ADB

Concept Paper

Project Number: 50168-001
August 2016

Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1
Indonesia: Fiscal and Public Expenditure Management Program

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 2 August 2016)

Currency unit	–	Rupiah (Rp)
1.00	=	$0.0000763
$1.00	=	Rp13,097

ABBREVIATIONS

ADB	–	Asian Development Bank
ADIK	–	Architecture and Performance Information system
DAK	–	Specific Allocation Grant
DG	–	Directorate General
DID	–	regional incentive fund
GDP	–	gross domestic product
OM-SPAN	–	online monitoring of financial management information system
PBB	–	performance-based budgeting
PEM	–	public expenditure management
PEFA	–	Public Expenditure Financial Accountability
PFM	–	public financial management
PPTA	–	project preparatory technical assistance
RPJMN	–	Medium-Term Development Plan
SDGs	–	Sustainable Development Goals
SPAN	–	national financial management information system
TEPRA	–	budget realization and monitoring team

NOTE

In this report, "$" refers to US dollars unless otherwise stated.

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PROGRAM AT A GLANCE

1. Basic Data — **Project Number:** 50168-001

Project Name	Fiscal and Public Expenditure Management Program (Subprogram 1)	**Department /Division**	SERD/SEPF
Country	Indonesia	**Executing Agency**	Asian Development Bank
Borrower	Republic of Indonesia		

2. Sector

Sector	Subsector(s)	ADB Financing ($ million)
Public sector management	Public expenditure and fiscal management	500.00
	Total	**500.00**

3. Strategic Agenda

Strategic Agenda	Subcomponents
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded

Climate Change Information

Climate Change impact on the Project	Low

4. Drivers of Change

Drivers of Change	Components
Governance and capacity development (GCD)	Public financial governance
Partnerships (PAR)	International finance institutions (IFI) Official cofinancing

Gender Equity and Mainstreaming

Some gender elements (SGE)	✓

5. Poverty Targeting

Project directly targets poverty	No

Location Impact

Nation-wide	High

6. Risk Categorization: Complex

7. Safeguard Categorization **Environment:** C **Involuntary Resettlement:** C **Indigenous Peoples:** C

8. Financing

Modality and Sources	Amount ($ million)
ADB	**500.00**
Sovereign Program loan: Ordinary capital resources	500.00
Cofinancing	**330.00**
KfW Bankengruppe - Loan	330.00
Counterpart	**0.00**
None	0.00
Total	**830.00**

9. Effective Development Cooperation

Use of country procurement systems	Yes
Use of country public financial management systems	Yes

I. THE PROGRAM

A. Rationale

1. The Government of Indonesia is committed to protecting its medium-term expenditure to achieve its long-term development impact and meeting the Sustainable Development Goals (SDGs).[1] To achieve these aims, public expenditure management (PEM) reforms at national and local government levels are necessary. The government requests this Fiscal and Public Expenditure Management Program to support higher infrastructure and social spending during this period of fiscal revenues uncertainty and slow economic growth. The program is aligned with the government's Medium-Term Development Plan (RPJMN) 2015–2019 and the second pillar of the draft Country Partnership Strategy (2016–2019) on better economic governance.

2. **The development problem.** Since 2000, Indonesia has experienced one of the largest increases in household income inequality is Southeast Asia. The Gini index, which expresses a country's income distribution, increased from 0.30 in 2000 to 0.41 in 2013 with just marginal improvement to 0.40 in 2015. Income inequality is closely connected to an increase in poverty, especially in rural areas. This is partly caused by unequal access to education and jobs, and partly by the fact that commodity-driven economic growth creates few jobs and concentrates wealth.[2] The government recognizes the importance of addressing inequality and therefore aligning spending to achieve RPJMN targets and the SDGs. Larger amounts of better-targeted spending on social programs and public infrastructure is necessary to promote inclusive economic growth and reverse inequality.

3. Uncertainty in the global economy has hampered economic growth in Indonesia and impeded government efforts to address income inequality. Gross domestic product (GDP) growth decelerated steadily from 6.2% in 2011 to 4.8% in 2015 and has settled at 4.9% year-on-year in the first quarter of 2016. Growth slowed mainly because of falling commodity prices, while new sources of growth have yet to emerge. The global slowdown has also affected fiscal policy. Falling budget revenues as a share of GDP impose challenges to the stability of government spending to address income inequality and meet the SDGs.[3] Most recently, the government revised its 2016 revenue target down to Rp1,730 trillion from Rp1,823 trillion in the 2016 budget. The budget deficit is projected to increase by Rp43 trillion, from 2.1% to 2.5% of GDP. Given a constitutional limit on the budget deficit at 3.0% of GDP, the government is concerned that pressure on fiscal policy will adversely impact social sector and public infrastructure spending goals, which in turn will translate into continued slow economic growth and persistently high income inequality. Analysis shows that expenditure on education and health are most sensitive to changes in revenue and the fiscal deficit, despite the government being legally required to allocate 20% of the budget for education and 5% for health (Figure 1).

4. **Binding constraints.** Inefficient and insufficient spending on infrastructure and social sectors, as well as weaknesses in PEM at the central and local levels, are binding constraints to

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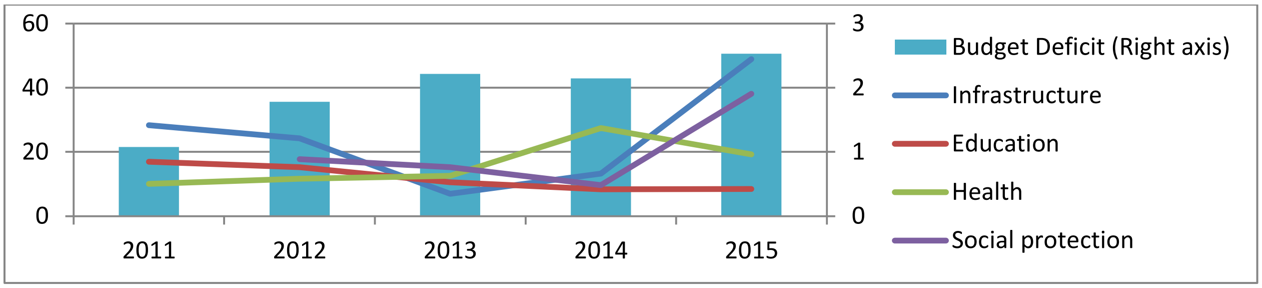
[1] The full list of SDGs can be obtained from http://www.un.org/sustainabledevelopment/sustainable-development-goals/. The relevant SDGs for this program, as accessed on 21 April 2016, are SDG 1: to end poverty in all its forms everywhere, SDG 3: good health and well-being, SDG 4: quality education; which the program will address through improved education expenditure and SDG 9: industry, innovation and infrastructure.

[2] Asian Development Bank. 2012.*Government Fiscal Policies and Redistribution in Asian Countries.*Manila.

[3] The government is also addressing inequality through increasing access to finance for the poor with support through ADB's Financial Market Development and Inclusion Program (FMDIP), ADB. 2015. *Report and Recommendation of the President for the Programmatic Approach and Policy-Based Loan (Subprogram 1) to Republic of Indonesia for Financial Market Development and Inclusion Program*. Manila.

addressing income inequality. First, weaknesses in budget planning mean that medium-term expenditures are not aligned to the RPJMN targets and the SDGs. Second, the Public Expenditure and Financial Accountability (PEFA) Report of 2012 shows that weakness remains in the area of expenditure credibility. The report noted a significant gap in between budget approval and execution, and gave Indonesia a rating of C in 2011. While monitoring of budget expenditures has improved in recent years, that process is incomplete and evaluation of budget impacts on the poor are limited. Monitoring and reporting of budget outturns at the local government remains weak. Third, inter-governmental fiscal transfer from central to local level requires improvement: the PEFA report gave Indonesia a rating of C+ in 2011.[4] These constraints have cumulatively led to PEM that undermines infrastructure and social spending.

Figure 1: Changes in spending vs budget deficits as percentage of GDP



5. **The government's PEM reform agenda.** The government's strategy is to stimulate the economy through fiscal policy, to achieve long-term development impact in infrastructure and critical social sectors, and to align its PEM system with RPJMN targets and the SDGs through increased and efficient spending. Over the years, Indonesia has made steady progress in strengthening its PEM systems (see paragraphs 9–11). Furthermore, PEM reforms are increasingly aligned with the priorities identified in RPJMN 2010–2014 and 2015–2019, resulting in tangible improvements in the quality of its PEM. The government has included a specific target to reduce the Gini index to 0.36 in the RPJMN of 2015–2019. The government has also adopted the SDGs, and a Presidential Regulation to implement the SDGs will be submitted for approval in 2016. Reforms in PEM are also complemented by reforms in fiscal management, including improvements to tax administration.

6. **ADB engagement and development partner coordination**. ADB, World Bank, and other development partners support the government's public financial management (PFM) reforms through a coordinated approach. The World Bank is focused on revenue reform, including tax administration, and ADB is focused on PEM. ADB has had a long engagement with government on PFM. Through the Local Government Finance and Governance Reform program 2005–2011, ADB supported PFM strengthening at the sub-national level, especially in the implementation of a computerized financial management information system at 171 regional locations. The governments of Australia, Canada, Germany, and the US are also active in PFM.

7. **The proposed program complements other ADB interventions at the sector level.** The proposed program covers macro-level government reforms and cuts across sectors. The program enables and complements structural reforms pursued through ADB's policy-based loans, which focus on reforms to the procurement process,[5] financial sector development and

[4] World Bank. 2012. *Repeat Public Expenditure and Financial Accountability (PEFA) Report*. Jakarta.
[5] ADB. 2014. *Report and Recommendation of the President for the Programmatic Approach and Policy-Based Loan (Subprogram 1) to Republic of Indonesia for Stepping Up Investments for Growth Acceleration Program*. Manila.

inclusion,[6] the energy sector,[7] and basic and vocational education.[8]

8. **Program Design.** The proposed Fiscal and Public Expenditure Management Program will consist of two subprograms, with an optional third subprogram, each 12–18 months apart. The program will be covered by a medium-term results framework linked to RPJMN targets and the SDGs. The programmatic approach through a policy-based loan has been chosen over other financing modalities to help sustain the government's reform and financing in PEM. The program is designed to support government efforts to protect critical pro-growth and pro-poor public spending to stimulate the economy in the short term and to have development impact over the medium to long term. Each subprogram will consist of 10–12 high impact policy triggers (expected prior actions) to be completed prior to Board consideration. Subprogram 1 focuses on institutional and legal requirements for effective PEM and SDG implementation. Subprogram 2 will focus on implementation and systemic improvements. Subsequent programs may focus on different areas of reforms, such as revenue management and local government support.

B. Impact, Outcome, and Outputs

9. The program's impact will be reduced household income inequality in line with the government's commitment to achieve the SDGs and targets in the RPJMN. The outcome will be targeting of social sector and infrastructure spending improved. This outcome will be achieved through three areas of policy reforms:

10. **Output 1: Medium-Term Spending Aligned to RPJMN Targets and the SDGs.** The program will focus on supporting government commitments to social sector and infrastructure spending. Measures would include: (i) established strategic framework to implement SDGs by aligning SDGs targets with RPJMN targets and developing implementation, monitoring and reporting mechanisms; (ii) allocation of 5% of the budget for health; and (iii) improved coverage and targeting of the national health insurance program.

11. **Output 2: Improved National Public Expenditure Quality.** Government reforms include: (i) implementing the Architecture and Performance Information system (ADIK) to monitor budget allocation; (ii) establishing an inter-ministerial monitoring Budget Realization and Monitoring Team to improve budget execution; and (iii) online monitoring of a Financial Management Information System also known as SPAN to monitor budget realization.

12. **Output 3: Strengthened PEM System at the Local Government Level.** The program will support government efforts to introduce a performance-based grant system and improve local government PEM for better public service delivery. The program include measures to: (i) rationalize design and management of specific allocation grant that provides direct funding to local governments; (ii) integrate local government ratings on PFM in the regional incentive fund; and (iii) introducing government bond transfers to address the problem of idle fund.

C. Program Costs and Financing

13. The Program will have in-built flexibility on the loan size, depending on government financing needs. The government has requested a loan of $500 million (indicative) from ADB's ordinary capital resources to help finance subprogram 1. Subprogram 2 is also tentatively set at

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[6] Ibid.

[7] ADB. 2014. *Report and Recommendation of the President for the Programmatic Approach and Policy-Based Loan (Subprogram 1) to Republic of Indonesia for Sustainable and Inclusive Energy Program*. Manila.

[8] This is being proposed.

$500 million, although this may change on government request. KfW has offered to cofinance the program to the amount of 200 million Euros.

D. Indicative Implementation Arrangements

14. The Ministry of Finance's Fiscal Policy Agency as the policy making body on budget formulation and expenditure management will be the executing agency. Implementing agencies include the Directorate General (DG) Budget; the DG Treasury; the DG of Fiscal Balance and the National Development Planning Agency, which is responsible for planning and monitoring progress toward the SDGs. Coordination is headed by the Head of the Fiscal Policy Agency. The implementation period is January 2015 to December 2020, with subprogram 1 taking place from January 2015 to July 2016.

II. DUE DILIGENCE REQUIRED

15. The sector assessment will be supplemented by a PFM assessment and a program impact assessment to demonstrate the economic benefit of the government's reform agenda. The initial poverty and social analysis is in Appendix 3. Following an assessment of the policy actions, the program falls under category C for all safeguard aspects. Program design has benefited from explicit government commitment. It incorporates knowledge gained from sustained ADB policy dialogue and ongoing implementation of TA including the longer gestation period required to implement PFM reforms such as medium term expenditure framework and performance based budgeting as well as the importance of deepening reform to the local government level.

III. PROCESSING PLAN

A. Risk Categorization

16. The program is considered complex because of the loan's size.

B. Resource Requirements

17. The program's estimated resource requirements are a mission leader, who will be needed for 12 months; a co-mission leader, needed for 10 months; a senior macroeconomist, a country economist, a financial sector specialist, and a legal counsel, each of whom will be needed for 3 months; and an analyst and an operations assistant, each needed for 6 months.

C. Processing Schedule

18. The proposed processing schedule is as below:

Milestones	Expected Completion Date
Informal Board Seminar	August 2016
Management Review Meeting	August 2016
Loan Negotiations	September 2016
Board Circulation of RRP	October 2016
Board Consideration	November 2016

RRP = report and recommendation to the President.

IV. KEY ISSUES

19. No issues.

DESIGN AND MONITORING FRAMEWORK

Impact the program is aligned with:
Household income inequality reduced (National Medium-Term Development Plan [RPJMN], 2015–2019)[a]

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
Outcome Targeting of social sector and infrastructure spending improved	By 2020 a. Aggregate expenditure out-turn improved by one grade level compared to original approved budget (2012 baseline: Public Expenditure Financial Accountability (PEFA) report rating of C); b. Transparency of inter-governmental fiscal relations improved by one grade level (2012 baseline: PEFA report rating of C+); and c. Proportion of targeted spending in both national and local levels increased (2015 baseline Rp995.5 trillion).[1]	a. PEFA Report 2016–2017 b. PEFA Report 2016–2017 c. Government statistics and official budget data	Continuous market turmoil and low commodity prices affecting budget revenue
Outputs 1. Medium term spending aligned with RPJMN and SDGs	**Subprogram 1 (2016):** 1a. Strategic framework for implementation of SDGs established (2015 baseline: no framework) 1b. 5% budget allocation for expenditures in health as required under the Health Law implemented (2015 baseline: approval of Health Law); 1c. Coverage and quality of social safety net outlays improved (2015 baseline: 88.2 million participants in the national health insurance program;	1a. Government statistics and official budget data	Lower budget revenue results in lower spending in infrastructure and critical social sectors

[1] Targeted spending refers to pro-poor expenditure on education, health, social security, and public infrastructure.

	1d. Infrastructure investments increased to Rp313.5 trillion (2015 baseline Rp290 trillion); and 1e. Spending on education increased to Rp419.2 trillion in 2016 (2015 baseline Rp408.5 trillion). **Subprogram 2 (2017–18):** 1a. Budget costing for and reporting of SDG implementation undertaken (2016 baseline: implementation framework approved) 1b. Infrastructure investments increased (2016 baseline: Rp313.5 trillion); and 1c. Spending on education increased (2016 baseline Rp419.2 trillion).	1d. Government statistics and official budget data	
2. National public expenditure quality improved	**Subprogram 1 (2016):** 2a. A budget realization and monitoring team established (TEPRA) (2015 baseline: 0); 2b. Architecture and Performance Information (ADIK) system implemented as part of performance-based budgeting (PBB) (2015 baseline: basic PBB framework implemented); and 2c. Online monitoring of SPAN implemented (OM-SPAN) (2015 baseline: 0) **Subprogram 2 (2017-18):** 2a. Budget execution mechanism to expedite budget realization simplified (2016 baseline: establishment of TEPRA to monitor and oversee budget realization)	2a-c. MOF Report 2a-c. MOF Report	Establishment of TEPRA is ineffective due to bureaucratic process Inadequate capacity to implement ADIK and OM-SPAN across Government

	2b. Guidelines created to reinforce the mechanism for budget review, monitoring, and evaluation (2016 baseline: implementation of ADIK as part of PBB); and 2c. The output performance of OM-SPAN expanded (2016 baseline: basic OM-SPAN implemented).		
3. Public expenditure management system at local government level strengthened	**Subprogram 1 (2016):** 3a. The Specific Allocation Grant (DAK) budget to Rp208.9 trillion in 2016 (2015 baseline: Rp31.9 trillion); and 3b. The regional incentive fund (DID) increased to Rp5 trillion (2015 baseline: Rp1.6 trillion). **Subprogram 2 (2017-18):** 3a. A monitoring and evaluation system for the DAK for health, education, and local infrastructure implemented (2016 baseline: increased in DAK allocation to Rp208.9 trillion); and 3b. Selection criteria for recipients of DID improved (2016 baseline: increased allocation for DID to Rp5 trillion).	3a-b. Directorate General Fiscal Balance report 3a-b. Directorate General Fiscal Balance Report	Ineffective and insufficient capacity to monitor DAK and DID allocation at the local government level.

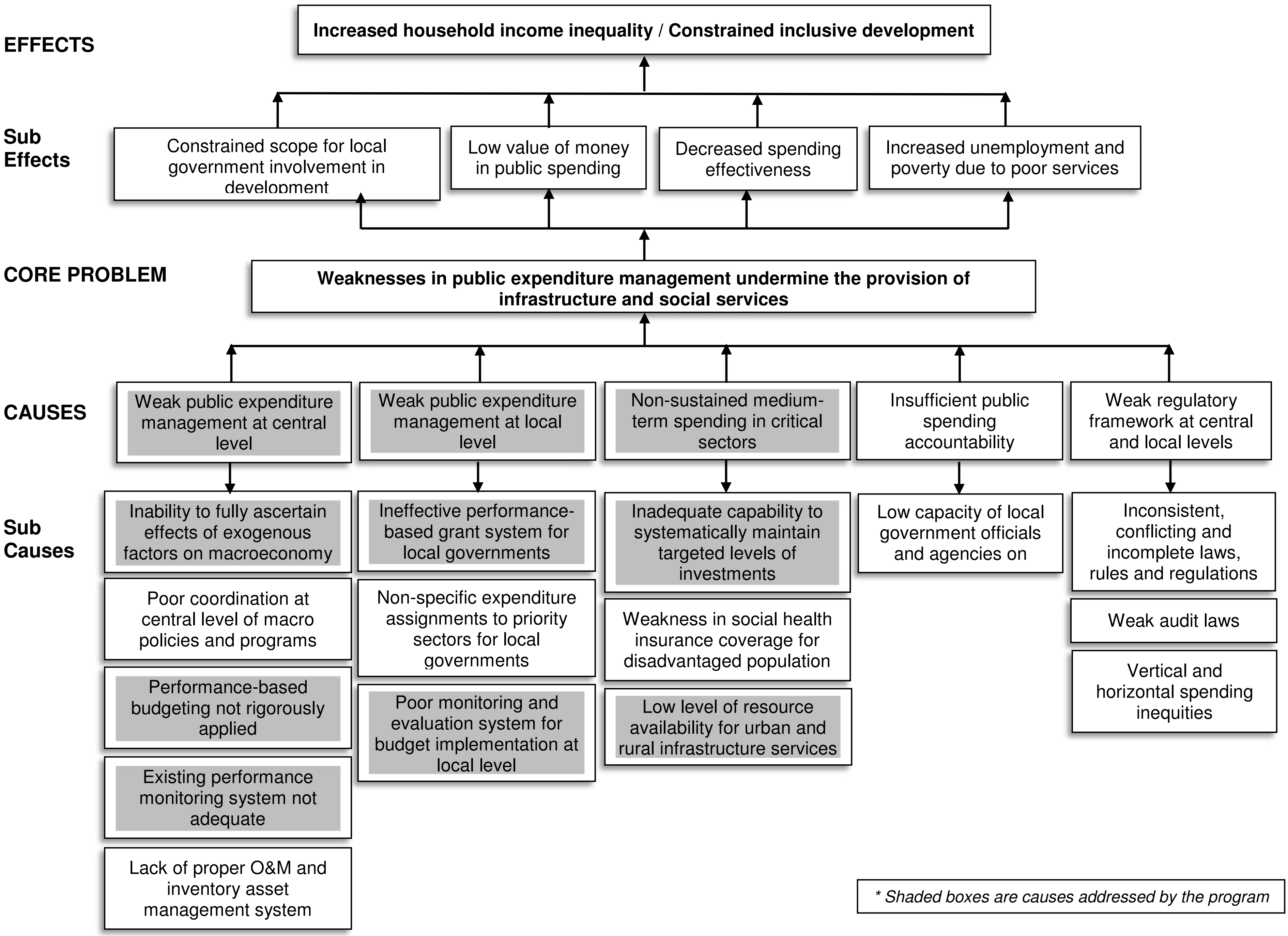
Key Activities with Milestones Not applicable
Inputs ADB: Subprogram 1: $500,000,000 (indicative) Subprogram 2: to be determined
Assumptions for Partner Financing German development cooperation through KfW: €200,000,000 or its equivalent in US dollars (indicative)

ADIK = Architecture and Performance Information system, DAK = Specific allocation Grant, DID = regional incentive fund, MOF = Ministry of Finance, OM-SPAN = online monitoring of financial management information system, PEFA = Public Expenditure Financial Accountability, SDGs = Sustainable Development Goals, TEPRA = budget realization and monitoring team.

[a] Government of Indonesia. 2015. *Rencana Pembangunan Jangka Menengah Nasional (National Medium-Term Development Plan), 2015–2019*. Jakarta.

Source: Asian Development Bank

PROBLEM TREE



INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Indonesia	Project Title:	Fiscal and Public Expenditure Management Program
Lending/Financing Modality:	Policy-Based Lending	Department/ Division:	Southeast Asia Department/ Public Management, Financial Sector, and Trade Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

The Government of Indonesia's National Medium-Term Development Plan (RPJMN), 2015-2019 aims at attaining economic growth of 6–8% annually and reducing the poverty rate to 7–8% by 2019. In addition, to foster inclusive growth, the plan seeks to improve the human development index, reduce the Gini coefficient, and increase the share of the population with access to health insurance and social security. Improvements are also sought in the area of education attainment, literacy levels, access to electricity and sanitation, and access to finance. A key focus for the RPJMN 2015-2019 is infrastructure development, with the scale of the government's proposed infrastructure development plans estimated at $430 billion (9% of GDP per year). The RPJMN education reform program is also extensive, including the introduction of a compulsory 12-year education program to improve basic education quality. To achieve its economic growth and poverty reduction targets, Indonesia needs to improve public expenditure management and public service delivery, while expanding spending on education, infrastructure, health, and social protection. The interim Country Partnership Strategy (CPS) 2015 and the upcoming CPS 2016–2019 are closely aligned with the RPJMN. The CPS goal is to assist Indonesia to bring about poverty reduction through supporting inclusive and environmentally sustainable growth. ADB resources will be used primarily for (i) accelerating infrastructure development, (ii) enhancing human resource development, and (iii) supporting inclusive growth policy development. Lending for energy infrastructure, rural infrastructure, education, and inclusive growth policies accounts for 90% of the proposed lending program. The CPS strategy focuses on country-wide reforms and the design and funding of large strategic government programs that will have transformative effects on the economy. The program currently being proposed is an overarching intervention that is fully aligned with the RPJMN and the CPS as it aims to boost critical public spending, while providing support that enhances public expenditure management and public service delivery. These features are designed to enhance the inclusiveness of growth in line with SDGs such as quality education, good health and wellbeing, decent work and economic growth, and reduced inequality.

B. Poverty Targeting:

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

The program can be considered to be pro-poor, as it will provide direct support to maintain medium term government spending in critical sectors, including education, infrastructure, health, and social protection.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. The pace of GDP growth in 2015 was 4.8%, the slowest since 2009. Despite subdued economic activity and lower commodity prices that caused budget revenues to decline, the government pushed ahead with planned spending on infrastructure and social development in 2015. This widened the fiscal deficit to 2.5% of GDP from 1.9% in the budget and 2.1% in 2014. Meanwhile, recently the government has made moves to increase infrastructure social spending in the budget, along with reforms to stimulate private sector investment. However, higher food prices, lower rural incomes, and the weaker labor market caused the poverty incidence to worsen to 11.1% in September 2015, with estimates of the depth of poverty and inequality amongst the poor also deteriorating. In September 2015 the per capita monthly poverty line was estimated at Rp344,809 ($26) and 28.5 million people fell below this line. Many more people earn incomes that are only just above this threshold.[1] In particular, some 68 million people are classified as near-poor, and move in and out of poverty during their lifetime. Expenditure inequality widened from 0.31 in 2000 to 0.41 in 2011. Inequality has remained elevated at this high level since, estimated at 0.41 nationally in March 2015. The main drivers of inequality relate to inequality of opportunity, labor market segmentation, high wealth concentration, and limited resilience to shocks.2 Addressing the drivers of inequality requires continued structural reform efforts, along with effective fiscal policies and sufficient spending. It is essential to ensure the right fiscal policies are in place that increase spending on infrastructure, health, education, and social protection. The improved efficiency of fiscal policy, along with sustained policy efforts, will allow the government to address the drivers of inequality by increasing access to opportunity, facilitating the creation of more productive employment, and providing programs that protect vulnerable households. Rapid urbanization is also placing heavy strains on the provision of basic services, adding to urban congestion and contributing to the degradation of urban resources. Growth has generated uneven outcomes, with the Gini coefficient highest in West Papua (0.44) and the special capital region of Jakarta (0.43), and lowest in Kalimantan (between 0.29 and 0.35). Labor market performance has been weak, with fewer than 200,000 jobs created in the 12 months to August 2015, while the working-age population aged increased by 3.1 million. Labor force participation fell to 65.8% in 2015, the lowest on record, and the unemployment rate rose to 6.2%, with youth unemployment climbing to 22.6%. Levels of

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[1] If a $2/day international poverty line is used, then 40% of the population would be classified as poor.

[2] World Bank (2015) Indonesia's rising divide: Executive summary, World Bank, Jakarta.

labor underutilization are high; many workers are employed on short-term contracts, and have earnings below the minimum wage. Different groups, particularly youth, women and rural dwellers, have had disparate outcomes. For 14.1% of the rural population fall below the poverty line, compared to 8.2% of the urban population. As the proposed program provides support for maintaining critical government spending and public finance management, the direct beneficiaries of the program include national and local governments. The indirect beneficiaries of the program include enterprises, workers, consumers, and poor and vulnerable households. Enterprises will benefit from sustained investment in public infrastructure, which will increase competitiveness and reduced logistics costs, as well as improvements in the quality of labor supply from education spending. Workers will benefit through two channels: i) infrastructure investments that support the expansion of productive employment, and ii) improved welfare through greater access to education as well as social security and social assistance programs. Consumers will gain from greater domestic competition and sustained service delivery, associated with reductions in logistics costs from infrastructure investments, as well as improvements in the supply of health care and other social programs and the coverage of people under these programs. Poor and vulnerable households will become more resilient to shocks as the government sustains medium-term spending growth in critical areas.

2. Impact channels and expected systemic changes. By sustaining social sector and public infrastructure spending goals, the economy should be able to address many of its infrastructure and human capital deficits and begin to ease out of its downward growth trend that has persisted in recent years. The program will address many of the drivers of poverty and inequality in Indonesia. Enterprises and workers will benefit from sustained infrastructure investments that will directly and indirectly create more productive jobs. Consumers and vulnerable households will benefit from reduced logistics costs that lower consumer prices and from expanded and sustained access to social assistance programs.

3. Focus of (and resources allocated in) project preparation or due diligence. In poverty and social issues, the program will be informed by the comprehensive knowledge work of the government, ADB, and development partners.

4. Specific analysis for policy-based lending. Public expenditure management and adequate government spending on critical social sectors are crucial for alleviating poverty and thereby reducing inequality. The proposed program activities and reforms are focused on the public expenditure management at national and local levels, and spending targets on social sectors and public infrastructure investment. Improved infrastructure will help decrease the vulnerability of the poor by reducing the likelihood that the near-poor will fall into poverty as a result of shocks, which remain an issue in Indonesia. Education spending will open access to opportunities, with analysis showing that better quality education and training increases access to quality jobs and potential for career mobility. Support for spending in health and social insurance will help to protect households from shocks through increasing the supply of services and the coverage of people under the services.

II. GENDER AND DEVELOPMENT

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

Despite the progress, considerable efforts are needed to narrow gender disparities in Indonesia. Women's labor force participation remains low at 48.9%, compared with 82.7% for males, and the gender development index (GDI) stood at 0.927 (110th among 188 countries). Women are often unpaid or low paid, have precarious work arrangements, and have limited opportunities to expand or upgrade skills. The percentage of female population with at least some secondary education is 39.9%, compared to 49.2% among the male population, and dropout rates are higher among females. The maternal mortality ratio remains high at 190 per 100,000 live births, with one quarter of all births unskilled deliveries. Some 36.4% of children under the age of 5 have low weight for their age. Contributing factors to low weight include curtailed breastfeeding; introduction of the wrong complementary foods; and poor access to nutrition, clean water, sanitation, and quality health care. Sustaining spending growth in critical sectors, such as infrastructure, education, health, and social protection, is paramount to addressing these issues.

2. Does the proposed 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 Among all the Southeast Asian countries, Indonesia has experienced one of the largest increases in inequality since 2010. Gender is also linked to inequality in Indonesia. In 2012, 33% of total consumption inequality is explained by the gender of the head of household, along with his or her level of education; and where the household lives (urban or rural, and in which region of the country). In 2014, gross national income (GNI) per capita remained at Rp6,485 for women and at Rp13,052 for men. Inadequate transportation and access to roads are important constraints to women's participation in the workforce. Better education levels enhance the probability of women joining the labor market. Empowering women requires access to health care services and facilities. Through improved public expenditure management, public service delivery, and sustained medium-term spending growth in critical sectors, i.e. infrastructure, education, health, and social protection, this program will contribute to narrowing disparities in these particularly challenging areas of labor force participation, education, and maternal mortality by providing access to opportunities and services.

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

☐ Yes ☒ No The project provides fiscal policy support to the government to protect critical pro-poor growth and pro-public spending over the medium and long terms. Hence, there is no negative impact on women or any direct adverse impact on 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 potential main stakeholders of the program include the national government, executing agency, implementing agencies, local government, and also other international development organizations providing assistance to the government in public expenditure management, public financial management, and social sector and public investment spending. The indirect beneficiaries of the program include enterprises, workers, consumers, and poor and vulnerable households. During the project design, all the main stakeholders will be consulted through interaction during loan processing missions and events.

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? The program content is based on the impact of sustained spending growth in critical sectors (infrastructure, education, health, and social assistance) to promote inclusive growth.

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 program design? N/A

Low ☒ Information generation and sharing *Low* ☒ Consultation ☐ Collaboration ☐ Partnership

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 Given the nature of the program, which provides fiscal policy support to the government, no direct participation by the poor is envisaged.

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

2. What action plan is required to address involuntary resettlement as part of the project preparatory technical assistance (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 project design? N/A

☐ 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 project design? N/A

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 (v) other social risks. Are the relevant specialists identified?

☐ Yes ☒ No

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? N/A