

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Indonesia	Project Title:	Indonesia Infrastructure Finance Expansion Support Project
Lending/Financing Modality:	Financial Intermediation Loan	Department/ Division:	Southeast Asia Department Indonesia Resident Mission

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

The Government of Indonesia's (the government) National Medium Term Development Plan (RPJMN), 2015-2019 aims at attaining economic growth of 6%–7% of GDP growth annually and reducing the poverty rate from 11.3% in 2014 to 7%–8% by 2019, by fostering inclusive growth. To achieve its economic growth and poverty reduction targets, the RPJMN identifies total infrastructure investment need of some \$365 billion in 2015–2019. Major investments are planned in the transport and electricity sectors to improve connectivity, reduce logistics costs, and raise electricity production per capita. The public sector (central government, local governments, and SOEs) is expected to provide 65% of the infrastructure investments in 2015–2019, and the remaining 35% are to be leveraged from the private sector, including through public-private partnerships (PPPs).

The CPS, 2016–2019 closely aligned with the RPJMN focuses on three high-priority areas: (i) improved infrastructure services, (ii) better economic governance (including through capital market reforms), and (iii) enhanced human resource development.¹ The CPS envisages that support for infrastructure development will increase to two thirds of the program and will include provision of financing to Indonesia Infrastructure Finance (IIF). As a cross-cutting theme, support to PPPs will continue through institutional capacity building and facilitating preparation, transaction, and financial close of model PPP projects. Support in the financial sector will include assistance in deepening the finance sector by improving market infrastructure and encouraging product diversification in the bond market.

The proposed Indonesia Infrastructure Finance Expansion Support Project (the Project) is fully aligned with the RPJMN and the CPS as it will support the government's intention to significantly raise private investment in infrastructure (given large infrastructure gap) that requires increased availability of long-term debt financing and equity investment in the financial sector. In this respect, the Project will help leverage more infrastructure finance from the banking industry and institutional investors through provision of new long-term subordinated debt to the IIF. This new financing will strengthen the IIF's infrastructure finance catalytic role and support its expansion program. It will also promote mainstreaming of international best practice on environment and social safeguards standards in infrastructure projects in Indonesia.

B. Poverty Targeting:

General Intervention Individual or Household (TI-H) Geographic (TI-G) SDG Targeting

Improved provision of infrastructure, due to increased private sector participation, will help reduce the vulnerability of the poor and the likelihood that the near-poor will fall into poverty as a result of shocks. The project will contribute to SDG9 as it will promote development of quality, reliable, sustainable and resilient infrastructure through private sector participation, which will promote affordable and equitable access to infrastructure for all beneficiaries.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. From 1999 to 2015, the national poverty rate halved to 11.2%, largely through sustained growth and job creation. However, the pace of poverty reduction slowed down markedly in 2016: the national poverty rate went down by only 0.3 percent points to 10.9%.² The number of the vulnerable remains high (27% of the population), mainly due to a lack of productive employment and vulnerability to shocks. A key factor to further reduce poverty and reduce vulnerability will be improved provision and access to public infrastructure.³ Income inequality continued widening: the Gini coefficient climbed from 0.31 in 2000 to 0.40 in 2015. This is largely because growth has been concentrated in the urban areas in the western part of the country. Rural areas lack good infrastructure to connect them with towns and markets: some 41% of district roads and 24% of provincial roads throughout Indonesia are in bad condition, limiting economic opportunities and constraining access to essential social services. Additionally, rapid urbanization is placing heavy strains on the provision of basic services, adding to urban congestion and contributing to the degradation of urban resources. A large proportion of the country's labor force (60%)—including a rising number of young job seekers from rural areas—is absorbed in low-productivity jobs in the informal sector due to limited expansion of labor intensive sectors such as manufacturing that depend heavily on imports of raw materials and semi-finished products, for which well-functioning ports and efficient logistics are

¹ ADB. 2016. *Country Partnership Strategy: Indonesia, 2016-2019*. Manila.

² IMF. 2017. *2016 Indonesia Article IV Consultation: Staff Report*. Washington, DC. Country Report No. 17/37.

³ Faster growth of infrastructure stock during 2001-2011 may have (i) raised average GDP growth from actual 5.3% to 5.8%–7%, and (ii) reduced the poverty rate in 2011 from actual 11.4% to 6.9%–9.9%. World Bank. 2013. *Continuing Adjustment. Indonesia Economic Quarterly: October 2013*. Jakarta.

essential. Logistics infrastructure, including ports, is strained due to historical underinvestment.

The Project's immediate beneficiaries will be construction companies, suppliers of construction inputs, and facility operators. Increased demand for their services will lead to more employment opportunities for various segments of the labor force. Ultimate beneficiaries will be enterprises, consumers, employees, and the poor in general, as they suffer the most from lack of economic infrastructure. Enterprises will benefit from better competitiveness due to better infrastructure and reduced logistics costs. Consumers will gain from greater domestic competition because it will cause lower prices and improved services. Employees will gain from easier access to work and increased income opportunities, including in better-paid jobs such as in manufacturing. The poor, especially in low-income regions, will benefit because improved connectivity will allow them to participate in wealthier urban markets.

2. Impact channels and expected systemic changes. The construction goods, labor and consumer markets will be among the most important channels: (i) higher private sector investments infrastructure will create more decent and productive jobs in the construction inputs sector (e.g., cement production), construction industry, and ultimately in the tourism, agriculture, and manufacturing sectors; and (ii) reduced logistics costs will lead to lower consumer prices and a better variety of products. The growth of sectors such as construction, tourism and agriculture—which are labor intensive—will reduce poverty and raise incomes of the workers directly employed in these sectors as well as workers engaged in the associated services sectors, such as catering, transport, logistics, and medical services.

3. Focus of (and resources allocated in) the PPTA or due diligence. The provisions of the IIF's Operations Manual on poverty and social issues during project selection and implementation will be reviewed for possible closer alignment with ADB requirements.

4. Specific analysis for policy-based lending. Not applicable

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?

Indonesia has made significant progress in promoting gender equality: gender gaps in the youth literacy rate have been eliminated, and near parity in enrollment rates in elementary up to tertiary levels has been achieved.⁴ In 2015, gender inequality in Indonesia was valued at 0.494 which corresponds to 110th place out of 155 countries representing a continuous reduction in the gender inequality since 2005.⁵ Women and men entrepreneurs have suffered from inadequate and irregular power supply for their production units and poor roads that constrain their access to markets and raise logistics costs. In 2014, just 80.7% of the urban population had access to improved water sources, while 61.1% had access to improved sanitation facilities. Women are highly affected by poor access to quality water and sanitation facilities as they are primarily responsible for tasks related to household water and sanitation, taking care of children afflicted by water-borne diseases and community environment improvements.

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 — The Project will—indirectly and with lag—contribute to improving gender equity through the envisaged improved provision and more affordable infrastructure services arising from the subprojects supported under the Project. The IIF will ensure the subprojects comply with social and gender provisions of the IIF's ESMS and the country's legislation. The social and environmental management unit of IIF will be sensitized to assess modalities to further strengthen the focus on gender in the subprojects and ensure adequate monitoring of social and gender-related impacts, per international best practice, including ADB gender guidelines. The need for gender-related checklists and/or training of staff will also be assessed.

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

Yes No — As a financial intermediation loan, the Project will not have any direct adverse gender impact. Moreover, the subprojects financed by the IIF will have to comply with its ESMS that ensures that there would be no direct adverse impact on gender inequality or a negative impact on women.

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 project, including beneficiaries and negatively affected people? Identify how they will participate in the project design. — Key immediate stakeholders include IIF borrowers and co-investors, PT SMI, Ministry of Finance, and the World Bank (as the Project's co-financier). On a wider basis, beneficiaries will include the consulting firms, contractors and suppliers under the subprojects, development partners, and infrastructure-related SOEs and CSOs. Participation of stakeholders during subproject design will be facilitated

⁴ U. Hoque. 2015. *Summary of Indonesia's Gender Analysis*. Manila. ADB Papers on Indonesia, No. 06.

⁵ 0 means perfect equality; 1 means perfect inequality. Malaysia ranked 42, Viet Nam 60, Thailand 76, and the Philippines 89. Source: United Nations Development Programme. 2015. *Human Development Report 2015 - Work for Human Development*. New York.

<p>through interaction during loan-processing missions and events.</p> <p>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? – ADB will consider outreach to civil society during loan processing. For subprojects, stakeholder consultations will follow the provision of IIF ESMS and other requirements agreed between the IFF and ADB.</p> <p>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 project design? – CSOs in the subproject area would be identified when stakeholder consultations are being carried out during subproject level due diligence.</p> <p><input checked="" type="checkbox"/> <i>Medium</i> Information generation and sharing <input checked="" type="checkbox"/> <i>Medium</i> Consultation <input type="checkbox"/> <i>not applicable</i> Collaboration <input type="checkbox"/> <i>not applicable</i> Partnership</p> <p>4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No – The Project is a financial intermediation loan. For subprojects, compliance requirements will include stakeholder consultations as per the IIF' ESMS and other requirements as will be agreed between the IIF and ADB.</p>
IV. SOCIAL SAFEGUARDS
A. Involuntary Resettlement Category <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> FI
<p>1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No – The proceeds of ADB loan will not be used to finance subprojects assigned category A in the involuntary resettlement category. At subproject level, the potential impact on communities being displaced will be evaluated and the resettlement will have to be done in accordance with the IIF's ESMS, national norms, and other procedures agreed between the IIF and ADB.</p> <p>2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process?</p> <p><input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Social impact matrix <input checked="" type="checkbox"/> Environmental and social management system arrangement <input type="checkbox"/> None</p>
B. Indigenous Peoples Category <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> FI
<p>1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No – While there is a possibility, the impact if any is not known yet. Overall, the proceeds of ADB loan will not be used to finance subprojects assigned category A in the indigenous peoples category. At subproject level, the potential impact on indigenous peoples will be evaluated and implemented in accordance with the IIF's ESMS, national norms, and procedures agreed between the IIF and ADB.</p> <p>2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No – At subproject level, the potential impacts on the way of the life, customs, and religious traditions of communities will be evaluated and implemented in accordance with the IIF's ESMS, national norms, and other procedures as agreed between the IIF and ADB.</p> <p>3. Will the project require broad community support of affected indigenous communities? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No – At subproject level.</p> <p>4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process?</p> <p><input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social Impact matrix <input checked="" type="checkbox"/> Environmental and social management system arrangement <input type="checkbox"/> None</p>
V. OTHER SOCIAL ISSUES AND RISKS
<p>1. What other social issues and risks should be considered in the project design?</p> <p><input type="checkbox"/> Creating decent jobs and employment <input checked="" type="checkbox"/> <i>High</i> Adhering to core labor standards <input checked="" type="checkbox"/> <i>Medium</i> Labor retrenchment <input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input checked="" type="checkbox"/> <i>High</i> Affordability <input type="checkbox"/> Increase in unplanned migration <input type="checkbox"/> Increase in vulnerability to natural disasters <input type="checkbox"/> Creating political instability <input type="checkbox"/> Creating internal social conflicts <input type="checkbox"/> Others, please specify _____</p> <p>2. How are these additional social issues and risks going to be addressed in the project design? – The subprojects will comply with Indonesia's labor laws and/or adherence to internationally recognized core labor standards.</p>
VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT
<p>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?</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No – Analysis of poverty, social, gender, and safeguards will be carried out by ADB staff.</p> <p>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? Not applicable</p>