SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Indonesia	Project Title:	Financial Market Development and Inclusion Program
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

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

Poverty reduction is an important part of the National Medium Term Development Plan for 2015-2019.[a] The overall objective of the RPJMN strategy is to generate growth for the greatest prosperity of the people in a sustainable manner. Indonesia needs new sources of growth to meet its ambitious economic growth target of 8.0% by 2019. This requires acceleration in public and private infrastructure investments to improve the competitiveness of the economy, investment climate reforms, and productivity reforms. Against the backdrop of slower economic growth and structural adjustment, the government is also challenged by a significant rise in household income inequality which has direct implication on poverty reduction. ADB's country partnership strategy, 2012–2014 supported the goals of the development plan and the emphasis on the financial sector is reflected in pillar 1 on inclusive growth.[b] This is furthers supported through the Country's Operation Business Plan 2014-2016.[c] With the establishment of a separate financial services regulator, the program will work to strengthen linkages to national and subnational poverty reduction strategies, particularly those that involve financial inclusion and development of microfinance.

B. Results from the Poverty and Social Analysis during PPTA or Due Diligence

1. Key poverty and social issues. 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 financial sector development has a disproportionate impact on the poor including lack of access to financial services. Only 21.9% of the poorest 40.0% of the Indonesian population has savings at a financial institution. Furthermore, over 40% of the population does not borrow, with only 13.1% having borrowed from a financial institution.[d] From those who do not borrow, 60% said they are not considered creditworthy. This suggests that the financial services provided may not be suitable for all segments of society. In addition, while a sizeable percentage of those who do not save cited lack of resources and employment as contributing factors, 7% said they either do not understand financial services or see no benefit in it. Comparing the different financial sub-sectors, capital market literacy is the lowest, with close to 94% categorized as not literate.[e] This lack of access to savings, affordable loans, and money transfer services constrains the ability of the poor to improve their lives.

2. Beneficiaries. The program is classified as general intervention, as its proposed outputs will benefit all citizens, including the poor. The program will help to provide more equitable and inclusive economic growth for the whole economy, and will specifically benefit the poor through the third program pillar focused on increasing financial inclusion.

3. Impact channels. Empirical studies, including one by the International Monetary Fund, have supported the direct relationship between financial sector development and poverty reduction, and have identified three discrete channels of transmission. First, the link between economic growth and financial sector development is well known, has been empirically supported, and serves as the basis of the government's focus on financial 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 financial sector development allows more entrepreneurs, especially those less well off, to obtain affordable credit which can then be used to expand and grow their productive endeavors. In addition, the government's increased focus on financial literacy holds the potential to empower consumers, especially those less well off, to increase savings and to utilize financial services in more responsible ways. The third channel is indirect, as financial sector development generally increases financial 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 financial sector than the rich.

4. Other social and poverty issues. No other issues noted.

5. Design features. The program is designed to encourage the government to continue the progress it has made in financial sector strengthening. The program aims to (i) strengthen regulatory structure for financial stability; (ii) deepen financial market; (iii) and enhance access to financial services.

C. Poverty Impact Analysis for Policy-Based Lending

1. Impact channels of the policy reform(s). The program's policy reforms on financial inclusion will increase access to and usage of financial services by the unbanked or under-banked by strengthening the regulation and oversight of microfinance institutions, by promoting appropriate product development, increasing financial literacy, and enhancing the financial consumer protection of all citizens of Indonesia.

2. Impacts of policy reforms on vulnerable groups. No adverse impacts. Positive impacts include the expansion of access to financial services which aims at bring the poorest 40% of the population into the formal financial sector including through branchless banking and services offered by micro-finance institutions. This can provide necessary protections to vulnerable groups through appropriately adapted financial products and services, financial consumer protection policies as well as targeted financial literacy activities.

3. Systemic changes expected from policy reforms. The program will have a positive effect on reducing poverty and attaining inclusive growth by enhancing access to finance for the poor and providing an enabling environment for capital market development.

II. PARTICIPATION AND EMPOWERING THE POOR

1. Participatory approaches and project activities. Consultations with the government were conducted before and during program processing by way of missions to conduct policy dialogue with stakeholders, including the Financial Services Authority (OJK) as financial market regulator; and the private sector, including both intermediaries and investors. Program content is based, in part, on the recently completed financial literacy survey, which included large segments of the poor. Several key policy milestones indicated in the policy matrix will rely on government outreach and engagement with the poor and vulnerable, particularly with regard to increasing financial literacy and developing more appropriate financial products and services for low-income clients.

2. Civil society organizations. The program will support the government in its engagement of civil society organizations through a variety of policy actions included in the program, such as the fostering of development of Islamic Finance, which will require input from civil society organizations involved in the promotion of Islamic Finance. Implementation of a policy action on government strengthening of the consumer protection framework will include input from civil society organizations active in financial consumer protection, such as professional associations and consumer advocate organizations. Policy work on increasing financial literacy will require the government's active engagement of civil society organizations such as nongovernment organizations, community-based organizations, primary and secondary level schools as well as universities.

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

☒ Information gathering and sharing (L) ☒Consultation (L) ☒Collaboration (L) ☐ Partnership

4. Participation plan.

☐ Yes. ☒ No. Social safeguard issues are not considered significant.

III. GENDER AND DEVELOPMENT

Gender mainstreaming category: No gender elements for subprogram 1, but with increased support in financial inclusion, subprograms 2 and 3 are targeted to be categorized as some gender elements.

A. Key issues. A recent survey on financial inclusion conducted by the OJK identified a number of issues that pertain to women. First, about 80% of migrant workers are women and more than 85% of these women work in the informal sector and originate from dominantly 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. Likewise, women more often purchase education insurance, whereas men prefer life insurance, and to a lesser degree, asset insurance.

B. Key actions.

☐ Gender action plan ☐ Other actions or measures ☒ No action or measure

While no gender elements have been identified, the program supports a number of reforms that have 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. In addition, government development of a road map to develop rural banking in Indonesia (2014–2023) will likely include action to benefit rural women specifically. Consultations with the government will seek to refine existing policy reforms and associated performance targets sufficient to raise subsequent subprograms to a category of some gender elements.

IV. ADDRESSING SOCIAL SAFEGUARD ISSUES

A. Involuntary Resettlement **Safeguard Category:** ☐ A ☐ B ☒ C ☐ FI

1. Key impacts. Not applicable
2. Strategy to address the impacts. Not applicable
3. Plan or other Actions

☐ Resettlement plan
☐ Resettlement framework
☐ Environmental and social management system arrangement
☒ No action
☐ Combined resettlement and indigenous peoples plan
☐ Combined resettlement framework and indigenous peoples planning framework
☐ Social impact matrix

B. Indigenous Peoples **Safeguard Category:** ☐ A ☐ B ☒ C ☐ FI

1. Key impacts. No key impacts.
2. Is broad community support triggered? ☐ Yes ☒ No

Government actions to expand financial services to these populations will require community support and will need to work closely with community based organizations to promote financial literacy and development of appropriate financial services.

2. Strategy to address the impacts. The strategy is reflected in the response above.
3. Plan or other actions.

☐ Indigenous peoples plan
☐ Indigenous peoples planning framework
☐ Environmental and social management system arrangement
☐ Social impact matrix
☒ No action
☐ Combined resettlement plan and indigenous peoples plan
☐ Combined resettlement framework and indigenous peoples planning framework
☐ Indigenous peoples plan elements integrated in project with a summary

V. ADDRESSING OTHER SOCIAL RISKS

A. Risks in the Labor Market

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).
L☒ unemployment L ☒ underemployment L☒ retrenchment L ☒ core labor standards

2. Labor market impact. The program will not have a significant impact on the labor market.

B. Affordability

The program will help to increase the affordability, ease of use, and access to financial services for a wide range of the population, foreign and domestic private investors, small and medium-sized enterprises as well as individuals.

C. Communicable Diseases and Other Social Risks

1. The impact of the following risks are rated as high (H), medium (M), low (L), or not applicable (NA):
☐ Communicable diseases ☐ Human trafficking
☐ Others (please specify) ______________
No noted risks.
2. Risks to people in project area.
Not applicable.

VI. MONITORING AND EVALUATION

1. Targets and indicators. Not required for this program.
2. Required human resources. Not required for this program.
3. Information in the project administration manual. Not required for this program.
4. Monitoring tools. Not required for this program.

[a] Badan Pengawasan Keuangan Dan Pembangunan. National Medium Term Development Plan. http://www.bpkp.go.id/sesma/konten/2254/Buku-I-II-dan-III-RPJMN-2015-2019.bpkp (accessed 20 July 2015).
[b] ADB. 2012. Country Partnership Strategy (2012-2014). Manila.
[c] ADB. 2014. Country Operations Business Plan (2014-2016). Manila.
[d] Statistics are based on the 2014 Global Financial Inclusion Database, which can be compared over a time series. Other surveys may have different numbers depending on the methodology adopted
[e] OJK. 2014. Strategi Nasional Literasi Keuangan Indonesia. Jakarta