



Initial Poverty and Social Analysis

Project Number: 54461-001
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Indonesia: Boosting Productivity Through Human Capital Development Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 10 May 2021)

Currency unit	–	rupiah (Rp)
Rp 1.00	=	\$0.000070
\$1.00	=	Rp14,123
€1.00	=	Rp17,182

ABBREVIATIONS

ADB	–	Asian Development Bank
COVID-19	–	coronavirus disease
CPS	–	country partnership strategy
JKN	–	national health insurance
PKH	–	Program Keluarga Harapan (Family Hope Program)
RPJMN	–	Rencana Pembangunan Jangka Menengah Nasional (National Medium-Term Development Plan)
SDG	–	Sustainable Development Goal
TVET	–	technical-vocational education and training

NOTE

In this report, “\$” refers to United States dollars, unless otherwise stated.

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INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Indonesia	Project Title:	Enhancing Productivity Through Human Capital Development Program
Lending/Financing Modality:	Policy-Based Loan	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 Strategy¹

A primary goal under the government's National Medium-Term Development Plan (RPJMN) for 2020–2024 is for Indonesia to become an “upper-middle income country that is prosperous, fair and sustainable” by 2024.² It also seeks to grow the economy by 5.4%–6.0% annually and reduce the poverty rate to 6.5%–7.0%. Reducing inequality and unemployment are also key objectives. Priorities to advance this agenda include (i) economic resilience, (ii) reducing regional disparities, (iii) improving human capital, (iv) developing culture and mindset, (v) infrastructure investment, (vi) addressing climate change, and (vii) public service modernization. The Indonesia country partnership strategy (CPS) of the Asian Development Bank (ADB), 2020–2024 is closely aligned with the RPJMN directives on human resources development. The CPS seeks to support an inclusive, competitive, and resilient Indonesia. Support focuses on (i) human capital development, (ii) accelerating investment, and (iii) addressing climate risk and promoting environmental sustainability. The program intersects with the RPJMN for 2020–2024 and the CPS under the first strategic pathway of the CPS on “improving well-being” which covers three out of four priority areas in the pathway: (i) health care system; (ii) social protection; and (iii) educational quality. The program directly and indirectly contributes to the following Sustainable Development Goals: (1) no poverty; (3) good health and well-being; (4) quality education; (5) gender equality; (8) decent work and economic growth; (10) reduced inequalities; and (13) climate action. It links to three of the ADB Strategy 2030: operational priorities: (i) addressing remaining poverty and reducing inequalities (OP1); (ii) accelerating progress in gender equality (OP2); and (iii) strengthening governance and institutional capacity (OP6).³

B. Poverty Targeting

General intervention Individual or household (TI-H) Geographic (TI-G) Non-income MDGs (TI-M1, M2, etc.)
Income inequality, as measured by the Gini coefficient, improved from 0.41 in 2014 to 0.38 in 2020. Moreover, the national poverty rate declined from 11.3% in 2014 to 9.8% in 2019. However, poverty increased to 10.2% in 2020 due to the social impact of the pandemic. In addition, 20.8% of the population, or 56 million people, are clustered marginally above the poverty line. In addition, poverty in Indonesia remains high for a lower middle-income country. Estimates of international poverty lines in 2017 indicate that 5.7% of the population lives on less than \$1.90 a day, 27.7% lives on less than \$3.20 a day, and 58.6% live on less than \$5.50 a day.⁴ Poverty is more extreme in rural areas, while inequality is higher in urban areas. At the start of the coronavirus disease (COVID-19) pandemic, more than 26 million were considered poor. This number was expected to grow to 36 million by end 2020. One of the key strategies to address low levels of human capital development is to strengthen the social assistance framework and public health policies. While Indonesia made significant investments in its social protection system, COVID-19 has pushed many further into poverty. The program will address weaknesses in the system and develop guidelines to strengthen the conditional cash transfer program which serves as a vital safety net for millions.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. The primary beneficiaries of the program are the youth and the most vulnerable segments of the population – those at the bottom 40-60% income quartile. The program will address key needs of the youth by improving labor market outcomes and expanding pre-employment services through implementation of JobStart, a successful youth employment program initiated in the Philippines. Further, the program will strengthen TVET oversight and linkages, and will improve learning outcomes through building the capacities of teachers. The vulnerable poor will be supported through improved income protection and security against job loss, improved targeting and accuracy of social protection programs, and development of a more resilient and responsive public health system.

2. Impact channels and expected systemic changes. Higher levels of human capital development correspond to lower levels of poverty. Impact channels from the program's interventions include (i) training and job opportunities that enable youth to access sustainable employment, (ii) establishment of standards for TVET (iii) improved social

¹ Government of Indonesia. 2020. *National Medium-Term Development Plan: RPJMN, 2020–2024*. Jakarta.

² ADB. *Country Partnership Strategy: Indonesia, 2020–2024*. Manila.

³ ADB, July 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

⁴ The \$1.90 per day poverty line refers to extreme poverty, \$3.20 per day refers to poverty in lower middle-income countries, and \$5.50 per day is for upper middle-income countries.

safety net coverage (iv) implementation of the Presidential Action Plan on Stunting, and (v) improvement of the fiscal sustainability of the national health insurance system which contributes to Indonesia's aspiration for universal healthcare coverage.

3. Focus of (and resources allocated in) the transaction TA or due diligence.

ADB technical assistance is supporting the following reform areas: (i) development of an integrated risk management framework, including for human capital development; (iii) development of regulations on unemployment benefits; (iv) implementation of pre-employment services through JobStart; (v) development of a digital marketplace to build the capacities of teachers to deliver better education outcomes; and (vi) implementation of the Presidential Action Plan on stunting. Further TA support will be discussed during the fact-finding mission.

4. Specific analysis for policy-based lending. The transmission channel for the program's interventions includes the government and financial institutions by strengthening policy and regulations in the short term and by improving service delivery in the medium term. The impact will also be felt by workers, and households, particularly vulnerable women and youth, through interventions to improve human capital development.

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector and/or subsector that are likely to be relevant to this project or program? The female labor force participation rate (LFPR) of 55.4% is significantly lower than the male LFPR (83.0%). Women are concentrated in the informal economy. About 61.80% of women work in the informal sector and only 38.20% work in the formal sector. In contrast, 53.71% of men work in the informal sector and 46.29% work in the formal sector. According to Statistics Indonesia (BPS), in 2017 only 30% of women of productive-age worked in science, technology, engineering, and mathematics (STEM). Meanwhile, 2018 UNESCO data shows only 20% of Indonesian women become professionals in STEM areas and 30% are STEM researchers. The COVID-19 pandemic-induced economic crisis has affected the labor force in Indonesia. A number of workers have been furloughed and even laid off, as the crisis has caused disruption to companies' operations. 2020 research by SMERU highlighted six economic sectors with the potential to be heavily impacted by the pandemic, namely accommodation and food service activities, trade, transportation and storage, construction, manufacturing, and other services activities. Based on the 2019 National Labor Force Survey (Sakernas) and National Socioeconomic Survey (Susenas) data, the six sectors are dominated by workers from the middle class who are mostly high-school graduates. Accommodation and food service activities, trade, and transportation and storage are dominated by informal workers.

In addition, this crisis has a potential to reduce women's labor participation rate, especially in other services, and accommodation and food service activities. 2020 findings from UN Women survey revealed that women in Indonesia depend largely on income from family businesses, but COVID-19 has shrunk it for 82% of women and 80% of men. COVID-19 has also exposed women's vulnerability to shocks in the labor market, particularly for informal workers. 36% of women in informal employment decreased their paid work time, compared to 30% of men in informal employment. The pandemic has pushed 2.76 million more Indonesians into poverty. The number of citizens living below the poverty line reached 27.55 million in September 2020, up significantly from 24.79 million a year earlier, according to data from BPS. Thus, it is important that the program support social assistance programs including the preemployment card program, which combines social assistance with upskilling for people affected by the virus outbreak, including youth and women workers as well as small business owners.

Food scarcity has also been an issue affecting women and particularly, children, UN Women study in 2020 shows that the pandemic is putting low-income families at stake as both food and income from farming became scarcer. This may further exacerbate the already high number of malnourished children across Indonesia. Data from Basic Health Research (RISKESDAS) shows that Indonesia's stunting prevalence of children under 5 in 2018 was 30.8%, significantly higher than Asia's figure of 21.8% for the same year. In 2019, Indonesia further progressed to 27.7% (SSGBI, 2019). However, with the impact of COVID-19 continues to linger in the first trimester of 2021, Indonesia may face higher level of malnutrition on children even before the pandemic hit. Making sure that a specific focus is given to ensure stunting remains a priority in the government budgeting and programming is therefore crucial.

2. Does the proposed project or program have the potential to contribute 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

Select reforms in the program, such as improvements in social assistance programs such as preemployment card program to promote gender equity and empower women as women are significant beneficiaries of these programs. The implementation of JobStart will also target unemployed women, who will account for at least half of its participants (50%), thereby empowering them with better soft and technical skills for employment. The program shall also focus on stunting to ensure adequate budget and priority of government to the issue.

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

Yes No

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
<p>1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? The Coordinating Ministry of Economic Affairs, Ministry of Education, BAPPENAS, Ministry of Social Affairs and Ministry of Health are the main government and institutional stakeholders. Vulnerable groups at the bottom 40-60% income quartile, including women and youth, are among the beneficiaries. Government stakeholders were consulted during the program design.</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? Engagement with stakeholders and beneficiaries will be through the various government channels. Reforms supported through technical assistance will include engagement of stakeholders at subnational government level.</p> <p>3. What are the key, active, and relevant civil society organizations (CSOs) in the project area? What is the level of civil society organization participation in the project design? Information generation and sharing <input type="checkbox"/> Consultation <input type="checkbox"/> Collaboration <input type="checkbox"/> Partnership As the program is a PBL, which is based on government reforms, engagement will primarily rely on government channels. However, some information sharing and consultation with CSOs particularly through the Country Engagement Framework and CSO Advisory Group can be undertaken. This includes industry associations such as the Indonesian Chamber of Commerce and Industry.</p> <p>4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how should they be addressed? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>
IV. SOCIAL SAFEGUARDS
<p>A. Involuntary Resettlement Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p> <p>1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. What action plan is required to address involuntary resettlement as part of the transaction TA or due diligence process? <input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Social impact matrix <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
<p>B. Indigenous Peoples Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p> <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 type="checkbox"/> Yes <input checked="" type="checkbox"/> No</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 type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>4. What action plan is required to address risks to indigenous peoples as part of the transaction TA or due diligence process? <input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social impact matrix <input type="checkbox"/> Environmental and social management system arrangement <input checked="" 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? Not applicable <input type="checkbox"/> Creating decent jobs and employment <input type="checkbox"/> Adhering to core labor standards <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input type="checkbox"/> 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? Not applicable</p>
VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT
<p>1. Do the terms of reference for the transaction TA (or other due diligence) contain key information needed to be gathered during transaction TA 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? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Reform supported by technical assistance will embed requirement to analyze poverty, social and gender impact. In addition, consultation will be held with SERD and SDCC gender specialists on priority areas for reform in subprogram 2.</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 transaction TA or due diligence? They are embedded in the terms of reference of existing consultants supporting reforms in the program.</p>

Source: Asian Development Bank