

## SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Indonesia	Program Title:	Electricity Grid Strengthening—Sumatra Program
Lending Modality:	Results-based lending for programs	Department/ Division:	Southeast Asia Department Energy Division

### I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

**Targeting classification:** targeted intervention—geographic

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

Indonesia's ability to harness and manage sustainable energy sources is a critical prerequisite for the country to continue on its growth trajectory. Having realized that the energy sector may well become an impediment to the country's future economic prospects, the Government is refocusing its efforts on the sector. Accordingly, one of the priorities in the Government of Indonesia's National Medium-Term Development Plan (RPJMN), 2015–2019, which is committed to reduce poverty rates to 7%–8% by 2019, is to enhance domestic energy security. Measures to achieve this include expanding energy infrastructure and investments, increasing energy efficiency and energy accessibility, diversifying the energy mix with new and renewable energy sources, reducing greenhouse gas emissions and increasing private sector participation.

The program is also aligned with the priorities of ADB's interim country partnership strategy 2015 for Indonesia and the energy sector assessment, strategy, and road map. Furthermore, ADB recently developed an energy sector white paper which supports the RPJMN, 2015–2019. The program is in line with ADB's Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific, which emphasizes the need for inclusive economic growth and infrastructure development.

#### B. Results from the Poverty and Social Analysis during Assessments of the Program and its Systems

##### 1. Key poverty and social issues.

Sumatra is the fourth most populous island in the world with 54 million people, though not densely populated. The most populous regions include most of North Sumatra and central highlands in West Sumatra, while the major urban centers are Medan and Palembang. Sumatra Island is one of the largest islands in Indonesia that plays a big role in supporting the efforts to increase the performance of national development. The population of Sumatra at 2010 levels is 21% (50,613,947) of the total population of the country at 237,641,326 persons. Within Sumatra, North Sumatra has the highest population (24%) in 2010 with Bangka Belitung at 2% the least populated. The total poor of Sumatra is 12% of total poor population of the country in 2010 and 20% of the total population of Sumatra.

Key poverty and social issues in Sumatra are: (i) inflation rate rose from 1.48% to 2.83% during September 2013 to March 2014; (ii) farmers' income experienced a drop from March 2014 to September 2014; (iii) open unemployment rate increased from 5.95% in February 2014 to 6.23% in August 2014; and (iv) economic growth slowed from 5.64% in the first quarter in 2014 to 5.20% in the third quarter of 2014.

Indonesia's national electrification ratio of 84% is low relative to its neighbors in Southeast Asia. About 42 million people continued to lack access to electricity in 2014. In many small power markets, supply is limited to few hours a day. Moreover, nearly every second household in Indonesia depends on solid fuels for cooking, causing indoor air pollution. Sumatra's electrification stood at 84.5% at the end of 2014.

##### 2. Beneficiaries.

The primary beneficiaries of the program will be the approximately 1 million new customers connected to the distribution grid - these will benefit from having electric lighting and the ability to connect small appliances such as television, rice cookers, hot water jugs and the like. At the same time children will be able to read and study in the evenings and their health environment improved with the elimination of kerosene lamps and open fires. Schools and health centers in villages can also benefit from connection to electricity, especially with the ability to use refrigeration for storage of medicines and vaccines. All existing customers (11.18 million in 2014) in Sumatra are expected to also benefit from the improved power reliability and quality of supply.

##### 3. Impact channels.

The relationship between energy and poverty is a vicious cycle in which people who lack access to cleaner and affordable energy are often trapped in a re-enforcing cycle of deprivation, lower incomes and the means to improve their living conditions while at the same time using significant amounts of their very limited income on expensive and unhealthy forms of energy that provide poor and/or unsafe services. The program will enhance the quality of life in Indonesian society by the sustainable use of electricity as a key driver of increased economic activity by achieving the adequacy and reliability of power supply for Sumatra.

##### 4. Other social and poverty issues.

The government is calling for expanding power generation capacity by an additional 42 gigawatts from 2015 to 2019

to bolster economic growth and alleviate existing grid constraints. The State Electricity Corporation (PLN) which is the executing and implementing agency of the program is a 100% state-owned enterprise and a vertically integrated monopoly and enjoys the close involvement of the government in budgeting, capital expenditure plans and decisions, and coordinating the supply of primary energy for power generation (coal, gas, and oil). The government also provides PLN with support in capital investments through government guarantees, converting some debt to equity, and debt restructuring, and subsidies.

#### 5. Design features.

The program will contribute to PLN's overarching power development plan for Sumatra. The strengthening of the transmission and distribution networks supports the development of Sumatra's transmission backbone system and unites the various priority segments in the eastern part of the island. The centers of large-scale generation and load centers in Sumatra will then be eventually connected to the transmission backbone. These networks will also enable the reliable transfer of electricity from areas with adequate generation to areas that lack electricity. A stronger transmission system with robust distribution networks will increase reliability of connections with industrial, commercial, and residential customers. The system development will not only meet the growing demand in Sumatra, but also improve the reliability of the grid to take over the load of diesel-powered generators and phase them out in the interconnected systems. The program will contribute to increasing Sumatra's electrification ratio from 84.5% in 2014 to 90% by 2019.

### II. PARTICIPATION AND EMPOWERING THE POOR

#### 1. Participatory approaches and proposed program activities.

The stakeholders will be consulted through meetings, interviews and surveys in order to increase awareness about the program and seek inputs to the program. Consultation with the poor, vulnerable and excluded groups will focus on issues associated with environment, involuntary resettlement, if any, and other social issues that may affect them.

#### 2. Civil society organizations.

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

#### 3. Forms of civil society organization participation envisaged during program implementation.<sup>a</sup>

Information gathering and sharing       Consultation       Collaboration       Partnership

#### 4. Participation plan.

Yes  No

### III. GENDER AND DEVELOPMENT

**Gender mainstreaming category:** no gender elements

#### 1. Key issues.

Women have an important role for domestic activities including cooking and arrangement of wood or other alternative fuel for cooking and lighting. Women have also capacity to meet their families' basic needs through income-earning activities. Reliable, sustainable, and affordable supply of electricity will significantly reduce time and effort spent by women for domestic activities by reducing the labor required to obtain and use other fuels, and increase time for income-generating activities, family and leisure. In addition, women running home industries, businesses, and other enterprises might experience lower production costs and increased revenue. Therefore, energy provision is a critical input for improvement of women's life.

#### 2. Key actions.

The program aims at improvement of the infrastructure for the electricity to be supplied to the population in Sumatra irrespective of gender, and benefits will be generalized allowing very little opportunity for gender design features. Therefore, it is not foreseen that the program will specifically promote gender equality or empowerment of women.

Gender actions       Other actions or measures       No action or measure

### IV. ADDRESSING SOCIAL SAFEGUARD ISSUES

#### A. Involuntary Resettlement

**Safeguard Category:**  A       B       C

#### 1. Key impacts.

The program's impacts are not deemed significant. Reconducting of existing 150 kilovolt transmission lines might cause temporary damage on non-land assets under the conductor and along access roads to transmission line towers. The program's activities related to expansion of distribution lines, extension of substations, installation of reactors and capacitors, and expansion of switchgears will take place in the existing substations' premises already owned and managed by PLN, and will not require any involuntary resettlement. These activities which require land acquisition, if any, will be excluded from the program. The expansion of the distribution network require (i) use of no more than 0.2 m<sup>2</sup> of land for installation of concrete poles; and (ii) possible removal of non-land assets (primarily trees) for stringing of conductors.

<p><b>2. Strategy to address the impacts.</b></p> <p>The program actions include monitoring of the resettlement outcomes and their impacts on the living standards of displaced persons through reviewing complaints received and conducting consultations with community, and implementation of necessary actions if the impacts are found to affect the income and livelihood status of the affected persons.</p> <p>3. Actions</p> <p><input checked="" type="checkbox"/> Program safeguard systems improvements <input type="checkbox"/> No action</p>	
<p><b>B. Indigenous Peoples</b> <span style="float: right;"><b>Safeguard Category:</b> <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C</span></p>	
<p><b>1. Key impacts.</b></p> <p>Although Sumatra is inhabited by a variety of ethnic groups with diverse languages, the program will not specifically target indigenous peoples. All the existing substations in Sumatra are not located in an area (land or territory) occupied, owned, or used by indigenous peoples, and/or claimed as ancestral domain. While the general areas are known, the program's subprojects' sites for the expansion of the distribution network have not been selected and will be determined during program implementation. The program will exclude activities in an area (land or territory) occupied, owned, or used by indigenous peoples, and/or claimed as ancestral domain.</p> <p>Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p><b>2. Strategy to address the impacts.</b></p> <p>NA</p> <p>3. Actions</p> <p><input type="checkbox"/> Program safeguard systems improvements <input checked="" type="checkbox"/> No action</p>	
<p><b>V. ADDRESSING OTHER SOCIAL RISKS</b></p>	
<p><b>A. Risks in the Labor Market</b></p> <p><b>1. Relevance of the program for the country's or region's or sector's labor market.</b></p> <p><input checked="" type="checkbox"/> unemployment <input checked="" type="checkbox"/> underemployment <input checked="" type="checkbox"/> retrenchment <input type="checkbox"/> core labor standards</p> <p><b>2. Labor market impact.</b></p> <p>The program will contribute to the national economy through the creation of decent jobs and employment as a result of expanded supply and reliability of electricity supply. Factories will be able to operate with greater certainty, for more hours per day, thereby increasing productivity.</p>	
<p><b>B. Affordability</b></p> <p>It is acknowledged that the dispersed geography and population increases the costs of providing energy access and this is the rationale for program support to the RPJMN, 2015–2019 to expand access to electricity nationwide, promote regional power trading and cross-border interconnections, and to set electricity prices at levels that promote investments in the sector. The program will not result in the exclusion of people due to energy price mechanisms.</p>	
<p><b>C. Communicable Diseases and Other Social Risks</b></p> <p>1. The impact of the following risks are rated high (H), medium (M), low (L), or not applicable (NA):</p> <p><input type="checkbox"/> Communicable diseases <input checked="" type="checkbox"/> Human trafficking <input checked="" type="checkbox"/> Others (please specify) _____</p> <p>2. Risks to people in program area.</p> <p>AIDS, malaria, dengue, typhoid, respiratory and neurological diseases and other communicable diseases are documented within Sumatra island. Population mobility and urbanization contribute to the spread of these diseases that become threats because of their epidemic/ pandemic potentials that greatly affect poor people not only medically but also in terms of costs.</p>	
<p><b>VI. MONITORING AND EVALUATION</b></p>	
<p><b>1. Targets and indicators.</b></p> <p>The design and monitoring framework stipulates that the program will increase the number of PLN customers in Sumatra by at least 3% each year compared to 2014 baseline of 11.18 million customers—thereby increasing accessibility of electricity to the populace. This will increase economic activities that generate employment.</p> <p><b>2. Required human resources.</b></p> <p>PLN will appoint focal persons at its headquarters and regional offices/units in Sumatra for implementing safeguards activities of the program.</p> <p><b>3. Information in program implementation document.</b></p> <p>The implementation document will capture the DLIs and the progress of safeguards-related actions.</p> <p><b>4. Monitoring tools.</b></p> <p>The safeguards focal persons at regional offices/units will monitor the implementation of safeguards-related actions and report the results to headquarters periodically.</p>	

<sup>a</sup> H = high, M = medium, L = low, NA = not applicable.

Source: Asian Development Bank.