



Initial Poverty and Social Assessment

Project Number: 40009

Indonesia: Infrastructure Reform Program II

An initial poverty and social assessment (IPSA) is prepared in the early stage of the project cycle to assess the significance of social issues for a project. In accordance with ADB's public communications policy (PCP, 2005), the IPSA is disclosed upon completion. The final summary social assessment is included as an appendix to the project's report and recommendation of the President.

Asian Development Bank

Country/Program Title:

Lending/Financing
Modality:

Program

Department/
Division:

I. POVERTY ANALYSIS AND STRATEGYⁱ

A. Linkages to the National Poverty Reduction Strategy and Country Partnership Strategy

Prior to the Asian financial crisis, Indonesia had been successful in fighting poverty, with poverty rates in terms of population living below \$1/day dropping from more than 50% in 1970 to less than 20% in 1997. Although the poverty headcount has been steadily falling since 1997, poverty remains persistent in Indonesia. Recent surveys suggest that about half of the population still live below the \$2/day international poverty line in 2007. Continued economic growth rates contributed to lift living standards; however the benefits of economic growth are not equally distributed among the population. Rural poverty is significantly higher than urban poverty; with about 60% of the country's poor living in rural areas. Causes of rural poverty include lack of access to social key services, absence of economic opportunities particularly in rural areas, poor infrastructure in villages, and inadequate market linkages.

The Government is set to improve the enabling conditions for improving the investment climate particular to address infrastructure issues, and has launched a series of policy reforms to liberalize markets and allow competition from new entrants, strengthen regulatory arrangements, introduce tariff regimes based on full cost recovery or provide compensation to meet public service obligations, and establish effective mechanisms for dispute resolution. To address the issue of underdeveloped infrastructure hampering economic growth opportunities in poor rural areas, the Government's National Strategy for Poverty Reduction (SNPK) identified rural infrastructure investments as a key strategy to reduce poverty and regional disparities. Infrastructure investments will contribute to achieve the MDGs, as the impact of improved infrastructures will enhance poor people's access to social services and markets and generate income and employment opportunities. In line with the SNPK, the Government's Medium-Term Development Plan 2004-2009 (RPJM) further underlines the need for increased investments in infrastructure in general and in rural infrastructure in particular as an important vehicle of reducing poverty. In April 2007, the Government launched the National Program for Community Empowerment (PNPM Mandiri). The PNPM builds upon Indonesia's accumulated experience with community driven infrastructure development programs and focus on improving service delivery in rural areas by providing block grants generally used for rural roads, improving water and sanitation facilities and developing education and health services.

The proposed Program is in line with Government's policy reforms and is included in ADB's country strategy and program (CSP) for Indonesia for the period 2006-2009, which provides for investments in rural infrastructure as strategic key area of engagement to address poverty and regional disparities, and achieve the Millennium Development Goals (MDGs).

B. Poverty Analysis Key Issues

Targeting Classification: _____

According to recent estimates about half of Indonesia's 235 million people are considered to be poor struggling to survive on less than US\$2 a day; about 18% live on US\$1 or less. In addition, Indonesia has a significant share of the population whose income is just above the poverty line, thus a large proportion of vulnerable people is at risk of falling into poverty due to rising inflation particularly related to increases in food and oil prices, and the impacts of natural disasters. Poverty related challenges in Indonesia are not only the large number of poor but also the striking disparities between regions, provinces, districts and cities.

The Asian financial crisis of 1997 led to a steep decline in infrastructure investments. Private sector investment almost disappeared. At the same time, the Government realized that the public sector had borne a disproportionate share of the risks in the infrastructure sectors, and stopped providing any risk sharing support. With infrastructure investments currently at around 3% of GDP, about 50 million people do not have access to treated water, 90 million are without electricity, and about 200 million without connections to a sewerage network. The poor suffer disproportionately from lack of access to basic infrastructure services. Availability of services is generally lower in rural areas, contributing to significant regional disparities in development.

To address issues of rural poverty caused by lack of adequate infrastructure and poor access to social services particular of the rural poor, the Program's main contribution is to improve the investment climate, and thereby contribute directly to infrastructure investments, which will improve access to markets, develop better economic and employment opportunities, and enhance social services. By enhancing infrastructure provision and access, the Program contributes to achieve Government's medium-term macroeconomic goals in particular realizing average annual GDP growth of 6%–7% during 2005–2009, which should result in reducing poverty and boost job creation in the formal and informal sector.

II. SOCIAL ANALYSIS AND STRATEGY

Indonesia's infrastructure particularly in rural areas is deteriorating: Electrification rates are the lowest in the region, with more than 90 million people still lacking access to electricity. Indonesia has the lowest road density in the region of 0.19 km per square kilometer (km) or 1.7 km per 1,000 people. Only about 40 million people or 18% of the population are connected to a piped water supply; even in urban areas only 33% have access to piped water. Urban sewerage coverage is one of the lowest in Asia. Access through fixed telecommunication lines is among the lowest in the region, with only about 4 lines per 100 people, compared to 18–20 lines elsewhere.

Road conditions in rural areas are particularly poor; more than 15% of all Indonesian villages are inaccessible even by 4-wheel-drive vehicle at certain times of the year. A lack of access to infrastructure results in location poverty, where people living in isolated areas with difficult geography and poor market linkages lack both economic opportunities and adequate levels of service delivery. Investments in transportation infrastructure, agricultural infrastructure (irrigation), and educational and health facilities can significantly improve living conditions of remote areas, create the basis for economic growth, and make a major difference in the welfare of the local population. Poor quality roads or even no roads mean that government services seldom enter the region. Once isolated regions can be reached, services will follow. The positive effect of infrastructure on rural welfare has been empirically demonstrated. Surveys revealed that the presence of good roads is strongly and significantly correlated with the level of mean income of communities.

B. Consultation and Participation

1. Summary of the consultation and participation process during the Program preparation:

The Program is anchored in the Government's comprehensive Infrastructure Policy Package. The Program was designed in a participatory process involving major government and nongovernment stakeholders at the national level, and development partners. Participation took place through regular consultations. The Program is part of the Government's reform agenda and during the implementation, the Program will maintain broad stakeholder participation and promote public-private partnerships. The Program includes assistance to (i) improved policy, legal, and institutional framework anchored on good governance principles; (ii) improved coordination mechanism for ministries and agencies involved in infrastructure development; (iii) a well-structured risk management framework that promotes PSP; (iv) accelerated mobilization of domestic long-term financial resources for infrastructure development, and establishment of innovative funding mechanisms for PPP projects; and (v) a streamlined regional autonomy framework, clearly delineating functional responsibilities of the national and local governments in infrastructure provision. Further, the Program will promote reforms for transportation, power, oil and gas, water supply and sanitation, and telecommunications leading to (i) better sector planning and project preparation; (ii) improved financial soundness and sustainability of infrastructure services through full cost recovery; (iii) greater competition that benefits consumers through improved service delivery and lower tariffs; (iv) independent regulatory structures that are distinct from the contracting and operating functions; (v) equal access for all participants, and prevention of abuse of natural monopoly rights; and (vi) fulfillment of public service obligations in infrastructure provision, in line with the Government's poverty reduction objectives.

2. What level of consultation and participation (C&P) is envisaged during the Program implementation and monitoring?

Information sharing Consultation Collaborative decision making Empowermentⁱⁱ

3. Was a C&P plan prepared? Yes No

C. Gender and Development

Drawing a comprehensive conclusion on issues related to gender and income poverty in Indonesia is difficult as consistent disaggregated data by sex is not available throughout the country. However, policy reforms supported under the Program will ensure that perspectives of both men and women are represented in planning, designing, and implementing of infrastructure investments.

2. **Key Actions.** Measures included in the design to promote gender equality and women's empowerment—access to and use of relevant services, resources, assets, or opportunities and participation in decision-making process:

Gender planⁱⁱⁱ Other actions/measures No action/measure

III. SOCIAL SAFEGUARD ISSUES AND OTHER SOCIAL RISKS^{iv}

Issue	Significant/Limited/ No Impact	Strategy to Address Issue	Plan or Other Measures Included in Design
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<u>Involuntary Resettlement</u> ^v	<p>The proposed Program will not provide direct investment support to any infrastructure projects. Improving the legal framework for land acquisition for public infrastructure will strengthen government land acquisition practices in line with ADB's involuntary resettlement policy.</p>		<input type="checkbox"/> Full Plan <input type="checkbox"/> Short Plan <input type="checkbox"/> Resettlement Framework <input checked="" type="checkbox"/> No Action
<u>Indigenous Peoples</u> ^{vi}	<p>No negative impact is expected. Improving policy frameworks will strengthen government's regulation in line with ADB's requirements on the rights of indigenous people.</p>		<input type="checkbox"/> Plan <input type="checkbox"/> Other Action ^{vii} <input type="checkbox"/> Indigenous Peoples Framework <input checked="" type="checkbox"/> No Action
Labor <input type="checkbox"/> Employment opportunities <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Core labor standards ^{viii}	<p>Improving the investment climate will contribute to increase income generating opportunities particularly for both skilled and unskilled labor in the infrastructure sector.</p>		<input type="checkbox"/> Plan <input type="checkbox"/> Other Action ^{ix} <input checked="" type="checkbox"/> No Action
Affordability	<p>No negative impacts are expected. The proposed Program will contribute to review tariff policies in all infrastructure sectors and adopt tariff regimes that are in line with cost-recovery principles Infrastructure improvements will result in lowering transportation costs, and costs of access to social services. The Government is committed to protect the poor in the event upward tariff adjustments are required.</p>		<input type="checkbox"/> Action <input checked="" type="checkbox"/> No Action
Other Risks and/or Vulnerabilities <input type="checkbox"/> HIV/AIDS <input type="checkbox"/> Human trafficking <input type="checkbox"/> Others(conflict, political instability, etc), please specify	<p>None</p>		<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input checked="" type="checkbox"/> No Action
IV. MONITORING AND EVALUATION			
<p>Are social indicators included in the design and monitoring framework to facilitate monitoring of social development activities and/or social impacts during Program implementation? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>			