INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Indonesia	Project Title:	Second Financial Market Development and Integration Program, Subprogram I
Lending/Financing Modality:	Program loan	Department/ Division:	Southeast Asia Department/Public Management, Financial Sector, & Trade Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

The government incorporated the goals and objectives of its Poverty Reduction Strategy Paper (2005) into Indonesia's National Medium-Term Development Plan (NMTDP) for 2004–2009. The Asian Development Bank (ADB) country strategy and program (CPS), 2006–2009 incorporated and supported the goals of the NMTDP and identified five areas of engagement, including deepening the finance sector. This emphasis has continued into the new NMTDP for 2010–2014 and has been incorporated into pillar 1 (inclusive growth) of ADB's CPS, 2012–2014. As a basis for these programs, the government has determined that the Indonesian economy will need to grow an average of 6.4%–6.8% per annum over the term of the NMTDP to achieve inclusive growth, a poverty rate below 10.0%, and an unemployment rate below 6.0%. To attain these targets, aggregate domestic investment of Rp11.9 billion–Rp12.5 trillion will be required and a large portion of this will have to come from the bank and nonbank finance subsectors.

B. Targeting Classification

☒ General Intervention ☐ Individual or Household (TI-H) ☐ Geographic (TI-G) ☐ Non-Income MDGs (TI-M1, M2, etc.)

The greatest impact of the proposed program loan will be nationwide, as it will enlarge the finance sector and provide an enabling environment for capital market development. The program loan will not target any specific population segment or geographic area, although parts of the program, including the development of microfinance and micro insurance, will likely have a positive impact on the rural poor.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries.
Key issues and potential beneficiaries. The financial system is underdeveloped and must be deepened and enlarged to ensure the government can achieve its overarching targets for aggregate domestic investment, and in turn economic growth, poverty reduction, and employment. Limited finance sector development also has a disproportionate impact on the poor. The recently completed financial inclusion survey indicates that only half of the total population is served by the formal financial system. Approximately 80% of Indonesia's poor have no access to formal financial services and nearly 20% do not have access to financial services at all, with the excluded concentrated in rural areas outside of Java and working in the agriculture sector. Studies show that informal lending carries annual interest rates in excess of 40%, which is double the rate offered through the formal finance sector. This lack of access to savings, affordable loans, and money transfer services constrains the ability of the poor to improve their lives.

2. Impact channels and expected systemic changes.
Empirical studies, including one by the International Monetary Fund, have supported the direct relationship between finance sector development and poverty reduction, and have identified three discrete channels of transmission. First, the link between economic growth and finance sector development is well known, has been empirically supported, and serves as the basis of the government's focus on finance sector development to reduce poverty. The government's focus on financial inclusion recognizes the contribution of the second channel—access to finance. This channel is direct, as finance sector development allows more entrepreneurs, especially those who are less well-off, to obtain affordable credit which can then be used to expand their productive endeavors. In addition, the government's increased focus on financial literacy holds the potential to empower consumers, especially those who are less well-off, to increase savings and to utilize financial services in more responsible ways. The third channel is indirect, as finance sector development generally increases finance sector stability. Stability benefits the poor because poor households have fewer and less diversified assets and are thus much more vulnerable to instability in the finance sector than the rich.

3. Focus of (and resources allocated in) the PPTA or due diligence.
PPTA will not be utilized.

4. Specific analysis for policy-based lending.

Specific analysis for policy-based lending. Program impact is high, leading to economic growth, which is expected to occur over the medium-to-long term (4–10 years). However, more immediate reforms, such as the development of low-cost savings, increased availability of affordable credit, and cheaper remittance channels, are expected to have a more immediate impact over the short term (1–3 years).

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project or program?
What are the key gender issues in the sector/subsector that are likely to be relevant to this program?

The recently concluded financial inclusion survey noted that only about half the population of Indonesia has access to financial services. This means there are more than 110 million people who have little or no access to formal financial institutions. Approximately 80% of Indonesia's poor has no access to formal financial services, and nearly 20% do not have access to financial services at all. Residents outside of Java and those working in the agriculture sector generally have less access to financial services. The survey also identified a number of issues which pertain to women. First, approximately 80% of migrant workers are women and more than 85% of these women work in the informal sector and originate from predominantly poor agricultural households from rural and low-income regions. While they lack access to financial services generally, their primary needs are for a quick and low-cost funds transfer service to remit their earnings to their families. In addition, among those who do access formal financial services, women exhibit different priorities. For example, men and women in Indonesia are equally likely to have savings accounts but women are more likely to be motivated to have a bank account in order to save for future needs. Also, women more often purchase education insurance, whereas men prefer life insurance and, to a lesser degree, asset insurance.

2. Does the proposed project or program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making?
☐ Yes ☒ No
While no gender elements have been explicitly identified, the program supports a number of reforms which carry significant potential to increase access to finance for women, provide tailored support to dispute resolution, and improve consumer protection and financial literacy in a targeted way. Consultations with the government will seek to modify existing policy reforms and associated performance targets sufficient to raise SP2 to a category of some gender elements

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?
☐ Yes ☒ No
The program provides high-level support to further deepen the finance sector and increase financial literacy, protection, and stability. While no gender elements have been explicitly identified, the reforms are unlikely to widen gender inequality or have a negative impact on women.

4. Indicate the intended gender mainstreaming category:
☐ GEN (gender equity theme) ☐ EGM (effective gender mainstreaming)
☐ SGE (some gender elements) ☒ NGE (no gender elements)

III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.
Consultations with the government were conducted prior to, and during, program processing by way of missions to conduct policy dialogue with stakeholders, including OJK as financial market regulator, and the private sector including both intermediaries and investors.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable and excluded groups? What issues in the project design require participation of the poor and excluded?
Program content is based in part on the recently completed financial literacy survey which included large segments of the poor.

3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design?
N Information generation and sharing **N** Consultation **N** Collaboration **N** Partnership

4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? ☒ Yes ☐ No
Covered by the financial literacy survey

IV. SOCIAL SAFEGUARDS

A. Involuntary Resettlement Category ☐ A ☐ B ☒ C ☐ FI

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? ☐ Yes ☒ No

The project does not have the potential to involve involuntary land acquisition resulting in physical and economic displacement.

2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process?

☐ Resettlement plan ☐ Resettlement framework ☐ Social impact matrix
☐ Environmental and social management system arrangement ☒ None

B. Indigenous Peoples Category ☐ A ☐ B ☒ C ☐ FI

1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? ☐ Yes ☒ No

2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? ☐ Yes ☒ No

No.

3. Will the project require broad community support of affected indigenous communities? ☐ Yes ☒ No

No.

4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process?

☐ Indigenous peoples plan ☐ Indigenous peoples planning framework ☐ Social impact matrix
☐ Environmental and social management system arrangement ☒ None

V. OTHER SOCIAL ISSUES AND RISKS

1. What other social issues and risks should be considered in the project design?

☐Creating decent jobs and employment**(N)** ☐Adhering to core labor standards**(N)** ☐Labor retrenchment**(N)**
☐Spread of communicable diseases, including HIV/AIDS **(N)** ☐Increase in human trafficking **(N)** ☐Affordability**(N)**
☐Increase in unplanned migration**(N)** ☐Increase in vulnerability to natural disasters**(N)** ☐Creating political instability**(N)**
☐Creating internal social conflicts**(N)** ☐Others, please specify**(N)** _None_____

2. How are these additional social issues and risks going to be addressed in the project design?

NA

VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT

1. Do the terms of reference for the PPTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence process to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (vi) other social risks. Are the relevant specialists identified?

☐ Yes ☒ No

PPTA will not be utilized.

2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analysis, and participation plan during the PPTA or due diligence?

Not applicable.