

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Indonesia	Program Title:	Sustainable and Inclusive Energy Program
Lending/Financing Modality:	Policy-Based Loan	Department/Division:	Southeast Asia Department/Energy Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

The national poverty reduction strategy of Indonesia is incorporated in the government's National Medium-Term Development Plan (RPJMN). The RPJMN, 2010–2014 indicates that insufficient investment in infrastructure including in the energy sector is one of the critical constraints on economic growth, and that infrastructure has been the primary driving factor in poverty reduction. The country partnership strategy (CPS) 2012–2014^a of the Asian Development Bank (ADB) is closely aligned with the RPJMN and supports the government's efforts to achieve higher levels of pro-poor sustainable growth and to enhance social development. Specifically, the CPS comprises two pillars: (i) inclusive growth, and (ii) environmental sustainability with climate change mitigation and adaptation.

The government is developing its next RPJMN for 2015–2019, which will highlight expanding electricity access to all Indonesians and increasing per capita consumption from 800 kilowatt-hours to 1,200 kilowatt-hours per year as key goals. It will also bolster domestic energy security through increased investment in the sector, expanded production of gas, increased utilization of renewable energy, and the scaling up of energy access. These priorities are to be reflected in ADB's draft CPS for 2015–2019 and the draft energy sector assessment, strategy, and road map, both of which are being finalized.

The program supports the government's measures to accelerate the country's pro-poor economic growth and reduce poverty by developing and improving infrastructure through more reliable, sustainable, secure, and affordable energy systems.

The program is also in line with ADB's midterm review of Strategy 2020, which emphasizes the need for inclusive economic growth, infrastructure development, and policy-based engagements in middle-income countries.^b

B. Poverty Targeting

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

The program will provide a more sustainable and inclusive energy sector and foster the country's efforts to increase sustainable economic growth and alleviate poverty.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries.

Indonesia's national electrification ratio is low relative to its neighbors in Southeast Asia. More than 40 million people, or about 16% of the nation's population, lacked access to electricity in 2014. In many small power markets and in parts of eastern Indonesia supply is limited to a few hours per day. Moreover, nearly every second household in Indonesia depends on solid fuels for cooking, causing indoor air pollution.

The expected impact of the program is a more sustainable and inclusive energy sector in Indonesia which will (i) improve the investment climate in the energy sector, (ii) increase access to clean energy, and (iii) expand electricity access. As a result, the program will provide economic opportunities for large industries and small and medium-sized enterprises as well as increase the efficiency of public services (such as hospitals, schools, and government offices). Urban and rural consumers—industrial, agricultural, commercial, and domestic—are all potential beneficiaries of a sustainable energy sector.

2. Impact channels and expected systemic changes.

The government recognizes the crucial impact that energy will have on the country's future growth and introduced important initiatives on multiple fronts in the sector during 2014. Over 2014–2015 the government removed subsidies on gasoline and increased the price of diesel by nearly 30%. The government has also removed electricity tariff subsidies and put in place automatic price adjustment for all but a few categories of consumers. In an effort to improve the operational efficiency of the State Electricity Company (Perusahaan Listrik Negara, or PLN) and strengthen it financially, the government is also trying to move away from the current framework of the public service obligation wherein PLN is reimbursed for the difference between its actual costs of operation (plus a margin) and its revenue to benchmarking of controllable costs and performance. The government is also evaluating proposals that would increase private sector involvement in the upstream and downstream natural gas subsectors. In summary, the government has demonstrated a commitment to addressing challenges in the energy sector and enabling the transition to a more sustainable and inclusive energy supply. However, a sustained, comprehensive effort is necessary to translate the goals and targets into enabling regulations and promulgate these regulations in order to

realize tangible outcomes in the medium term.

3. Focus of (and resources allocated in) the Program Preparatory Technical Assistance (PPTA) or due diligence.

In coordination with key development partners and bilateral agencies such as the World Bank, the due diligence will include (i) sector assessment focusing on specific policy measures to be taken, (ii) economic and financial analysis, (iii) a risk assessment and management plan, (iv) program impact assessment, (v) environmental assessment, and (vi) fiduciary safeguards assessment.

4. Specific analysis for policy-based lending.

The proposed policy-based loan will support the Government of Indonesia in introducing overdue reforms in the energy sector so as to stimulate investments in the sector, which will increase access to cleaner and more affordable forms of energy for all citizens. The program is well aligned with the government's goal to expand generation capacity by 35 gigawatts during 2015–2019. The policy-based loan will take a chronological approach over the same period with subprograms every other year to strengthen overall impact.

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? Women have an important role in domestic activities such as cooking and provision of wood or alternative fuel for cooking and lighting. Women also have capacity to meet their families' basic needs through subsistence and income-earning activities. Reliable, sustainable, and affordable electricity will significantly reduce the time and effort spent by women on domestic activities by reducing the labor required to obtain and use fuel, enabling income-generating activities in the home, family or leisure time, and easier study for school or other training, and generally improving the health and quality of life. In addition, women running home industries, businesses, and other enterprises might experience lower production costs and increased revenue. Therefore, energy provision will be a critical input for women's activities.

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 energy provision is identified as a critical input for women's activities, the program aims at systematic improvement, and benefits will be generalized and indirect. Pillar 3, which aims to increase energy access to the poor and vulnerable, has aspects which to some extent address gender equality and empowerment of women.

3. Could the proposed program have an adverse impact on women and/or girls or widen gender inequality?

Yes No

Systematic reform of the energy sector will impact positively on the population as a whole but will not have a direct gender impact nor widen gender inequality.

4. Indicate the intended gender mainstreaming category:

GEN (gender equity) EGM (effective gender mainstreaming)

SGE (some gender elements) NGE (no gender elements)

III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the program, including beneficiaries and negatively affected people?

The main stakeholders are national government agencies, local government representatives, and the private sector such as power companies, independent power producers, and oil and gas exploration companies. All these stakeholders will be consulted. Urban and rural consumers—industrial, agricultural, commercial, and domestic—are all potential beneficiaries of a sustainable energy sector.

2. How can the program contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly the poor, vulnerable, and excluded groups? What issues in the program design require participation of the poor and excluded?

The program content is based, in part, on some of the empirical findings on the impact of increased private participation and infrastructure on achievement of inclusive growth.

3. What are the key, active, and relevant civil society organizations in the program area? What is the level of civil society organization participation in the program design?

Information generation and sharing Consultation Collaboration Partnership

Because the social benefits of the program are primarily indirect, civil society organizations relevant to social impact and development will have a limited role in the program; if any such organizations express interest in being involved, the program will ensure that information flows are fully transparent and will seek their advice as appropriate.

4. Are there issues during program design for which participation of the poor and excluded is important? What are they and how shall they be addressed? Yes No

IV. SOCIAL SAFEGUARDS

A. Involuntary Resettlement Category A B C FI

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

The program will have no potential to involve involuntary land acquisition.

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 program 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

3. Will the program require broad community support of affected indigenous communities? Yes 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 program design?

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

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

Creating decent jobs and employment: The proposed policy reforms under the program will contribute to the national economy through more investment and production activities, and to additional employment as a result of expanded supply and reliability of electricity supply. The reforms will accelerate economic growth and help create jobs. Factories will be able to operate with greater certainty for more hours per day, thereby increasing productivity.

Affordability: The program will support the Government of Indonesia to increase access to cleaner and more affordable forms of energy for all its citizens.

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 the PPTA or due diligence process to better analyze (i) poverty and social impact, (ii) gender impact, (iii) participation dimensions, (iv) social safeguards, and (v) other social risks. Are the relevant specialists identified?

- Yes No

The program will have no impact on any of the social safeguard categories and is not expected to generate any other social risk.

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

Initial and summary poverty and social assessments will be completed by team members in coordination with the World Bank, which will cofinance the program.

^a ADB. 2012. *Country Partnership Strategy: Indonesia, 2012–2014*. Manila.

^b Asian Development Bank (ADB). 2014. *Midterm Review of Strategy 2020*. Manila.