of income inequality, increased from 0.300 in 2000 to 0.405 in 2014.^a One of the major factors of worsening inequality is inequality of opportunity due to lack of access to high-quality public services (e.g., 37% of Indonesian children are stunted, largely due to improper nutrition and lack of proper water and sanitation facilities). Moreover, economic growth has been concentrated in urban areas in the western part of the country, and the rural areas lack good infrastructure to connect them with towns and markets. Some 41% of district roads and 24% of provincial roads throughout Indonesia are in bad condition, limiting economic opportunities and constraining access to essential social services. Additionally, rapid urbanization is placing heavy strains on the provision of basic services, adding to urban congestion and contributing to the degradation of urban resources.

The unemployment rate increased from 5.9% in 2014 (the lowest rate since 2006) to 6.2% in 2015. However, the sectors that create majority of employment opportunities—construction and trade—are low-productivity sectors that are unlikely to lead to the productivity jump that Indonesia needs to meet its development objectives. Moreover, a large proportion of the country's labor force (60%)—including a rising number of young male and female job seekers from rural areas—is absorbed in low-productivity jobs in the informal sector due to limited expansion of labor-intensive sectors such as manufacturing that depend heavily on imports of raw materials and semi-finished products, for which well-functioning ports and efficient logistics are essential. However, logistics costs are relatively high and ports are strained owing to underinvestment in infrastructure. Overall, employment in Indonesia needs to be generated in the high-productivity manufacturing sector, for which the availability of adequate infrastructure is necessary.^b This reconfirms that inadequate infrastructure is a critical constraint to inclusive growth in Indonesia.

2. **Beneficiaries.** The ESP's direct beneficiaries will be the central and local offices of the MPWH and consulting firms recruited for project preparation assignments. The central and local offices of the MPWH will benefit from improved quality of project documentation and timely realization of their investment plans and capital budgets. The consulting firms will benefit from improved business opportunities with the MPWH that will employ the panel approach for selecting consultant firms for

project preparation. Indirect beneficiaries of the ESP will be enterprises, consumers, employees, and the poor in general, as they suffer the most from lack of economic infrastructure. Enterprises will benefit from better competitiveness due to better infrastructure and reduced logistics costs. Consumers will gain from greater domestic competition because it will lower prices and improve services (e.g., in the tourism sector due to better connectivity). Employees will gain from easier access to work and increased income opportunities, including the construction and operation of infrastructure facilities and in better-paid jobs such as in manufacturing. The poor, especially in low-income regions, will benefit because (i) the improved sanitation facilities will reduce inequality of opportunity, and (ii) better intra-island connectivity will allow them to participate in wealthier urban markets.

3. Impact channels. The labor and consumer good markets will be among the most important channels due to the following factors: (i) higher basic infrastructure investments will directly and indirectly create more decent and productive jobs in tourism, agriculture, and manufacturing; and (ii) reduced logistics costs will lead to lower consumer prices and a better variety of products. The growth of sectors such as tourism and agriculture—which are labor intensive, are linked to other economic sectors, and are geographically spread across Indonesia—will reduce poverty and improve food security through better water delivery.

4. Other social and poverty issues. None.

5. Design features. Under output 1, all project preparation consultant teams will have dedicated experts on poverty and social impact who will carry out the required due diligence and promote that these elements are mainstreamed in the design of the infrastructure projects based on international best practice and government requirements. During land acquisition planning, special attention will be given to avoiding or minimizing impact on the poor and the vulnerable, and promoting gender responsiveness. Under output 2, the ESP will help strengthen the capacity and systems of the MPWH in pro-poor infrastructure planning, preparation, and implementation through the economics, poverty, and social experts of the project management consultant firms to be provided to each directorate general of the MPWH. These experts will also help the MPWH review project feasibility studies to ensure that poverty and social issues are properly analyzed.

II. PARTICIPATION AND EMPOWERING THE POOR

1. Participatory approaches and project activities. Immediate stakeholders include the MPWH's directorates general and local offices, and the national consultant community. More widely, stakeholders include the National Development Planning Agency, National Public Procurement Agency, Ministry of Finance, development partners, contractors and suppliers under the public investment projects, and infrastructure-related civil society organizations. All immediate stakeholders of the MPWH have been consulted prior to and during the ESP's appraisal stage through one-on-one or collective meetings. The national consultant community has been also consulted through dedicated (and informal) meetings with individual firms and through meetings with consultant associations. Participation of stakeholders during project implementation will be facilitated by the project management consulting firms to be recruited for each implementing agency of the ESP.

2. Civil society organizations. The MPWH will establish a web page on the ESP that will provide up-to-date information on project implementation status, and feedback and contracting opportunities to all stakeholders, including civil society organizations. At the same time, for public investment projects (whose preparation will be supported through the ESP), the participation of stakeholders, including direct beneficiaries of the created infrastructure, will be supported through explicit mainstreaming in the terms of reference of the project preparation consultants.

3. Civil society organization participation. What forms of CSO participation are envisaged during project implementation (High – H; medium – M; low – L; not applicable – NA)? Information gathering and sharing Consultation Collaboration Partnership

4. Participation plan. Will a project-level participation plan be prepared to strengthen participation of civil society as interest holders for affected persons, particularly the poor and the vulnerable?

Yes. No. Given the ESP's institutional and project preparation focus, no direct civil society participation is envisaged.

III. GENDER AND DEVELOPMENT

Gender mainstreaming category: no gender elements

A. Key issues. The United Nations Development Programme's Human Development Report 2015 valued gender inequality in Indonesia at 0.494 (0 means perfect equality, 1 means perfect inequality), which corresponds to a ranking of 110 out of 155 countries (Malaysia was ranked 42, Viet Nam 60, Thailand 76, and the Philippines 89). This represents an incremental improvement in the gender inequality value of 0.551 in 2005 and 0.508 in 2010. Particular challenges include the maternal mortality ratio of 220 per 100,000 live births (2010), the large difference between the shares of men (49%) and women (40%) with some secondary education, and the even larger difference between men (84%) and women (51%) in the labor force. Gender is also linked to inequality in Indonesia: the gender of the head of household, along with his or her level of education and where the household lives (whether urban or rural, and in which region of Indonesia), explained 33% of total consumption inequality in 2012. The ESP will—indirectly and with some lag—contribute to improving gender equity in Indonesia through mainstreaming of gender responsiveness in the preparation and implementation of public investment projects in accordance with the country's legislation and international best practice, including ADB gender guidelines.

B. Key actions.

Gender action plan Other actions or measures No action or measure

IV. ADDRESSING SOCIAL SAFEGUARD ISSUES	
A. Involuntary Resettlement	Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
<p>1. Key impacts. The ESP, as a technical assistance project, will have no direct impact related to involuntary resettlement.</p> <p>2. Strategy to address the impacts. Not applicable.</p> <p>3. Plan or other Actions</p> <p><input type="checkbox"/> Resettlement plan <input type="checkbox"/> Combined resettlement and indigenous peoples plan</p> <p><input type="checkbox"/> Resettlement framework <input type="checkbox"/> Combined resettlement framework and indigenous peoples</p> <p><input type="checkbox"/> Environmental and social management system arrangement <input type="checkbox"/> Social impact matrix</p> <p><input checked="" type="checkbox"/> No action</p>	
B. Indigenous Peoples	Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
<p>1. Key impacts The ESP, as a technical assistance project, will have no direct impact on indigenous peoples. Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. Strategy to address the impacts Not applicable.</p> <p>3. Plan or other actions</p> <p><input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Combined resettlement plan and indigenous peoples plan</p> <p><input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework</p> <p><input type="checkbox"/> Environmental and social management system arrangement <input type="checkbox"/> Indigenous peoples plan elements integrated in project with a summary</p> <p><input type="checkbox"/> Social impact matrix</p> <p><input checked="" type="checkbox"/> No action</p>	
V. ADDRESSING OTHER SOCIAL RISKS	
<p>A. Risks in the labor market</p> <p>1. Relevance of the project for the country's or region's or sector's labor market, indicated as high (H), medium (M), and low or not significant (L): <input type="checkbox"/> unemployment <input type="checkbox"/> underemployment <input type="checkbox"/> retrenchment <input type="checkbox"/> core labor standards</p> <p>2. Labor market impact. The ESP, as a technical assistance project, will have no direct impact the labor market.</p> <p>B. Affordability. The ESP, as a technical assistance project, will have no direct impact on the exclusion of the poor due to pricing issues.</p> <p>C. Communicable diseases and other social risks</p> <p>1. Indicate the respective risks, if any, and rate the impact as high (H), medium (M), low (L), or not applicable (NA): <input checked="" type="checkbox"/> NA Communicable diseases <input checked="" type="checkbox"/> NA Human trafficking <input checked="" type="checkbox"/> NA Others (please specify) _____</p> <p>2. Describe the related risks of the project on people in project area. Not applicable.</p>	
VI. MONITORING AND EVALUATION	
<p>1. Targets and indicators. The ESP, as a technical assistance project, does not have dedicated poverty reduction and inclusive social development targets and indicators.</p> <p>2. Required human resources. The project management consultant teams recruited for each implementing agency will include poverty and social development experts to support proper management of the poverty and social impacts of each infrastructure project to be prepared under the ESP. ADB's project administration team will include a social safeguards specialist who will advise on any social safeguards issues. Project quarterly progress reports will include a conceptualized discussion on important poverty and social impact issues detected and addressed during preparation of individual infrastructure projects.</p> <p>3. Information in the project administration manual. Section IX, parts B–E of the project administration manual detail the ESP's procedures on monitoring, evaluation, reporting, and stakeholder communication strategy. Supervision of poverty and social aspects of ESP-prepared infrastructure projects will be reflected in the project implementation manuals that will be prepared for such projects by the project preparation consultant firms in accordance with the requirements of each infrastructure project.</p> <p>4. Monitoring tools. Monitoring tools for poverty and social dimensions will be developed and mainstreamed in the ESP-prepared infrastructure projects. ADB review mission reports and the project completion report will provide conceptualized discussion on poverty and social issues encountered during preparation of projects facilitated by the ESP.</p>	

^a Some estimates suggest that the Gini coefficient may have reached 0.51 in 2014, making Indonesia a high-inequality country.

^b Faster growth of infrastructure stock during 2001–2011 could have (i) raised the average GDP growth from 5.3% (actual) to 5.8%–7.0% during this period, and (ii) reduced the poverty rate in 2011 from 11.4% (actual) to 6.9%–9.9%.

Sources: Government of Indonesia. 2015. *Indonesia National Medium-Term Development Plan, 2015–2019*. Jakarta; International Monetary Fund (IMF). 2015. Country Report No. 15/74. Washington, DC; Asian Development Bank (ADB). 2016. *Country Partnership Strategy: Indonesia, 2016–2019: Towards a Higher, More Inclusive and Sustainable Growth Path*. Manila; World Bank. 2015. *Indonesia's Rising Divide: Why Inequality Is Rising, Why It Matters and What Can Be Done*. Jakarta; World Bank. 2016. *Growing Challenges: East Asia and Pacific Economic Update*. Washington, DC; World Bank. 2013. *Indonesia Economic Quarterly: Continuing Adjustment*. Jakarta. ADB. 2012. *Diagnosing the Indonesian Economy: Toward Inclusive and Green Growth*. Manila; United Nations Development Programme (UNDP). 2015. *Human Development Report 2015*. New York.