

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Indonesia	Project Title:	Sustainable and Inclusive Energy Program
Lending/Financing Modality:	Policy-based loan	Department/Division:	Southeast Asia Department Energy 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

The government of Indonesia has set a national poverty reduction goal of reducing poverty rates to 7%-8% by 2019 in its national medium-term development plan for 2015–2019. It recognizes that achieving these targets will depend on its ability to expand access to reliable and cost-effective sources of modern forms of energy.^a Availability of sustainable and inclusive forms of energy will benefit both the country's manufacturing and commercial centers, as well as millions of Indonesians living in remote areas across the country. The program is designed to support these goals proposed in the national medium-term development plan, which aims to (i) expand electricity access to 100% of Indonesians and increase average per capita power consumption from 843 kilowatt-hours to 1,200 kilowatt-hours per year; (ii) bolster domestic energy security by expanding the production of gas, improving security for downstream oil and oil products, and increasing the use of renewable energy to 19% by 2019; and (iii) scale up energy efficiency. Since these goals will require a sustained multiyear effort, the program will be implemented over the 2015–2019 medium-term plan period.

The program is aligned with the priorities in the drafts of ADB's country partnership strategy for 2015-2019 for Indonesia and its energy sector assessment, strategy, and road map, which are being finalized. It is also in line with ADB's 2014 midterm review of Strategy 2020, which emphasizes the need for inclusive economic growth, infrastructure development, and policy-based engagement in middle-income countries.^b By focusing on a series of subsector reforms, the program addresses the unfinished work of translating high-level sector regulatory reform implemented under ADB's Infrastructure Reform Sector Development Program during 2006–2010 into sustained actions in these subsectors.^c The program is included in the draft country operations business plan for Indonesia for 2015–2017.

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

1. **Key poverty and social issues.** Indonesia's national electrification ratio of 84% in 2014 was low compared with those of its neighbors in Southeast Asia. About 35 million people, or 16% of the nation's population, continue to lack access to electricity. The rates in most other large Association of Southeast Asian Nation countries are almost 100%. In many small power markets and in parts of Eastern Indonesia, supply is limited to a few hours a day. Moreover, difficulty accessing modern forms of fuel has led to nearly every second household in Indonesia using solid fuels for cooking, causing indoor air pollution which disproportionately affects poorer households, women and children.

2. **Beneficiaries.** The expected impact of the program will be a more sustainable and inclusive energy sector in Indonesia. The outcome will be increased power supply from sustainable and more accessible energy options. 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 from a sustainable energy sector.

3. **Impact channels.** The program aims to increase access to clean energy and electricity. The welfare benefits of rural electrification when a household adopts electricity typically range from \$10-\$20 a month, or up to \$1 per kilowatt hour. In terms of more use of safe energy, women will benefit most from the use of modern cooking solutions. Women in households that now rely on traditional cooking methods are exposed to air pollution that can reach 20 times the maximum recommended level. Similar indoor smoke pollution is estimated to cause more than 600,000 premature deaths annually in the East Asia and Pacific regions.^d Improved access to modern cooking methods and electricity will have positive health, social, and economic impacts on the poor and vulnerable groups.

4. **Other social and poverty issues.** Improvements in the general welfare and gender equality do not automatically result from providing households with electricity and modern cooking solutions. While electrification is a necessary enabler, it is insufficient on its own to provide better living standards and greater opportunities for all. To yield the full desired benefits, electrification must be part of a broader, culturally specific, and inclusive development strategy that integrates it with better health, education, and government administration services and entrepreneurship initiatives.

5. **Design features.** The program is closely aligned with the government's national medium-term development plan for 2015–2019. The outcome of the program will be an increase of supply from sustainable and more accessible energy options, and one of the indicators will be an increase in the percentage of the population with access to

electricity from 84% to 96%. Pillar 3 of the program is an improved regulatory environment for increased access to clean energy and energy efficiency. Under this pillar, the program aims to help the government issue three regulations to scale up geothermal-powered electricity generation, establish pricing incentive mechanisms for two additional renewable energy technologies, and issue two decrees establishing a national electrification plan.

C. Poverty Impact Analysis for Policy-Based Lending

1. Impact channels of the policy reform(s). The program's impact will be a more sustainable and inclusive energy sector in Indonesia. The outcome will be increased power supply from sustainable and more accessible energy sources. Better access to energy sources, including electricity, will provide health, education, and economic improvements of households. For industries and commercial entities, improved access to energy (gas or electricity) and improved security of supply will mean better productivity and efficiency. A more secure energy supply will also attract industries to areas that were not attractive without it and improve the economic growth of such areas by providing employment.

2. Impacts of policy reform(s) on vulnerable groups. The policy reform will not have a direct impact on vulnerable groups, as long as social safety nets such as targeted direct subsidy and cash transfers are set up to protect the poor from tariff increases. The government plans to put these measures in place. Many of the proposed policies would benefit vulnerable groups by helping to give them access to cleaner and more affordable energy sources.

3. Systemic changes expected from policy reform(s). The government recognizes the crucial impact that energy will have on the country's future growth and took important initiatives on multiple fronts in the sector during 2014. In 2015, it removed subsidies on gasoline and enacted a nearly 30% increase in the price of diesel. The government has also removed electricity tariff subsidies and set electricity tariffs to market price for all but a few categories of consumers. By doing so, the government has demonstrated a commitment to addressing challenges in the energy sector and making the energy supply more sustainable and inclusive. However, to achieve tangible medium-term results, the government needs to make a sustained, comprehensive effort to translate its sector goals and targets into enabling regulations and to promulgate these regulations.

II. PARTICIPATION AND EMPOWERING THE POOR

1. Participatory approaches and project activities. Main stakeholders are national government agencies and local government representatives, along with power companies, independent power producers, and oil and gas exploration companies from the private sector. All these stakeholders will be consulted. Urban and rural consumers—industrial, agricultural, commercial, and domestic—are all potential beneficiaries from a sustainable energy sector.

2. Civil society organizations. Because the social benefits of the program are primarily indirect, the role of civil society organizations involved in social impacts and development will be limited. If any express interest in being involved, the program will ensure that information is fully transparent and will seek their advice when appropriate.

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 Consultation Collaboration Partnership

4. Participation plan.

Yes. No. The program will only have indirect benefits to communities, and therefore no community consultation is needed for any part of the program.

III. GENDER AND DEVELOPMENT

Gender mainstreaming category: no gender elements (NGE)

A. Key issues. Women play an important role in energy-related domestic activities, including cooking and the provision of wood or other alternative fuels for cooking and lighting. Women in Indonesia also help meet their families' basic needs through income-earning activities. A reliable, sustainable, and affordable supply of electricity will significantly reduce the time and effort women must spend on domestic activities by eliminating the need for them to obtain and use other fuels for their household tasks. This will increase the time they have for income-generating activities in the home and taking care of their families, as well as for leisure. In addition, the electricity supply can also enable women running home industries, businesses, and other enterprises to lower their production costs and increase their revenue. Energy provision is a critical input for improvement of women's life.

B. Key actions. Gender action plan Other actions or measures No action or measure

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.

IV. ADDRESSING SOCIAL SAFEGUARD ISSUES

A. Involuntary Resettlement

Safeguard Category: A B C FI

<p>1. Key impacts. The program has no potential to involve involuntary land acquisition.</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 planning framework</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>	
<p>B. Indigenous Peoples Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p> <p>1. Key impacts. The program will have no impact on indigenous peoples.</p> <p>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>	
<p>V. ADDRESSING OTHER SOCIAL RISKS</p>	
<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).</p> <p><input checked="" type="checkbox"/> unemployment <input type="checkbox"/> underemployment <input type="checkbox"/> retrenchment <input type="checkbox"/> core labor standards</p> <p>2. Labor market impact. The proposed policy reforms under the program and the expanded supply and reliability of electricity supply that follow will result in greater investment and production activities, accelerated economic growth, and the creation of more employment.</p>	
<p>B. Affordability The program will review the current policy for the power sector to make electricity accessible and affordable for the poor. It will support the government's efforts to increase access to cleaner and more affordable forms of energy for all its citizens.</p>	
<p>C. Communicable Diseases and Other Social Risks</p> <p>1. The impact of the following risks are rated as high (H), medium (M), low (L), or not applicable (NA):</p> <p><input checked="" type="checkbox"/> Communicable diseases <input checked="" type="checkbox"/> Human trafficking <input checked="" type="checkbox"/> Others (please specify) _____</p> <p>2. Risks to people in project area. No health or other social risks</p>	
<p>VI. MONITORING AND EVALUATION</p>	
<p>1. Targets and indicators. The performance indicators will include the percentage of the population with access to electricity.</p> <p>2. Required human resources. Updates regarding the performance indicators will be obtained from Indonesia's National Statistics Bureau and PLN.</p> <p>3. Monitoring tools. The program will be monitored by periodic review meetings by the donor financiers, and through documents issued by the government including the National Energy Plan (RUKN) and PLN reports.</p>	

^a Government of Indonesia. 2015. *National Medium-Term Development Plan (RPJMN 2015–2019)*. Jakarta.

^b ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

^c ADB. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster, Loans, Technical Assistance Grant, and Administration of Grant from the Government of Netherlands to the Republic of Indonesia for the Infrastructure Reform Sector Development Program*. Manila.

^d World Bank. 2011. *One Goal, Two Paths, Achieving Universal Access to Modern Energy in East Asia and the Pacific*, Washington DC.

Source(s): Government of Indonesia. 2008. *National Government Electricity Plan (RUKN 2008-2027)*. Jakarta; Government of Indonesia. 2015 (Draft). *National Government Electricity Plan (RUKN 2015-2034)*. Jakarta; PLN. 2013. *PLN Statistical Report*. Jakarta.